



AAG

AAG Energy Holdings Limited 亞美能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2686

GLOBAL OFFERING



Joint Global Coordinators and Joint Sponsors



Joint Bookrunners



Joint Lead Managers





IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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(Incorporated in the Cayman Islands with limited liability)

Global Offering

Number of Offer Shares under the Global Offering : 761,400,000 Shares (comprising 666,160,920 new Shares being offered by us and 95,239,080 Shares being offered by the Selling Shareholder, subject to the Over-allotment Option)

Number of Hong Kong Offer Shares : 76,140,000 Shares (subject to adjustment)
Number of International Offer Shares : 685,260,000 Shares, (comprising 590,020,920 new Shares being offered by us and 95,239,080 Shares being offered by the Selling Shareholder, subject to adjustment and the Over-allotment Option)

Maximum Offer Price : HK\$3.70 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value : US\$0.0001 per Share
Stock code : 2686

Joint Global Coordinators and Joint Sponsors



Joint Bookrunners



Joint Lead Managers



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

A copy of this prospectus, with the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us for ourselves and on behalf of the Selling Shareholder on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, June 16, 2015 and, in any event, not later than 5:00 p.m. on Friday, June 19, 2015. The Offer Price will not be more than HK\$3.70 and is currently expected to be not less than HK\$3.00. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$3.70 for each Hong Kong Offer Share together with a brokerage of 1%, an SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$3.70 per Offer Share.

The Joint Global Coordinators, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.aagenergy.com. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" of this prospectus.

If, for any reason, the Joint Global Coordinators (on behalf of the Underwriters) and us for ourselves and on behalf of the Selling Shareholder are unable to reach an agreement on the Offer Price by 5:00 p.m. on Friday, June 19, 2015, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" of this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in our Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" of this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act. The Offer Shares are being offered and sold (1) to qualified institutional buyers in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

June 11, 2015

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English), and in the Hong Kong Economic Times (in Chinese).

Date¹

Application lists open² 11:45 a.m. on Tuesday, June 16, 2015

Latest time for lodging **WHITE, YELLOW** Application Forms
and giving **electronic application instructions**
to HKSCC³ 12:00 noon on Tuesday, June 16, 2015

Latest time to complete electronic applications under
White Form eIPO service through the designated
website at *www.eipo.com.hk*⁴ 11:30 a.m. on Tuesday, June 16, 2015

Latest time to complete payment of **White Form eIPO**
Applications by effecting internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Tuesday, June 16, 2015

Application lists close² 12:00 noon on Tuesday, June 16, 2015

Expected Price Determination Date⁵ Tuesday, June 16, 2015

(1) Announcement of:

- the Offer Price
- the level of indication of interest in the International Offering
- the level of applications in the Hong Kong Public Offering; and
- the basis of allotment under the Hong Kong Public Offering

to be published in the South China Morning Post (in English)
and in the Hong Kong Economic Times (in Chinese) on or before
Monday, June 22, 2015

(2) Results of allocations in the Hong Kong Public Offering
(with successful Applicants' identification document numbers,
where appropriate) to be available through a variety of channels.
(See the section headed "How to apply for
Hong Kong Offer Shares — Publication
of Results" of this prospectus) Monday, June 22, 2015

(3) A full announcement of the Hong Kong Public Offering
containing (1) and (2) above to be published on the website of the
Stock Exchange at *www.hkexnews.hk* and our Company's website
at *www.aagenergy.com* from Monday, June 22, 2015

Dispatch of Share certificates or deposit of the Share certificates
into CCASS in respect of wholly or partially
successful applications to be dispatched on or before⁶ Monday, June 22, 2015

EXPECTED TIMETABLE

Date¹

Results of allocations in the Hong Kong Public Offering
will be available at www.iporesults.com.hk
with a “search by ID” function Monday, June 22, 2015

Dispatch of **White Form** e-Refund payment instructions/refund
checks (if applicable) in respect of wholly or partially
unsuccessful applications to be dispatched on or before⁶ Monday, June 22, 2015

Dealings in Shares on the Stock Exchange to commence on Tuesday, June 23, 2015

Notes:

1. Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” of this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 16, 2015, the application lists will not open and will close on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application List” of this prospectus.
3. Applicants who apply by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying By Giving Electronic Application Instructions to HKSCC via CCASS” of this prospectus.
4. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
5. The Price Determination Date is expected to be on or about Tuesday, June 16, 2015, and in any event, not later than 5:00 p.m. on Friday, June 19, 2015. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us on or before 5:00 p.m. on Friday, June 19, 2015, the Global Offering will not proceed and will lapse.
6. **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.** e-Refund payment instructions/Refund checks will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund check.

Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have provided all required information may collect refund checks and (where applicable) Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m.

EXPECTED TIMETABLE

to 1:00 p.m. on, Monday, June 22, 2015 or any other date notified by our Company in the newspaper is as the date of dispatch of Share certificates/e-Refund payment instructions/refund checks. Individual applicants who opt for personal collection must not authorize any other person to make their collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorized representatives, each bearing a letter of authorization from such corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected Share certificates and refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect their refund checks (if any) in person but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund checks for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for applicants who apply on **WHITE** Application Forms.

Share certificates for the Hong Kong Offer Shares to be distributed via CCASS are expected to be deposited into CCASS on Monday, June 22, 2015 for credit to the respective CCASS Participant's stock accounts designated by the International Underwriters, the purchasers or their agents, as the case may be.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus for further details.

Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions; Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund checks, by ordinary post at their own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares, your Share certificates (if applicable) and/or refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified on the Application Form.

e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applicants in the event that the Offer Price is less than the price payable on application.

Uncollected Share certificates (if any) and/or refund checks (if any) will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. See the section headed "How to Apply for Hong Kong Offer Shares — Dispatch/collection of Share Certificates and Refund Monies" of this prospectus.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.

There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading independent CBM producer in China as measured by 2013 and 2014 total gross production as well as total net proved and probable (2P) reserves as of December 31, 2014, according to SIA Energy. We focus on the development and value optimization of unconventional gas resources to supply clean energy to the Chinese economy. We have production sharing contracts with two of the four state-owned enterprises authorized by the Chinese government to partner with foreign companies to explore, develop and produce China's CBM assets, namely CUCBM and PetroChina (through its parent company, CNPC). Pursuant to these production sharing contracts, we are the operator of the Panzhuang and Mabi concessions, granting us the right to explore, develop and produce the CBM within them. We hold 80% and 70% of the participating interests under the Panzhuang PSC and the Mabi PSC, respectively. The Panzhuang and Mabi concessions are located in the southern Qinshui Basin, which contains the largest amount of proved CBM geological reserves of any basin and is the most active CBM producing basin in China, according to SIA Energy. The Panzhuang concession is the most commercially advanced Sino-foreign CBM asset in China, according to SIA Energy, as it is the first and only Sino-foreign CBM concession in China to have received overall development plan approval. The Panzhuang concession has the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy. For more information about the competitive landscape of China's CBM industry and our competitive position, see the sections headed "Industry Overview — Main Foreign CBM Players in China" and "Business — Competitive Strengths."

We believe that we are well-positioned to benefit from the strong growth of natural gas demand in China. Natural gas only accounted for 4.2% of China's total primary energy mix in 2012, which is substantially lower than the global average level of 21.3%, according to SIA Energy. The Chinese government has expressed its goal of increasing the proportion of natural gas in China's primary energy mix to 10% in 2020, and has enacted policies to incentivize natural gas consumption. The Chinese government has made the promotion of natural gas consumption a critical policy initiative to reduce energy intensity, air pollution and greenhouse gas emissions. However, China's natural gas market is constrained by a lack of growth in domestic conventional gas production, which leaves significant room for the development of domestic unconventional gas production, including CBM production. In addition, the period from 2015 to 2020 will see a favorable pricing environment in China for CBM producers, according to SIA Energy. As a result of the strong gas demand, tight gas supply and favorable pricing environment in China, we have been able to quickly realize commercial sales of our CBM production and negotiate favorable contract terms with our customers.

SUMMARY

The following table sets forth our reserve data as of December 31, 2014.

Reserve Data¹	Gross	Net	Drilling Location Inventory	Post-tax NPV10%²
	<i>(bcf)</i>	<i>(bcf)</i>	<i>(no. of wells)</i>	<i>(US\$ millions)</i>
Total				
Proved (1P)	107.9	82.3	37	383.7
Proved + probable (2P)	907.4	624.7	3,556	1,721.0
Proved + probable + possible (3P)	2,586.2	1,653.6	12,566	N/A
Panzhuang				
Proved (1P)	107.9	82.3	37	383.7
Proved + probable (2P)	217.3	164.9	102	753.5
Proved + probable + possible (3P)	351.8	265.1	185	N/A
Mabi				
Proved + probable (2P)	690.1	459.8	3,454	967.5
Proved + probable + possible (3P)	2,234.4	1,388.5	12,381	N/A

Note:

1. Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by application of development projects from a given date forward under defined conditions. These reserve amounts are estimates only and should not be construed as exact quantities. For more information about our reserves, please see the section headed "Business — Our Concession — Reserve Disclosure" in this prospectus.
2. Represents our share of the future gross revenue from the CBM concession under the production sharing contracts, after additions for cost recovery and deductions for value-added taxes, royalties, future capital costs and operating expenses. The future net revenue is presented after deduction of income taxes and has been discounted at an annual rate of 10% to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this prospectus should not be construed as being the fair market value of the properties. For further information on the bases and assumptions used in determining future net revenue, please see Appendix III to this prospectus. For risks associated with the net present values, please see the section headed "Risk Factors — The CBM reserve data and present value calculations presented in this prospectus are only estimates, and the actual production, revenue and expenditures with respect to our net reserves under each production sharing contract may differ materially from these estimates."

The following table sets forth a summary of our CBM concessions under our production sharing contracts. Please see "Business — Our concessions" for more details regarding the information set forth in this table.

	Panzhuang PSC	Mabi PSC
Date of production sharing contract	March 3, 2003	July 15, 2004
Term	25 years	30 years
Status under production sharing contract	Development Phase	Exploration Phase
Year of expiration	2028	2034
Total area developable by us under the production sharing contract	67.4 sq. km	898.2 sq. km
Participating interest under the production sharing contract	80%	70%
Date of approval of overall development plan	November 28, 2011	N/A

SUMMARY

The production sharing contracts are the foundation for our cooperation with the Chinese partners, and all parties have closely observed the provisions in the respective production sharing contracts. As required by PRC law, we rely on our Chinese partners to apply and obtain certain major licenses and approvals for our projects, such as the CBM exploration and mining licenses and the overall development plan approval. Although we and our Chinese partners are jointly responsible for identifying and negotiating sales terms with customers, we currently enter into CBM sales agreements with customers through CUCBM, pursuant to a joint sales arrangement between us and CUCBM. Our Chinese partners rely on our technological and managerial expertise and capital investments for the efficient development of the CBM resources. For more information regarding our business relationship with our Chinese partners and the associated risks, please see the sections “Business — Relationship with Our Chinese Partners” and “Risk Factors — Our business operations depend significantly on our production sharing contracts and our business relationship with our Chinese partners, CUCBM and PetroChina.”

We share CBM produced at the concessions with our Chinese partners according to the allocation mechanism set forth in the production sharing contracts, which enables us to effectively recover the CBM exploration costs, to recover development and operating costs in accordance with our participation interests, and to share any remaining CBM with our Chinese partners, largely according to our participation interests. For more information regarding the recovery of our costs and the allocation of our CBM production, please see “Business — Cost Recovery and CBM Production Allocation.”

The CBM we produce is sold to pipeline-linked customers, liquefied natural gas producers and pipeline distributors, and is expected to be sold to other gas distributors and industrial users in the near future. We currently sell most of our CBM jointly with our Chinese partners under long-term take-or-pay sales contracts, under which the buyer is obligated to pay for the entire take-or-pay amount committed during each delivery term. If there is a supply shortfall caused by us, we are required to deliver the supply shortfall within a certain period of time or pay liquidated damages. We outsource a majority of the work related to our operations at Panzhuang and Mabi to third parties. We perform some of the work related to our operations in-house, such as well-design, drilling method implementation and daily well pumping activities. Such activities allow us to better apply our techniques to the process, ensure quality and progress on work performance and reduce operating expenses.

The Panzhuang and Mabi concessions are serviced by key gas transportation infrastructure, including gas pipelines and LNG plants, which provide us easy access to our customers and flexibility across our customer base. The Tongyu Pipeline transports CBM from the Panzhuang concession within Shanxi Province and directly to Henan Province, and the Yubei Pipeline and Yuji Pipeline further transport CBM within Henan Province and to Shandong Province. We expect that the Panzhuang concession will be connected to the PetroChina Central Processing Hub in the near future. The Mabi concession is connected to the adjacent PetroChina Central Processing Hub, which is connected to the cross-country West-East Pipeline One. This pipeline transports natural gas to areas in eastern China such as Jiangsu Province and Shanghai. Our concessions are also in close proximity to several LNG plants. We believe

SUMMARY

our proximity to transportation infrastructure and domestic end markets enables us to price our gas products competitively at attractive netback wellhead prices due to our significantly reduced transportation costs, as well as to service a wide variety of customers.

The following table illustrates key operational data of our concessions as of December 31, 2014. Please see “Business — Our concessions” for more details regarding the information set forth in this table.

	Panzhuang	Mabi
Total number of wells drilled	75	254
Geology parameter wells	15	135
Producing production wells	50	69
Non-producing production wells	10	50
Gross production volume (mmcf)		
during 2012	3,487	98
during 2013	5,493	597
during 2014	12,631	623
CAGR from 2012 to 2014	90.3%	152.1%
Average daily production per well (mcf)		
during 2012	340.3	12.2
during 2013	334.4	32.7
during 2014	692.1	24.7
CAGR from 2012 to 2014	42.6%	42.3%
Average daily production per well (mcf)		
during December 2012	347.5	26.9
during December 2013	564.1	44.6
during December 2014	958.9	22.4
CAGR from 2012 to 2014	66.1%	-8.8%
Incurred costs (RMB million)		
Exploration costs	600.2	1,222.9
Exploration costs recovered	535.3	—
Development costs	1,066.9	—
Development costs recovered	—	—
Proved reserves to production ratio (years)		
Gross	8.5	N/A
Net	8.2	N/A
Average coal seam depth (meters)		
Coal seam 3	472	712
Coal seam 15	568	803

SUMMARY

The following chart illustrates our average sales price and unit production costs for the Panzhuang concession:

	For the Year Ended December 31,					
	2012	2013	2014	2012	2013	2014
	<i>(RMB per cubic meter)</i>			<i>(US\$ per mcf)</i>		
Average sales price	1.37	1.49	1.73	6.15	6.80	7.98
Unit net production costs ¹	0.97	0.45	0.31	4.38	2.04	1.42

Note:

1. Calculated by dividing the sum of net operating expenses (excluding depreciation and amortization expenses) by net production volume.

The Mabi concession is still in the exploration phase under the Mabi PSC and thus does not have meaningful production volume.

During the Track Record Period and up to the Latest Practicable Date, we and our Chinese partners have obtained all the key licenses, permits and approvals necessary for the development stages of the Panzhuang Project and the Mabi Project. These include the exploration license and the mining license, which are held by our Chinese partners as required by PRC law, and the production safety permits and the long-term land use certificates, which are held by us. For more information regarding regulatory and compliance matters of our operation, please see the section headed “Business — Regulatory and Compliance Matters.” In addition, we operate our wells in parcels of land that we occupy on a temporary basis pursuant to temporary land use permits issued by local land authorities. We currently do not hold valid temporary land use permits for some of the well sites in our Panzhuang concession. For more information regarding temporary land use permits, please see the section headed “Business — Properties” of this prospectus.

OUR INDUSTRY

CBM is natural gas found in the seams of various types of coal and is a major source of unconventional gas globally. According to SIA Energy, the volume of China’s CBM resources at depths shallower than 2,000 meters ranks among the top three in the world. The 12th Five Year Plan places China’s CBM resource potential at 1,300 tcf, of which approximately 384 tcf is recoverable. According to SIA Energy, CBM production in China will increase at a CAGR of 14% from 2014–2020 due mainly to increased investments in CBM extraction projects and infrastructure by domestic and foreign producers, favorable reform pricing environment as a result of the NDRC’s pricing reform initiatives, the adoption of better technology and a better understanding of the local geological conditions. According to SIA Energy, commercial CBM production in China is forecasted to be 667.9 mmcf per day by 2020. Going forward, the development of China’s CBM industry can be further accelerated if industry participants can effectively tackle certain surface and subsurface challenges.

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Unconventional gas is not subject to government price regulation or set wellhead prices in China. CBM wellhead prices are negotiated between producers and buyers. Because CBM competes with natural gas, the average sales price of AAG's CBM is affected by the price of domestic natural gas, which in recent year continue to increase. On average, prices paid to CBM producers at the wellhead are higher than prices earned at the wellhead for conventional gas, but lower than import gas prices. In addition, the government provides a subsidy of RMB0.20 per cubic meter for CBM, and some local governments provide additional subsidies. Changes to CBM prices impact our financial position. Further, VAT amounts paid are fully refundable under PRC regulations, except for a small portion that is retained by local authorities. See the section headed "Industry Overview" of this prospectus for more information on China's CBM industry.

OUR COMPETITIVE STRENGTHS AND STRATEGIES

Competitive Strengths

We are the leading independent CBM producer in China, and we believe the following strengths have contributed to our leading position and growth and differentiate us from our competitors: (i) premium portfolio of assets across the production, development and exploration phases with significant low-risk development potential; (ii) proven ability to develop CBM resources by applying suitable technologies and technical know-how; (iii) proven track record of obtaining required regulatory approvals; (iv) access to established infrastructure enables sales to target markets with significant demand for CBM; (v) long-standing relationships with CUCBM and PetroChina as well as other suppliers and business partners; and (vi) strong management team with extensive industry experience, complementary skill sets and successful execution track record.

Our Strategies

We believe we can maintain our competitiveness and growth and increase shareholder value by implementing the following strategies: (i) continue to grow production and cash flows from operations by developing our extensive inventory of low-risk, repeatable, high-return drilling opportunities; (ii) enhance the value of our assets through efficient development, effective operations processes and production enhancements; (iii) continue to migrate reserves through continued development and delineation of our assets; (iv) expand our customer base and target industrial customers to optimize our sales prices and orders on a continued basis; (v) further strengthen cooperative relationship with partners and regulatory agencies; (vi) increase our reserves by acquiring and developing assets and companies through acquisitions and securing additional production sharing contracts in China; and (vii) maintain a disciplined, growth-oriented financial funding strategy.

OUR RISKS AND CHALLENGES

We face a number of risks and challenges in our business and industry. In particular, our business operations depend significantly on our production sharing contracts and our business relationship with our Chinese partners, CUCBM and PetroChina; our results of operations are affected by fluctuations in natural gas and oil prices; our operations involve uncertainties and risks, including those inherent in CBM development and those arising from our Chinese

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partners, and our projects may not progress within expected timeframes or budgets or achieve commercial viability or the intended economic results; we may fail to obtain or maintain licenses, permits and approvals necessary for our operations, and may be required to take actions to obtain additional licenses, permits and approvals that involve time-consuming or costly application procedures; rights or licenses for coal extraction that overlap with our licenses to extract CBM could cause disputes between third parties and us; the inability of our customers to satisfy their obligations to us or the limitations on us arising from the joint sales arrangements between us and CUCBM or PetroChina.

Our rights and ability to continue to use the land in which we conduct our CBM operations may be adversely affected if we are unable to obtain the relevant land use certificates or temporary land use permits. As of the Latest Practicable Date, temporary land use permits covering approximately 35.0% of the well site areas that we occupy on a temporary basis in the Panzhuang concession expired in December 2014 and are currently pending renewal due to an ongoing land survey by the local government. Failure to obtain the outstanding temporary land use permits may subject us to a fine of RMB10 to RMB30 per square meter, or a total of RMB0.96 million to RMB2.89 million, or orders to vacate the land parcels for which the permits are outstanding, or both, which would materially and adversely affect our operations. In the opinion of our PRC legal adviser, King & Wood Mallesons, and as confirmed and required by the competent land administration authority, provided we apply for temporary land use permits and take such other measures for their approval as required by PRC laws and regulations and the land administration authority, there is no material legal impediment to our obtaining the outstanding temporary land use permits or renewing the existing temporary land use permits upon their expiration, and the possibility of us being ordered by the relevant land authorities to return the land or being subject to monetary penalties for failure to obtain or renew the temporary land use permits is remote. In addition, our CBM operations will also be affected if we cannot enforce our temporary land use arrangements with the local rural collectives or forest farms that own the land on which we operate.

Since different investors may apply different interpretations and criteria when determining the materiality of a risk, you should read the section headed “Risk Factors” of this prospectus in its entirety before you decide to invest in the Offer Shares.

SHAREHOLDERS AND CORPORATE STRUCTURE

Pre-IPO Investors

We have introduced a number of investors since 2008. In February 2008, Baring PE and Chengwei Entities invested in our Parent Company. In March 2010, WP China, Baring PE, Chengwei Entities and certain other investors invested in our Parent Company. In April 2011, CDB-CITIC invested in our Parent Company. In April and May 2012, Baring PE, WP China, Chengwei Entities and certain investors invested in our Group. In February, June and August 2013, Chinastone Entities, WP China, Baring PE, Chengwei Entities, PA Investment and certain other investors invested in our Parent Company. In September 2014, our Parent Company issued and WP China, Baring PE, Chengwei Entities, Chinastone Entities and certain other investors severally subscribed for the Convertible Bonds. The proceeds from the Pre-IPO

SUMMARY

Investments were used mainly for investment in the Panzhuang and Mabi Projects. Further details of the above agreements and our pre-IPO capital raising are set out in the section headed “History and Corporate Structure — Pre-IPO Investment” of this prospectus.

Controlling Shareholders

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), WP China, Baring PE and Dr. Zou, our chairman, will hold approximately 25.26%, 20.66% and 5.89% of the issued share capital of our Company, respectively, (calculated based on the per Share price of HK\$3.35, being the mid-point of the Offer Price range) and will remain as Controlling Shareholders of our Group. Please refer to the section headed “Relationship with Controlling Shareholders” of this prospectus for further details of our Controlling Shareholders.

Selling Shareholder

Pursuant to the International Underwriting Agreement, CDB-CITIC will sell 95,239,080 Shares representing approximately 2.86% of the total issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme). Please refer to the section headed “Appendix V — Statutory and General Information — 18. Particulars of the Selling Shareholder” for more details.

The Inner Mongolia Project

In 2008, our Parent Company, through our chief legal officer, Yang Lin, and our ex-employee, Wei Huang, established Shanxi Shengyang to control the Inner Mongolia Project. For details of the Inner Mongolia Project and our arrangement with Shanxi Shengyang, please refer to the section headed “Relationship with Controlling Shareholders — The Inner Mongolia Project and Our Arrangement with Shanxi Shengyang” in this prospectus.

PRE-IPO SHARE OPTION SCHEME

Pursuant to the resolutions of the Board passed on March 31, 2015, we have adopted the Pre-IPO Share Option Scheme. The principal terms and the dilution impact from full exercise of all outstanding options under the Pre-IPO Option Scheme are set out in the section headed “Statutory and General Information — Pre-IPO Share Option Scheme” in Appendix V to this prospectus. Assuming that all the options granted under the pre-IPO Option Scheme, which represent options to purchase 246,220,412 Shares, were exercised in full, the dilutive effect on earnings per share is approximately 4.82%.

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POST-IPO RSU SCHEME

We conditionally approved and adopted the Post-IPO RSU Scheme on June 5, 2015. As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the Post-IPO RSU Scheme. The maximum number of Shares which may be issued pursuant to the RSU Scheme is 66,487,378 Shares, representing 2% of the number of Shares in issue on the Listing Date (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme), calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range. The principal terms of the Post-IPO RSU Scheme are set out in the section headed “Statutory and General Information — RSU Scheme” in Appendix V to this prospectus.

DIVIDEND POLICY

We have not declared any dividends during the Track Record Period. Shareholders will be entitled to receive dividends as declared by our Board, who will consider various factors including the financial condition, capital requirements and earnings of our Group, in order to determine in their discretion the payment and amount of any such dividends.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. We cannot assure you that we will be able to declare or distribute dividends in any amount each year or in any year. The declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we or our subsidiaries enter into. Any restrictions on our subsidiaries’ ability to pay dividends or distributions may limit our ability to pay dividends to our shareholders. For example, our Reserve-based Facility restricts SAE from making distributions to AAGI and prohibits AAGI from making distributions to us, including dividend payments, which in effect prevents us from distributing our operating income to our shareholders.

LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and, assuming an offer price of HK\$3.35 per share, being the mid-point of the proposed offer price range, are estimated to be HK\$87.7 million, of which we incurred listing expenses of HK\$5.9 million, that were charged to our consolidated statements of comprehensive income during the Track Record Period in 2014, HK\$22.6 million, which will be charged to our consolidated statement of comprehensive income in 2015 and amount of HK\$59.2 million, which will be charged to equity upon completion of the Global Offering. We do not believe the remaining expenses to be incurred will have a material impact on our results of operations for 2015.

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GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK\$3.00 per share	Based on an Offer Price of HK\$3.70 per share
The market capitalization of our Shares upon completion of the Global Offering ¹	HK\$9,973 million	HK\$12,300 million
Unaudited pro forma adjusted net tangible asset per Share ^{2,3}	HK\$1.65	HK\$1.77

Notes:

1. The calculation of market capitalization is based on the Offer Price and 666,160,920 Shares expected to be issued immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).
2. The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 3,324,368,920 Shares in issue.
3. The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.7889 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate, or at any rate or at all.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$2,143.7 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering (assuming (i) the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme; and (ii) an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range). We intend to use the net proceeds from the Global Offering for the following purposes:

Percentage of Proceeds	Application of Proceeds
60%	The exploration, development and production of CBM in the Panzhuang and Mabi concessions
35%	The expansion of our operations by acquiring interests in other CBM or other unconventional gas concessions or participating in cooperation or joint venture projects in relation to the exploration, development, production and processing of CBM or other unconventional gas concessions and potential related mid-stream assets
5%	Working capital and general corporate purposes

SUMMARY

We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder in the Global Offering. We estimate that the Selling Shareholder will receive net proceeds of approximately HK\$309.5 million from the sale of the Sale Shares, based on the Offer Price of HK\$3.35 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Selling Shareholder.

If the Over-allotment Option is fully exercised by the Joint Global Coordinators, the Over-allotment Option Grantors, namely WP China, Baring PE and Dr. Zou and The Zou 2011 Family Trust will receive net proceeds of approximately HK\$180.9 million, HK\$148.0 million, HK\$21.1 million and HK\$21.1 million for 55,680,005, 45,542,552 and 6,493,722 and 6,493,722 Shares to be sold and transferred upon the full exercise of the Over-allotment Option, respectively, based on the Offer Price of HK\$3.35 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Over-allotment Option Grantors.

SUMMARY OF FINANCIAL INFORMATION

The following tables summarize our financial information and are derived from, and are to be read in conjunction with, our audited consolidated financial statements, prepared in accordance with HKFRS, included in the section headed “Appendix I — Accountant’s Report” in this prospectus. The basis of preparation is set forth in Note 2 of Section II of the section headed “Appendix I — Accountant’s Report” in this prospectus.”

Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Revenue	92,397	138,382	425,895
— Panzhuang	92,397	138,382	425,895
— Mabi	—	—	—
Other income¹	—	64,262	151,197
Other gains	161	246	111
Operating expenses	(170,477)	(175,314)	(293,635)²
Profit/(loss) from operations	(77,919)	27,576	283,568
Finance income/(costs)	(2,392)	41,075	(8,520)
Profit/(loss) before income tax³	(80,311)	68,651	275,048
Income tax benefit/(expense)	8,620	(29,083)	(80,060)
Profit/(loss) for the year	(71,691)	39,568	194,988
Profit/(loss), excluding other income	(71,691)	(8,629)	57,812
Adjusted EBITDA ⁴	(19,503)	103,979	433,006

SUMMARY

Notes:

1. Other income consists of VAT refund and subsidy income. We recognized a total VAT refund of nil, nil and RMB95.1 million and a total subsidy income of nil, RMB64.3 million and RMB56.1 million during the years ended December 31, 2012, 2013 and 2014, respectively. Both the VAT refund and subsidy income are granted by the PRC government pursuant to relevant regulatory policies and CUCBM applies for each for the Panzhuang concession as a whole, and distributes to us our share of the VAT refund and the subsidy based on the calculation of sales revenue distribution. To qualify to receive these government incentives, an enterprise must be engaged in the CBM extraction business and sell the CBM it produces for residential use, as raw materials for chemical industry use or for other uses. The enterprise must also have installed measuring equipment that can properly record gas production volume, sales or self-usage volume and gas utilization. We and CUCBM are both qualified to receive these incentives. To apply for these government incentives, we and CUCBM must submit to the competent government authority refund and subsidy application forms reporting information regarding our gas production and gas utilization, business licenses, exploration and mining licenses, sales contracts and invoices and other documents to properly recording our actual sales volume. After reviewing the application materials submitted by us, the competent government authority approves the granting of these government incentives. CUCBM applies for the VAT refund and subsidy on behalf of the Panzhuang concession as a whole each year, based on VAT payments and sales volumes during the previous year, and each year receives the refund and subsidy for the previous year and distributes to us our share based on the calculation of sales revenue distribution. We accounted for our VAT refund starting from 2014, when CUCBM started to distribute the VAT refund after the local government approved CUCBM's application and wired the first VAT refund to CUCBM. Our VAT refund in 2014 included RMB45.7 million for the years 2008 to 2013 and RMB49.4 million for 2014. We accounted for our subsidy income starting from the fourth quarter of 2013 after we agreed upon the subsidy distribution scheme with CUCBM in the fourth quarter of 2013. The subsidy income recorded in 2013 included subsidy income for the years 2008 to 2013. We recognize government incentives when there is reasonable certainty that we will comply with the conditions for their receipt and that the incentive will be received, which currently is the same time we recognize the revenue from the sale of that CBM, and thus VAT refunds and subsidy income relating to CBM previously sold will not again be recognized in future periods.
2. In 2014, we began using proved and probable developed producing reserves for calculating unit of production depreciation, whereas we had previously used proved developed producing reserves. We made this change because we believe including probable developed producing reserves will more accurately reflect the reserve base available to us from our investment in the gas properties. This change decreased our depreciation and amortization by RMB48.6 million in 2014, resulting in a RMB37.2 million increase in net profit in that year. For more information about this change of accounting estimate, please refer to the section titled "Financial Information — Description of Selected Line Items in the Statement of Comprehensive Income — Operating expenses — Depreciation and amortization" in this prospectus.
3. In 2013, we generated a profit for the first time primarily due to greater revenues from our increased gas sales and the recognition of government subsidy for our gas sold during 2008 to 2013.
4. We define adjusted EBITDA as earnings before interest income, finance costs, income tax and depreciation and amortization, adjusted to exclude non-cash expenses, such as share-based compensation expenses and provision for bad debt or non-recurring expenses. The use of adjusted EBITDA has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Further, our adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate adjusted EBITDA in the same manner. Please refer to the section headed "Financial Information — Non-HKFRS Financial Measure" in this prospectus.

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Net Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of April 30,
	2012	2013	2014	2015
	(RMB in thousands)			
Current assets				
Inventories	4,123	7,103	1,078	1,295
Trade and other receivables	47,687	132,326	247,018	410,072
Cash and cash equivalents	32,036	209,194	1,099,673	939,544
Total current assets	83,846	348,623	1,347,769	1,350,911
Current liabilities				
Trade and other payables	222,290	287,134	243,327	244,582
Shareholder loans	1,065,778	1,600,666	—	—
Current income tax liabilities	—	—	73,112	85,719
Total current liabilities	1,288,068	1,887,800	316,439	330,301
Net current assets/(liabilities)	(1,204,222)	(1,539,177)	1,031,330	1,020,610

RECENT DEVELOPMENTS

Our Directors have confirmed that since December 31, 2014, being the date to which the latest audited consolidated financial statements of our Group were prepared, and up to the date of this prospectus, there was no material adverse change in our financial, operational or trading position or in the general regulatory, economic and market conditions in China or the industry in which we operate that materially and adversely affected our business, results of operations or financial condition since December 31, 2014.

Our revenue was RMB135.6 million during the three months ended March 31, 2015. We had other income of RMB36.8 million for the three months ended March 31, 2015, including subsidy income of RMB19.2 million and VAT refund of RMB17.6 million. No revenue was generated from the Mabi concession in the first quarter of 2015. Our Directors are of the opinion that our revenue and other income during the three months ended March 31, 2015 represent significant increases compared to the three months ended March 31, 2014. The primary reasons for these increases were our increased CBM sales in the first quarter of 2015 and, to a lesser extent, because we did not recognize any VAT refund until after the first quarter of 2014.

Our gross production volume during the three months ended March 31, 2015 was 4,363 mmcf compared to 4,077 mmcf for the three months ended December 31, 2014. Our total number of wells in production in the Panzhuang concession as of March 31, 2015 was 50, which is the same number as of December 31, 2014. Our average daily production per well in the Panzhuang concession during the three months ended March 31, 2015 was 936.9 mcf,

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compared to 855.0 mcf during the three months ended December 31, 2014. From May 1 to May 18, 2015, our average daily production rate in the Panzhuang concession was 49.0 mmcf, or average daily production per well of 980.0 mcf.

The above discussion of the financial information for the three months ended March 31, 2015 is based on our unaudited condensed consolidated financial statements prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by Hong Kong Institute of Certified Public Accountants for such relevant period. Our financial information during such period is not indicative of our actual results or the results for any future periods. The above financial information should be read in conjunction with our audited financial statements for the Track Record Period and related notes and other financial information included elsewhere in this prospectus. Please also refer to the section headed “Financial Information” in this prospectus for information regarding trends and other factors that may influence our results of operations.

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“12th Five Year Plan”	12th Five-Year Plan of the PRC (2011–2015) released by the National People’s Congress, and includes the 12th Five Year Plan (2011–2015) for CBM (and CMM) Development and Utilization released by the NDRC in December 2011
“2012 Pre-IPO Share Option Scheme”	a share option scheme approved and adopted by the board of our Parent Company on June 15, 2012, which was later amended on February 21, 2013, October 21, 2014 and March 16, 2015, and was terminated by the board of our Parent Company on March 31, 2015; and the options granted thereunder to the optionees (whether vested or not) were replaced by the options granted under the Pre-IPO Share Option Scheme on March 31, 2015
“2012 Share Swap”	the share swap in June 2012, in which Northern Gas was spun off to all the then existing shareholders of our Parent Company through distribution of shares in Northern Gas
“AACI”	Asian American Coal, Inc., a company incorporated and existing under the laws of the British Virgin Islands on January 18, 1999 and an independent third party
“AAG Energy (China)”	AAG Energy (China) Limited, a company incorporated and existing under the laws of the British Virgin Islands on August 8, 2013 and a wholly owned subsidiary of our Company
“AAG (HK)”	Asian American Gas (HK) Limited, a limited liability company incorporated and existing under the laws of Hong Kong on October 29, 2007 and deregistered on December 28, 2012, used to be a wholly owned subsidiary of AAGI and an indirect wholly owned subsidiary of our Company before deregistration
“AAG Subscription Agreement”	the subscription agreement entered into by and among our Parent Company, WP China, Baring PE and the other investors thereto, on April 20, 2012
“AAGI”	Asian American Gas, Inc., a company incorporated and existing under the laws of the British Virgin Islands on July 16, 2004 and a wholly owned subsidiary of our Company
“Additional Shares”	the additional shares to be issued by our Company in equal number to the ordinary shares of our Parent Company to be converted from the Convertible Bonds upon the Listing becoming unconditional
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“AIC”	Administration of Industry and Commerce
“Amendment to the Restated Shareholders Agreement”	An amendment to the Restated Shareholders Agreement dated February 27, 2015, entered into between our Parent Company and certain of our Preferred Parent Shareholders
“Application Form(s)”	WHITE, YELLOW and GREEN application form(s) or, where the context requires, any of them relating to the Global Offering
“Articles of Association” or “Articles”	our articles of association, conditionally adopted on June 5, 2015 and to take effect upon Listing, and as amended and supplemented from time to time, a summary of which is contained in Appendix IV to this prospectus
“Audit Committee”	the audit committee of our Board
“Baring PE”	Baring Private Equity Asia IV Holding (4) Limited, a company incorporated on December 11, 2007 and existing under the laws of the BVI and a Controlling Shareholder
“Beijing Orion”	Beijing Orion Energy Technology Development Co., Ltd. (北京奧瑞安能源技術開發有限公司), an independent third party, a company established under the laws of the PRC on February 23, 2005 and one of our MLD wells drilling service providers
“Board of Directors” or “Board” or “our Board”	our board of Directors
“Box Six Seven Four”	Box Six Seven Four, LC, a limited liability corporation incorporated and existing under the laws of the Commonwealth of Virginia, United States on December 17, 1996 and our Shareholder
“Bridge Loan Participants”	shareholders of our Company that collectively acted as lenders to our Company pursuant to the Bridge Loan Agreement, namely, Baring PE, Chengwei Entities, Dr. Zou, Box Six Seven Four, Jingyi (Vincent) Zhang, Feng Zhang, Fortuneup Enterprises Limited, Arizon Energy Investment Holdings Inc., China Energy Holdings Limited, Wang Bing, Mingzhu Fan and Yingjiang Wu
“Business Day”	any day (other than Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Capital Gas”	Capital Gas Holdings Limited, a company incorporated under the laws of the British Virgin Islands and ceased to be our Shareholder on April 11, 2012
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company, details of which are set out in the section headed “Appendix V — Statutory and General Information — Further Information about Our Group — Resolutions in writing of the sole shareholder of our Company passed on June 5, 2015” in this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CBM Energy”	CBM Energy Co., Limited, a company incorporated on June 2, 2004 and existing under the laws of the British Virgin Islands and an independent third party
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBM II”	China CBM Investment Holding II (2) Limited, a company incorporated and existing under the laws of the BVI on June 15, 2012 and a wholly owned subsidiary of Northern Gas
“CDB-CITIC”	CDB-CITIC Capital Investment Co., Ltd., a venture capital fund founded by China Development Bank Corporation and CITIC Capital Holdings Limited on August 1, 2008 and our Shareholder
“CDB-CITIC Series B Preferred Parent Shares Subscription Agreement”	the subscription agreement entered into by and among our Company, CDB-CITIC and other parties thereto, on May 28, 2010

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Chengwei Entities”	collectively (i) Chengwei Partners, L.P., a limited liability partnership organized under the laws of the Cayman Islands on January 6, 2005 and our Shareholder; (ii) Chengwei Evergreen Capital, L.P. (previously known as Chengwei Ventures Evergreen Fund, L.P.), a limited liability partnership organized under the laws of the Cayman Islands on July 8, 2004 and our Shareholder; and (iii) Chengwei Ventures Evergreen Advisors Fund, LLC, a company incorporated and existing under the laws of the Cayman Islands on August 10, 2004 and our Shareholder
“China Coal”	China Coal Energy Company Limited (中國中煤能源股份有限公司), a state-owned enterprise established on August 22, 2006 and existing under the laws of the PRC and an independent third party
“Chinastone Entities”	collectively, (i) Chinastone Hong Kong Holdings Limited, a company incorporated under the laws of Hong Kong and our Shareholder, and two of its affiliates, namely Chinastone Energy Holdings Limited and Chinastone Asia Holdings Limited; and (ii) Chinastone Overseas Holdings Limited, a limited liability company incorporated under the laws of the BVI and our Shareholder
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油總公司), a state-owned enterprise established on February 15, 1983 and existing under the laws of the PRC and an independent third party
“CNPC”	China National Petroleum Corporation (中國石油天然氣集團公司), a state-owned enterprise established on February 9, 1990 and existing under the laws of the PRC and one of the four state-owned enterprises authorized by the PRC government to partner with foreign companies to explore, develop and produce China’s CBM assets and an independent third party
“CNPC Bohai Drilling Engineering Company Limited (Down-hole Operation Branch)”	CNPC Bohai Drilling Engineering Company Limited (Down-hole Operation Branch) (中國石油集團渤海鑽探工程有限公司井下作業分公司), an independent third party, a company established under the laws of the PRC on November 25, 2009 with the registration number of 130000300003203 and one of our major suppliers
“Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company,” “our Company,” “we,” “us,” “our”	AAG Energy Holdings Limited (previously known as AAG Energy Inc.), an exempted company incorporated under the laws of the Cayman Islands with limited liability on December 23, 2014. Our Company has been registered in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong, the predecessor to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	Baring PE, WP China and Dr. Zou
“Convertible Bondholders”	holders of the Convertible Bonds
“Convertible Bonds”	the US\$130,000,000 12% convertible bonds of our Parent Company due 2017
“Convertible Bonds Subscription Agreement”	the subscription agreement entered into by and between our Parent Company and WP China, Baring PE, Chengwei Entities, Chinastone Entities and other investors on September 29, 2014 in relation to the subscription of the Convertible Bonds of our Parent Company
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cornerstone Investor(s)”	investor(s) which has/have entered into cornerstone investment agreement(s) with our Company, as described in the section headed “Our Cornerstone Investors” of this prospectus
“CUCBM”	China United Coalbed Methane Corporation Ltd. (中聯煤層氣有限責任公司), our Chinese partner in the Panzhuang concession, a company established under the laws of the PRC on May 13, 1996 and one of the four state-owned enterprises authorized by the PRC government to partner with foreign companies to explore, develop and produce China’s CBM assets and an independent third party

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Daning Coal Mine”	a coal mine located in Yangcheng County, Jincheng City, Shanxi Province, the PRC and operated by Shanxi Huarun — Daning Energy Company, Ltd. (山西華潤大寧能源有限公司), a joint venture with limited liability established by AACI and two independent PRC companies on May 12, 2000 under the laws of the PRC and an independent third party
“Deed of Amendment”	the deed of amendment to the Convertible Bonds Subscription Agreement entered into among our Parent Company and the Convertible Bondholders on January 29, 2015
“Director(s)” or “our Director(s)”	the director(s) of our Company or any one of them
“Dr. Zou”	Stephen Xiangdong Zou. Dr. Zou is the chairman and executive Director of our Company and our Controlling Shareholder
“EBITDA”	an acronym for earnings before interest, taxes, depreciation and amortization
“EHS”	environment, health and safety
“ENN Energy”	prior to July 2014, refers to ENN Energy Sales Company Limited (新奧能源貿易有限公司); after July 2014, refers to Shanxi Qinshui ENN Gas Co., Ltd. (山西沁水新奧燃氣有限公司). ENN Energy Sales Company Limited assigned its 15-year CBM take-or-pay sales agreement with CUCBM and us to Shanxi Qinshui ENN Gas Co., Ltd. in August 2014
“Evan Energy”	Evan Energy Investments, LC, a limited liability corporation incorporated and existing under the laws of the Commonwealth of Virginia, United States on February 13, 2004 and our Shareholder
“Far East Energy Corporation” or “FEEC”	a corporation incorporated on February 4, 2000 and existing under the laws of the state of Nevada, United States and listed on the OTC Bulletin Board and an independent third party
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Forms(s)”	the application forms(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Green Dragon Gas” or “GDG”	Green Dragon Gas Ltd., a company incorporated on March 28, 2006 and existing under the laws of the Cayman Islands and listed on the London Stock Exchange (GDG: London) and an independent third party
“Group” or “our Group”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company’s current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
“Henan CSG”	Henan Provincial Coal Seam Gas Development and Utilization Co., Ltd. (河南省煤層氣開發利用有限公司), a company established on January 12, 2007 and existing under the laws of the PRC and one of the four state-owned enterprises mandated authorized by the PRC government to partner with foreign companies to explore, develop and produce China’s CBM assets and an independent third party
“HK\$,” “HKD” or “HK dollars” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	76,140,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” of this prospectus) being offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms

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“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated on or about June 10, 2015 relating to the Hong Kong Public Offering to be entered into, among others, our Company, the Joint Bookrunners and Hong Kong Underwriters
“Huakai”	Qinshui Huakai CBM Co., Ltd.* (沁水縣華凱煤層氣有限公司), an independent third party and a company established under the laws of the PRC on April 14, 2008, previously known as Kaifeng Huakai Petroleum Deep Processing Co., Ltd.* (開封市華凱石油天然氣深加工有限公司)
“IMC”	International Methane Company Limited, an international business corporation formed and existing under the laws of Belize and an independent third party
“independent third party(ies)”	a party or parties which is/are not our connected person(s) (as defined in the Listing Rules)
“Independent Technical Expert”	Netherland, Sewell & Associates, Inc., our independent third party technical expert
“INED(s)”	our independent non-executive Director(s)
“Inner Mongolia Option”	an option granted by CCBM II to our Parent Company, as described in the section headed “Relationship with Controlling Shareholders — Inner Mongolia Option” of this prospectus
“Inner Mongolia Option Agreement”	an agreement entered into between our Parent Company and CCBM II on December 12, 2012, under which CCBM II has granted to us the Inner Mongolia Option
“Inner Mongolia Option Supplemental Agreement”	a supplemental agreement entered into between our Company, our Parent Company, CCBM II, Meiya, Shanxi Shengyang and one of its subsidiaries on March 16, 2015, under which our Parent Company assigned all of its rights and obligations under the Inner Mongolia Option Agreement to our Company for nil consideration

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“Inner Mongolia Project”	the exploration and development of CBM concessions in Inner Mongolia controlled by Shanxi Shengyang, as described in the section headed “Relationship with Controlling Shareholders — Inner Mongolia Project”
“International Offering”	the offer of the International Offer Shares at the Offer Price to institutional, professional, corporate and other investors (other than to retail investors in Hong Kong), as further described in the section headed “Structure of the Global Offering” of this prospectus
“International Offer Shares”	590,020,920 new Shares initially being offered by our Company, 95,239,080 Sale Shares initially being offered for sale by the Selling Shareholder (subject to adjustment and reallocation together with, where relevant, any additional Shares which may be offered by the Over-allotment Option Grantors pursuant to the Over-allotment Option as further described in the section headed “Structure of the Global Offering” of this prospectus), which are the subject of the International Offering
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into, among others, our Company, the Selling Shareholder, Over-allotment Option Grantors, the International Underwriters and the Joint Bookrunners on or about June 16, 2015
“IPO Long Stop Date”	February 28, 2016
“Jiyuan Gas”	Jiyuan Zhongyu Gas Co., Ltd.* (濟源中裕燃氣有限公司), a Sino-foreign joint venture established and existing under the laws of the PRC on November 20, 2002 and an independent third party
“JMC”	the joint management committee under a production sharing contract
“Joint Bookrunners”	The Hongkong and Shanghai Banking Corporation Limited, China International Capital Corporation Hong Kong Securities Limited and Credit Suisse (Hong Kong) Limited
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited and The Hongkong and Shanghai Banking Corporation Limited

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“Joint Lead Managers”	Société Générale and CIMB Securities Limited
“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and HSBC Corporate Finance (Hong Kong) Limited
“Latest Practicable Date”	June 4, 2015, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Laws”	all national, central, federal, provincial, state, regional, municipal, local, domestic or foreign laws (including, without limitation, any common law or case law), statutes, ordinances, legal codes, regulations or rules, including, without limitation, all regulations, rules, orders, judgments, decrees, rulings, opinions, guidelines, measures, notices or circulars (in each case, whether formally published or not and to the extent mandatory or, if not complied with, the basis for legal, administrative, regulatory or judicial consequences) of any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, selfregulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 23, 2015, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended or supplemented from time to time)
“Luoyang Tongyu ENN”	Luoyang Tongyu ENN Coalbed Methane Distribution Co., Ltd.* (洛陽通豫新奧煤層氣輸配有限公司), an independent third party and a company incorporated on April 25, 2011 under the laws of the PRC and one of our pipeline-linked customers

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“Mabi ODP I”	the Overall Development Plan for an annual capacity of 35 bcf covering a total area of 131.7 square kilometers in the Mabi concession, which received preliminary approval from the NEA in December 2013 and is pending final approval by the NDRC
“Mabi Project”	the CBM exploration, mining, development and production project contemplated under the Mabi PSC, which comprises the exploration rights over the Mabi CBM property evidenced by the Mabi exploration licenses
“Mabi PSC”	The production sharing contract for the Mabi concession was entered into on July 15, 2004, by CUCBM, the owner of the CBM exploration rights for the Mabi concession, and AACI, in which CUCBM and AACI held 30% and 70% participation interest, respectively, and was subsequently amended by CUCBM, AACI and AAGI on August 25, 2005, pursuant to which AAGI replaced AACI to become the foreign contractor and operator for the Panzhuang Project
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Management Investors”	holders of securities of our Parent Company whose beneficial owners are or used to be members of the senior management or employees of our Parent Company
“Meiya”	Shanxi Meiya CBM Technology Consultancy Co., Ltd.* (山西美亞煤層氣技術諮詢有限公司), a company established under the laws of the PRC on June 13, 2012 and wholly owned by CCBM II
“Memorandum of Association”	the memorandum of association of our Company conditionally adopted on June 5, 2015 and to take effect upon Listing, as amended and supplemented from time to time
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the PRC Ministry of Foreign Trade and Economic Cooperation (中華人民共和國對外貿易經濟合作部), as appropriate to the context

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“MOLAR”	the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
“National Energy Administration,” or “NEA”	National Energy Administration (國家能源局), a state bureau administered by the NDRC
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“New Shares”	666,160,920 Shares being offered by us for subscription at the Offer Price under the Global Offering (without taking into account any Shares being sold and transferred pursuant to the exercise of the Over-allotment Option)
“Nomination Committee”	the nomination committee of our Board
“Northern Gas”	Northern Gas Limited, a company incorporated and existing under the laws of the BVI on April 5, 2012 and wholly owned by certain of our Shareholders
“NSAI”	Netherland, Sewell & Associates, Inc., our independent technical consultant
“NSAI report”	Estimates of Reserves and Future Revenue and Unrisked Contingent and Prospective Resources to the AAG Energy Holdings Limited Interest in Certain Coalbed Methane Properties located in Panzhuang and Mabi Blocks, Shanxi Province, The People’s Republic of China, as of December 31, 2014, and dated March 25, 2015, which is the Independent Technical Report prepared by NSAI and provided in full as Appendix III to this prospectus
“ODP” or “Overall Development Plan”	a plan prepared by the operator for the development of a CBM field or part of a CBM field (phased development) which has been reviewed and adopted by the joint management committee, confirmed by the Chinese partner to the relevant CBM project and approved by the department designed by the State Council of the PRC, and such plan shall include, but not limited to, recoverable reserves, the development well pattern, master design, production profile, economic analysis, and time schedule of the development operations
“OECD”	Organization for Economic Co-operation and Development

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“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.70 and expected to be not less than HK\$3.00, such price to be agreed upon by us (for ourselves and on behalf of the Selling Shareholder) and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date, as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” of this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, where relevant, with any Shares being sold and transferred pursuant to the exercise of the Over-allotment Option
“Option Agreement”	an agreement entered by CCBM II, Meiya, Shanxi Shengyang and one of its subsidiaries on December 12, 2012 in connection with the Inner Mongolia Option
“Orion”	Orion Gas Inc., a company incorporated and existing under the laws of the BVI on July 24, 2008 and our Shareholder
“Over-allotment Option”	an option to be granted by the Over-allotment Option Grantors to the International Underwriters, exercisable by the Joint Bookrunners (on behalf of the International Underwriters), pursuant to the International Underwriting Agreement, pursuant to which the Over-allotment Option Grantors may be required to sell and transfer up to an aggregate of 114,210,000 Over-allotment Shares (representing 15% of our Shares initially being offered under the Global Offering at the Offer Price) to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” of this prospectus
“Over-allotment Option Grantors”	WP China, Baring PE, Dr. Zou and The Zou 2011 Family Trust
“Over-allotment Shares”	Up to an aggregate of 114,210,000 Shares to be sold and transferred by the Over-allotment Option Grantors in the event the Over-allotment Option is exercised, details of which are described in the section headed “Structure of the Global Offering” of this prospectus
“PA Investment”	PA Investment Funds SPC, a segregated portfolio company incorporated under the laws of the Cayman Islands on May 3, 2013, for the account of PA AAG Energy Fund Segregated Portfolio, one of the Series C Investors

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“Panzhuang ODP”	the Overall Development Plan for the Panzhuang concession, which was approved by the NDRC on November 28, 2011
“Panzhuang Project”	the CBM exploration, mining, development and production project contemplated under the Panzhuang PSC, which comprises the exploration rights over the Panzhuang CBM property evidenced by the Panzhuang exploration licenses and the mining rights over the Panzhuang CBM property evidenced by the Panzhuang mining licenses
“Panzhuang PSC”	The production sharing contract for the Panzhuang concession which was originally entered into on March 3, 2003, by CUCBM, the owner of the exploration rights for the Panzhuang concession, and SAE (US), an independent third party, and was subsequently amended by CUCBM, SAE (US) and SAE on July 8, 2005, pursuant to which SAE replaced SAE (US) to become the foreign contractor and operator for the Panzhuang Project
“Panzhuang PSC Amendment”	an amendment to the Panzhuang PSC entered into between CUCBM and our Parent Company on July 22, 2013, pursuant to which CUCBM and our Parent Company agreed that, effective July 22, 2013, the participating interest of each CUCBM and our Parent Company is adjusted to 20% and 80%, respectively, and the coal seam in an total area of 74.4 square kilometers under the Panzhuang PSC is to be solely operated by CUCBM or its authorized third parties. The Panzhuang PSC Amendment was entered into after the parties’ commercial negotiations considering their respective interests
“Panzhuang PSC Supplement”	a supplement to the Panzhuang PSC entered into between CUCBM and our Parent Company on August 8, 2014, pursuant to which, among other things, CUCBM and our Parent Company agreed that, our Parent Company is responsible for 80% of the costs incurred during the period between January 1, 2011 and the commencement of the development phase, as well as 80% of the costs incurred during the entire development phase. The remaining 20% of the costs incurred during these two periods will be borne by CUCBM. As a result, CUCBM will be entitled to 20% and us will be entitled to 80% of the cost recovery under the Panzhuang PSC beginning January 1, 2011

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“Panzhuang Tranche Completion Date”	April 21, 2011, the date of the completion of the Panzhuang tranche of the share subscription by certain shareholders as defined in the WP Series B Preferred Parent Shares Subscription Agreement
“Parent Board”	board of directors of our Parent Company
“Parent Company”	AAG Energy Limited (previously known as Asian American Gas Limited and China CBM Investment Holdings Limited), an exempted company incorporated and existing under the laws of the Cayman Islands with limited liability on November 9, 2007 and our parent company
“Parent Share(s)”	common shares of nominal value of US\$0.0001 each in the share capital of the Parent Company and the Preferred Parent Shares
“Parent Shareholder(s)”	holder(s) of Parent Shares, Series A-1 Preferred Parent Shares, Series A Preferred Parent Shares, Series B Preferred Parent Shares, Series C Preferred Parent Shares
“PetroChina”	PetroChina Company Limited (中國石油天然氣股份有限公司), an independent third party, a company established under the laws of the PRC on November 5, 1999 and listed on the Hong Kong Stock Exchange (Stock code: 857) and our <i>de facto</i> Chinese partner in the Mabi concession by way of assignment by CNPC and a subsidiary of CNPC, one of the four state-owned enterprises authorized by the PRC government to partner with foreign companies to explore, develop and produce China’s CBM assets
“PetroChina Gas Central Processing Hub”	PetroChina’s central gathering and compression facilities, which is located adjacent to the Panzhuang and Mabi concessions and connected to the cross-country West-East Pipeline One
“PRC” or “China”	the People’s Republic of China. References in this prospectus to the PRC or China exclude Hong Kong, Macau, and Taiwan
“Post-IPO RSU Scheme”	the scheme conditionally approved and adopted by our Company on June 5, 2015 for the grant of RSUs to RSU participants following the completion of the Global Offering, further details of which are described in the section headed “Statutory and General Information” in Appendix V to this prospectus

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“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by our Board of Directors on March 31, 2015, under which share options are awarded to eligible participants, further details of which are described in the section headed “Statutory and General Information” in Appendix V to this prospectus
“Preferred Parent Shareholders”	the holders of the Preferred Parent Shares
“Preferred Parent Shares”	collectively, the Series A Preferred Parent Shares, Series A-1 Preferred Parent Shares, Series B Preferred Parent Shares and the Series C Preferred Parent Shares
“Price Determination Agreement”	the agreement to be entered into among our Company (for ourselves and on behalf of the Selling Shareholder) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date, expected to be on or about June 16, 2015 (Hong Kong time) and in any event no later than 5:00 p.m. on Friday, June 19, 2015, on which the Offer Price is to be fixed by an agreement between us and the Joint Global Coordinators (on behalf of the Underwriter)
“PRMS”	The Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007 as amended, supplemented or otherwise modified from time to time
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of the businesses comprising our Group in preparation for the Global Offering, as described in the section headed “History and Corporate Structure”

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“Reserve-based Facility”	each reserve-based facility under the reserve-based facility agreement dated 15 November 2013 among Sino-American Energy, Inc. (as borrower), AAGI (as guarantor), Standard Chartered Bank and The Hongkong and Shanghai Banking Corporation Limited (as lead arrangers), the “Original Lenders” as listed in Schedule 1 of that agreement (as lenders), The Hongkong and Shanghai Banking Corporation Limited in its capacity as the initial facility agent, initial security agent, technical bank and initial account bank
“Restated Shareholders Agreement”	means the shareholders agreement of our Parent Company dated February 5, 2008, between the Preferred Parent Shareholders and our Parent Company which was subsequently amended and restated on March 12, 2010, May 28, 2010, April 2, 2013, June 6, 2013 and August 29, 2013
“RSUs”	restricted share units granted pursuant to the Post-IPO RSU Scheme
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAE”	Sino-American Energy, Inc. (Samoa), a company incorporated and existing under the laws of Samoa on March 14, 2005, a wholly owned subsidiary of AAGI and an indirect wholly owned subsidiary of our Company
“SAE (HK)”	Sino-American Energy (HK) Limited, a limited liability company incorporated under the laws of Hong Kong on October 29, 2007 and deregistered on December 28, 2012, used to be a wholly owned subsidiary of SAE and an indirect wholly owned subsidiary of our Company before deregistration.
“SAE (US)”	Sino-American Energy, Inc., a corporation incorporated and existing under the laws of the state of Delaware, United States on October 16, 1990 and an independent third party
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular No. 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles issued by SAFE on July 14, 2014
“Sale Shares”	95,239,080 Shares to be offered for sale by the Selling Shareholder in the International Offering

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“Sanxia Yizhong”	Boai Sanxia Yizhong New Energy Co., Ltd* (博愛三峽益眾新能源有限公司), an independent third party and a company incorporated in 2013 under the laws of the PRC and one of our pipeline-linked customers
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SEC”	the U.S. Securities and Exchange Commission
“Selling Shareholder”	CDB-CITIC which will sell 95,239,080 Shares, representing 2.86% of the total issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme). Please see the section headed “Appendix V — Statutory and General Information — F. Other Information — 18. Particulars of the Selling Shareholder”
“Series A Investors”	Baring PE, Chengwei Entities and their respective transferees and assigns
“Series A Preferred Parent Share Purchase Agreement”	the share purchase agreement entered into by and among our Parent Company, Capital Gas, Baring PE and Chengwei Entities on February 4, 2008
“Series A Preferred Parent Shares”	series A preferred share(s) of nominal value of US\$0.0001 each in the capital of our Parent Company
“Series A-1 Investors”	Orion, Evan Energy, Box Six Seven Four, Dr. Zou, CBM Energy Co., Limited, Guiyong Cui, Wei Huang, Yang Lin, Jing Li, Min Shao, Haijiao Yu, Yan Jing, Jingyi Zhang, Feng Zhang, and Timothy Hawkes
“Series A-1 Preferred Parent Shares”	series A-1 preferred share(s) of nominal value of US\$0.0001 each in the capital of our Parent Company
“Series B Investors”	WP China, CDB-CITIC and their respective transferees and assigns
“Series B Preferred Parent Shares”	series B preferred share(s) of nominal value of US\$0.0001 each in the capital of our Parent Company
“Series C Investors”	Chinastone Entities, WP China, Baring PE, Chengwei Entities, Timothy Hawkes, Fan Mingzhu, Shao Min, Han Xiaosong, Anthony Morberg, PA Investment and VTD

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“Series C Preferred Parent Shares”	series C preferred share(s) of nominal value of US\$0.0001 each in the capital of our Parent Company
“Series C Preferred Parent Shares Subscription Agreements”	the subscription agreements entered into by and between our Parent Company and Chinastone Energy Equity Investment Fund (Shanghai) Partnership Enterprise, a partnership established under the laws of the PRC on October 18, 2010, on February 18, 2013, by and between our Company and Chinastone Overseas Holdings Limited dated June 6, 2013, by and between our Parent Company and certain investors including WP China, Baring PE, Chengwei Entities and others dated June 6, by and between our Parent Company and PA Investment for the account of PA AAG Energy Fund Segregated Portfolio dated June 6, 2013, and by and between our Parent Company and VTD dated August 29, 2013, respectively, in relation to the subscription for Series C Preferred Parent Shares of our Parent Company
“Series D Investors”	holders of the Series D Preferred Shares assuming the Convertible Bonds are converted into Series D Preferred Shares
“Series D Preferred Parent Shares”	series D preferred share(s) of nominal value of US\$0.0001 each in the capital of our Parent Company assuming the Convertible Bonds are converted into Series D Preferred Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Coal Mine Geological Exploration and Drilling Supplies Plant”	Shandong Coal Mine Geological Exploration and Drilling Supplies Plant* (山東省煤田地質鑽探工具廠), an independent third party, an enterprise established under the laws of the PRC on November 12, 1998 and one of major suppliers
“Shanxi Shengyang”	Shanxi Shengyang Minerals Co., Ltd.* (山西盛陽礦業有限公司), a company established under the laws of the PRC on July 3, 2008 and owned as to 50% by each of Ms. Yang Lin and by Mr. Jing Li, both members of the senior management of our Company
“Shanxi Shengyang Group”	Shanxi Shengyang and its subsidiaries

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“Shanxi Tongyu”	Shanxi Tongyu Coalbed Methane Transportation and Distribution Co., Ltd.* (山西通豫煤層氣輸配有限公司), a company established under the laws of the PRC in July 2007 and an independent third party
“Share(s)”	ordinary share(s) of nominal value of US\$0.0001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Shuntianda”	Yangchengxian Shuntianda Natural Gas Co., Ltd.* (陽城縣舜天達天然氣有限公司), an independent third party, a company incorporated under the laws of the PRC on June 28, 2010 and one of our customers
“SIA”	SIA Energy Limited, our independent third party industry consultant
“Sinopec”	China Petrochemical Corporation, an independent third party, a company established on September 17, 1983 and controlled by the Chinese government and an independent third party. It is the controlling shareholder of China Petroleum & Chemical Corporation, a company established under the laws of the PRC on September 14, 1983 and listed on the Shanghai, Hong Kong, New York and London stock exchanges
“Stabilization Manager”	China International Capital Corporation Hong Kong Securities Limited
“Standard Bank”	The Standard Bank of South Africa Limited
“Standard Bank Facility”	a revolving facility agreement entered into by SAE with Standard Bank and its affiliate on December 23, 2011, under which up to US\$55 million was made available for SAE and which has since been fully repaid
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it in Division 4, Section 15 of the Companies Ordinance, or in the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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“The Zou 2011 Family Trust”	HSBC Bank USA, N.A. as trustee of Zou Family 2011 Irrevocable Trust, an irrevocable discretionary trust set up by Dr. Zou on August 29, 2011 for the benefit of his family members and of which HSBC Bank USA, N.A. is the trustee
“The Zou 2012 Family Trust”	an irrevocable trust by Dr. Zou on August 16, 2012 for the benefit of his family members and of which J.P. Morgan Trust Company of Delaware is the trustee
“Tongyu Pipeline”	China’s first large-scale CBM pipeline, which is constructed by Shanxi Tongyu and extends from Qinshui County of Shanxi Province to Bo’ai County of Henan Province
“Track Record Period”	the periods comprising the three financial years ended December 31, 2012, 2013 and 2014
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
“US\$,” “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S.” or “United States”	the United States of America, its territories and possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933 (as amended)
“VAT”	value-added tax
“West-East Pipeline One”	a major gas pipeline with a total length of 4,000 kilometers built by the PRC government, which began gas transmission in 2004 and extends from Tarim Basin to Shanghai
“West-East Pipeline Two”	a major gas pipeline with a total length of 8,704 kilometers built by the PRC government, which began gas transmission in 2011 and has two sections. The eastern section extends from Zhongwei City in Ningxia Ningxia Hui Autonomous Region to Guangzhou, and the western section extends from Horgos in Xinjiang Uyghur Autonomous Region to Zhongwei in Ningxia Hui Autonomous Region
“White Form eIPO”	the application for the Hong Kong Offer Shares to be issued in the application’s own name by submitting applications online through the designated website at www.eipo.com.hk

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“VTD”	VTD 705 HL Company Limited, a company incorporated under the laws of Hong Kong, and one of the Series C Investors
“WP China”	WP China CBM Investment Holdings Limited, a company incorporated on September 24, 2008 and existing under the laws of the BVI and a Controlling Shareholder
“WP Series B Preferred Parent Shares Subscription Agreement”	the subscription agreement entered into by and among the Parent Company, WP China, the Bridge Loan Participants and the other parties thereto, on March 12, 2010
“Yubei Pipeline”	a natural gas pipeline with a total length of 206 kilometers that extends from Bo'ai County of Henan Province to Anyang County of Henan Province
“Yuji Pipeline”	a natural gas pipeline with a total length of 1,045 kilometers that extends from Yulin City of Shaanxi Province to Jinan City of Shandong Province
“Zou GRAT”	an irrevocable grantor retained annuity trust set up by Dr. Zou on August 16, 2012 for the benefit of himself and his family members and of which J.P. Morgan Trust Company of Delaware is the trustee

* *English translation of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.*

In this prospectus:

* *Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as of the date in this prospectus.*

* *Unless otherwise specified, all references to any shareholdings in our Company assume that the Over-allotment Option has not been exercised.*

* *Unless otherwise specified, all references to “2012,” “2013” and “2014” are to the years ended December 31, 2012, 2013 and 2014, respectively.*

* *Unless otherwise specified, the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meaning given to such terms in the Listing Rules.*

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“1P reserves”	proved reserves
“2P reserves”	proved and probable reserves
“2-D”	two-dimensional
“3P reserves”	proved, probable and possible reserves
“3-D”	three-dimensional
“anthracite coal”	a hard, compact variety of coal that has a high luster, being the highest rank coal and the hardest coal type and characterized by low volatile matter and high carbon content. It has a semi-metallic luster and is smokeless when burnt
“barrel” or “bbl”	a unit of volume is equal to 42 US gallons
“bcf” or “billion cubic feet”	a unit of measurement for large volumes of natural gas at standard temperature and pressure bases. A cubic foot equals to approximately 0.028 cubic meters
“bcf/d”	billion cubic feet per day
“bcm”	billion cubic meters
“bituminous coal”	a relatively soft coal containing a tar-like substance called bitumen and a coal group that contains many coal types which are all only slightly affected by weathering unless left exposed for an extended period of time, in which case they break into fine prismatic pieces, unlike the platy pieces of lignite. Most internationally traded coal and all coking coal is bituminous rank
“CBM”	coalbed methane, a type of natural gas found in seams of various types of coal and is formed during the formation of coal. Coalbed methane is distinct from a typical sandstone or other conventional gas reservoir, as the methane is stored within the coal by a process called adsorption

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“CBM concession”	a grant extended by a government to permit a company to explore for and produce CBM within a strictly defined geographic area in consideration for some type of bonus or license fee or royalty or production sharing provided to the host government for a specified period of time
“CBM operation”	activities relating to the exploration, development, production and sales of CBM
“cm ³ /g”	cubic centimeters per gram
“coal fines”	coal with a maximum particle size usually less than one-sixteenth inch and rarely above one-eighth inch
“coal seam”	a stratum of coal usually thick enough to be profitably mined
“compressed natural gas” or “CNG”	pressurized natural gas in a gaseous state, mainly composed of methane and ethane, which is stored and distributed at a high pressure of 200–248 bar in cylindrical or spherical shapes.
“contingent resources”	those quantities of petroleum estimated to be potentially recoverable from known accumulations, but the applied projects are not yet considered mature enough for commercial development due to one or more contingencies and may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality
“contract area”	an area demarcated by geographical coordinates as set out in the production sharing contracts for the cooperative exploitation of CBM resources
“cost curve”	a graphic representation in which the production volume of a given commodity across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers within a given country or region
“developed reserves”	expected quantities of reserves to be recovered from existing wells and facilities
“development”	the phase of petroleum operations that occurs after exploration has proven successful, and before large-scale production

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“development costs”	during the development phase of the production sharing contract, costs incurred to obtain access to proved reserves and provide facilities for extracting, treating, gathering and storing CBM
“development operations”	operations carried out for the realization of CBM production from the date of approval of the overall development plan for any CBM field, including planning, designing, construction, installation, drilling, developing transportation systems, and the related research work as well as production activities, carried out before the date of commencement of commercial production
“DNV”	DET NORSKE VERITAS, an organization established and existing in Bærum, Norway, as a provider of services for managing risk
“EHS management system”	an integrated environment, health and safety management system
“exploratory wells” or “exploration wells”	any well drilled within the contractual area during the exploration period for the purpose of searching for CBM accumulations, including wells drilled for the purpose of obtaining geological and geophysical parameters, and dry hole(s) and discovery well(s)
“fracturing”	or hydraulic fracturing, is a well-stimulation technique in which a rock and/or coal seam is fractured by hydraulically pressurized liquid. The extraction of CBM is enhanced by hydraulically enlarging and/or creating fractures in the coal seams. The resulting fracture system facilitates pumping of groundwater from the coal seam, thereby reducing pressure and enabling CBM to be released from the coal and more easily pumped through the fracture system back to the well (and then through the well to the surface)
“gas content”	the volumes of gas contained in a given mass of coal, which generally increases with coal rank, the depth of the coal seam and the pressure of the reservoir
“gross reserves”	gross reserves are 100% of the reserves attributable to the Panzhuang PSC and the Mabi PSC before adjustments for fuel and shrinkage resulting from compression and pipeline losses. The gross reserves data disclosed in this prospectus is cited from the NSAI Report

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“ISO 14001”	a series of environmental management standards developed and published by the International Organization for Standardization
“liquefied natural gas” or “LNG”	a form of natural gas, mainly composed of methane and ethane, which has been liquefied at cryogenic temperature for ease of storage or transport. LNG achieves a higher reduction in volume than CNG
“mcf”	thousand cubic feet; 1 mcf equals to 28.32 cubic meters
“methane”	the lightest and most abundant of the hydrocarbon gases and the principal component of natural gas. It is also the principal component of CBM
“mining rights”	the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
“MLD”	multilateral horizontal drilling, a well drilling technique used in CBM operations
“mmcf”	million cubic feet; 1 mmcf equals to 28,328.6 cubic meters
“multilateral drilling wells”	MLD wells use one main vertical well and a combination of multiple directional horizontal well laterals that, when deployed in areas of stable and continuous coal seams and low permeability, can increase drilling efficiency and achieve greater CBM output. The drilling footage of a typical MLD well ranges from 3,000 to 5,000 meters of total laterals in coal. Although the drilling cost for a typical MLD well is often up to five-times that of a vertical well, the deployment of MLD wells can significantly reduce the land required for the development. MLD wells are particularly suited for areas with difficult surface conditions. MLD wells deployed on locations with proper geological conditions increase efficiency and can achieve better economic results by producing greater CBM output. The MLD wells drilled in Qinshui basin by AAGI have increased gas output by 10 to 30 times compared to that of conventional vertical wells
“natural gas”	a naturally occurring mixture of hydrocarbon gases that is highly compressible and expandable, of which methane is commonly the chief constituent of most natural gas

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“net reserves”	net reserves are the Company’s share of the reserves according to the terms of the Panzhuang PSC and the Mabi PSC after adjustments for fuel and shrinkage resulting from compression and pipeline losses. The net reserves data disclosed in this prospectus is cited from the NSAI Report
“netback wellhead price”	a contractual arrangement in which the price of gas at the wellhead is based upon the processed gas or products, being the net price an operator of a gas well receives for the gas after transmission charges have been deducted
“OHSAS 18001”	an international Occupational Health and Safety Assessment Series for health and safety management systems, published by a number of the world’s leading national standards bodies, certification bodies and specialist consultancies
“pad-drilled wells”	Drilling multiple wells from a single well-site, or a “pad,” has become an increasingly popular method of lowering drilling development costs through economies of scale. Drilling from a single pad is analogous to a drilling “factory,” where directional drilling is used to steer numerous slant-wells to reach some lateral distance from the pad. The wells penetrate and produce gas from the multiple coal seam horizons, including seams that might be too thin for horizontal drilling. The maximum reach of this method is determined by the depth of the coal seam, with deeper seams allowing for greater reach. One pad can accommodate up to 16 wells and the total drainage area from the wells on the pad is approximately one square kilometer
“participating interest”	the proportion of production costs each party will bear and the proportion of production each party will receive, as set out in a production sharing contract
“peak-shaving”	a process from the energy industry where demand at peak times is shifted to times with lower demand so that energy resources are better managed
“permeability”	a measure of the ability of a porous mass such as rocks to transport natural gas
“pilot development”	the installation and operation of necessary equipment within the contractual area (including wells) aiming at evaluating through pilot production of CBM, the potential commercial value of CBM in a specific area

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“possible reserves”	under the PRMS, additional reserves which analysis of geosciences and engineering data indicate are of at least 10% probability of success to be recovered in the estimate quantities
“PRMS”	the Petroleum Resources Management System, published by the Society of Petroleum Engineers, American Association of Petroleum Geologist, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007, as amended from time to time
“probable reserves”	under the PRMS, additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
“production operations”	operations and all activities related thereto carried out for CBM production of each CBM field from the date of commencement of commercial production, including, but not limited to extraction, injection, stimulation, treatment, storage, transportation, and lifting, etc
“proved reserves”	under the PRMS, quantities of oil and gas which, by analysis of geosciences and engineering data, can be estimated with at least a 90% probability that the estimated reserve quantity will be recovered using defined economic conditions, operating methods, and government regulations
“recoverable reserves”	an estimate of how much recoverable natural gas is still left in the already found oil fields. It can only be an estimate since it's impossible to know exactly how much oil is still in the ground. Because of this uncertainty, reserves are calculated with a certain probability
“reserves”	those quantities of petroleum anticipated to be commercially recoverable by the application of development projects to known accumulations from a given data forward under defined conditions
“reservoir”	a petroleum reservoir, or oil and gas reservoir, is a naturally occurring subsurface pool of hydrocarbons contained in porous or fractured rock formations such as an anticline, that traps and holds natural gas

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“single-lateral horizontal wells”	single-lateral horizontal wells use a single horizontal wellbore to produce gas from the target coal seam. The portion of the well in the horizontal section of the coal seam is designed to be oriented perpendicular to the cleat orientation of the CBM formation
“tcf”	trillion cubic feet
“undeveloped reserves”	quantities of reserves expected to be recovered through future investment
“vertical wells”	vertical wells have been used for CBM exploration and production for a number of years. Vertical wells are drilled from the surface to any desired coal seam depth. In the exploration of a new field, vertical wells can also be used to obtain a coal seam’s fundamental information and detailed reservoir properties. This testing process is done by drilling down to the coal seam, then coring and recovering the coal sample for further lab analysis as well as conducting downhole tests. A vertical well can penetrate many coal seams along its drilling depth, which enables the potential of commingled CBM production from these coal seams. The vertical well drainage area is generally less than 0.1 square kilometers
“wellbore”	a hole drilled for the purpose of exploration or extraction of natural resources such as water, gas or oil where a well may be produced and a resource is extracted for a protracted period

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in the sections headed “Summary,” “Risk Factors,” “Future Plans and Use of Proceeds,” “Industry Overview,” “Business” and “Financial Information” of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” of this prospectus, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. These forward-looking statements include, among other things, statements relating to:

- our operations and business prospects, including without limitation, our production or capacity;
- future developments, trends and competition in the CBM industry;
- our strategies, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- estimates of resources and reserves;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the PRC; and
- changes to regulatory and operating conditions in the markets in which we operate.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in the section headed “Risk Factors” of this prospectus.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus completely and with the understanding that our actual future results or performance may be materially different from what we expect.

RISK FACTORS

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

Our business operations depend significantly on our production sharing contracts and our business relationships with our Chinese partners, CUCBM and PetroChina.

Current PRC laws and regulations governing the CBM industry require that foreign companies engaged in CBM development projects in China must partner with authorized Chinese companies, and therefore our business operations are based on our production sharing contracts with our Chinese partners, CUCBM and PetroChina. We became a party to the production sharing contract with CUCBM for the Panzhuang concession in June 2006 when we acquired SAE, the foreign party to the Panzhuang PSC. We initially entered into the production sharing contract for the Mabi concession with CUCBM in July 2004. In 2008, CNPC de facto assumed all of CUCBM's rights and obligations under the Mabi PSC. In March 2012, CUCBM transferred its rights under the Mabi PSC to CNPC. CNPC subsequently assigned all of its commercial and operational rights and obligations thereunder to its subsidiary PetroChina, while CNPC remains a party to the production sharing contract. See the section headed "History and Corporate Structure" of this prospectus.

Our relationship with our Chinese partners is a key factor to the success of our business. Under PRC law, the Chinese partner to a CBM production sharing contract must hold the CBM exploration and mining licenses for that production sharing contract. Any delay or inability on the part of our Chinese partners in obtaining these licenses or approvals may materially and adversely affect the progress of our CBM projects. We also work with our Chinese partners to sell our CBM. We enter into CBM sales contracts with our customers for CBM produced in the Panzhuang concession through a joint sales arrangement with CUCBM, and we may continue to do so in the future. See the section headed "Business — Sales and Marketing" of this prospectus for more information regarding our joint sales arrangements with CUCBM. Any disagreement between CUCBM and us may materially affect our sales and customer relationships. As we ramp up our production in the Mabi concession, the sales of the CBM produced from our Mabi concession requires the cooperation of PetroChina. In addition, the joint management committee for each project, which consists of an equal number of representatives from each of our Company and the Chinese partner for the project, must unanimously agree on key decisions regarding project developments. Because the production sharing contracts have no mechanism for resolving such disagreements, if the joint management committee reaches an impasse on any significant matters, such as budgetary or operational plans, the development or production of the concession may be adversely affected. Furthermore, we may disagree with the results of the audits that our Chinese partners conduct to determine the recoverable amount of our costs, and we may also disagree with our Chinese partners with respect to the interpretation or performance of the relevant production sharing contract, either of which may adversely affect our relationships with our Chinese partners. The termination of, disruption to, or any other adverse changes in our relationships with our Chinese partners may materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

Our results of operations are affected by fluctuations in natural gas and oil prices.

Our future revenues, profitability and growth, as well as the carrying value of our CBM properties, are affected by prevailing natural gas prices in the PRC, and, to a lesser extent, by international natural gas and oil prices.

Currently, the prices of CBM and other types of unconventional gas are not regulated in the PRC and are driven by supply and demand trends in the respective regional markets with reference to prevailing natural gas prices due to that CBM competes with natural gas in the same market. There is no assurance that the PRC government will not introduce pricing regulations for CBM in the future. Because our CBM competes with conventional natural gas, our price negotiations with customers are largely based on the guidance on natural gas prices published by the NDRC. Each province may set prices for natural gas within its territory based on the NDRC guidance. Historically, natural gas prices in the PRC have been affected by the prices of domestic conventional gas, domestic unconventional gas and imported gas, including pipeline gas and LNG. In recent years, the NDRC has undertaken reform initiatives to raise the legacy base price of natural gas in order to encourage greater production and general adaptation of this cleaner energy source. However, we cannot predict what pricing policies the NDRC may adopt for natural gas in the future. For example, in February 2015, the NDRC issued a notice regarding lowering the ceiling for citygate prices of new, incremental non-residential natural gas and raising the floor for citygate prices of existing, legacy base non-residential natural gas such that the country's two-tier non-residential natural gas prices will gradually converge. Such policy has different effects on the sales prices for producers of natural gas and, to the extent other unconventional gases compete with natural gas, indirect effects on other unconventional gas producers including us depending on their geographic location and their customer base profile. Moreover, as China increases its natural gas imports, the price of natural gas in the PRC may be increasingly affected by import gas prices, which are currently higher than the NDRC's natural gas price guidance and subject to greater volatility. As a result, fluctuations in domestic as well as international natural gas prices may materially and adversely affect our business, profitability and results of operations.

Moreover, crude oil prices and the prices of other sources of energy affect natural gas prices, which in turn affect CBM prices as natural gas and CBM are interchangeable in terms of application and market. The oil market has historically been and is likely to continue to be volatile in the future. For example, international oil prices fell more than 50% in 2014. Crude oil prices are subject to large fluctuations in response to relatively minor changes in supply and demand, uncertainties within the market and a variety of other factors beyond our control. These factors include, among other things:

- changes in global supply and demand for oil;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) member countries to maintain price stability through production limits and the level of production by non-OPEC countries;
- the price and quantity of imports of foreign oil;

RISK FACTORS

- political and economic conditions and activities in oil-producing countries, including embargoes and military conflicts;
- the level of global oil exploration and production activity;
- the level of global oil inventories;
- weather conditions;
- technological advances affecting energy production and consumption;
- domestic and foreign governmental energy and environmental regulations;
- proximity and capacity of pipelines and other exploration, exploitation and transportation facilities; and
- the price and availability of alternative fuels and energy resources, such as shale gas.

Our operations involve uncertainties and risks, including those inherent in CBM development and those arising from our Chinese partners, and our projects may not progress within expected timeframes or budgets or achieve commercial viability or the intended economic results.

Our growth depends on our ability to operate our concessions in their respective phases at reasonable costs and ultimately bring them to commercial production where costs are fully recovered and profits can be achieved.

Activities during the exploration phase, such as selecting exploratory drilling locations, estimating gas reserves and testing suitable drilling techniques, involve considerable judgment and certain assumptions. As a result, a project may not proceed as planned. As with all exploration projects undertaken by energy companies, there are risks that actual costs or capital expenditure may exceed original budgets, and portions of our exploration area may not be commercially viable.

The development phase is characterized by the drilling of additional wells to ramp up to commercial production under the overall development plan. The cost of well drilling, ancillary facilities construction and gas production is often uncertain. As geological conditions vary across our concessions, factors including permeability, structural characteristics of the coal and dewatering requirements, which for certain areas can be difficult to identify or estimate, may hinder, restrict or even make production impractical or impossible. Wells that we have drilled or plan to drill may not be productive or, even if productive, may not produce CBM in such quantities that will allow us to recover our investments and ultimately make a profit from their production. We may become cash-constrained due to cost overruns. Furthermore, if any of our Chinese partners delays or fails to fund our operations during the development phase according to its participating interest under the relevant production sharing contract, we may need to fund the shortfall in order to maintain desired production levels, in which case our cash flow would be adversely affected.

RISK FACTORS

During the commercial production phase, CBM operations continue to be exposed to significant risks and hazards, including environmental hazards, industrial incidents, labor disputes, as well as more general hazards, such as earthquakes, fire, drought, flooding and other events outside of our control. The occurrence of any of these hazards can delay or interrupt our production and increase production costs. We may also become subject to liability for pollution or other hazards against which we have not insured or cannot insure. Production suspension may also prevent us from producing or delivering the amount of CBM we are obligated to supply under our take-or-pay contracts, and such supply shortfalls may subject us to liquidated damages.

In addition, as we develop CBM assets together with our Chinese partners, the progress of our concessions is subject to uncertainties arising from the activities of our Chinese partners. Any failure or undue delay by our Chinese partners to comply with the production sharing contracts or any agreements concerning our projects to which our Chinese partners are contractual parties, or their unwillingness to cooperate with us for any reason, may also materially and adversely affect our operations.

The Panzhuang concession has entered the development phase and the Mabi concession is currently in the exploration phase with pilot production, and each is thus subject to the risks associated with its current and future phases. Should these uncertainties and risks materialize in our current projects or in future projects that we may acquire, the result would materially and adversely affect our business, results of operations and growth prospects.

We may fail to obtain licenses, permits and approvals necessary for our operations on a timely basis or maintain them, and may be required to take actions to obtain additional licenses, permits and approvals that involve time-consuming application procedures.

Our growth depends largely on expanding our production capacity in the Panzhuang concession and developing the Mabi concession from the exploration phase into the development and commercial production phases, which depends upon obtaining all key licenses, permits and approvals required for these operations in a timely manner. Under PRC law and the production sharing contracts, certain licenses, permits and approvals critical for our CBM operations, including those relating to exploration and mining, must be obtained by our Chinese partners and are therefore out of our direct control. Furthermore, we are currently preparing to submit the Mabi ODP I to the NDRC for final approval during the third quarter of 2015 and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, we expect to receive the NDRC approval for the Mabi ODP I within six to twelve months of this submission. We are required to obtain certain approvals from various regulatory agencies for the Mabi ODP I prior to receiving the NDRC approval, but we may not be able to obtain all of these regulatory approvals timely or at all. A delay or failure in obtaining any of these regulatory approvals may lead to receiving the NDRC approval later than we expect or not at all. To develop the entire Mabi concession, we expect to obtain NDRC approvals for additional overall development plans in the future and the approval process may also be delayed. As a result, we may be delayed in reaching commercial production in the Mabi concession or may not be able to reach commercial production at all, which would have a material and adverse effect on our business prospects and results of operations.

RISK FACTORS

Furthermore, because large-scale CBM development in the PRC only commenced in recent years, the PRC regulatory framework for the CBM industry is still evolving and significant regulatory uncertainties exist. Local governmental procedures for reviewing and granting certain approvals necessary for our operations are evolving and might be inconsistent, which may lead to our failure to timely obtain certain approvals or permits necessary for our operations. If we or our Chinese partners fail to obtain or renew such licenses, permits or approvals on a timely basis or at all, we may (i) be ordered to take corrective measures, (ii) be subject to fines or other administrative penalties, (iii) be prohibited from continuing or expanding our operations, and/or (iv) have to expend considerable time and costs in order to restore and sustain our business. Moreover, the abovementioned uncertainties may materially and adversely impact or delay our development plans, divert management attention and increase cost of compliance, which may materially and adversely affect our business, financial condition and results of operations.

Our rights and ability to continue to the land in which we conduct our CBM operations may be adversely affected if we are unable to obtain the relevant land use certificates or temporary land use permits, or enforce our temporary land use arrangements with the relevant rural collectives and forest farms.

We are entitled to use various parcels of land in our concessions pursuant to land use certificates or permits issued to us by the local land administration authorities. Land use in connection with our CBM operations is approved by the Ministry of Land and Resources of the PRC, as one of the pre-approvals to the ODP approval by the NDRC. Under each of the production sharing contracts, our Chinese partner has the obligation to procure or assist in procuring land use rights necessary for our CBM operations.

As of the Latest Practicable Date, we have obtained the land use certificates issued by the relevant local authority to three parcels of land totaling 42,269 square meters, on which we have built our central gas gathering station and our Number 1, Number 2 and Number 3 gas gathering stations for the Panzhuang concession. We have also built a production management center, our local office, ancillary facilities and employee dormitories on these parcels of land. We completed the construction of our Number 4 gas gather station in September 2014 and of our Number 5 gas gathering station in February 2015. We plan to construct our Number 11 and Number 13 gas gathering stations. Our Number 4, Number 5, Number 11 and Number 13 gas gathering stations are located in the Panzhuang concession on two additional parcels of land, totaling 13,302 square meters, for which we have entered into the relevant land use right grant contracts, paid the corresponding land grant consideration, and will apply for the land use certificates after the completion of the construction of these gas gathering stations. Land use certificates are evidence of real property registration under PRC law and are necessary to occupy, transfer, mortgage or lease the land use rights to the land where we operate and to protect such land from third party claims. The parcels of land where we operate our gas gathering stations and production centers are crucial to our operations and in the event that we or our Chinese partners fail to obtain the relevant land use certificates, our operations will be materially and adversely affected.

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In addition, as of the Latest Practicable Date, we operated geology parameter and production wells in an area of approximately 273,000 square meters in the Panzhuang concession and an area of approximately 213,000 square meters in the Mabi concession. All the land that our wells and operations occupy on a temporary basis in the Panzhuang concession, as well as a majority part of the land in the Mabi concession, is land owned by local rural collectives. Certain areas of the land in the Mabi concession are state-owned and administrated by the local forestry bureau through a system of forest farms. As required by PRC law, we negotiate and enter into temporary land use contracts with the villagers' committees representing the local rural collectives or the forest farms representing the local forestry bureau owning or administrating the relevant parcels of land for our access and occupation of the land for our well operations. Consideration under these temporary land use contracts is determined through our negotiations with the villagers' committees and the forest farms, as the case may be, and currently ranges from RMB1.05 to RMB3.90 per square meter. We also secure undertakings from the villagers' committees and the forest farms, which give us the option to continue occupying and using the relevant parcels of land throughout the term of our production sharing contracts, subject to land use fee adjustments according to national rates for land use compensation. We continue to occupy the parcels of land containing our wells during the life of the wells before we dismantle them, restore the parcels to conditions suitable for farming and return the parcels to the rural collectives. The villagers' committees also agree to facilitate our access and usage of the land and not to sublease the land to any other parties without our consent. Of these areas, we have obtained temporary land use permits from the appropriate and competent government authority for 100% of our well sites in the Panzhuang concession and 99.7% of our well sites in the Mabi concession. As of the Latest Practicable Date, temporary land use permits covering approximately 35.0% of our well sites in the Panzhuang concession have expired in December 2014 and are currently pending renewal. Although we applied to renew such permits prior to their expirations, the applications have not been formally processed due to the fact that the land authority in the town of Yangcheng has temporarily suspended renewal applications pending the completion of a land resources survey in the area. Based on our communication with the land authority, the land survey will be completed in the fourth quarter of 2015, after which the land authority will resume the normal processing of renewal applications. We have submitted applications for all of the outstanding temporary land use permits for the lands in the Mabi concession, and we do not have any expired temporary land use permits in the Mabi concession. If we are unable to obtain the outstanding temporary land use permits, we may be subject to a fine of RMB10 to 30 per square meter, or a total of RMB0.96 million to RMB2.89 million, or be ordered to vacate those parcels for which the permits are outstanding, which will materially and adversely affect our operations.

As of the Latest Practicable Date, we have also entered into compensation agreements with local farmers, and, in the case of certain area in the Mabi concession, state-owned forest farms, to access an area of approximately 971,000 square meters in the Panzhuang concession and an area of approximately 1,238,000 square meters in the Mabi concession, where we build roads and surface fixtures for our operations on a non-exclusive and temporary basis. Under these compensation agreements, we pay the local farmers or the forest farms a fee for our accessing and using the land. We may renew the agreements if we need to continue to use such land for our operations. Terms under these compensation contracts are similar to those under the temporary land use contracts. The amount of compensation is based on our negotiation with local farmers, and ranges from RMB1.05 to RMB3.90 per square meter. We

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paid approximately RMB8.6 million, RMB12.2 million and RMB10.2 million to the local farmers under these compensation contracts in 2012, 2013 and 2014, respectively. Although these parcels of land are not material to our operations, access to our facilities and infrastructure would be disrupted if we do not have convenient access or use of the land.

Our use of the parcels of land that we temporarily occupy under the temporary land use contracts, the supplemental undertakings and the compensation agreements will be disrupted if the relevant rural collectives or forest farms fail to properly perform their obligations under these contracts, undertakings or agreements, which could materially and adversely affect our operations. For more information regarding our temporary land use arrangements please see the section headed “Business — Properties.”

Rights or licenses for coal mining that overlap with our right to extract CBM could cause disputes between third parties and us.

Rights or licenses for coal mining have historically been granted to local mining companies in some areas of the Panzhuang and Mabi concessions, resulting in an overlap of 89.2 square kilometers, or approximately 9.2% of the total areas that we and our Chinese partners currently jointly operate in the Panzhuang and Mabi concessions, between our Chinese partners’ CBM extraction licenses and the rights or licenses of these local coal mining companies. For example, in 2004, an independent third party was granted a license for coal mining over an area that includes 30.8 square kilometers of the Panzhuang concession. This third party has not commenced and, to our knowledge, does not have any plans to commence coal mine construction activities in this area, and we currently do not have any disputes with it over our CBM extraction operations or their coal mining in the overlapping area. However, in the future, this third party or other coal companies with rights that overlap with ours may demand to begin coal mining activities at a time or place or in a way that interferes with our operations in the overlapping area, in which situation we and our Chinese partners may need to discuss and coordinate with this third party or other coal companies regarding how to proceed with our respective mining or extraction activities. Current government policy generally directs that CBM be extracted prior to the mining of coal for safety reasons. According to a Notice on the Administration of the Comprehensive Exploration and Extraction of Coal and CBM Resources issued by MOLAR on April 17, 2007, no coal exploration or mining licenses will be granted for a licensed CBM extraction area prior to the completion of all CBM extraction activities. If there is an overlap between a CBM extraction license and a coal mining license, the license holders will coordinate their respective CBM extraction and coal mining activities based on the general principle of “CBM extraction before coal mining.” The local government in Jincheng city has also adopted implementing rules to facilitate CBM extraction by CBM producers, requiring that CBM extraction and coal mining be carried out in a coordinated manner based on the principle of “CBM extraction before coal mining.” For the overlapping areas where third-party mining license holders have commenced or plan to commence mining activities, we and our Chinese partners actively work with these third parties on reaching coordination agreements. We and our Chinese partners have agreed on coordination plans with relevant license holders to conduct our respective development activities in an aggregate area of 18.3 square kilometers based on the principle of “CBM extraction before coal mining.” For the overlapping areas where no mining activities have been, or, to our knowledge, will be carried out, we and our Chinese partners will work with these third parties to agree on coordination agreements in due course. During the

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Track Record Period, we and our Chinese partners have not encountered any material disputes with any third party mining right holders in reaching agreements on our respective extraction or mining plans.

Although our position benefits from the general principle of “CBM extraction before coal mining” and we and our Chinese partners have been taking a proactive approach in coordinating development plans with third parties, we may on occasion not be able to reach any agreement, or we may disagree on certain matters. Further, even for those areas in which we have agreed upon coordination plans, there may be issues or disputes relating to their implementation. In the event an issue or dispute materializes, we may need or choose to adjust our own development plans and operations to accommodate coal mining activities, resulting in possible interruptions to, or delays or suspension of, our own development plans or operations. Any such interruptions, delays or suspension may result in additional costs to us or affect our ability to achieve planned production levels, commence commercial sales, recover costs or achieve profitability. If these uncertainties and risks materialize, our business, results of operations and growth prospects could be materially and adversely affected.

The inability of our customers to satisfy their obligations to us or the limitations on us arising from our joint sales arrangements with CUCBM or PetroChina may materially and adversely affect our business, financial conditions and results of operations.

We currently sell the CBM produced from the Panzhuang concession jointly with CUCBM to a limited number of customers. We anticipate that our dependence on a limited number of customers will continue in the near future. There can be no assurance that we will be able to retain these customers or that they will maintain or increase current levels of business with us. We sell a majority of our CBM under long-term take-or-pay contracts with certain customers, under which a purchaser is obligated to pay for a monthly take-or-pay amount over a period of up to 15 years, even if it is unable to accept such gas amount in a given month. Due to fluctuations in the price and demand of CBM, our customers may have difficulty in accepting the entire monthly take-or-pay amount or making timely payments or both. If customers fail to make timely payments for the CBM we deliver, we will not be able to recognize revenues from our CBM sales as estimated. The realization of any of these risks could materially and adversely affect our financial condition and results of operations.

Under our production sharing contracts, we have several options to sell our CBM. We currently choose to sell our allocated portion of the CBM under our production sharing contract for the Panzhuang concession to our customers jointly with CUCBM, and in the future, we may sell our CBM produced in the Mabi concession jointly with PetroChina. Our joint sales arrangements give us more bargaining power in our negotiations with pipeline operators and customers because we are able to offer larger and more stable gas supplies. See the section headed “Business — Sales and Marketing” of this prospectus for more information regarding our joint sales arrangements with our Chinese partners. As provided in the production sharing contracts, we may also choose to sell our portion of the CBM directly to customers, subject to PRC rules and regulations. Our PRC legal adviser, King & Wood Mallesons, has advised us that we have the right to make direct sales to third parties under the Panzhuang PSC and the Petroleum Regulations, although we may need to carry out direct sales through PRC-incorporated subsidiaries, pursuant to additional implementing rules. Currently we do not have

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such subsidiaries. Our Directors are of the view that, we will continue the joint sales arrangements for commercial considerations for the foreseeable future. As long as we operate under the joint sales arrangements, if either of our Chinese partners becomes unwilling to enter into sales contracts with customers on our behalf on terms we find acceptable or at all, or if either partner fails to participate in the joint sales effort with us pursuant to the joint sales arrangements or requires us to sell all of our CBM to them, our ability to commercialize our CBM production by selling to customers who are able to pay higher prices or who are able to buy higher or more stable volumes of CBM will be reduced. This may materially and adversely affect our business, financial condition and results of operations.

We currently rely on contractors for certain key operational activities and any failure or delay on the part of these contractors to fulfill their obligations may materially and adversely affect our results of operations.

We have entered into service agreements with third parties providing a range of services in connection with our CBM operations, including well logging, drilling and completion, surface facility construction, reservoir studies and gas transportation. Although these third parties are contractually obligated to deliver products and services that we require to achieve our operational targets, they may not deliver their services or products in a timely or satisfactory manner, or at all. In addition, there may be only a limited number of manufacturers and suppliers of the equipment and services that we require. The services they provide are by their nature on a relatively long-term basis and require significant expenditures by us. Although we have recently begun entering into contracts with contractors on a day-rate basis, most of our contracts with these drilling companies are turnkey contracts under which we have limited control over the process and the quality of their work. There may be project delays and quality issues may arise and be work safety incidents. Under such circumstances, we would need to spend resources to manage these issues and any disputes arising therefrom, which could cause delay in the progress of our exploration or development plans. We may even need to engage other companies who can deliver similar services, and thus may incur additional costs and risks in identifying and negotiating with other drilling and completion services providers and developing new working relationships with them. Any significant interruption in the supply of any equipment or service we require or increase in the prices or defect in the quality of such equipment or services may adversely affect our operations or profitability.

Our ability to sell and deliver our CBM production in the future could be materially and adversely affected if our access to gas gathering, compression and transmission facilities is disrupted.

The marketability of our CBM depends to a large extent on the availability, proximity and capacity of gas gathering and processing, compression and transmission facilities, as well as LNG facilities. Currently, we primarily rely on the Tongyu Pipeline, operated by Shanxi Tongyu, and ENN Energy, an LNG producer, to deliver the CBM produced in the Panzhuang concession to our downstream customers. In the future, we expect to rely on the PetroChina Gas Processing Hub, West-East Pipeline One and other viable pipelines for transportation of the CBM produced in the Mabi concession. The availability of LNG liquefaction and transportation facilities adjacent to our concessions is also crucial to our CBM sales to our LNG producer customers. The amount of CBM that can be produced and sold may be subject to curtailment as

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a result of compression station or pipeline interruptions due to scheduled or unscheduled maintenance, unfavorable natural conditions or breakdowns in the power system. Should any of these occur unexpectedly, we may not have sufficient time to locate alternative infrastructure for gas compression or transportation. Furthermore, if we cannot negotiate reasonable commercial terms with our business partners operating the pipelines or the LNG facilities, our financial conditions and business prospect may be materially and adversely impacted.

The CBM reserve data and present value calculations presented in this prospectus are only estimates, and the actual production, revenue and expenditures with respect to our net reserves under each production sharing contract may differ materially from these estimates.

CBM reserve estimates are important for us to make future development and production plans as well as to estimate our expected recovery of incurred operating costs and capital expenditures under the production sharing contracts. CBM reserve data presented in this prospectus are only estimates. The reliability of these estimates, as well as any revenue projections based upon these estimates, depends on various factors, some of which are beyond our control and may fluctuate or prove to be incorrect over time. These factors include:

- the quality and quantity of technical and economic data;
- the prevailing natural gas prices applicable to our net production;
- the production performance of the reservoirs;
- estimation of future costs;
- extensive engineering judgment;
- consistency in the PRC government's energy, environmental and other policies affecting CBM production;
- the speed with which PRC regulators review and approve overall development plans and production sharing contracts; and
- adoption and implementation of additional drilling and production enhancements and other techniques to recover CBM reserves.

There are numerous uncertainties inherent in estimating quantities of CBM reserves, development expenditures by stage and future rates of production. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, depreciation charges, taxes and fees payable and development and operating expenditures with respect to our net reserves may vary from these estimates. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserve data. Our actual production, revenues and expenditures with respect to our net reserves may differ materially from these estimates because of these revisions.

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We present our future net revenue from the properties under the production sharing contracts after additions for cost recovery and deductions for value-added taxes, royalties, future capital costs and operating expenses. We discount our future net revenue at an annual discount rate of 10% to determine its net present value, which is shown to indicate the effect of time on the value of money. We present our future net revenue after deduction of income taxes. Post-tax NPV10% is not a measure of financial or operating performance, nor is it intended to represent the current market value of our estimated CBM reserves and resources. Such data is presented only as additional information about our reserves, is estimated based on certain assumptions and is subject to update and revision from time to time.

Calculations of our NPV based on future net revenues discounted at an annual discount rate of 10% are inherently uncertain as a result of the factors outlined above and therefore should not be unduly relied on. The Independent Technical Expert may use other discount rates to calculate present value of future net revenues which would produce different results from applying the annual rate of 10%. Accordingly, we make no representation that 10% is the correct or best discount rate to use, and the post-tax NPV10% figures are presented in this prospectus for reference only.

Regulatory developments and changes in government policies for the CBM industry in the PRC, including reductions of the fiscal incentives provided by the PRC government to CBM companies, could have an impact on our financial results.

The PRC government has been encouraging the development of and gradually liberalizing its regulation of the CBM industry in recent years, although it continues to exercise a certain degree of control over this industry by, among other measures, licensing the right to explore, produce and sell CBM, assessing and imposing royalties in respect of CBM production and setting safety, environmental and quality standards. See the section headed “Regulations — National Policy Relating to to CBM Resources” of this prospectus. Currently, the PRC government encourages the development of the industry by granting a subsidy of RMB0.2 per cubic meter of CBM sold and VAT refunds. For our Panzhuang concession which contributed all of our CBM revenues during the Track Record Period, typically CUCBM applied and received the subsidies and distributed to us our share of the subsidies pursuant to the allocation mechanism under the Panzhuang PSC, as amended. In 2014, CUCBM distributed to us total subsidies of RMB63.5 million as our portion of the subsidies for the years 2008 to 2013. Our gas sold in 2014 entitles us to total subsidies of RMB56.1 million. In 2014, CUCBM distributed value-added tax refunds in the amount of RMB44.1 million as our portion of the value-added tax refunds for the years 2008 to 2013. To qualify to receive these government incentives, an enterprise must be engaged in the CBM extraction business and sell the CBM it produces for residential use, as raw materials for chemical industry use or for other uses. The enterprise must also have installed measuring equipment that can properly record gas production volume, sales or self-usage volume and gas utilization. We and CUCBM are both qualified to receive these incentives. To apply for these government incentives, we and CUCBM must submit to the competent government authority refund and subsidy application forms reporting information regarding our gas production and gas utilization, business licenses, exploration and mining licenses, sales contracts and invoices and other documents to properly recording our actual sales volume. After reviewing the application materials submitted by us, the competent government authority approves the granting of these government incentives. Though we have

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already received subsidies and valued-added tax refunds for the years from 2008 to 2013, we cannot assure you that such government incentives will be granted to CBM developers in the future, or that future changes in regulations and tax rules or policies will not discourage or be less favorable to the development of the CBM industry or foreign CBM developers' participation in the industry. Any such adverse policy changes may constrain our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability.

Our CBM operations are subject to extensive PRC laws and regulations in connection with production, development, exploration, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine safety, toxic substances, transportation safety and emergency response and other matters. Compliance with these laws and regulations increases the costs of operations, while non-compliance might subject us to significant penalties. During the Track Record Period, no rectification orders, operation suspension order or fine has been imposed on us, and our operations have not been disrupted due to any other incidents of non-compliance. However, we cannot assure you that we will not be subject to any penalties in the future or that our operations will not be disrupted due to any regulatory non-compliance.

If we fail to compete effectively in our industry, we might not be able to sustain our growth and expand our business.

Our continued growth is affected by our ability to compete effectively. As part of our growth strategy, we plan to expand our business by acquiring or entering into additional production sharing contracts to obtain participation interests in other desirable unconventional gas properties, including CBM, tight gas and shale gas. However, we may encounter competition from both existing players and new emerging players when we seek to do so, especially if we expand our operations into the exploration, development and production of unconventional gas other than CBM. We also expect to face increasing competition for access to transportation infrastructure and markets from other CBM operators, including state-owned Chinese oil and gas companies, many of which possess greater financial and other resources, hold dominant positions in the PRC energy sector and are themselves able to conduct CBM exploration and development. Factors that could affect our competitiveness may include, among others, technical capability, financial resources, experience and track record, and our relationship with our Chinese partners. As new technologies develop in the unconventional gas industry, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement those new technologies at substantial costs. If we are unable to identify and utilize the most effective technologies available on a timely basis, our ability to compete for additional production sharing contracts could be adversely affected.

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We may not be effective in preventing significant operating hazards or damage caused by natural disasters and our insurance coverage may not be sufficient to cover all resulting losses.

Our operations involve many hazards, which may result in fires, explosions, spillages, blow-outs and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. As protection against operating hazards, we have established systematic occupational health and safety measures throughout our Company, and we constantly improve such measures to protect our employees and reduce the risk of accidents. The geographic concentration of our CBM reserves also exposes our business to natural disasters such as floods, earthquakes and other acts of God, which could adversely affect the development or production of our CBM by causing catastrophic damage to pipelines or reservoir structures or events that could result in a material loss or delay of our operations. We maintain insurance coverage on our properties, including pipelines, gas gathering stations, machinery, equipment, materials and supplies. We also maintain insurance against the risk of breakdown on all machinery and equipment. We carry business interruption insurance and workplace injury insurance for our operations. To date, we have not suffered any major workplace accident or instance of natural disaster in either of our concessions. However, our preventative measures may not be effective. Losses incurred or payments required to be made by us due to operating hazards or natural disasters that are not fully insured may materially and adversely affect our financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental regulations.

We are subject to extensive environmental protection laws and regulations in the PRC. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments of damages for serious environmental offenses; and
- the government, at its discretion, to close any facilities with waste discharges that exceed their applicable discharge quota and require correction, suspension or termination of the operations in any facility causing environmental damage.

Our operations produce a small amount of waste water and gas, and our production facilities require operating permits relating to environmental compliance that are subject to renewal, modification and revocation. We have established a process to handle and dispose of waste water and gas to prevent and reduce pollution in compliance with all relevant environmental protection rules and regulations, and we have also adopted a comprehensive system to manage and minimize the risks to the environment relating to our operations. For example, soil in certain areas of southern Qinshui Basin is subject to erosion by water due to unfavorable soil quality and structure, limited vegetation cover and past cropping practices. Such erosion may be aggravated by our well drilling, facilities construction, road paving and other activities. In response to this issue and as required by relevant laws and the local

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government, we have designed and implemented various erosion-reducing measures to protect the soil in the Panzhuang and Mabi concessions, such as increasing vegetation cover and improving surface drainage systems.

During the Track Record Period, our operations have not been fined or received any penalties or other administrative punishment arising from any violation of environmental protection laws or regulations. We continually assess the environmental impact of our operations and believe our operations are unlikely to cause significant environmental issues.

Despite these preventive measures and our past record, CBM operations are subject to hazards, and we may cause environmental pollution and be subject to environmental-related liabilities in the future. The PRC government has and may continue to more rigorously enforce applicable laws and adopt higher environmental standards. In addition, as we seek to expand our operations, we may be subject to environmental protection laws of other jurisdictions that may be more stringent than those in the province where we operate. As such, we may be required to incur additional expenditures for environmental compliance matters. We may not be able to comply with higher environmental protection requirements and, as a result, may be subject to fines and/or operation suspensions. Should these risks materialize, our business, results of operations and financial condition may be materially and adversely affected.

We may have disputes with local communities in areas where we operate, which may disrupt our operations and materially and adversely affect our business.

Issues with local communities in and surrounding the areas where we and our contractors operate, including disputes related to land access, relocation settlement and land restoration upon the return of the land that was occupied by us on a temporary basis, may arise from our business activities. During the Track Record Period, we have not had any material disputes with residents in the local communities in and surrounding our concessions, and we have not incurred any significant expenses associated with settling disputes with them. We may experience disputes with local communities in the future, and the settling of or a failure to successfully settle any local community issues could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATED TO OUR COMPANY

We incur significant costs and capital expenditure in our operations and only recently became profitable. If we fail to manage our liquidity and obtain sufficient financing, our business, results of operations and financial condition may be materially and adversely affected.

The nature of our operations require significant capital expenditures, and, historically, we have incurred significant losses in our operations. In 2012, we had loss for the year of RMB71.7 million, mainly due to limited production, with net cash used in operating activities amounting to RMB27.5 million. We first operated at a profit in 2013 and there is no assurance that we can continue to grow our profit or even remain profitable going forward. We recorded net current liabilities in the amount of RMB1,204.2 million and RMB1,539.2 million as of December 31, 2012 and 2013, and net current assets in the amount of RMB1,031.3 million as of December 31, 2014, respectively.

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Unit net production costs, which are calculated by dividing the sum of net operating expenses (excluding depreciation and amortization expenses) by net production volume, are high for the pilot production program during the exploration phase, but generally decrease during the commercial development and production phases due to improvements in operating efficiency and economies of scale. As we work with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I and as we prepare to begin pilot commercial production, our operating expenses for the Mabi concession will continue to increase before we see the resulting increase in sales revenue, which, until we are able to sufficiently ramp-up production to improve unit net production costs in the Mabi concession, could materially and adversely affect our business, financial condition and results of operation.

Given the capital-intensive nature of our business, we depend on securing additional capital to fund our capital expenditures until cash flows generated from operations are sufficient to fund our activities. Our actual capital expenditures may vary significantly from our budgeted amounts due to various factors, including, among other things, the availability of external financing and the decision of the relevant joint management committee. In addition, our growth strategies include developing our net proved undeveloped, probable and possible reserves and improving our operational efficiency, the implementation of which involves increased spending in drilling and research and development activities, which in turn requires raising substantial additional capital. If we cannot obtain adequate capital, or do not generate sufficient cash flows from operations to fund our activities under the production sharing contracts, we may not be able to complete our exploration and development activities. We may also lose our rights and cease to be the operator under our production sharing contracts and may be unable to achieve profitability or be delayed in doing so. Any of the foregoing possibilities would materially and adversely affect our business, results of operations and financial condition.

If we are unable to raise capital on terms favorable to us or at all, it could increase our financing costs, dilute our ownership interests, affect our business operations or force us to delay, reduce or abandon our growth strategy.

Our operations require substantial capital investments, and our ability to obtain financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our projects.

Our operations may not generate sufficient cash flows to fund our capital expenditure requirements, and we may be required to finance our cash needs through public or private equity or equity-linked offerings, bank loans, other debt financing, or other sources. We cannot ensure you that financing for our existing projects or future expansion will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both.

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Furthermore, in order to expand our operations, we may seek to acquire rights to additional CBM concessions from third parties that are in the early exploration stage. These acquisitions require significant capital funding that may stress our financial condition. See the risk factor titled “Our acquisition of new CBM and other unconventional gas assets may not be successful, which could materially and adversely affect our growth prospects, results of operations and financial condition” below and the section headed “Relationship with Controlling Shareholders — The Inner Mongolia Project and Our Arrangement with Shanxi Shengyang — Inner Mongolia Option” of this prospectus for more details.

Additional funding from debt financings may make it more difficult for us to operate our business because we would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends. Furthermore, raising capital through public or private sales of equity to finance capital expenditures could cause earnings or ownership dilution to your shareholding interests in our Company.

Restrictive covenants and undertakings under the Reserve-based Facility may limit the manner in which we operate and an event of default under the Reserve-based Facility may adversely affect our operations.

On November 15, 2013, SAE entered into the Reserve-based Facility, a senior-secured revolving facility agreement syndicated by The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank Limited, under which up to US\$100.0 million is made available for SAE during a five-year term commencing on the date of the Reserve-based Facility. Such amount will be reduced every six months thereafter and ultimately to US\$20.0 million in the last six months of the five-year term. The Reserve-based Facility requires principal repayments to be made on the last day of each interest period, with an interest rate of LIBOR plus a margin ranging from 5.00% to 5.50% per annum. It also contains certain restrictive covenants that limit SAE’s ability to, among other things:

- incur additional indebtedness with certain exceptions;
- declare dividends unless otherwise permitted under the facility;
- create or incur liens, acquire, merge or consolidate with others; or
- dispose of any of our participating interest (i) in the Panzhuang Project pursuant to the Panzhuang PSC, as amended by the Panzhuang PSC Amendment, or (ii) any shareholding in any person holding any such interest, or (iii) more than 33.3% of our participating interest in the Mabi Project pursuant to the Mabi PSC.

The Reserve-based Facility also includes certain financial covenants that, among other things:

- require SAE, the borrower, to maintain certain financial ratios; and

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- limit (i) our total capital expenditure incurred in the Panzhuang Project, and (ii) the use of proceeds from any permitted disposal of assets or any equity investment we receive.

AAGI, our wholly owned subsidiary, has agreed to provide a corporate guarantee for SAE's obligations under the Reserve-based Facility until the lender, upon our achieving certain performance thresholds, releases AAGI of its obligations as a guarantor. For more information about AAGI's guarantee obligations under the Reserve-based Facility, see the section headed "Financial Information — Liquidity and Capital Resources" of this prospectus. Any failure to maintain any of the covenants or undertakings pursuant to the Reserve-based Facility could result in an acceleration of obligations under the Reserve-based Facility, which would have a material adverse effect on our business and financial condition. As a result, we are constrained in the manner in which we conduct our business and may be unable to engage in certain business activities or finance future operations or capital needs.

Our ability to make repayments under the Reserve-based Facility depends on our financial condition and operating performance. We may not be able to maintain sufficient cash flows from operating activities to repay the principal and accrued interest. As of December 31, 2014, we had utilized US\$62.0 million under the Reserve-based Facility. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay planned investments and capital expenditures, or to sell assets, seek additional financing in the debt or equity markets or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more restrictive covenants, which could further restrict our business operations.

Our operations may be adversely affected by global and domestic economic conditions.

Our results of operations may be materially affected by economic conditions in the PRC and elsewhere around the world. The CBM industry is sensitive to macroeconomic trends as energy demand and prices tend to decline in periods of economic downturns. A global recession or an economic downturn in the PRC, as well as uncertainties regarding the future economic prospects of the PRC or major economies in the world, could depress energy demand and prices, including the demand for and price of CBM. Global economic conditions were characterized by tight credit and recessionary trends in most major economies during the global economic crisis in 2008 and the following years. A variety of factors, including the recent European sovereign debt crisis and concerns about the viability of the European Union and the Euro, could cause further disruptions to the global economy. The negative economic outlook has affected global business and consumer confidence. In 2013 and 2014, although certain countries began to experience economic recovery, significant uncertainties exist in the global economy. Political turbulence, military conflicts and any slowdown of global or domestic economic growth, could depress energy supply, demand and prices and adversely affect our profitability, liquidity and financial condition, and could adversely affect our ability to access the banking and capital markets to meet liquidity needs.

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Our acquisition of new CBM and other unconventional gas assets may not be successful, which could materially and adversely affect our growth prospects, results of operations and financial condition.

In order to expand our operations, we may seek to acquire rights to additional CBM concessions from third parties, including those currently owned by certain of our Shareholders in three CBM concessions in Inner Mongolia that are in the early exploration stage. See the section headed “Relationship with Controlling Shareholders — The Inner Mongolia Project and Our Arrangement with Shanxi Shengyang — Inner Mongolia Option” of this prospectus for more details. We may secure additional production sharing contracts with CUCBM, PetroChina, or the other Chinese companies authorized by the PRC government to cooperate with foreign enterprises to explore, develop and produce CBM resources in the PRC. We may selectively acquire existing production sharing contracts from other foreign enterprises engaging in CBM exploration and development in the PRC that may be capital constrained or lack sufficient technical ability and expertise to successfully develop their areas under their respective contracts. However, production sharing contracts acquired by us in the future might not be on terms as favorable as those for the Panzhuang and Mabi concessions. We may also acquire other unconventional gas assets in China and other countries to the extent we believe that we have the technological capabilities to engage in commercial development of these assets. To do so, we will need to adapt our CBM technologies and operational know-how to the exploration and development of new types of gas assets, as well as comply with applicable laws and regulations and enter into partnerships with different business partners.

In addition, developing a newly-acquired gas asset involves selecting locations for drilling, estimating gas reserves and the drilling operations of wells. We may not be able to fully identify existing and potential problems, accurately estimate reserves, production rates or costs, or effectively integrate the acquired assets into our existing operations. Moreover, such acquisition projects may not result in additional economically recoverable gas reserves. Delay or failure in securing the relevant government approvals or permits necessary for the acquisition and the operations of any new gas assets, as well as any adverse change in government policies, may cause a significant adjustment to our acquisition and development plans, which could require a significant amount of resources, divert management’s attention or increase our expenses. Finally, if we fail to acquire new reserves, the development of our current reserves would cause our net reserves and, eventually, net production to decline. The realization of these events would materially and adversely affect our growth prospects, results of operations and financial condition.

We depend upon the services of key personnel and our business may be severely disrupted in the event that we lose their services and are unable to find replacements with comparable experience and expertise.

Our business and operations depend significantly upon the continued services of our senior executives, including Dr. Zou, our chairman, Mr. Jing Li, our co-chief executive officer and president, Mr. Carl Lakey, our co-chief executive officer and chief operating officer, Mr. Allen Mak, our chief financial officer, and other key employees. We rely on their expertise in developing business strategies, managing business operations and strengthening our relationships with CUCBM, PetroChina and other business partners. We also rely on the

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technical know-how of key employees for our CBM operations, including well drilling methods and process management throughout the exploration, development and production phases. Although we believe we offer competitive employee compensation and incentives packages, if one or more of our senior management or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner or at all. In addition, although key employees with technical know-how regarding our operations are subject to confidentiality provisions under their respective employment agreements with us, there can be no assurance that they will not breach these obligations and disclose our proprietary know-how to our competitors, who may use it to gain a favorable position in competing with us. Were this to happen, it could materially and adversely affect our business, our financial condition and results of operations. In light of the uncertainties within the PRC legal system, if any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements, including the confidentiality provisions that we have entered into with our key employees, could be enforced, particularly in the PRC where most of these key employees reside. See “— Uncertainties with respect to the PRC legal system could limit the protections available to you and us” below. Moreover, should we need to attract or retain replacement personnel, we may have to incur additional expenses to recruit, train and retain such personnel, which could materially and adversely affect our results of operations.

Our business may be adversely affected if we cannot recruit and retain suitable staff.

Our business operations and continued growth depends in part on our ability to recruit and retain suitable staff. As we expand our CBM operations, we will need to hire experienced staff knowledgeable about the CBM industry to manage and operate our CBM facilities and properties. We face increasing competition for management and skilled personnel with significant knowledge and experience in the CBM and the oil and gas industries in the PRC. In addition, we have observed an upward trend in labor costs in the PRC recently, which has had a direct impact on our staff costs. As we continue to grow our business in the future, our operating expenses may significantly increase, and we may not have the resources to satisfy fully our staffing needs. We may need to offer better compensation and other benefits in order to attract and retain key personnel, which may materially increase our expenses and affect our profitability.

We are a holding company and we rely on our subsidiaries for dividends and other payments for funds to meet our obligations, fund our capital requirements and pay dividends to our shareholders.

We are a holding company and substantially all of our assets are owned by our subsidiaries, AAGI and SAE. We have no direct operations and are not expected to own a significant amount of assets other than the outstanding capital stock and cash and cash equivalents of these two subsidiaries. Because we conduct our operations through our subsidiaries, if and when we achieve positive cash flows, we will depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations and to pay dividends with respect to our common stock. All of our subsidiaries will be separate and independent legal entities and will have no legal obligation to pay, and may be subject to restrictions on payment of dividends or other distributions to us. For example, our Reserve-based Facility significantly restricts the ability of both SAE and AAGI to declare cash dividends.

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Any restrictions on our subsidiaries' ability to pay dividends or distributions may limit our ability to fund our capital requirements in other areas of our business or pay dividends to our shareholders.

RISKS RELATED TO OUR OPERATIONS IN THE PRC

Political and economic policies of the PRC government affect our business and results of operations.

At present, the PRC is a developing economy and differs from developed economies in many respects. These include its structure, the level of governmental involvement in the economy, capital investment and development, its growth rate, the control of capital investment and foreign exchange, as well as the allocation of resources.

While the Chinese economy has grown significantly in the past three decades, growth has been uneven geographically, among various sectors of the economy and during different periods. The PRC economy may not continue to grow or may not do so at the pace that has prevailed in recent years, or, if there is growth, such growth may not be steady and uniform. Due in part to the impact of the global economic recession, the recent European debt crisis and other factors, the growth rate of China's gross domestic product decreased to 7.7% in 2013 from 10.4% in 2010. It is uncertain whether the various macroeconomic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in the PRC are still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in PRC government policies could materially and adversely affect overall economic growth and the level of investments and expenditures in the PRC, which in turn could lead to a reduction in demand for energy and consequently have a material adverse effect on our businesses.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions and the availability of credit from lending institutions. The PRC government has from time to time articulated the need to control economic growth and to tighten lending. Stricter lending policies in the PRC may affect our ability to obtain financing, reducing our ability to fund our business and implement our expansion strategies. Such additional measures to tighten lending may materially and adversely affect our future results of operations or profitability. Furthermore, the historical economic and market conditions in which we have operated our business may not continue, and should these conditions change, we may not be able to sustain our growth.

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We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income.

The New EIT Law, which became effective on January 1, 2008, provides that enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the New EIT Law, issued by the State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the New EIT Law and its Implementation Rules on offshore entities which are not controlled by PRC enterprises or Chinese group enterprises. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether we have a “de facto management body” in the PRC. A substantial number of our management personnel are located in the PRC, and all of our revenues arise from our operations in the PRC. However, we do recognize some interest income and other gains from our financing activities outside the PRC. We are currently subject to enterprise income tax on our PRC activities. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at a uniform tax rate of 25%, which may have an adverse impact on our financial condition and results of operations.

We may be subject to challenges by PRC tax authorities as a result of the recent heightened scrutiny over the transfer of certain assets through the transfer of equity interests in foreign companies.

In February 2015, the SAT released a State Administration of Taxation Bulletin [2015] No. 7 Regarding Certain Corporate Income Tax Matters on the Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Bulletin 7. See the section headed “Regulations” of this prospectus for more information regarding Bulletin 7. Under Bulletin 7, the transfers of assets attributable to an establishment in China, real property in China and shares in Chinese resident enterprises that are held by a non-PRC tax resident enterprise (the “China Taxable Properties”) through the transfer of equity interests in foreign companies that directly or indirectly hold China Taxable Properties, or, an Offshore Indirect Transfer as defined under Bulletin 7, will be subject to enterprise income tax if the PRC tax authorities determine the transfer to be without a reasonable commercial business purpose. Bulletin 7 is newly released and its interpretation, implementation and enforcement by PRC tax authorities is subject to significant uncertainties.

Pursuant to a sale and purchase agreement dated as of December 30, 2014, we allotted and issued to our Parent Company 835,069,049 common shares in total, and in consideration, our Parent Company transferred its 100% equity interest in each of AAGI and AAG Energy (China), and assigned all accounts receivables of AAGI to us (“Step 1 Reorganization”). Upon completion of the above, our Company remains the direct wholly-owned subsidiary of our Parent Company and directly and indirectly holds 100% of the equity interests in our subsidiaries, AAGI and SAE.

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As part of the Reorganization, on May 20, 2015, our Parent Company entered into a conditional share repurchase agreement, with all its existing shareholders to repurchase all (but three) issued and outstanding common shares of our Parent Company held by its existing shareholders immediately upon the Listing becoming unconditional and immediately after the conversion of the Preferred Shares and the Convertible Bonds into common shares of our Parent Company, and in consideration, transfer 835,079,048 Shares and the Additional Shares to the existing shareholders of our Parent Company in proportion to their respective shareholding percentage in our Parent Company (“Step 2 Reorganization”). See the section headed “History and Corporate Structure — Reorganization” of this prospectus.

Bulletin 7 sets forth the conditions under which an Offshore Indirect Transfer will be deemed an Offshore Indirect Transfer with reasonable commercial purpose, and therefore, will not be subject to enterprise income tax. Our PRC legal adviser, King & Wood Mallesons, has advised us that, (i) Step 1 Reorganization meets all the conditions of being deemed an Offshore Indirect Transfer with reasonable business purpose under Section 6 of the Bulletin 7; and (ii) it is unclear whether the Step 2 Reorganization would be deemed an Offshore Indirect Transfer with reasonable business purpose, subject to interpretation of the legislation by competent tax authorities. King & Wood Mallesons further advised us that, in the event that competent tax authorities determine that Step 2 Reorganization fails to qualify as an Offshore Indirect Transfer with reasonable business purpose under Bulletin 7, any potential tax liabilities under Bulletin 7 will be imposed upon the shareholders of the Company who are parties to the transactions undertaken in connection with Step 2 Reorganization, and such potential tax liabilities will not be imposed upon our Company.

Failure to register with the local SAFE branch pursuant to the SAFE Circular No. 37 may adversely affect our ability to remit and exchange our PRC income into other currencies.

According to SAFE Circular No. 37 prior to a PRC resident’s use of its legally-owned onshore or offshore assets or interests to finance an offshore company, or SPV, such PRC resident, whether a natural or legal person, must complete the “overseas investment foreign exchange registration” procedures with the relevant local SAFE branch. In addition, an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that holds interests in such SPV upon (i) any change with respect to the basic information of the SPV, such as its name, term of operation or domestic individual resident shareholder, (ii) an increase or decrease in its capital, (iii) a transfer or swap of its shares, or (iv) a merger or division event. Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company and may also subject the relevant PRC resident to penalties under PRC foreign exchange administration regulations.

Several members of our management, all PRC residents, directly hold or have established offshore entities to hold shares in our Company. The SAFE Shanxi Jincheng Branch, the local SAFE authority, confirmed that these members of our management do not need to make such registration because the relevant offshore entities are not deemed as special purpose vehicles under SAFE Circular No. 37 and therefore outside the scope of the circular.

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Notwithstanding the foregoing, the SAFE may not share this view and the SAFE Shanxi Jincheng Branch may not continue to hold this view. If the SAFE challenges the decision of the SAFE Shanxi Jincheng Branch or if the SAFE Shanxi Jincheng Branch changes its prior decision, our ability to exchange Renminbi income into other currencies and remit such income offshore may be materially and adversely affected.

Dividends paid by us to our foreign shareholders, and capital gains realized by our foreign shareholders from the sales of our shares, may be subject to taxes under PRC tax laws.

If we are deemed to be a PRC “resident enterprise” under the “de facto management body” test of the New EIT Law and Implementation Rules, dividends paid on our shares, and capital gains from transfers or dispositions of our shares, may be regarded as income from “sources within the PRC.” In that case, dividends paid to, and capital gains realized by, our foreign shareholders may be subject to PRC tax. In the case of foreign shareholders that are “non-resident enterprises” that tax would be imposed at a rate of 10%, and in the case of foreign individuals whose domicile is not in China and who are not present in the territory of China or whose domicile is not in China and have stayed in the territory of China for less than one year, the tax would be imposed at a rate of 20%, in each case subject to the provisions of any applicable international tax treaty. In the case of dividends, we would be required to withhold that tax at source. For these purposes, a “non-resident enterprise” is an enterprise that either (i) does not have an establishment or place of business in the PRC or (ii) has an establishment or place of business in the PRC but the dividends or capital gains are not substantially related to such establishment or place of business. It is unclear whether we will be treated as a resident enterprise for PRC tax purposes and therefore whether the dividends we may pay, or any capital gains realized by foreign shareholders, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the New EIT Law and Implementation Rules to withhold PRC income tax on any dividends we pay to our foreign shareholders, or if gains of such foreign shareholders from the transfer of our shares were subject to PRC tax, the value of an investment in our shares may be materially and adversely affected.

Uncertainties with respect to the PRC legal system could limit the protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract.

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Since the interpretation and implementation of statutory provisions and contractual terms are subject to discretion by PRC legislative, administrative and court authorities, it may be more difficult to evaluate the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in the PRC as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with our Chinese partners and other business partners. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the energy industry in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

Future fluctuations in foreign exchange rates and government control of currency conversion may adversely affect our financial condition and results of operations, and our ability to remit dividends and repay our debts.

A substantial portion of our revenue and most of our expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payments, if any, to our shareholders. Our Reserve-based Loan is dominated in U.S. dollar and our future financings may also be dominated in U.S. dollar. We will therefore be exposed to foreign currency fluctuations.

The value of the Renminbi depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. The conversion of Renminbi into foreign currencies, including the U.S. dollar, is based on exchange rates set and published daily by People's Bank of China (the "PBOC") in light of the previous day's inter-bank foreign exchange market rates in the PRC and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005 when the PBOC allowed the official Renminbi exchange rate to float against a basket of foreign currencies, including the U.S. dollar. In July 2008, the PBOC established a narrow band within which the Renminbi could fluctuate against these currencies, the practical effect of which has been to re-peg the Renminbi to the U.S. dollar. This change in policy resulted in appreciation of the Renminbi of more than 20% against the U.S. dollar over the following three years. As a consequence, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. In June 2010, the PRC government announced that it would allow more Renminbi exchange rate fluctuation. However, it remains unclear how this new policy may impact the Renminbi exchange rate in the future. Fluctuation of the value of Renminbi will affect the amount of our non-Renminbi debt service in Renminbi terms since we have to convert Renminbi into non-Renminbi currencies to service our foreign debt. Any appreciation of the Renminbi will also increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of, and any dividends payable on, our shares in foreign currency terms, as well as increase the principal amount repayable under our Reserve-based Loan and its associated interest expenses.

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Certain facts and statistics in this prospectus relating to the PRC economy, the CBM industry and the oil and natural gas industry in the PRC are derived from various official government publications and may not be fully reliable.

Certain facts and statistics in this prospectus relating to the PRC economy, the CBM industry, as well as the oil and natural gas industry and other related sectors of the PRC are derived from various governmental official publications. However, we cannot guarantee the quality or reliability of such official government publications. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced and extracted from such official government publications, they have not been independently verified by us. We therefore make no representation as to the accuracy of such facts and statistics from these publications, which may not be consistent with other information compiled within or outside the PRC.

Possibly due to inadequate or ineffective collection methods or discrepancies between governmental publications and market practice and other problems, the official statistics in this prospectus relating to the PRC economy and the CBM and natural gas industry and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official facts or official statistics.

Labor laws and regulations in the PRC may materially and adversely affect our results of operations.

On June 29, 2007, the PRC government promulgated the Labor Contract Law of the PRC, which became effective on January 1, 2008 and was later amended on December 28, 2012 with such amendment becoming effective on July 1, 2013. The Labor Contract Law imposes various liabilities on employers, including provisions which significantly impact the cost of an employer's decision to reduce its workforce. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

Any future outbreak of H1N1 influenza, avian influenza or severe acute respiratory syndrome in the PRC, or similar adverse public health developments, may severely disrupt our business and operations.

As recent as 2014, occurrences of H1N1 influenza were reported throughout the PRC. Since 2005, there have been reports on the occurrences of avian influenza in various parts of the PRC, including a number of confirmed human cases that resulted in fatalities. In addition, from December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. During May and June of 2003, many businesses in the PRC were temporarily closed by the PRC government to prevent transmission of SARS. Any prolonged recurrence of H1N1, avian influenza, SARS or other adverse public health developments in the PRC could require

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the temporary closure of our development and production facilities. Such closures could severely disrupt our business operations and materially and adversely affect our results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and there can be no assurance that an active market will develop.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for our Shares will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Offer Price may not be indicative of the price at which our Shares will trade following the completion of the Global Offering. Moreover, there can be no assurance that there will be an active trading market for our Shares or, if it exists, that it can be sustained following the completion of the Global Offering, or that the price at which our Shares will trade will not decline below the Offer Price. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. There can be no assurance as to the ability of Shareholders to sell their Shares or the prices at which Shareholders would be able to sell their Shares. Consequently, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering.

The market price of our Shares could be lower than the Offer Price, and may be volatile following the Global Offering.

The initial price to the public of our Shares sold in the Global Offering will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until Share certificates are delivered, which is expected to be the fifth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during such period. Accordingly, holders of our Shares are subject to the risk that the market price of our Shares could be lower than the Offer Price.

The price and trading volume of our Shares following the completion of the Global Offering may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, changes in government policies regarding our industry, safety or environmental accidents suffered by us or other similar energy companies or fluctuations in the market prices of natural gas and oil could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, from time to time, our Shares will likely be subject to changes in price that may not be directly related to our financial or business performance.

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Compliance with rules and requirements applicable to public companies may cause us to incur additional costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our Shares to decline.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We expect rules and regulations applicable to us as a public company to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in the PRC with experience and expertise relating to HKFRS and Hong Kong public company reporting requirements, and such personnel may command high salaries. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be costly. In addition, we will incur additional costs associated with our public company reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Our Controlling Shareholders have substantial control over our corporate actions and can exert significant influence over important corporate matters, which may reduce the price of our Shares and deprive you of an opportunity to receive a premium for your Shares.

After the Global Offering (without taking into account any Shares which may be sold and transferred upon the exercise of the Over-allotment Option and which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), our Controlling Shareholders will beneficially own approximately 51.81% of our issued share capital, calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range. These Shareholders, if acting together, could exert substantial influence over matters such as electing Directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could have the dual effect of depriving our Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and reducing the price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchase Shares in the Global Offering. In addition, these persons could divert business opportunities away from us to themselves or others.

Investors may face difficulties in protecting their interests because our Company is incorporated under Cayman Islands law, which may differ in certain respects from the laws of Hong Kong and other jurisdictions.

Our Company's corporate affairs are governed by our Company's Memorandum of Association and the Articles of Association and by the Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differs in some respects from that established under statutes and judicial precedents in Hong Kong and other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of a company's

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affairs, although a shareholder may complain to the court that the affairs of the company are being conducted in a manner which is oppressive or prejudicial to the shareholders and the court may wind up the company if it is of the opinion that it is “just and equitable” to do so. See “Summary of the Constitution of Our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

Forward-looking statements contained in this prospectus may not be accurate and are subject to risks and uncertainties.

This prospectus contains forward-looking statements and information relating to us that are based on our management’s beliefs and assumptions. The words “aim,” “expect,” “believe,” “plan,” “intend,” “estimate,” “project,” “seek,” “anticipate,” “may,” “will,” “should,” “would” and “could” or similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our management’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our financial condition may be materially and adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. See the section headed “Forward-Looking Statements” of this prospectus.

As the Offer Price is higher than the pro forma consolidated net tangible asset value per Share, you will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible assets value to HK\$1.71 per Share, based on the Offer Price of HK\$3.35, assuming that the Over-allotment Option is not exercised. Furthermore, if we issue additional Shares or equity-linked securities in the future, purchasers of our Shares may experience further dilution in the net tangible assets book value per share of their Shares. See the section headed “Statutory and General Information — Pre-IPO Share Option Scheme” in Appendix V to this prospectus. Any exercise of these options granted by our Company and issuance of Shares thereunder would result in the reduction in the percentage ownership of our Shareholders and may result in a dilution in the earnings per Share and net assets value per Share, as a result of the increase in the number of Shares outstanding after the issuance.

Future sales of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.

Future sales by our shareholders, or the issue by our Company of, substantial amounts of Shares in order to raise additional capital and expand our business or pursuant to the exercise of options granted under our share option scheme following the completion of the Global Offering, in the public market in Hong Kong, or the possibility of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate. Our Shares held by our Controlling

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Shareholders are subject to certain lock-up undertakings for certain lock-up periods after the Listing Date. Details of such lock-up undertakings of our Controlling Shareholders are set out in the section headed “Underwriting — Underwriting Arrangements and Expenses”. While we are not aware of any intention on the part of our Controlling Shareholders to dispose of significant amounts of their Shares upon the expiration of such lock-up periods, we cannot assure you that they will not dispose of any or all of our Shares they may own now or in the future. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

You may have difficulty enforcing judgments obtained against us.

We are a company incorporated in the Cayman Islands and all our current operations, and administrative and corporate functions are conducted in the PRC and substantially all of our assets are located in the PRC. In addition, a substantial portion of the assets of our Directors and officers are located outside Hong Kong. As a result, it may be difficult for you to effect service of process within Hong Kong upon these persons. It may also be difficult for you to enforce any judgments obtained in the courts of Hong Kong or other foreign jurisdictions against us and our Directors and officers in the PRC.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles, other media and/or research analyst reports regarding us, our Group, our Shares, our business, our industry and the Global Offering, certain of which may be inconsistent or conflict with the information contained in this prospectus.

There has been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media and/or research analyst coverage regarding us, our Group, our Shares, our business, our industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analysts regarding us, our Group, our Shares, our business, our industry and the Global Offering. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. In particular, as we are not allowed to disclose the economic value of our possible reserves under the Listing Rules, any forecast, views or opinions expressed by research analysts regarding such economic value should not be attributed to us and we do not accept any responsibility for the accuracy or completeness of such information. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions solely on the basis of the information contained in this prospectus and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In connection with the preparation of the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER PURSUANT TO RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, an applicant must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that, as our principal business operations are located in the PRC, our management is best able to attend to its functions by being based in the PRC. We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rules 2.11 and 3.05 of the Listing Rules who will act as our principal communication channels with the Stock Exchange. The authorized representatives are Mr. Gordon Sun Kan Shaw (蕭宇成), our non-executive Director, and Ms. Siu Kuen Lai (黎少娟), our joint company secretary who is ordinarily resident in Hong Kong. Each of the authorized representatives will be readily contactable by telephone, facsimile or e-mail by the Stock Exchange. Each of the authorized representatives is authorized to act as the principal channel of communication on behalf of our Company with the Stock Exchange;
- (b) each of our Directors will provide his contact details (including office and mobile phone numbers, fax numbers (if available) and email addresses) to the authorized representatives and the Stock Exchange. Our authorized representatives have the means to contact all members of our Board (including our INEDs) promptly at all times as and when the Stock Exchange wishes to contact the members of our Board for any matters;
- (c) each Director who is not ordinarily resident in Hong Kong has confirmed that he possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required; and
- (d) our compliance adviser will act as an additional channel of communication between us and the Stock Exchange and will be available to answer enquiries from the Stock Exchange. We have appointed Haitong International Capital Limited to act as our compliance adviser.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER PURSUANT TO RULES 8.17 AND 3.28 OF THE LISTING RULES

Rule 8.17 of the Listing Rules provides that an applicant must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Note 1 to Rule 3.28 of the Listing Rules provides that an applicant must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 3.28 of the Listing Rules on the grounds that we will appoint Ms. Siu Kuen Lai (黎少娟) who, as a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, meets the relevant requirements under Note 1 to Rule 3.28 of the Listing Rules as a joint company secretary to assist Ms. Yang Lin (林楊) in the discharge of her duties as a joint company secretary and in gaining “relevant experience” within the meaning of Note 2 to Rule 3.28 of the Listing Rules. Ms. Siu Kuen Lai will provide Hong Kong company secretarial support and assistance for an initial period of three years after the Listing Date.

Upon the expiry of the three-year period, our Company will evaluate the qualifications and experience of Ms. Yang Lin and the need for the ongoing assistance of Ms. Siu Kuen Lai. Our Company will then endeavor to demonstrate to the satisfaction of the Stock Exchange that Ms. Yang Lin, having had the benefit of Ms. Siu Kuen Lai’s assistance for the immediately preceding three years, has acquired “relevant experience” within the meaning of Note 2 to Rule 3.28 of the Listing Rules such that a further waiver from Rule 3.28 of the Listing Rules will not be necessary.

WAIVER PURSUANT TO RULE 9.09(b) OF THE LISTING RULES

According to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities for which listing is sought by any core connected person of the issuer (save as permitted by Rule 7.11 of the Listing Rules), in the case of a new applicant, from four clear business days before the expected hearing date until the listing is granted.

As part of the Reorganization, our Parent Company will enter into a conditional share repurchase agreement with all the existing shareholders of our Parent Company (the “**Share Repurchase Shareholders**” and each a “**Share Repurchase Shareholder**”), in which our Parent Company will repurchase all (but three) issued and outstanding ordinary shares of our Parent Company, and in consideration, transfer 835,079,048 Shares together with such additional shares to be issued by our Company in equal number to the ordinary shares of our Parent Company to be converted from the Convertible Bonds upon the Listing becoming unconditional (the “**Additional Shares**”), to all the existing shareholders of our Parent Company, in proportion to their respective shareholding percentage in our Parent Company (the “**Share Repurchase**”). The Share Repurchase will take place immediately upon the Listing becoming unconditional and immediately after the conversion of the Preferred Shares and the Convertible Bonds into ordinary shares of our Parent Company and the issue of the Additional Shares, but before the Listing. The Share Repurchase Shareholders will cease to hold any shares in our Parent Company upon completion of the Share Repurchase, with the exception of Dr. Zou,

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Baring PE and WP China who will each hold one ordinary share in our Parent Company. For details on the Reorganization, please refer to the section headed “History and Corporate Structure — Reorganization” in the Prospectus.

Our Parent Company intends to proceed with the Share Repurchase prior to the prescribed period as specified under Rule 9.09(b) and will complete the Share Repurchase before the Listing. The completion of the Share Repurchase is conditional upon, amongst others, the Underwriting Agreements becoming unconditional and effective. As such, we do not contemplate that we will satisfy the strict requirement under Rule 9.09(b) of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant us, a waiver from strict compliance with the requirement of Rule 9.09(b) of the Listing Rules on the following grounds:

- (a) the Share Repurchase constitutes a part of the Reorganization;
- (b) each and every Share Repurchase Shareholder (including any person who will be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of our Company) and their respective ultimate beneficial owners will continue to be the ultimate beneficial owners of the shares then held by AAG immediately before the Listing becoming unconditional. Baring PE, WP China and Dr. Zou, being the Controlling Shareholders, will continue to be subject to the relevant lock-up undertakings pursuant to Rule 10.07 of the Listing Rules;
- (c) the Share Repurchase will not result in the Share Repurchase Shareholders (including any person who will be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of our Company) reducing their respective effective interests in our Company or the Group. The Share Repurchase is to enable each of the Share Repurchase Shareholders to become a direct Shareholder upon the Listing;
- (d) our Parent Company will not acquire any direct benefit from the Share Repurchase; and
- (e) the particulars of this waiver are set out in this prospectus.

Our Company further agrees and confirms that the Directors and the co-chief executive officers of our Company and their associates will not deal in the Shares from four clear business days before the expected hearing date until the Listing is granted.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus 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 prospectus misleading.

INFORMATION ON THE HONG KONG PUBLIC OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" of this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement.

The International Offering is expected to be underwritten by the International Underwriters.

For details of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on or around Tuesday, June 16, 2015, and in any event no later than 5:00 p.m. on Friday, June 19, 2015.

If for any reason, the Offer Price is not agreed among us (for ourselves and on behalf of the Selling Shareholder) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, June 16, 2015, or such later date or time as may be agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus and the relevant Application Forms.

No action has been taken to permit an offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made save as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue, the Additional Shares, and Shares to be issued by us pursuant to the Capitalization Issue and the Global Offering (including Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued pursuant to the RSUs granted under the Post-IPO RSU Scheme). Dealings in our Shares on the Stock Exchange are expected to commence on Tuesday, June 23, 2015.

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangement may affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or affiliates and any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering — Over-allotment and Stabilization” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Campbells Corporate Services Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. All Offer Shares will be registered on our Company's Hong Kong register of members in Hong Kong in order to enable them to be traded on the Stock Exchange. Dealings in our Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLYING FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" of this prospectus.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in HK\$ and US\$ have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the following PBOC rate prevailing on the Latest Practicable Date published by the PBOC for foreign exchange transactions:

HK\$1: RMB0.7889

US\$1: RMB6.1164

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

OVER-ALLOTMENT OPTION GRANTORS

Please refer to the section headed “Statutory and General Information — Other Information — Particulars of the Over-allotment Option Grantors” in Appendix V to this prospectus for information of the Over-allotment Option Grantors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Director</i>		
Dr. Zou (鄒博士)	Jiangfu Jiayuan Beili Unit 131-4-1-502 Chaoyang District Beijing 100015 PRC	American
<i>Non-executive Directors</i>		
Peter Randall Kagan	30 East 71st Street, Apt. 8B New York NY 10021 United States	American
Gordon Sun Kan Shaw (蕭宇成)	8/F, 66C Broadway Meifoo Sun Chuen Kowloon Hong Kong	American
Zhen Wei (魏臻)	Le Chateau, Villa No. 39 Jian He Road Shanghai PRC	Chinese
Zhijie Zeng (曾之杰)	1273B, You Shan Mei Di Yuyang Road Houshayu Zhen Shunyi District Beijing 101302 PRC	Chinese
Lei Jin (金磊)	Room 1802, Block 8, Lane 330 Aomen Road Shanghai 200060 PRC	Chinese
Dr. Guiyong Cui (崔桂勇)	1133A, Yosemite Villa Shunyi District Beijing 101302 PRC	Chinese
Dr. Bo Bai (白波)	95 Colonial Avenue Larchmont New York United States	American

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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Name	Address	Nationality
<i>INEDs</i>		
Yaowen Wu (吳耀文)	Room 533, 5/F No 112 Ande Road Xicheng District Beijing PRC	Chinese
Robert Ralph Parks	Suite 2906, 2 Macdonnell Road Central Hong Kong	American
Dr. Tin Yau Kelvin Wong (黃天祐)	Flat 2, 4/F Block D Greenville Gardens 17 Shiu Fai Terrace Hong Kong	British
Fredrick J. Barrett	15761 W. 79th Place Arvada Colorado United States	American

Please refer to the section headed “Directors and Senior Management” for further information with regard to our Directors.

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

China International Capital Corporation Hong Kong
Securities Limited
29th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

HSBC Corporate Finance (Hong Kong) Limited
1 Queen’s Road Central
Hong Kong

Joint Bookrunners

Hong Kong Public Offering:
The Hongkong and Shanghai Banking
Corporation Limited
China International Capital Corporation Hong Kong
Securities Limited
Credit Suisse (Hong Kong) Limited

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>International Offering:</i> The Hongkong and Shanghai Banking Corporation Limited China International Capital Corporation Hong Kong Securities Limited Credit Suisse (Hong Kong) Limited</p>
Joint Global Coordinators	<p>China International Capital Corporation Hong Kong Securities Limited 29th Floor One International Finance Centre 1 Harbour View Street Central Hong Kong</p> <p>The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong</p>
Joint Lead Managers	<p><i>International Offering:</i> CIMB Securities Limited Unit 7706–08 Level 77 International Commerce Center 1 Austin Road West Kowloon Hong Kong</p> <p>Société Générale Level 34, Three Pacific Place 1 Queen's Road East Hong Kong</p>
Reporting Accountant	<p>PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong</p>
Legal Advisers to Our Company	<p><i>As to Hong Kong law and United States law:</i> Kirkland & Ellis 26th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong</p>

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

King & Wood Mallesons
40th Floor, Tower A
Beijing Fortune Plaza
7 Dongsuanhuan Zhonglu
Beijing 10020
PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Legal Advisers to the Underwriters

As to Hong Kong law and United States law:

Davis Polk & Wardwell
The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34/F, Tower 3 China Central Place
77 Jianguo Road
Beijing
PRC

Industry Consultant

SIA Energy Limited
China Central Place #4-1602
89 Jianguo Road
Chaoyang District
Beijing
PRC

Independent Technical Expert

Netherland, Sewell & Associates, Inc.
2100 Ross Avenue, Suite 2200
Dallas, Texas 75201
United States

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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Receiving Banks

Standard Chartered Bank (Hong Kong) Limited
15/F Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street, Central
Hong Kong

Compliance Adviser

Haitong International Capital Limited
22nd Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Floor 4, Willow House Cricket Square P.O. Box 2804 Grand Cayman KY1-1112 Cayman Islands
Head Office and Principal Place of Business in Hong Kong	Unit 2109–10, 21st Floor China Merchants Tower Shun Tak Centre No. 168–200 Connaught Road Central Hong Kong
Principal Place of Business in China	1701, 17/F Tower A, Landmark Office Towers 8 North Dongsanhuan Road Chaoyang District Beijing 100004 PRC
Company's Website	www.aagenergy.com <i>(The information contained in the website does not form a part of this prospectus)</i>
Joint Company Secretaries	Ms. Yang Lin (林楊) Unit 2109–10, 21st Floor China Merchants Tower Shun Tak Centre No. 168–200 Connaught Road Central Hong Kong Ms. Siu Kuen Lai (黎少娟), <i>FCIS, FCS</i> 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized Representatives	Mr. Gordon Sun Kan Shaw (蕭宇成) 8/F, 66C Broadway Meifoo Sun Chuen Kowloon Hong Kong

CORPORATE INFORMATION

	<p>Ms. Siu Kuen Lai (黎少娟) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong</p>
Members of the Audit Committee	<p>Dr. Tin Yau Kelvin Wong (黃天祐) <i>(chairman of the Audit Committee)</i> Mr. Robert Ralph Parks Mr. Gordon Sun Kan Shaw (蕭宇成)</p>
Members of the Remuneration Committee	<p>Mr. Robert Ralph Parks <i>(chairman of the Remuneration Committee)</i> Mr. Fredrick J. Barrett Mr. Zhen Wei (魏臻)</p>
Members of the Nomination Committee	<p>Dr. Zou (鄒博士) <i>(chairman of the Nomination Committee)</i> Dr. Tin Yau Kelvin Wong (黃天祐) Mr. Yaowen Wu (吳耀文)</p>
Cayman Islands Principal Share Registrar and Transfer Agent	<p>Campbells Corporate Services Limited Willow House Cricket Square P.O. Box 268 Grand Cayman, KY1-1104 Cayman Islands</p>
Hong Kong Share Registrar	<p>Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong</p>
Principal Bank	<p>Bank of Communication Offshore Banking Center No. 188, Yin Cheng Zhong Road Shanghai, 200120 PRC</p>

INDUSTRY OVERVIEW

Unless otherwise specified, all of the information, data and statistics set out in this section have been extracted from various official government publications, private publications and industry sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We are unaware of any adverse change in the market information since the date of the commissioned research report up to the Latest Practicable Date which may qualify, contradict or have any impact on the information in this section. The information has not been independently verified by us, the Selling Shareholder, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness.

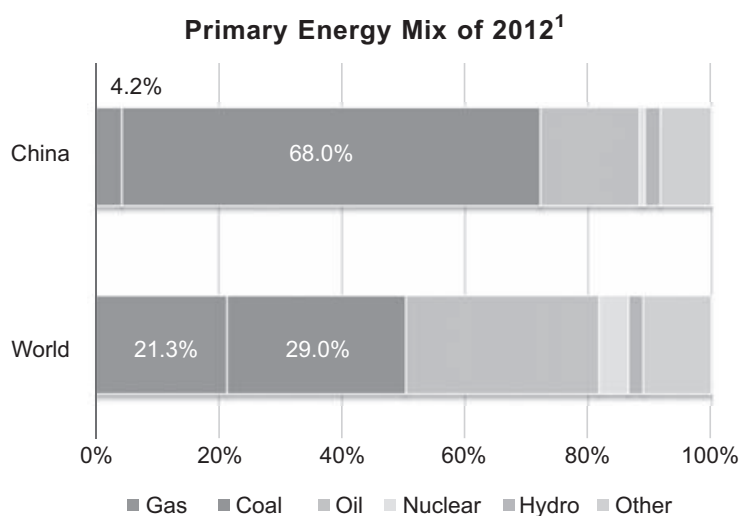
OVERVIEW OF CHINA'S NATURAL GAS INDUSTRY

Growing energy demand and heightened interest for clean energy sources are driving the growth in China's natural gas industry. Natural gas is regarded as a clean source of energy as it is efficient to produce, safe to use and environmentally friendly. According to SIA Energy, China is currently the world's third largest natural gas consumer after the United States and Russia. According to SIA Energy, natural gas consumption in China rose from 7.2 bcf per day in 2008 to 12.4 bcf per day in 2012, representing a CAGR of 14.6%. China's portion of global gas consumption also rose significantly from 2.7% in 2008 to 4.3% in 2012.

The natural gas industry has significant growth potential due to the low natural gas penetration rate in China. According to SIA Energy, China's natural gas consumption in 2012 accounted for only 4.2% of its total primary energy mix, far below the global rate of 21.3% in 2012. Furthermore, according to SIA Energy, China's per capita natural gas consumption was 11.0 cubic feet per day in 2012, which is far behind the world average of 40.9 cubic feet per day. According to SIA Energy, China's gas consumption per capita is expected to grow to 22.2 cubic feet per day by 2020, which will still be significantly lower than the world average of 42.2 cubic feet per day by 2020, indicating significant growth potential for natural gas consumption in

INDUSTRY OVERVIEW

China. China's low natural gas consumption rate can be attributed to limited domestic natural gas supply sources and limited infrastructure for the transmission of gas. The chart below provides an overview of the primary energy mix in 2012 in China and the world.



Source: SIA Energy

Note:

1. SIA Energy is presenting the information using data released by International Energy Agency ("IEA"). The most recently released data is the data for the year 2012.

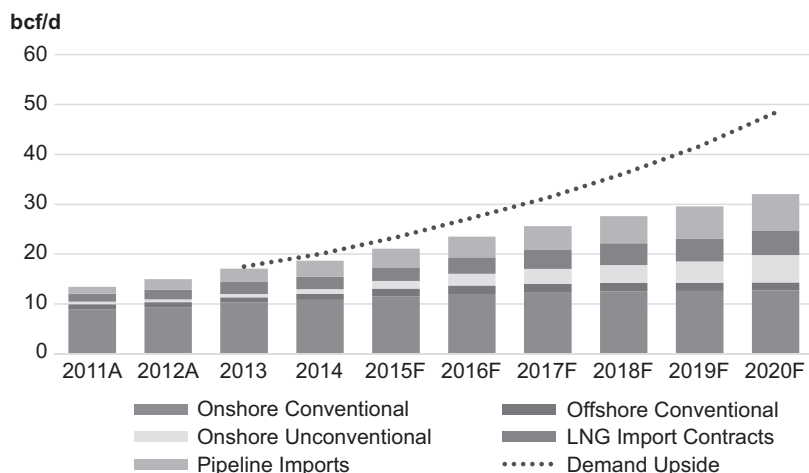
China's natural gas consumption is limited largely by gas supply availability and infrastructure for the transmission of gas. As a result, there exists large unmet demand for gas in the market. The significant uptake in new gas supply over the past decade resulted in high gas consumption growth. In particular, the opening of West-East Pipeline One in late 2004 (with a capacity of 1.6 bcf per day to transport gas from western China to eastern China) and West-East Pipeline Two in early 2010 (with a capacity of 2.9 bcf per day to transport gas from Central Asia across China) have enabled the transportation of significant new gas volumes in China, helping China boost its gas penetration.

SIA Energy predicts that China's natural gas supply and consumption will reach 32.0 bcf per day by 2020, representing a CAGR of 9.4% from 2014. This forecast is made according to a SIA Energy's assumed development schedule of new gas supply sources, including domestic conventional and unconventional gas sources, pipeline gas imports, LNG imports, and more readily available infrastructure. SIA Energy predicts that China's natural gas market will continue to be supply- and infrastructure-constrained for the next six years. According to SIA Energy, China's natural gas supply growth from 2014 to 2020 will be mainly driven by unconventional gas production, which is expected to grow at a CAGR of 32.9%, as well as pipeline imports, which are expected to grow at a CAGR of 13.5%. By contrast, domestic conventional gas production is expected to grow at a CAGR of 3.1%. The following chart illustrates the

INDUSTRY OVERVIEW

contributors to gas supply and consumption in the PRC since 2011 and projections for the growth of those contributors through 2020.

China Domestic Gas Supply (2011–2020)¹



Source: SIA Energy

Note:

- To arrive at its forecasts for China domestic gas supply, SIA Energy adopts a project-by-project analysis approach, taking into account various factors specific to a given project depending on the nature of the energy source that project produces. For domestic conventional production forecasts, SIA Energy takes into account factors such as the decline rates of base production, new-source production from development projects, undeveloped proven reserves, and exploration potential. For domestic unconventional forecasts, SIA Energy takes into account economic and policy drivers, technical and environmental challenges, project economics, operator's execution capabilities, gas monetization plans, targeted markets, infrastructure development, commercialization rates for each project, and other below- and above-ground risks. For imported supply, SIA Energy takes into account the estimated start dates of the deliveries under various pipeline and LNG import firm contracts or preliminary import agreements, as well as the estimated ramp-up of contractual deliveries, as pipeline and LNG contracts can take several years to ramp up to full volume.

According to SIA Energy, through the energy policy to increase natural gas penetration in the primary energy mix under the 12th Five Year Plan and the Energy Development Action Plan (2014–2020) released by the State Council in November 2014, the PRC government aims to implement the following three major policies which will influence natural gas supply, and consequently gas demand, in China: (i) allow participation of more upstream players; (ii) increase economic incentives to unconventional gas suppliers; and (iii) develop natural gas infrastructure.

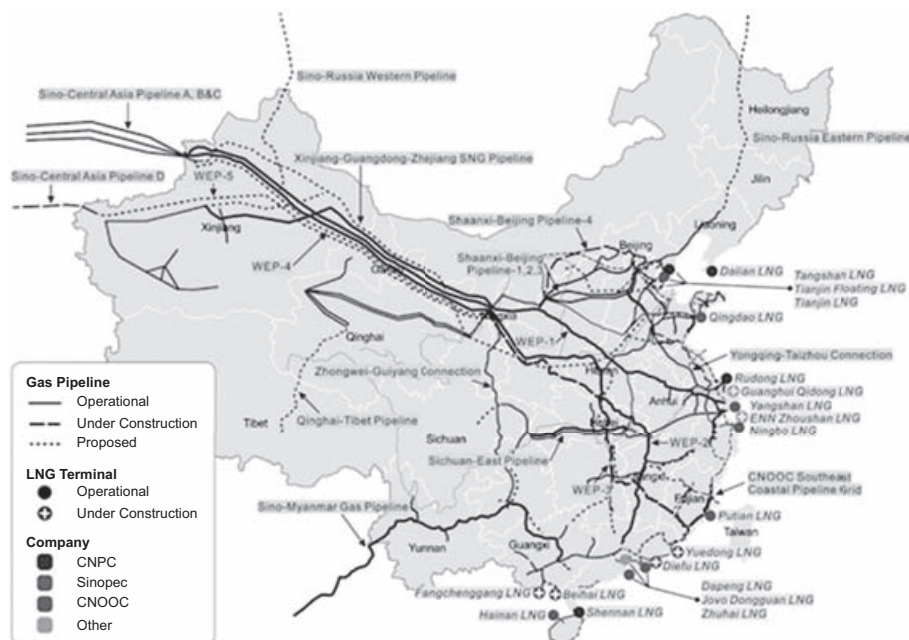
Natural gas is increasingly viewed by the PRC government as a strategic resource to fuel China's industrialization and urban development as it provides a cleaner fuel alternative to coal and oil to meet the country's energy production and emission targets.

Pipeline gas and LNG imports have also increased significantly in China since 2010. The increase in pipeline gas and LNG imports in China is expected to cause the price of domestic resources to rise toward the import price, in turn increasing the economic incentives to develop domestic gas reserves, including unconventional gas.

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As China's gas market develops, several state-owned gas suppliers are building interconnected natural gas pipeline networks to better meet and manage natural gas demand. State-owned companies are investing in regional and provincial pipeline networks in order to bring pipeline import gas or domestically produced gas, to the demand centers in east China. Simultaneously, both state-owned and non state-owned companies are investing in LNG receiving and regasification terminals along the east coast. The map below illustrates China's existing and planned gas infrastructure. The continued infrastructure build-up will help meet China's natural gas demand.

China Gas Pipeline and LNG Receiving Terminal Map



Source: SIA Energy

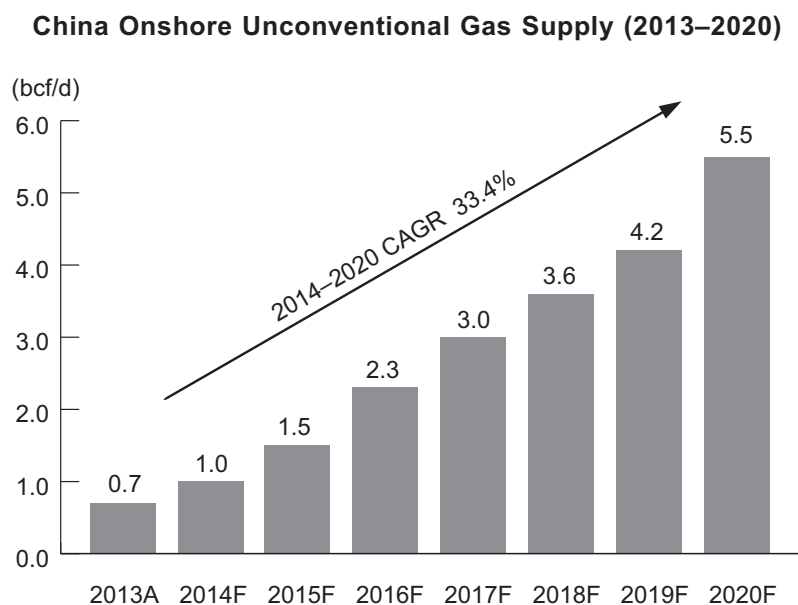
The PRC government is actively promoting the development of domestic natural gas supply as part of its strategy to deepen natural gas penetration. Rising dependence on higher-cost pipeline gas and LNG imports also makes domestic gas production more competitive and increases the interest in developing domestic reserves. Domestic unconventional gas producers, in particular, could benefit from the imbalanced cost and price structure to seek an implied netback wellhead price based on deducting gas transmission charges from the point of import to a gas field from the import price. SIA Energy expects that total domestic natural gas production in China will grow to 19.8 bcf per day by 2020, of which 5.5 bcf per day will come from unconventional sources such as CBM, coal-mine methane, or CMM, shale gas and synthetic natural gas, or SNG.

In China, developments of CBM and CMM are more advanced than other types of unconventional gas and enjoy government policy support. In addition, because China has vast coal reserves and a long history of coal mining, CBM-related geological conditions are better

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understood and suitable extraction technology is more developed than those for other forms of unconventional gas, such as shale gas. SIA Energy predicts that unconventional gas production in China will increase at a CAGR of 33.4% from 2014 to 2020.

The chart below sets forth the amount of domestic unconventional gas supply in China from 2013 and a forecast for production from 2014 to 2020.



Source: SIA Energy

OVERVIEW OF CHINA'S CBM INDUSTRY

CBM Industry

CBM is natural gas found in the seams of various types of coal and is a major source of unconventional gas globally. According to SIA Energy, the volume of China's CBM resources at depths shallower than 2,000 meters ranks among the top three in the world. The 12th Five Year Plan places China's CBM resource potential at 1,300 tcf, of which approximately 384 tcf is recoverable. China is in a relatively early stage of developing its CBM resources compared to leading CBM-producing countries such as the United States and Australia. However, the potential for growth in the CBM industry is boosted by favorable policy support and various commercial incentives. For example, the NDRC has set an unregulated environment for CBM pricing in China and the PRC government has undertaken extensive pipeline build-out projects across the country, boosting market accessibility for CBM. Please also see "CBM Incentive and Subsidies" below. A recent reform that granted more state-owned companies the rights to sign production sharing contracts will also spur investment and growth in the sector.

Due to increased demand for natural gas, increased investment in infrastructure, improved extraction technologies and a favorable regulatory environment, domestic and foreign producers are keen to commercially exploit CBM reserves in China. SIA Energy forecasts that commercial CBM production in China will reach 667.9 mmcf per day by 2020, representing a CAGR of 14%

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from 2014 to 2020. Going forward, the development of China’s CBM industry can be further accelerated if industry participants can effectively tackle certain surface and subsurface challenges.

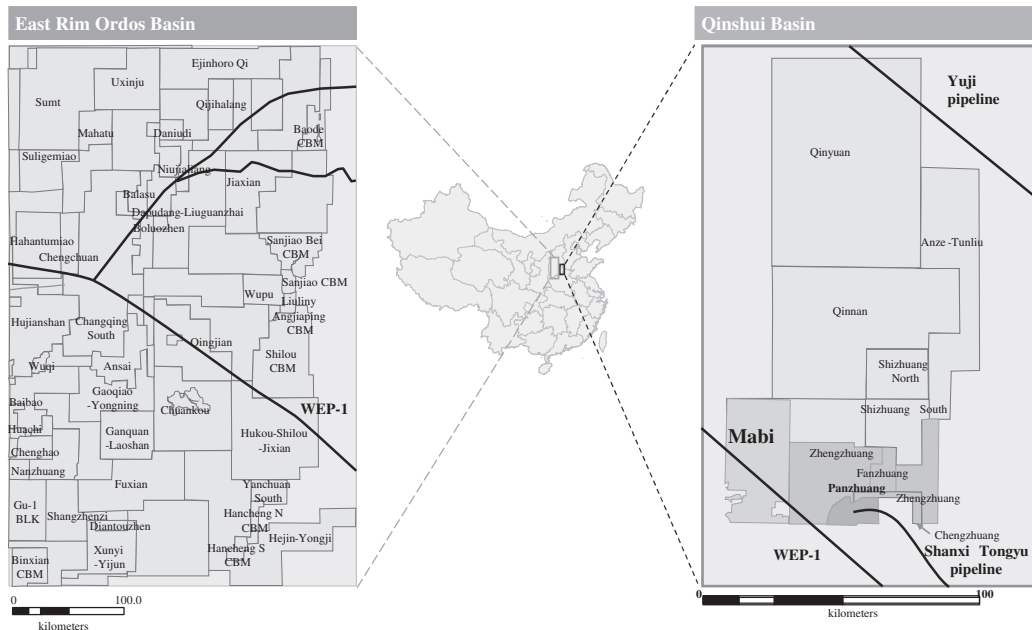
CBM Incentives and Subsidies

Since 2005, the PRC government has enacted a series of economic and administrative policies to encourage CBM production and utilization, including various subsidies and tax refunds, which have created an attractive environment for investment in China’s CBM industry. These include a central government subsidy of RMB0.20 per cubic meter of CBM sold by CBM producers. For details of the government policies providing for these economic incentives please see the section headed “Regulations — Government Fees, Taxes and Levies” of this prospectus.

Major CBM Production Regions in China

According to SIA Energy, the Qinshui Basin, a coal-rich area of 24,000 square kilometers located in southeastern Shanxi Province, where the Panzhuang and Mabi concessions are located, is the most active area for CBM exploration and production activities in China and has the largest amount of proved CBM geological reserves. It also has the most advanced gas offtake infrastructure, crucial to the commercialization of CBM.

According to SIA Energy, among China’s commercial CBM production of 309.8 mmcf per day in 2014, 83%, or 256.5 mmcf per day, was from the Qinshui Basin, and 16%, or 50.3 mmcf per day, was from the East Rim Ordos Basin. SIA Energy estimates that by 2020, 75% of China’s commercial CBM production will be contributed by the Qinshui Basin. The map below illustrates the two major CBM production regions in China.



Source: SIA Energy

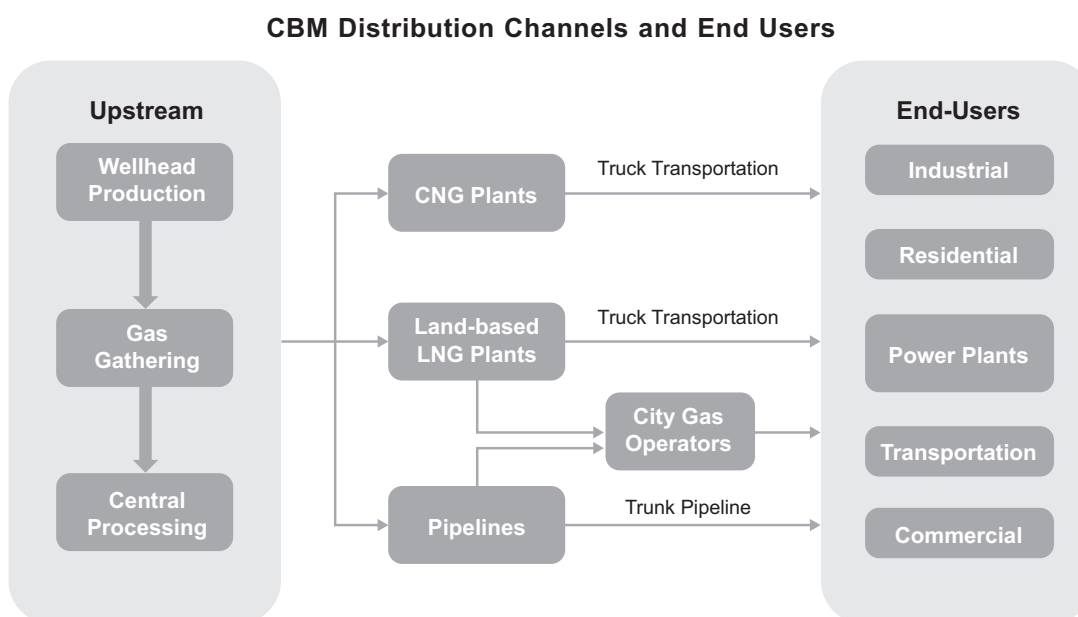
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Sales and Marketing Options for CBM Players

In China, sales and marketing options for CBM players vary by each project's proximity to the natural gas distribution infrastructure. In general, distribution channels of CBM in China include:

- LNG sales — LNG is natural gas that has been cooled to liquid form which can be transported through alternative channels other than pipelines. In areas where there is no pipeline access, small-scale LNG sales are especially useful in terms of gas monetization, peak-shaving, storage, transportation flexibility and safety benefits. Due to higher transportation costs, LNG is best for supplying smaller volumes of CBM to end-users with no pipeline access, such as city gas distributors with LNG storage tanks and industrial users with regasification facilities.
- Pipeline sales — the most economical method for supplying larger gas volumes over the long term, supported by rising citygate prices for pipeline gas and new pipeline infrastructure developments. Pipeline sales are generally made to city-gas distributors and large industrial users. Sales are often made on “take-or-pay” terms, which require the buyer to pay for a minimum volume of gas regardless of actual delivery volumes taken.
- CNG sales — CNG is pressurized natural gas in a gaseous state. CNG is best for smaller volumes of CBM production and will continue to supply niche markets, such as gas refueling stations and small industrial users. The delivery radius of this method is limited to approximately 200 kilometers.

The following flow chart sets forth the distribution channels and end users in the CBM industry.



Source: SIA Energy

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The following chart sets forth the total gas take-away capacity, including the take-away capacity dedicated to CBM, available to the Qinshui Basin.

Infrastructure in Qinshui Basin	Total gas take-away capacity (bcf/y)	CBM take-away capacity (bcf/y)
Pipeline		
Duanshi-Bo'ai (Tongyu Pipeline)	70.6	70.6
West-East One Pipeline	635.6	176.6
Jincheng-Changzhi	35.3	35.3
Linfen-Changzhi ¹	148.3	148.3
Jincheng-Houma	17.5	17.5
Shaan-Jing-2	423.8	N/A ²
Shaan-Jing-3	529.7	N/A ²
Yulin-Jinan (Yuji Pipeline)	105.9	N/A ²
Yangqu-Taiyuan	17.7	17.7
Changzhi-Taiyuan	70.6	70.6
Pipeline total⁵	2,055.0	536.6
LNG plant		
ENN	5.8	5.8
Shuntianda	3.9	3.9
Sanxiayizhong ³	15.5	15.5
Huagang ⁴	25.8	25.8
Yigao	11.6	11.6
Shanxi Energy CBM	3.2	3.2
JAMG Tianyu	3.9	3.9
Shanxi Natural Gas Pingyao	3.9	3.9
Shuntai	6.4	6.4
LNG total⁵	79.9	79.9
Pipeline and LNG total	2,134.9	616.5

Source: SIA Energy

Notes:

1. The Linfen-Changzhi pipeline is currently under construction and is expected to commence operation in 2015.
2. Information regarding the respective CBM take-away capacity available to the Qinshui Basin of the Shaan-Jing-2, Shaan-Jing-3 and Yulin-Jinan pipelines is currently not available, because it is currently unclear how much of these pipelines' respective total gas take-away capacity will be dedicated to CBM.
3. Information regarding the capacity of the Sanxiayizhong LNG plant is the combined capacity of both its phase I project and phase II project. The phase II project is expected to commence operation in the near future.
4. The Huagang LNG plant is currently under construction and is expected to commence operation in 2015.
5. Totals may not add up due to rounding.

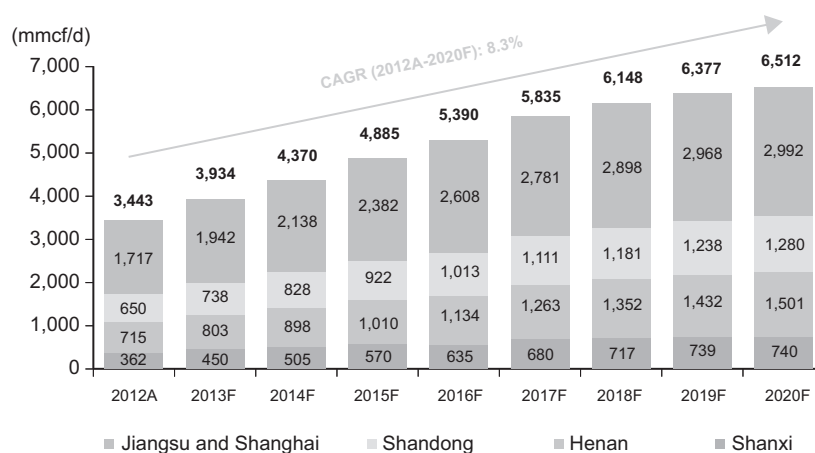
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TARGET CBM MARKETS ASSESSMENT

The most probable markets for CBM produced in the Qinshui Basin are Shanxi Province and the neighboring Henan province, through pipeline, LNG or CNG, and further into Shandong Province, through the Yuji Pipeline, as well as Shanghai and Jiangsu, through the West-East Pipeline One. Shanxi is a major coal producing province, but the provincial government has set aggressive plans to increase the portion of gas consumption in its energy mix. Henan Province, in comparison, is a relatively developed gas market attributable to the presence of several important national trunk lines. As one of the top gas consuming provinces in China, the main drivers for Henan's gas demand are energy intensive industries such as aluminum, ceramic and glass-making. Shandong Province, an economically developed province in East China, is the eighth largest consumer of gas in China and has significant unrealized gas demand due to comparatively short gas supply. Shanghai municipal city and Jiangsu Province are located in the lower Yangtze River Delta region. As two of the most economically advanced areas in China, they have stronger incentives to rapidly increase clean energy's share in their energy mix and can afford to do so. The combined demand in Shanxi, Henan, Shandong, Shanghai and Jiangsu, AAG's current and target markets accounted for 23% of China's total gas consumption in 2013, according to SIA Energy.

The following table summarizes the gas demand forecast for the regions described above.

Regional Market Gas Demand



Source: SIA Energy, National Bureau of Statistics of PRC

PRICING ENVIRONMENT

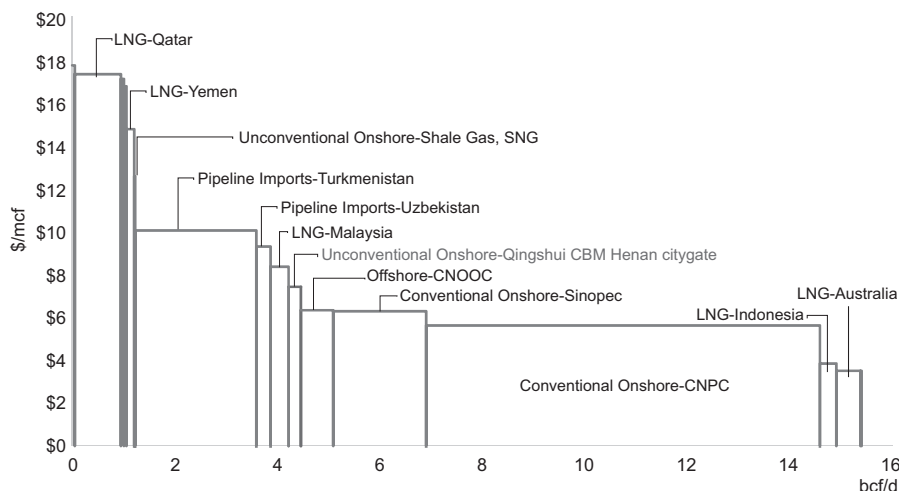
Gas Prices in China

Diversification of China's natural gas supply sources has led to a range of natural gas prices, including differing prices for domestic conventional gas, pipeline gas imports and LNG imports. According to SIA Energy, at the low end of the price spectrum, wellhead prices set by NDRC for onshore conventional fields averaged US\$4.11 per mcf in 2010 and increased to US\$6.07 per mcf in 2013. At the high end of the price spectrum, during the same two years, the landed cost-insurance-freight price for LNG from Qatar averaged US\$12.99 per mcf in 2010 and

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increased to US\$17.31 per mcf in 2013. Historically, there have been discrepancies in gas prices in China due to differences in costs of supply, socioeconomic factors and lack of infrastructure. End user prices in China are significantly higher than the regulated low prices for onshore fields. Over time, as the production of lower-cost conventional gas declines, demand will be met by higher-cost import gas. CBM is not subject to wellhead price setting and enjoys a cost advantage over higher-cost import gas. The following chart sets forth China's gas supply cost curve in 2013.

China Gas Supply Cost Curve: 2013



Source: SIA Energy, based on China Customs data and public filings of national oil companies

Prices for gas from conventional onshore fields, which supply the majority of China's current gas consumption, are the most tightly-regulated gas prices in China. Historically, the NDRC set an "ex-factory" base price for different onshore fields and pipelines based on types of end users supplied, such as, fertilizer, industrial city gas users and non-industrial city gas users. Under such "cost-plus" wellhead pricing, the ex-factory base price refers to the sum of the set wellhead price for each field, a gas processing fee and a margin for the producer, which is either CNPC or Sinopec.

In December 2011, the NDRC began testing a more market-based system for pricing non-residential gas at the citygate in Guangdong Province and the Guangxi Zhuang Autonomous Region. Under this pilot system, the NDRC set a citygate maximum non-residential gas price in each region using a formula that linked gas to competing fuels and then applied a discount and further adjustments based on socioeconomic factors and supplier costs in each area. The NDRC made the nationwide application of the pilot program effective in July 2013 and applied an upward adjustment to regulated citygate maximum prices across the country.

In February 2015, the NDRC announced that starting April 1, 2015, China's non-residential gas citygate price ceilings for incremental gas (consumption after 2012) will be lowered by RMB0.44 per cubic meters (US\$2.01 per mcf), and that legacy base non-residential gas (non-residential consumption up to 2012) will be raised by RMB0.04 per cubic meters (US\$0.18 per mcf). The NDRC also announced that for "direct supply" of natural gas to industrial end users, such as gas-fired power generators, energy projects, large petrochemical projects, citygate price will no longer be subject to government set price ceilings and citygate and can be negotiated

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directly by sellers and buyers starting April 2015. According to SIA Energy, these NDRC pricing reform initiatives will benefit usage and improve gas penetration in China's primary energy mix. In addition, for CBM price in China, which is not regulated and is determined by supply and demand and infrastructure availability, the reform impact may be slightly positive, because: (i) it promotes usage of gas over coal; (ii) to the extent CBM competes with natural gas and prices are indirectly affected by natural gas reform policies, CBM prices in the near future will rise as a result of NDRC reform policies implemented during 2013 and 2014; and (iii) the "direct supply" policy, which applies to nearly 50% of non-residential pipeline natural gas supply according to the NDRC, will drive an increase in non-residential natural gas prices, which in turn will drive increases in CBM prices.

SIA Energy also predicts that from now until at least 2020, the liberalization of state-controlled onshore gas prices in China will be a key factor in the growth of the CBM industry because it will bring greater transparency and stability to market players and potential investors.

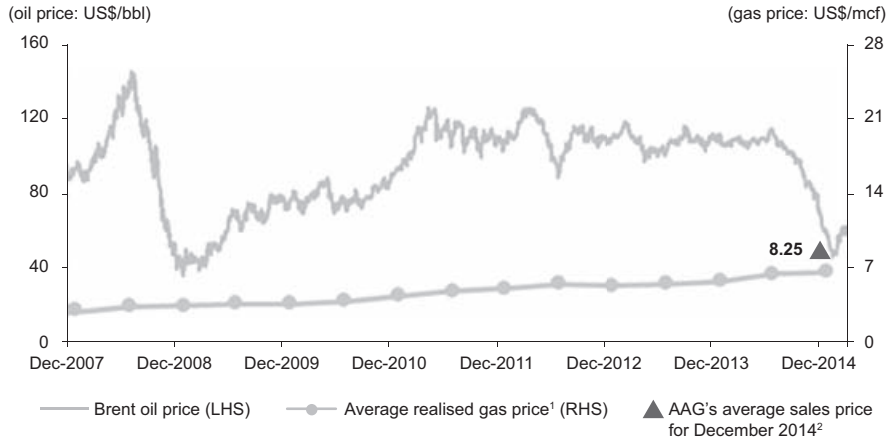
As a result of the increasing demand for natural gas, gas pricing reform and gas price adjustments implemented by the government to encourage gas production and supply, the average realized gas prices by major gas producers in China, including PetroChina, Sinopec and CNOOC, have been increasing since 2007. Unconventional gas is not subject to government price regulation and set wellhead prices because of its higher development and operating costs and relatively small impact on inflation rates and social stability. CBM wellhead prices are negotiated between producers and buyers. On average, prices paid to CBM producers at the wellhead are higher than prices earned at the wellhead for conventional gas, but lower than import gas prices. The average sales price of AAG's CBM is affected by the price of domestic natural gas. The government also provides a subsidy of RMB0.20 per cubic meter for CBM, and some local governments provide additional subsidies.

The following chart sets forth the arithmetic average of the realized gas prices by PetroChina, Sinopec and CNOOC from 2007 to the year ended December 31, 2014, the weighted average realized prices of AAG for the month ended December 31, 2014 and the daily Brent price from January 2007 to December 31, 2014. Despite the volatility in Brent price, the

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average realized gas prices by PetroChina, Sinopec and CNOOC have increased steadily from US\$2.9 per mcf in 2007 to US\$6.7 per mcf in 2014.

Oil Price, Gas Prices and AAG's Selling Price



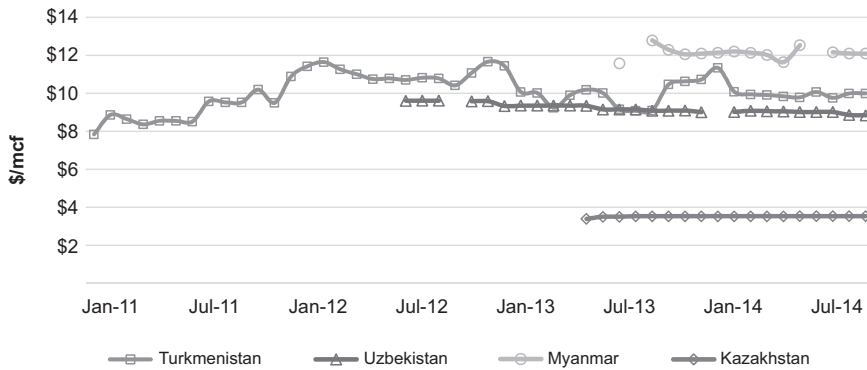
Notes:

1. Average realized gas prices are the arithmetic average of PetroChina, Sinopec and CNOOC's realized gas prices as disclosed in these companies' public filings.

Source: Public filings of PetroChina, Sinopec and CNOOC and NSAI.

The prices for pipeline gas imports are negotiated between the provider and the importer and are linked to global oil prices. Importers must also pay import duties and a transportation tariff. The following chart indicates the import prices for gas imported from Turkmenistan, Uzbekistan, Myanmar and Kazakhstan.

China Gas Pipeline Import Prices by Source



Source: SIA Energy

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In China, the NDRC regulates long distance, inter-regional pipeline tariffs. Short distance pipeline tariffs are determined by provincial governments. The following table sets forth the tariffs for various long distance pipelines in China.

Long Distance Pipeline Tariffs

	<u>RMB/cubic meters</u>	<u>US\$/mcf</u>
Xinjiang-Shanghai	1.03	4.73
Xinjiang-Jiangsu	1.01	4.64
Xinjiang-Henan	0.86	3.95
Xinjiang-Shangdong	0.83	3.81
Xinjiang-Shanxi	0.76	3.49

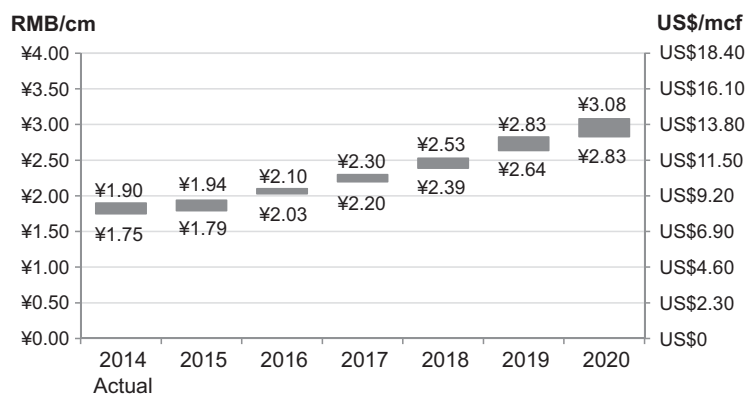
Source: SIA Energy

The prices for LNG imports have been negotiated at internationally competitive prices, usually at parity or a slight discount to oil prices. In 2014, according to SIA Energy, China's LNG imports averaged US\$11.72 per mcf on a CIF basis, compared to US\$4.04 per mcf in 2007. On top of CIF prices for LNG landed in China, regasification and pipeline transportation tariffs need to be charged before LNG is sold to provincial or city gas distributors. For example, LNG regasification and transportation tariff is US\$2.41 to US\$2.46 per mcf for Shenzhen Dapeng LNG, US\$1.61 per mcf for Shanghai Yangshan LNG and US\$2.00 per mcf for Jiangsu Rudong LNG, according to SIA Energy.

Outlook for CBM Wellhead Prices in the Qinshui Basin

According to SIA Energy, the period from 2015 to 2020 will see a favorable pricing environment for CBM producers. The following chart illustrates SIA Energy's forecasts for the Qinshui CBM wellhead prices up to 2020, using 2020 oil price scenarios of US\$74.1 per barrel, being the World Bank's January 2015 forecast. A range of prices is presented because, depending on the combination of markets that CBM is sold into, price forecasts differ.

2014–2020 Qinshui CBM Wellhead Price Forecasts — 2020 Oil Price¹ at US\$74.1 per Barrel



Source: SIA Energy

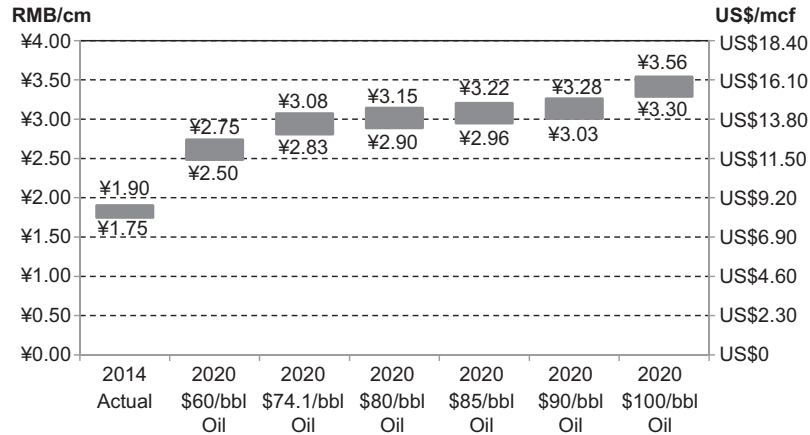
Note:

- The oil price used by SIA Energy in its forecasts is the equally weighted average price of Brent, Dubai and West Texas Intermediate.

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For sensitivity analysis, the following chart illustrates SIA Energy's forecasts for the Qinshui CBM wellhead prices in 2020, under different oil price scenarios.

**2020 Qinshui CBM Wellhead Prices
Sensitivity Analysis**



Source: SIA Energy

SIA Energy's reference case forecast is based on the following assumptions:

- In 2015, NDRC converged the base and incremental citygate prices by raising legacy base non-residential gas (which accounts for approximately 80% of pipeline gas) prices by ¥0.04 per cubic meters from the 2014 levels. Beyond 2015, non-residential citygate gas prices for non-directly supply will be using the NDRC set oil-linked formula in the 2013 price reform.
- Oil prices are in line with the following World Bank forecast:

<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Oil Price	US\$53.20	US\$56.90	US\$60.80	US\$65.00	US\$69.40	US\$74.10

Source: World Bank Quarterly Report: Commodity Markets Outlook, January 2015

- CBM players in the Qinshui Basin will monetize CBM production at the following marketing channel split, as their production ramps up and the share of pipeline transportation gradually grows:

<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Pipeline: LNG	50:50	50:50	50:50	60:40	70:30	80:20

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- Third party access (“TPA”) rules enforcement will be incremental. Under the TPA rules, which were adopted by the NDRC in July 2013, CBM can be marketed directly to end users at market prices, and the CBM producer will only pay regulated pipeline tariffs to trunk line operators. From 2015 to 2020, each year there will be 10% in additional Qinshui CBM production transported via pipelines under the TPA rules, with 2020 seeing 50% of the pipeline-transported CBM production in the Qinshui Basin enjoying the TPA rules:

<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
TPA percentage	0%	10%	20%	30%	40%	50%

COMPETITIVE LANDSCAPE

Overview of the Competitive Environment in China’s CBM Industry

CBM players in China can be classified as large state-owned companies, foreign CBM producers and local coal mine companies. Large state-owned companies have inherent advantages in raising capital, pipeline access and acreage registration, and are able to play a major role in China’s CBM industry as an extension of their own competitiveness in conventional gas. To develop CBM assets, the state-owned companies seek to either partner with foreign companies or develop self-operated CBM assets. Regardless of the structure, the state-owned companies have the means to leverage their advantages, pipeline access and acreage registration. However, partnering with the foreign companies for CBM development is beneficial for the state-owned companies as the foreign company bears all the exploration costs and risks and contributes the technology, know-how and resources that can help develop the CBM assets in an efficient manner.

For foreign companies, the only way to participate in China’s CBM industry is through entering into production sharing contracts with one of the four authorized state-owned companies. As competition to develop CBM among the state-owned companies intensifies, foreign companies will have more opportunities to enter the CBM sector as a result of more partnership options.

Foreign companies currently in the CBM business that have the first-mover advantage are well-positioned to benefit from increased competition among the state-owned companies. As the state-owned companies begin to build their own midstream and downstream facilities and infrastructure that will not be fully utilized in the short term, first movers like AAG can secure access to alternative midstream channels and downstream markets that they perhaps otherwise could not have developed on their own.

In addition to large state-owned companies and foreign CBM producers, local coal mining enterprises, such as Jincheng Anthracite Mining Group, have developed CBM contained in their coal mines. However, the utilization of CBM by local coal mining enterprises does not generally involve commercial development because their CBM drilling is mainly funded by the compensation from the Coal Mine Safety Fund established by the central government to encourage gas extraction. However, the coal companies’ competitiveness is constrained by their lack of specialized technology and uneconomic CBM production methods.

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As gas demand in China is expected to far exceed supply, there is currently limited competition for customers or market share, and the relationships among various market participants remain more cooperative than adversarial.

Main Foreign CBM Players in China

Currently, according to SIA Energy there are at least 9 foreign operators participating in 18 active CBM production sharing contracts in China. Most of the foreign companies are small natural gas exploration and production companies. There are currently three major foreign CBM players in China in terms of development status, reserve quality and quantity, technological sophistication and infrastructure availability. These players are Green Dragon Gas, which is listed on the London Stock Exchange, Far East Energy, which is listed on the Over-the-counter Bulletin Board and headquartered in Houston, Texas, and AAG. In 2013, according to SIA Energy, gross annual commercial CBM production of the top three foreign CBM players accounted for 6.0% of total commercial CBM production in China. Amongst the foreign CBM players, AAG held a market share in 2013 of 4.5%, while Green Dragon Gas and Far East Energy held market shares of 1.3% and 0.3%, respectively. Moreover, AAG's 2014 net commercialized production, being AAG's share of profit gas plus cost recovery gas under the relevant production sharing contract, reached 23.8 mmcf per day, accounting for 9.3% of the total commercialized production of the Qinshui Basin and 7.7% of the country, according to SIA Energy. Far East Energy's market share may be underestimated because the estimate is based on its net sales volume, which is wellhead production minus gas used in operations, gas flared and government take in-kind, multiplied by its participating interest under the relevant production sharing contracts.

The table below sets forth the competitive positions of the three major foreign CBM players in China.

Competitive Positions of the Three Major Foreign CBM Players: AAG, Far East Energy Corporation and Green Dragon Gas

Company Name	Net Reserves ¹ (bcf)	Blocks	Gross/Net Production Volume (mmcf per day)		
			2012	2013	2014
AAG	1P: 82 2P: 625 3P: 1,654	Panzhuang Mabi	9.6 0.3	15.0 1.6	34.6 1.7
Far East Energy Corporation ("FEEC")	1P: 68 2P: 440 3P: 549	Shouyang	0.7 ²	0.6 ²	N/A ²
Green Dragon Gas ("GDG")	1P: 148 2P: 427 3P: 2,290	Fengcheng Shizhuang South Shizhuang North	4.9 ³	7.6 ³	8.2

Source: AAG and public filings of FEEC and GDG

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Notes:

1. The reserve data for AAG in this table is as of December 31, 2014. FEEC and GDG's reserve data is as of December 31, 2013 and December 31, 2014 respectively. AAG'S and GDG's reserves are certified by NSAI and FEEC's reserves are certified by Resource Investment Strategy Consultants. Totals may not add due to rounding.
2. FEEC's production is net commercialized production; its gross production has not been disclosed.
3. GDG's production is its standalone wellhead production, excluding the production operated by CUCBM and PetroChina.

Attributes of CBM Resources and Drilling Technologies

CBM is generally held in place by water pressure and differs from conventional gas fields where gas is generated by hydrocarbon source rocks and then migrates through rock strata before being trapped in a porous and permeable reservoir rock such as sandstone. As coal is formed, large quantities of natural gas are generated and absorbed on internal surface areas of coal. CBM exploration and production involves drilling into a known coal measure and extracting the natural gas contained in the seams of the coal measure. The productivity potential of CBM wells depends on the number of reservoirs and geological characteristics that include permeability, thickness and depth of the coalbed, coal rank, gas content, and dewatering requirement.

- *Permeability.* CBM production requires that the coal has sufficient permeability, which is the ability of the coal to allow water or gas to pass through it. Permeability in coal is created primarily by naturally occurring fractures, commonly referred to as cleats, and is largely based upon the density and openness of the cleats. The more open cleats the coal has, the better the coal's permeability and the greater the chance of retrieving the absorbed CBM.
- *Thickness.* The thickness of the coal seam is crucial to CBM production. A coal seam with low permeability but high gas content or high permeability but low gas content could produce commercial quantities of gas if the coal seam has sufficient thickness.
- *Depth.* The depth of the coal seam is also a significant factor in the productive potential of a well. A shallow coal seam means that wells are generally easier to drill and less expensive to complete. Also, increased pressure associated with greater depth closes cleats in the coal and reduces permeability. However, if a coal seam is not buried deep enough, there may not be sufficient water pressure to hold the gas in place and much of the gas may escape from the coal.
- *Coal rank.* Coal rank is a measure of the amount of organic metamorphism undergone by the original plant debris that make up the coal. CBM is generated throughout this metamorphism process. However, coal ranks that are suitable for CBM production are generally bituminous coal and anthracite, which are higher ranks with more methane being generated and a stronger ability to store methane.
- *Gas content.* Gas is stored on the internal surfaces of coal and gas content indicates volumes of gas contained in a given mass of coal. Gas content generally increases with coal ranks, depth of the coal seam and pressure of a reservoir.

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- *Dewatering requirement.* Water must be removed from the coal seams to decrease reservoir pressure and release the gas to produce CBM from the coalbed. After the detachment of gas molecules from the coal surface occurs, the gas and water diffuses through the coalbed's cleats and fractures toward the wellbore. Substantial dewatering of the coalbed is required initially. Water production declines as CBM production increases. Dewatering of a well may generally range in length from a few weeks to many months or more, depending on the attributes of the coal seam and the type of well.

There are several types of CBM wells and drilling methods, including conventional vertical wells, multilateral drilling wells, pad-drilled wells and single-lateral horizontal wells. Please see the section headed "Definitions and Glossary of Technical Terms" for more details of these well types. Most of the wells drilled in the Qinshui Basin are conventional vertical wells. Although cheaper and quicker to drill, output and production from conventional vertical wells is lower than some of the other well types drilled by companies with advanced technologies and drilling techniques.

SIA Energy

We commissioned SIA Energy, a China-focused primary energy research and consulting firm and an independent third party, to conduct an analysis of and report on the CBM market and industry in the PRC. In this prospectus, we refer to data from SIA Energy, which is derived from the industry report prepared by SIA Energy titled China's CBM Industry Profile, 2011–2020. We paid a consulting fee of approximately US\$71,000 to SIA Energy in connection with its preparation of the industry report for this prospectus.

SIA Energy is a primary energy research and consulting firm founded and based in Beijing, China, dedicated to providing insight on China's oil and gas markets, policy and company strategies for oil and gas operators, state-owned oil companies, service companies, financial institutions and governmental agencies. We understand that SIA Energy maintains a large base of models, database and other analytical materials on global oil and gas industries, including the CBM industry, as well as regional and local markets and business segments.

China's CBM Industry Profile, 2011–2020, was produced by SIA Energy's analysts with specific knowledge of China's CBM industry. In compiling this report, SIA Energy relied on its proprietary database and analyzed market and industry trends to identify the most probable outcome in the report. Over the course of this research, SIA Energy has developed independent and forward-looking views based on methodologies to determine the size of the market, how it is structured, and how it is expected to develop in the future. SIA Energy's research draws on publicly available information from a variety of industry sources, including company reports, laws and regulations, official PRC government sources, international organization or association reports, public conference materials, industry interviews, site visits and surveys, among other data collection and verification sources.

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This section sets forth a summary of the most significant laws and regulations of the PRC that affect our business and the industry in which we operate. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations of the PRC applicable to us.

NATIONAL POLICY RELATING TO CBM RESOURCES

According to the 12th Five Year Plan, the PRC government is promoting more efficient energy production and utilization, as well as an improved energy consumption mix to establish a safe, stable, economical, clean and modernized energy industry in China.

The PRC government considers CBM a new source of clean energy and promotes the use of CBM in order to improve the energy consumption mix and to enhance the efficiency of energy consumption in China. Under the Circular of the National Development and Reform Commission on the 12th Five Year Plan for the Extraction and Utilization of CBM (Coal Mine Gas) (國家發展改革委關於印發煤層氣(煤礦瓦斯)開發利用“十二五”規劃的通知) issued on November 26, 2011, PRC's CBM production capacity is expected to reach 30 bcm by 2015, of which 16 bcm is expected to be sourced from surface extraction with a nearly 100% utilization rate and 14 bcm is expected to be extracted from coal mine gas with a utilization rate of more than 60%. Also, the PRC government targets that 2.9 million kilowatts of power will be generated from all CBM and that it will be consumed by more than 3.2 million households. In addition, the PRC government aims to discover one trillion cubic meters of additional proven reserves and to develop the Qinshui Basin and Ordos Basin, the two major CBM production regions in China.

In order to achieve the above goals, the government is planning to (i) provide guidance and oversight of the development of the CBM industry, (ii) increase investment in the exploration and development of CBM, (iii) implement additional policy incentives including favorable tax treatments, subsidies, favorable land grant policies and other preferred arrangements for the development and utilization of CBM, (iv) adopt measures to promote innovative technologies and cultivate talent, and (v) encourage new coordination mechanisms for the extraction of different energy resources.

In order to enhance the administration of the exploration and extraction of CBM and resolve issues regarding overlapping rights for coal extraction and CBM extraction held by different mining license holders, MOLAR promulgated the Notice on the Administration of the Comprehensive Exploration and Extraction of Coal and CBM Resources (國土資源部關於加強煤炭和煤層氣資源綜合勘查開採管理的通知) on April 17, 2007. The notice set out the general principle of CBM extraction before coal extraction for settling disputes arising from overlapping rights.

The primary regulation promulgated pursuant to the 12th Five Year Plan for the purpose of supporting the exploration and development of CBM is the Circular on Exempting the Import Tax on the Imported Goods for CBM Exploration and Development Projects During the 12th Five Year Plan Period (關於“十二五”期間煤層氣勘探開發項目進口物資免徵進口稅收的通知) issued by the State Administration of Taxation, the Ministry of Finance and the General Administration of Customs on August 8, 2011. Under this circular, imported equipment, instruments, parts, accessories and special tools that are either unavailable domestically or possess functions or

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properties superior to those manufactured domestically are exempted from import duties and import VAT if they are imported by a Chinese CBM producer or its CBM project partners between January 1, 2011 and December 31, 2015 and for use in domestic CBM operations.

In February 26, 2015, the NDRC issued the Notice on Straightening the Price of Non-Residential Natural Gas (國家發改委關於理順非居民用天然氣價格的通知，發改價格[2015]351號) (“**NDRC Notice No. 351**”), which will be effective as of April 1, 2015. According to such NDRC Notice No. 351, the city gate price ceilings for new, incremental non-residential natural gas will be lowered by RMB0.44 per cubic meters (US\$2.01 per mcf), and the floor of city gate prices of existing, base non-residential gas will be raised by RMB0.04 per cubic meters (US\$0.18 per mcf), which allows, as of April 1, 2015, the converging of the price of two-tier non-residential natural gas previously prevailing in PRC. The NDRC also announced that for “direct supply” of natural gas to industrial end users for their own utilization, citygate price will be negotiated by and at the discretion of the parties, and will no longer be subject to government set price ceilings starting from April 1, 2015.

Catalogue for the Guidance of Foreign Investment Industries

The PRC government publishes a Catalogue for the Guidance of Foreign Investment Industries (2011) (外商投資產業指導目錄) and amended it to its current version on March 10, 2015, effective on April 10, 2015 which divides foreign investment in the PRC into the categories of “prohibited,” “restricted,” and “encouraged.” The exploration and extraction of CBM resources have been included in the “encouraged” category in each revision of the catalogue since 2002.

Measures for the Administration of Approving and Recording Foreign Investment Projects

For the purpose of regulating the approval and record of foreign investment projects, the NDRC on May 17, 2014, issued the Measures for the Administration of Approving and Recording Foreign Investment Projects (外商投資項目核准和備案管理辦法) (“**the Measures**”), effective June 17, 2014, which applies to the approval and record filing of all forms of foreign investment, such as Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and wholly foreign-owned enterprises, foreign-invested partnerships, acquisitions of domestic entities by foreign investors, as well as capital increases in and reinvestment by foreign-invested enterprise, of a broader scope in comparison with the Interim Measures.

Section 4 of the Measures provides that the following foreign investment projects are subject to the examination and approval by the NDRC or government at the provincial or the local level, as applicable: (i) projects of the encouraged category in the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) with a total investment (including capital increase) of US\$300 million or more and in which the Chinese party holds control (including relative control), or projects of the restricted category (excluding real estate projects) with a total investment (including capital increase) of US\$50 million or more shall be subject to the examination and approval by the NDRC; (ii) real estate projects of the restricted category, or projects of the restricted category with a total investment (including capital increase) of less than US\$50 million shall be subject to examination and approval by the provincial government; (iii) projects of the encouraged category with a total investment (including capital increase) of less than US\$300 million and in which the Chinese party holds control (including relative control) shall be subject to the examination and approval by the local

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governments; and (iv) projects that are not covered by the preceding conditions but listed in items (1) through (11) of the Catalogue of Investment Project for the Governmental Examination and Approval (2013 Version) (政府核准的投資項目目錄(2013)版本) shall be subject to the examination and approval as required thereunder. Foreign investment projects other than those set forth in Section 4 shall be subject to record filing with the local government.

Under the Measures, an amendment application must be submitted to the NDRC or government at the provincial or the local level, as applicable, for approval or record filing, as the case may be should any of the following apply: (i) change of construction site; (ii) change of investors or the equity structure of the projects; (iii) change of main construction content; or (iv) other circumstances required to be changed by related laws and regulations and industrial policies.

REGULATORY FRAMEWORK FOR SINO-FOREIGN COOPERATION IN CBM EXTRACTION

The PRC Constitution and the Mineral Resources Law (礦產資源法) provide that all natural resources in the PRC belong to the state. Therefore, China's CBM industry is subject to extensive government regulation. In 1993, the State Council promulgated the Rules on the PRC Sino-Foreign Cooperative Extraction of Onshore Petroleum Resources (amended in 2001, 2007, 2011 and 2013) (中華人民共和國對外合作開採陸上石油資源條例) (the "**Petroleum Regulations**") to regulate onshore crude oil and natural gas extractions involving foreign parties.

Under the Petroleum Regulations, foreign companies may conduct CBM exploration, development and production only in areas approved by the State Council and by means of a cooperative project with domestic companies authorized by the State Council. Authorized domestic companies have the right to negotiate, sign and execute production sharing contracts with foreign enterprises. Pursuant to such contracts, foreign enterprises may be granted the exclusive right to explore CBM, subject to supervision by the authorized domestic companies, in a block approved by the State Council. All production sharing contracts entered into prior to July 19, 2013 are subject to the approval of MOFCOM, and those that are entered into on or after July 19, 2013 are subject to record filing with MOFCOM. The Petroleum Regulations in conjunction with the Plan on Reform of State Council Organs, approved by the National People's Congress in 2008, provide that the National Energy Bureau, established under the NDRC, is responsible for dividing and assigning CBM cooperation blocks to Sino-foreign cooperative projects based on the areas approved by the State Council, determining the forms of cooperation, organizing the formulation of relevant plans and policies, and reviewing and approving the overall development plans for the Sino-foreign cooperative projects submitted by foreign contractors through the authorized PRC companies.

Under the Petroleum Regulations, upon the announcement of a Sino-foreign cooperative project, no other enterprises except the Chinese CBM company and foreign enterprises authorized to operate the project may enter into the project area for CBM exploration, or enter into any economic and technological cooperation agreement for CBM exploration within the area in connection with any other Sino-foreign cooperation. Enterprises that have already begun CBM exploration in the area before the public announcement of a Sino-foreign cooperative project shall withdraw from the project area after the Chinese CBM company enters into a contract with

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the foreign enterprise. Exploratory data acquired by these enterprises may be sold to the PRC authorized companies operating the project as appropriate compensation for their costs incurred in obtaining the exploratory data.

MOFCOM, NDRC and MOLAR jointly promulgated the Circular of the Ministry of Commerce, the National Development and Reform Commission and the Ministry of Land and Resources on Issues Concerning Further Expansion of Foreign Cooperation in CBM Extraction (商務部、國家發展和改革委員會、國土資源部關於進一步擴大煤層氣開採對外合作有關事項的通知) on October 17, 2007, under which MOFCOM, NDRC and other relevant ministries and commissions shall authorize several enterprises other than CUCBM to participate in Sino-foreign CBM pilot extraction projects in areas approved by the State Council. Other Chinese companies may apply for such qualification subject to the satisfaction of certain requirements set forth in the circular.

According to the Circular of MOFCOM, NDRC, MOLAR and NEB on the Approval of China National Petroleum Corporation and Other Three Companies to Participate in the Pilot Work of Sino-Foreign Cooperation in CBM Extraction (商務部、國家發展改革委、國土資源部、國家能源局關於同意中國石油天然氣集團公司等三家公司開展對外合作開採煤層氣資源試點工作的通知) promulgated on November 30, 2010, CNPC, Sinopec and Henan CSG are authorized to participate in Sino-foreign CBM pilot extraction projects within areas approved by the State Council.

Investment Protection for Foreign Contractors

As stipulated in the PRC Constitution and in accordance with PRC law, the PRC permits foreign enterprises, economic organizations and individuals to invest in China through various forms of economic cooperation with Chinese enterprises and economic organizations. All foreign enterprises, economic organizations and Sino-foreign joint ventures operating within the PRC shall abide by PRC law. The lawful rights and interests of such enterprises, organizations and joint ventures are protected by PRC law.

In accordance with the Petroleum Regulations, the Chinese government protects the activities of foreign enterprises engaged in Sino-foreign CBM extraction projects as well as their investments, profits and other lawful rights and interests. Under special circumstances and in the interest of the public, the state may expropriate part or all of the foreign enterprises' share of the CBM from these projects in accordance with legal procedures and with appropriate compensation, but the state shall not expropriate any investments or proceeds of foreign enterprises participating in these projects.

Production Sharing Contracts

Under the relevant regulations described above, foreign enterprises must cooperate with authorized Chinese parties to extract CBM in the PRC. A foreign enterprise and its Chinese partner must set out the terms underlying their cooperation and the cooperative project in a production sharing contract. All production sharing contracts entered into prior to July 19, 2013 are subject to the approval of MOFCOM, and those that are entered into on or after July 19, 2013 are subject to record filing with MOFCOM. A production sharing contract regulates the exploration, development and production activities in a Sino-foreign CBM extraction project.

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Development Plans and Operatorship of CBM Blocks

Under the Petroleum Regulations, the operator is responsible for formulating the overall development plan for the CBM block under the production sharing contract. The overall development plan should discuss the economic, environmental, geological, geophysical, legal and technological aspects of the proposed development. All overall development plans are subject to the NDRC approval.

Unless otherwise provided in PRC law or the production sharing contract, the foreign enterprise to the contract shall, at its own risk, invest in and undertake the exploration activities. Upon discovering a CBM block with commercial value, the foreign enterprise and the Chinese company shall jointly invest and develop the block. The investments of foreign parties shall be in U.S. dollars or other freely convertible currencies.

Sale of CBM Production and Compensation of Foreign Parties to Production Sharing Contracts

In accordance with the Petroleum Regulations and the production sharing contract, the foreign party may recover its expenses and investments from the gas produced from the block under cooperation. The foreign party may send its recovered investment, profits and other lawful income abroad in accordance with PRC law and the production sharing contract. The foreign party may also export its share of the gas production in accordance with PRC law. If the foreign party chooses to sell their share of the CBM within the PRC, generally it should sell the gas to the Chinese party to the production sharing contract, although it may also sell the gas to other parties as stipulated in the production sharing contract, provided that such sales are lawful.

According to the Circular of the Ministry of Commerce, the National Development and Reform Commission and the Ministry of Land and Resources on Issues Concerning Further Expansion of Foreign Cooperation in CBM Extraction (商務部、國家發展和改革委員會、國土資源部關於進一步擴大煤層氣開採對外合作有關事項的通知), foreign parties may recover their investments and expenses and make profits from CBM in accordance with their CBM production sharing contracts. They may export their share of the CBM or sell it in the PRC in accordance with relevant laws and regulations and relevant contractual agreements. The foreign parties may also sell their shares of the CBM in China through PRC enterprises established by them in accordance with PRC law.

The Regulations for Gas Administration of Shanxi (山西省燃氣管理條例) promulgated by the Standing Committee of the People's Congress of Shanxi on September 27, 2000 and enacted on January 1, 2001, requires that enterprises engaged in the production and sales of gas must obtain a permit for gas operations. A similar permit is required by the Rules for Gas Administration of Jincheng City (晉城市燃氣管理辦法) for enterprises that engage in gas-related businesses.

Ownership of Data and Assets

In accordance with the Petroleum Regulations and the production sharing contract, a foreign party to the production sharing contract is required to timely and accurately report the status of its operations to the Chinese party of the contract. The foreign party to the production

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sharing contract must obtain and submit data, records, samples, evidence and other similar original materials from its CBM operations to the Chinese party. The foreign party must also submit technological, economic, administrative, financial and accounting reports to the Chinese party. The ownership of all data, evidence, reports and other information belongs to the Chinese party. Any use, transfer, donation, exchange, sale, publication or shipment of such data, records, samples, evidence, reports or other original materials submitted by the foreign party must be conducted in accordance with PRC law. All assets purchased and created by the foreign party pursuant to its performance of the production sharing contract, except for equipment leased from third parties, shall vest in the Chinese party once the foreign party has been fully compensated in accordance with the terms of the production sharing contract or upon the expiration of the production period for the cooperative gas field. During the term of the contract, use of the assets by the foreign party is governed by the terms of the production sharing contract.

EXPLORATION LICENSES AND MINING LICENSES

The Mineral Resources Law authorizes MOLAR or its local counterpart to exercise administrative authority over the exploration and mining of mineral resources within the PRC, including the authority to issue exploration and mining licenses.

According to the Mineral Resources Law, the Provisions for Implementation of the Mineral Resources Law (礦產資源法實施細則), Administration Measures for Mine Blocks Registration of Mineral Resources Exploration (礦產資源勘查區塊登記管理辦法) and other relevant provisions, in order to receive a license to explore a specified block of land, applicants for exploration licenses shall register the blocks they plan to explore with MOLAR or its local counterpart. Holders of exploration licenses are required to gradually increase the annual minimum exploration investments in their registered exploration blocks.

Once the exploration license holder has ascertained the quantity of reserves in its registered block, the holder shall in a timely manner submit the reserves report to the relevant authorities for approval and apply for a mining license. MOLAR or its local counterpart grants mining licenses to applicants based on their approved reserve reports, which present economic evaluations of the reserves, market conditions and plans for the development of the block. Mining license holders shall pay an annual mining right use fee of RMB1,000 per square kilometer. According to the Administration Measures for the Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法) (“**the Administration Measures**”), the maximum term for a mining license varies from 10 years to 30 years depending on the construction scale of the mine.

Foreign Exchange Issues Relating to Implementing the Production Sharing Contracts

In accordance with the Petroleum Regulations, foreign parties shall comply with the Foreign Exchange Administrative Regulations of the PRC (中華人民共和國外匯管理條例) and other State regulations related to foreign exchange control. Foreign parties may make investments in U.S. dollars or other freely convertible currencies.

Pursuant to the Foreign Exchange Administrative Regulations of the PRC effective on April 1, 1996 and amended on August 5, 2008 and other State regulations related to foreign exchange control (the “**Foreign Exchange Administrative Regulations**”), the foreign exchange

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income in the capital accounts of domestic enterprises shall be deposited into foreign exchange accounts opened with designated banks. Any foreign exchange payment from a capital account shall be made out of the payer's own foreign exchange funds based on valid documents or be made with foreign exchange purchased from any financial institution engaged in foreign exchange settlement and sales business. If a foreign-invested enterprise winds up its operations, the amount of Renminbi that belongs to the relevant foreign investor after liquidation and payment of tax pursuant to relevant State provisions may be used to purchase foreign exchange from any financial institution engaged in foreign exchange settlement and sales business in order to remit it outside the PRC.

SUPERVISION AND ADMINISTRATION OVER BRANCHES OF FOREIGN COMPANIES

Under the PRC Company Law (中華人民共和國公司法), in order for a foreign company to establish a local branch in the PRC it must submit an application to the relevant authorities and provide certain documentation, including its articles of incorporation and company registration certificate issued by competent authorities of the jurisdiction in which it was established. Once the application is approved, the foreign company shall register with the State Administration for Industry (the “SAIC”) or its local counterpart, the local AIC, and obtain a business license. The foreign company will be fully liable for the business operations of its local branches in China as PRC law does not recognize the local branch of a foreign company as a legal person entity.

According to the Petroleum Regulations, foreign parties shall set up branches, subsidiary companies or representative offices within the territory of PRC in accordance with the law.

Pursuant to the Measures for the Administration of the Registration of Foreign Enterprises Engaged in Production and Operation Activities within China (外國(地區)企業在中國境內從事生產經營活動登記管理辦法) (the “SAIC Measures”) promulgated by the State Administration of Industry and Commerce, on August 15, 1992, foreign enterprises engaged in the “exploration and extraction of onshore and offshore oil and other mineral resources” in China shall apply for registration with the SAIC or its local counterpart, the local AIC, within 30 days after the special projects conducted by them are approved by the relevant authorities. The required registration with the SAIC or the local AIC does not create new legal entities and foreign enterprises granted PRC business licenses and operating in the PRC retain their corporate status as offshore entities. Furthermore, in the event that their registered address in China is different from the place where their business is actually located, the SAIC Measures requires that registration with the local AIC of both locations be made.

LABOR LAWS AND SOCIAL INSURANCE

Labor laws and regulations in the PRC include the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Implementation Regulations of the PRC Labor Contract Law (中華人民共和國勞動合同法實施條例), the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Work-related Injury (工傷保險條例), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) and the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例).

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Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must enter into written labor contracts with employees to establish an employment relationship. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide employees with relevant workplace safety trainings. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in administrative liabilities such as fines. Criminal liability may arise in the event of serious violations. Foreign enterprises in China are entitled to hire employees through employee dispatch enterprises with dispatching licenses, such as Beijing Foreign Enterprise Human Resources Service Co., Ltd., which are authorized to enter into employment contracts with local employees and dispatch employees to work at foreign enterprises. Employee dispatch enterprises and foreign enterprises have certain responsibilities to employees according to PRC law and dispatching agreements they have entered into.

As required under the Regulation of Insurance for Work-related Injury, Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) and the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), employers in China are obligated to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

PREVENTION AND TREATMENT OF OCCUPATIONAL DISEASES

In order to prevent, control and eliminate occupational diseases, to protect the health, rights and interests of worker, and to promote economic development in general, the Standing Committee of the National People's Congress promulgated the Law on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法) on October 27, 2001, effective on May 1, 2002, and amended on December 31, 2011. According to PRC law, the relevant departments of the local people's governments at the level of county and above shall be responsible for the relevant supervision and administration of the prevention and treatment of occupational diseases.

Workers are entitled to occupational health protection under PRC law. Employers shall create work environment and conditions that meet national occupational health standards, and shall adopt measures to guarantee that workers receive occupational health protection. Employers shall purchase work-related injury insurance for workers they employ.

PRODUCTION SAFETY

The PRC Production Safety Law (中華人民共和國安全生產法) and its implementation rules provide stringent production safety requirements for mining operations, including: (i) mining entities shall establish an administrative organ for production safety or have full-time personnel for the administration of production safety; (ii) personnel in charge of production safety must have passed production safety knowledge examinations; (iii) safety appraisals shall be made for mining construction projects according to the relevant regulations; (iv) the safety facility designs of the mining construction projects shall be subject to the examination and approval of the relevant authorities according to the relevant regulations; (v) safety facilities shall be constructed

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according to the approved safety facility designs and the mining entities shall be responsible for the quality of these constructions; (vi) after a mining construction project is completed, but before it is put into use, the safety facility constructed for the project shall be reviewed and approved according to the relevant laws and regulations; and (vii) mining entities shall establish an emergency rescue team. If a production or business operation is small in scale, it may designate part-time emergency rescue personnel instead of establishing an emergency rescue team. The mining entities shall always be equipped with regularly serviced and maintained rescue and emergency equipment.

According to the Circular on Clarifying the Responsibilities of Supervising and Examining Enterprises of CBM Mining issued by the General Office of the State Administration of Work Safety on February 28, 2010 (國家安全監管總局辦公廳關於明確煤層氣抽採企業安全監管監察職能的通知), each CBM enterprise shall obtain a Safety Production Permit for Coal Mining Enterprises. Since the promulgation of the circular, the responsibilities of supervising and administrating CBM mining enterprises were transferred to the administration of coal mine safety from the administration of work safety.

ENVIRONMENTAL PROTECTION

There are national and local standards applicable to the environmental impact of construction, emissions control, discharges to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

Construction Projects

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Environmental Impact Appraisal Law (中華人民共和國環境影響評價法), promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and effective on September 1, 2003, the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例), promulgated by the State Council on November 29, 1998 and effective that date and the Measures for Environmental Protection Check and Acceptance of Completed Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by the State Administration for Environmental Protection on December 27, 2001, effective on February 1, 2002 and amended on December 22, 2010, a company planning a construction project is required to engage qualified professionals to provide an assessment of the environmental impact of such project. The environmental impact report must be filed with the relevant environmental bureau for approval before any construction of a new production facility or any major expansion or renovation of an existing production facility is undertaken. The new facility or the expanded or renovated facility must pass the inspection and acceptance examination by the relevant environmental authorities before it can be put into operation.

A company that wishes to discharge pollutants, whether in the form of emissions, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and the company's proposed pollution treatment plan. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of pollutants that the company is permitted to discharge under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more pollutants than what is permitted under the pollutant discharge license, the

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relevant environmental bureau can fine the company up to several times the discharge fees for its permitted discharge amount, or require the company to close its operation to remediate the problem.

The Petroleum Regulations require CBM operators and contractors to observe the laws, regulations and standards of the state regarding environmental protection and operation safety, and to carry out operations in line with international practices with a view to protect farmland, aquatic products, forests and other natural resources, and to prevent any pollution and damage to the atmosphere, sea, rivers, lakes, underground water and other inland environment.

Air and Water Pollution

The Air Pollution Prevention Law (大氣污染防治法) promulgated on April 29, 2000 by the Standing Committee of the National People's Congress which became effective on September 1, 2000, establishes the legal framework for air pollution prevention in the PRC. The environmental protection department of the State Council formulates national air standards. The Water Pollution Prevention Law (水污染防治法) promulgated on May 11, 1984 by the Standing Committee of the National People's Congress effective on November 1, 1984 and amended on March 15, 1996 and February 28, 2008, establishes the legal framework for the prevention of water pollution in the PRC. The environmental protection department of the State Council formulates national waste standards. Enterprises that discharge waste into water must pay a treatment fee.

Local environmental protection bureaus are authorized to regulate air and water pollution within their jurisdictions by formulating more specific local standards, and may impose penalties for infringement, including suspending operations.

SUPERVISION AND ADMINISTRATION OVER THE USE OF LAND

All land in the PRC is either state-owned or collectively owned by local residents, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned by local residents.

On March 16, 2007, the National People's Congress promulgated the Real Properties Rights Law (中華人民共和國物權法) effective from October 1, 2007, which stipulates that land use rights may be created through land grant or allocation. Pursuant to Articles 47 and 57 of the Land Administration Law of the PRC, an enterprise applying for land use rights shall execute contracts for the use of the land with the proper land authorities or rural collectives, depending on the ownership of the land, and pay land compensation fees for the use of the land.

According to the Land Administration Law (土地管理法) and the Implementation Provisions of the Land Administration Law (土地管理法實施條例), entities that use rural land on a temporary basis shall enter into temporary land use grant agreements with the local rural collectives or the land use right holders and obtain temporary land use permits from local land authorities. Entities that use land on a long term basis shall enter into land use right agreements with competent land authorities and apply for long term land use right certificates for such land pursuant to relevant rules.

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LAND REMEDIATION

The Mineral Resources Law (礦產資源法) and its supplementary regulations govern the exploration and extraction of mineral resources within the PRC. These laws also regulate the process of closing down mines to promote land restoration and environmental protection. In order to close down a mine, the mine operator must develop and submit a geological report and an application to the relevant governmental authorities one year prior to the proposed closure date. Upon receiving approval of the application, the mine operator must either take land remedial actions to protect soil, restore the land and protect the environment in the mined area or pay the full cost for land remediation. Under the terms of the production sharing contracts, the operator of the cooperative CBM block shall level, restore or reclaim the extraction sites upon completion of petroleum production in accordance with the Mineral Resources Law and relevant local rules and regulations.

REGULATION OF CERTAIN ONSHORE AND OFFSHORE TRANSACTIONS

On August 8, 2006, six PRC regulatory agencies, namely, the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council (國有資產監督管理委員會), the SAT, the SAIC, the China Securities Regulatory Commission (the “**CSRC**”), the SAFE, jointly adopted the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules applies to: (i) the acquisition of a PRC domestic company (other than the foreign invested enterprises) by foreign investors by way of purchasing the equity interests of or subscribing an additional capital contribution in such domestic company, turning the domestic company into a foreign invested enterprise, or (ii) the purchase of operating assets of a PRC domestic company and contribution of such assets to a new foreign invested enterprise for the assets management and operation, which will be subject to AIC registration and approval by MOFCOM and SAFE.

The Special Regulations of the State Council on the Overseas Offering and Listing of Joint Stock Limited Company (the “**Special Regulations**”) was issued and became effective on August 4, 1994. The Special Regulations regulates that approval shall be granted from CSRC prior to the overseas public offering and listing by any joint stock limited company incorporated under PRC Company Law.

Each of SAE and AAGI is a foreign company incorporated under the laws of its respective jurisdiction, namely Samoa and BVI, and duly registered in China for its CBM exploration and development in Panzhuang or Mabi concession of PRC with its respective Chinese partner under the Petroleum Regulations and other applicable PRC laws and the Product Sharing Contract. Since they are not domestic companies incorporated under PRC laws, and are not subject to the approval prior to overseas offering or listing by MOFCOM or CSRC under the M&A Rules and Special Regulations.

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REGULATIONS ON INDIRECT TRANSFER OF PROPERTIES BY NON-TAX RESIDENT ENTERPRISES WITH RESPECT TO OFFSHORE RESTRUCTURING

In early February 2015, the SAT released a State Administration of Taxation Bulletin [2015] No. 7 Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises 《國家稅務總局公告2015年第7號 — 關於非居民企業間接轉讓財產企業所得稅若干問題的公告》 (SAT Bulletin [2015] No. 7, the “**Bulletin 7**”) to supersede the current Chinese tax rules in relation to the offshore indirect equity transfer as previously set forth in Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) or the Circular 698.

Bulletin 7 applies to such offshore indirect transfer of China Taxable Properties (“**Offshore Indirect Transfer**”) as: (i) immovable property in China, (ii) assets held under the establishment and place in China and (iii) equity-related interests in PRC resident company, directly or indirectly obtained by a non-resident company in China through the Offshore Indirect Transfer of its offshore intermediate holding subsidiary (“**Offshore Subsidiary**”). However, where Offshore Indirect Transfer of such Offshore Subsidiary is completed in a publicly traded securities market or is exempt from corporate income tax pursuant to applicable tax treaties or arrangements, the Bulletin 7 will not be applicable to such Offshore Indirect Transfer.

Compared to Circular 698, Section 3 of Bulletin 7 offers comprehensive criteria as to whether an Offshore Indirect Transfer is one with reasonable business purpose.

Section 6 of the Bulletin 7 will deem the Offshore Indirect Transfer as one with reasonable commercial purpose, should such Offshore Indirect Transfer of Taxable Properties in PRC meet all the following conditions: (i) the holding structure of the transaction parties shall be that (a) the Transferor directly or indirectly controls 80% or more of the equity interests of Transferee, (b) the Transferee directly or indirectly controls 80% or more of the equity interests of Transferor, or (c) 80% or more of the equity interests of the Transferor and Transferee are commonly controlled, moreover, if over 50% of the value of the Offshore Subsidiary is directly or indirectly derived from the immovable properties in China, such equity holding percentage will be 100%, (ii) the corporate income tax imposed on the gains derived from the subsequent offshore indirect equity transfer transactions arising after the said Offshore Indirect Transfer will not be less than in such subsequent transactions as if without the occurrence of the said Offshore Indirect Transfer, and (iii) such Offshore Indirect Transfer will be paid by the Transferee with solely the equity interests (not including the listing shares) of such Transferee or its subsidiaries.

However, if such Offshore Indirect Transfer fails to be considered for the reasonable business purpose under Section 6, Section 4 of Bulletin 7 set forth the criteria that the Offshore Indirect Transfer will be straightforwardly considered without reasonable business purpose, meeting all the following factors: (i) 75% or more of the value of the Offshore Subsidiary is directly or indirectly derived from PRC Taxable Properties, (ii) at any time of or during 1 year ahead of such Offshore Indirect Transfer, 90% or more of the assets or revenue is derived within PRC, (iii) the Offshore Subsidiary or its holding affiliates that directly or indirectly controls PRC Taxable Properties, despite due registration at its jurisdiction, can hardly perform duties or

REGULATIONS

assume risks due to its lack of economic substance, and (iv) the corporate income tax incurred in PRC from the Offshore Indirect Transfer is less than the direct transfer of PRC Taxable Properties.

As we hold a participating interest under both the Panzhuang PSC and the Mabi PSC, the immovable properties and assets under the establishment and place in the Panzhuang concession and Mabi concession, our Reorganization prior to the Listing (see the section headed “**History And Corporate structure**” of this prospectus), other than any share trading by investors using the Stock Exchange, may be deemed as Offshore Indirect Transfer and pursuant to Bulletin 7. Both parties to the Offshore Indirect Transfer and the PRC Tax Resident Enterprise being indirectly transferred may report such Offshore Indirect Transfer to the competent tax authorities and provide the relevant documents as required under Bulletin 7. If such gains derived from the Offshore Indirect Transfer are taxable, the income tax will be imposed to the extent required under relevant tax laws and regulations.

REGULATIONS ON FOREIGN EXCHANGE REGISTRATION OF OVERSEAS INVESTMENT BY PRC RESIDENTS

Pursuant to the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Round-trip Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (“**SAFE Circular No. 37**”) and its schedules, promulgated and effective on July 14, 2014, (a) a PRC individual resident or a PRC institution (together a “**PRC Resident**”) must register with the local SAFE branch before such PRC Resident contributes assets or equity interests to an overseas special purpose vehicle (“**SPV**”) that such PRC Resident establishes or controls at the first tier as a holding company for the purpose of conducting investment or financing; (b) when the overseas SPV under registration undergoes a material change, such as a change in the PRC individual resident as a member, corporate name, term and any other basic information, or a change in the share capital, transfer, swap, merger and acquisition or division, the PRC Resident must, after the occurrence of such event, register such change with the local SAFE branch in a timely manner; and (c) the PRC individual resident as directors, supervisors, managers or employees must register with the local SAFE branch, before he or she executes the right under the employment stock option scheme of such pre-IPO overseas SPV, whereas the PRC Resident shall register for their employment stock option scheme of an offshore listed company under other PRC relevant SAFE regulations than SAFE Circular No. 37.

REGULATIONS ON EMPLOYEE STOCK OPTION PLANS

On February 15, 2012, SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in the Share Incentive Schemes of Overseas-Listed Companies 《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》 (the “**Circular 7**”). Under the Circular 7 and its related PRC laws and regulations, a PRC individual resident, including PRC nationals or foreign citizens, acting as employees, directors, supervisors or other senior management of an overseas listed company and its affiliates in PRC, when participating in the share option scheme of such overseas listed company, is required to register with SAFE or its local branches and complete certain other

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procedures, through a qualified PRC agent, which could be a PRC subsidiary of the overseas listed company or another qualified institution with assets trusteeship as designated by the PRC subsidiary, to conduct the SAFE registration and other related procedures on behalf of its participants. The participants shall also retain an overseas entrusted institution to handle matters in connection with their exercise of such share option scheme, the purchase and sale of corresponding stocks or interests and fund transfers. The PRC agents must, on behalf of the PRC individual residents, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC individual residents' exercise of the share option. The foreign exchange proceeds received by the PRC individual residents from the sale of shares under the share option scheme and dividends distributed by the overseas listed companies shall be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

In addition, the PRC agent is required to amend the SAFE registration under Circular 7 within three (3) month upon the occurrence of any material changes with respect to such share option scheme, the PRC agent or the overseas entrusted institution or other material changes.

FEES, TAXES AND LEVIES

Royalties

According to the Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Extraction of Onshore Petroleum promulgated by the Ministry of Finance on January 15, 1990 under approval of the State Council, amended by the Ministry of Finance and the State Administration of Taxation on July 28, 1995 (中外合作開採陸上石油資源繳納礦區使用費暫行規定), Sino-foreign enterprises engaged in the extraction of onshore petroleum resources are required to pay a royalty that is calculated and charged based on the total petroleum resources output of each petroleum resources field for each calendar year and the mining area usage fee rate. Chinese tax authorities administer and collect the royalty fee. The China Petroleum Development Company serves as the payment agent for the royalty fee. The withholding agent and payment agent must make the royalty payment within the time limit prescribed by the tax authorities. Otherwise, the tax authorities shall impose a late payment penalty of 0.1% per day in the amount of the royalties in arrears, commencing on the first day the payment becomes overdue. Operators of a petroleum resource field must also provide tax authorities with production data and other information relating to the field as required within 10 days of the end of each quarter. The tax authorities may, in their discretion, impose a penalty not greater than RMB5,000 on natural gas operators who fail to timely submit such production data and other required information. Additionally, the relevant PRC tax authorities may impose a penalty not greater than five times the actual royalty payable on operators who submit false data.

On September 30, 2011 the State Council issued the Decision on the Revision of the Rules on the PRC Sino-Foreign Cooperative Extraction of Onshore Petroleum Resources (“**the Decision**”) (國務院關於修改《中華人民共和國對外合作開採陸上石油資源條例》的決定 (2011)). The Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Extraction of Onshore Petroleum (中外合作開採陸上石油資源繳納礦區使用費暫行規定) was repealed by the Decision.

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According to the Decision, from the date of the promulgation of the Decision, the Chinese and foreign enterprises involved in Sino-foreign cooperative exploration of onshore petroleum resources shall pay resources taxes according to law, and they are no longer required to pay mining royalties. However, for contracts of Sino-foreign cooperative exploration of onshore petroleum resources lawfully executed before the implementation of the Decision, the parties involved shall, within the agreed term of contract, continue to pay mining royalties according to the then relevant regulations of the state and shall pay no resources tax; upon expiration of the term of contract, the parties involved shall pay the resources tax according to law.

Mineral Resources Compensation Fees

Pursuant to the Order of the State Council on Issuing and Printing the Administrative Provisions on Collection and Management of Mineral Resources Compensation Fees promulgated by the State Council on February 27, 1994 and effective on April 1, 1994 (國務院關於發佈《礦產資源補償費徵收管理規定》的命令) (“**the Mineral Resources Compensation Fees Provisions**”), which was amended in July 1997, mineral resources compensation fees shall be paid for the mineral resources extracted within the PRC and any other sea area under the jurisdiction of the PRC, unless otherwise specified in any other law or regulation. Mineral resources compensation fees shall be computed and collected in proportion to the sales proceeds from the minerals and shall be collected at the rate specified by the addendum of the Mineral Resources Compensation Fees Provisions. The mineral resources compensation fees may be subject to exemption or reduction upon approval by relevant authorities if the mining right owner meets certain requirements set forth in the provisions.

On March 13, 2012, MOLAR issued the Notice of MOLAR of the Collection of the Compensation Fee for Sino-foreign Cooperative Exploitation of Petroleum Resources (“**the Notice**”) (國土資源部辦公廳關於做好中外合作開採石油資源補償費徵收工作的通知國土資廳發[2012]14號), which Notice is valid for a period of eight years, enterprise engaged in Sino-foreign cooperative exploitation of onshore petroleum resources shall pay mineral resource compensation fees to be calculated pursuant to the Administrative Provisions on Collection and Management of Mineral Resource Compensation Fees promulgated in 1994 and amended in 1997, except for contracts on such cooperative exploitation lawfully executed prior to November 1, 2011, the payment of mining royalties shall continue within the contractual period.

Value-added Tax

Under the Provisional Regulations of the PRC Concerning Value-added Tax (中華人民共和國增值稅暫行條例), VAT shall be levied at a rate of 13% on selling or importing coal gas, liquefied petroleum gas, natural gas, CBM or any other goods specified by the State Council.

On February 7, 2007, for the purpose of accelerating the extraction and utilization of CBM and encouraging cleaner, more economical and safer production of coal, the Ministry of Finance together with the State Taxation Administration issued the Notice on Tax Policy Regarding the Acceleration of CBM Extraction (財政部、國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知) upon the approval of the State Council. The notice provides that the refund-after-collection policy applies to the VAT levied on enterprises that engage in the extraction of CBM. VAT refunds can be used exclusively by enterprises in the research of CBM technology and production expansion and shall be exempted from enterprise income tax. Expenses in research

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and development of new CBM extraction techniques methods of any CBM extraction enterprise with a sound financial auditing system may also receive tax deductions of up to 150% of such expenses. Under the Notice, resources tax is currently not imposed on surface CBM extraction activities.

Tax and Fiscal Incentives

1. Tax Refund

According to Opinions of the General Office of the State Council on Further Expediting the Extraction and Utilization of CBM, Guobanfa [2013] No. 93 (國務院辦公廳關於進一步加快煤層氣(煤礦瓦斯)抽採利用的意見國辦發[2013]93號), issued on September 14, 2013, for companies engaged in CBM exploitation and utilization, if satisfying certain conditions for corporate income tax treatment, the fiscal subsidies these companies entitled to are not subject to corporate income tax.

According to Notice on Import Tariffs Exemption on Imported Materials Used in CBM Exploration and Development During the 12th Five-Year Plan, Caiguanshui [2011] No.30 (財政部、海關總署、國家稅務總局關於「十二五」期間煤層氣勘探開發專案進口物資免徵進口稅收的通知)(財關稅[2011]30號), equipment, instrument, accessories, and vehicles imported for CBM exploration and development by authorized state-owned enterprises and their domestic and foreign partners, which cannot be produced or is found to be under-functioned in China, shall be exempt from import customs and import VAT from January 1, 2011 to December 31, 2015. Typically, these equipment, instrument, accessories and vehicles should be those that are not available in China or of higher quality than those that are manufactured in China. Other players in CBM exploration and development activities may enjoy the tax incentives if approval by Ministry of Finance, General Administration of Customs and SAT.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Fiscal Policies to Accelerate CBM Extraction (Caishui [2007] No.16)(財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知財稅 [2007] 16號), companies for CBM exploitation is currently exempt from resources tax.

2. Fiscal Subsidies

For the purpose of encouraging CBM exploitation and utilization, the Ministry of Finance, on April 20, 2007, issued the Implementing Opinions of the Ministry of Finance on CBM/Gas Exploitation and Utilization (財政部關於煤層氣(瓦斯)開發利用補貼的實施意見) (財建[2007]114號), pursuant to which, any enterprise engaged in CBM extraction within China is entitled to obtain fiscal subsidies of 0.2 yuan per cubic meters at central levels, and may enjoy additional subsidies at local levels under the administrative measures that local bureau of finance may formulate in its discretion.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

Introduction

Our presence in the Chinese CBM exploration and development field goes back to 1994 when CBM Energy Associates, L.C., led by the then vice president, Dr. Zou, engaged in two CBM joint ventures in China. In 2004, led by Dr. Zou, then the president of AACI, AACI established AAGI as its wholly-owned subsidiary to focus on new CBM opportunities in China. In 2005, AAGI acquired all rights and obligations under the Mabi PSC from AACI. In 2006, AAGI acquired SAE, the foreign contractor of the Panzhuang PSC.

On November 9, 2007, Dr. Zou, together with Yang Lin, our Chief Legal Officer, and an independent third party, through Capital Gas and with their own financial resources, established our Parent Company in the Cayman Islands as an investment holding company with limited liability. In February 2008, our Parent Company acquired the entire issued share capital of AAGI and its wholly-owned subsidiary SAE, from certain shareholders of AAGI who are independent third parties and certain of our existing employees. Through the acquisition of AAGI and SAE, our Parent Company also acquired the Panzhuang and Mabi concessions. For details of the acquisition of AAGI and SAE, please refer to the section headed “Our Subsidiaries” below. In 2008, our Parent Company, through our Chief Legal Officer, Yang Lin and Wei Huang, established Shanxi Shengyang to control the Inner Mongolia Project. Given the risks and uncertainties associated with investing in the Inner Mongolia Project, we underwent the 2012 Share Swap. For details of the 2012 Share Swap and the Inner Mongolia Project, please refer to the section headed “The 2012 Share Swap” below, and the section headed “Relationship with our Controlling Shareholders”, respectively, in this prospectus.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on December 23, 2014. On the same day, our Company transferred one subscriber Share to our Parent Company and allotted and issued 9,999 Shares to our Parent Company which were fully paid. On December 30, 2014, our Company issued one nil-paid Share to our Parent Company and entered into a sale and purchase agreement with our Parent Company pursuant to which our Company allotted and issued 835,069,048 fully paid Shares to our Parent Company and credited one nil paid Share held by our Parent Company as fully paid. In consideration, on December 31, 2014, our Parent Company transferred its 100% interest in AAGI and AAG Energy (China), together with a total amount of US\$429,655,905.89 of accounts receivables from AAGI, to our Company. As a result, we are principally engaged in the exploration, development and production of CBM in the Panzhuang and Mabi concessions through our direct and indirect wholly-owned operating subsidiaries, AAGI and SAE, respectively.

HISTORY AND CORPORATE STRUCTURE

Key Business Milestones

- 2004**
- AACI entered into the Mabi PSC.
 - AAGI was established by AACI to focus on new CBM opportunities in China.
- 2005**
- AAGI acquired all rights and obligations under the Mabi PSC from AACI.
- 2006**
- AAGI was spun off from AACI.
 - AAGI acquired SAE, the foreign contractor of the Panzhuang PSC.
 - AAGI drilled the first group of six MLD wells in the Panzhuang concession, making us the first CBM commercial developer to successfully implement MLD technology in China.
- 2007**
- Our Parent Company was incorporated in the Cayman Islands as an investment holding company with limited liability.
 - SAE began pilot production operations in the Panzhuang concession and reached a framework CBM sales agreement with ENN Energy.
 - We achieved 30,000 cubic meters per day (1,059 mcf per day) from a single MLD well, which the China Coal Society reported was the highest single-well production in China.
 - In the same year, we achieved single-day, single-well production of 100,000 cubic meters per day (3,530 mcf per day).
 - The NDRC issued a preliminary Panzhuang ODP approval for the Panzhuang Project.
- 2008**
- Our Parent Company acquired AAGI and SAE.
 - We achieved our first pilot commercial sales for the Panzhuang concession.
 - Baring PE and Chengwei Entities invested in our Parent Company.
 - We began pilot commercial sales to ENN Energy.
 - As of December 31, 2008, as certified by NSAI, the Panzhuang and Mabi concessions had a total estimated 56.4 bcf of gross proved reserves (1P), 262.1 bcf of gross proved and probable reserves (2P) and 558.4 bcf of gross possible reserves, among which net reserves of 25.5 bcf, 120.2 bcf and 305.9 bcf, respectively, were attributable to us under the PSC.

HISTORY AND CORPORATE STRUCTURE

- 2009**
- CUCBM, on behalf of us, entered into a 15-year CBM take-or-pay sales agreement with ENN Energy in its capacity as an LNG producer.
 - MOLAR issued the CBM mining license which grants the mining rights for the central area of the Panzhuang Project.
- 2010**
- WP China and CDB-CITIC invested in our Parent Company.
 - In the second half of 2010, a panel of specialists organized by MOLAR certified 62.0 square kilometers reserve area of coal seam 3 in the Panzhuang concession.
 - We began pilot production in the Mabi concession.
- 2011**
- We drilled the first three pad-drilled directional wells in the Mabi concession, making us, what we believe, one of the first CBM developers in China to implement multi-seam fracturing pad-drilled well technology.
 - Our Group entered into the Standard Bank Facility, a revolving credit facility of up to US\$55 million.
 - Our Panzhuang ODP was approved by the NDRC, which allowed us to begin full-scale commercial development.
- 2012**
- CUCBM, on behalf of us, entered into a long-term CBM sales agreement with Jiyuan Gas.
 - As of June 30, 2012, as certified by NSAI, the Panzhuang and Mabi concessions had a total estimated 85.7 bcf of gross proved reserves (1P), 494.9 bcf of gross proved and probable reserves (2P) and 3,385.2 bcf of gross possible reserves, among which net reserves of 43.2 bcf, 285.9 bcf and 2,017.9 bcf, respectively, were attributable to us under the PSC.
 - In May 2012, a panel of specialists organized by MOLAR certified 211.0 square kilometers of reserve area of coal seam 3 and 132.1 square kilometers of reserve area of coal seam 15 in the Mabi concession.
 - MOLAR issued the CBM mining license which grants the mining rights for the entire area of the Panzhuang Project.
- 2013**
- PA Investment, Chinastone Entities and other investors invested in our Parent Company.
 - In November 2013, our Group entered into a senior secured revolving credit facility with The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank for an amount up to US\$100,000,000.
 - In November 2013, the NDRC issued a preliminary Mabi ODP I approval for the Mabi Project.

HISTORY AND CORPORATE STRUCTURE

- 2014**
- In July 2014, we obtained safety licenses from the provincial government for the Panzhuang and Mabi concessions.
 - In August 2014, a panel of specialists organized by MOLAR certified an additional 209 square kilometers proven reserves in the Mabi concession.
 - In September 2014, WP China, Baring PE, Chengwei Entities and Chinastone Entities further invested in our Parent Company.
 - In November 2014, the Mabi concession was connected to the PetroChina Central Processing Hub, which allows us to deliver CBM to PetroChina and other customers connected to the PetroChina Central Processing Hub.
 - On December 23, 2014 our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law.
 - On December 24, 2014 our gross daily CBM production from the Panzhuang concession exceeded 50 million cubic feet per day, and our average gross daily CBM production rate reached 1,000 mcf per well.

Pioneering China's CBM Industry in the Early Years

In 1994, Dr. Zou and one of our Shareholders, Evan Energy, together with two other investors co-founded CBM Energy Associates, L.C. Led by Dr. Zou, the then vice president of CBM Energy Associates, L.C., it engaged in exploration and development of CBM resources in China. From 1994 to 1998, CBM Energy Associates, L.C. was among the first group of foreign companies to enter into CBM projects in China, as it participated in the exploration and development of CBM resources in Linxing Block in the Hedong basin of Shanxi Province and in the Fuxin basin of Liaoning Province by establishing joint ventures with Shanxi Energy Enterprise Group Ltd. and Liaoning Fuxin Energy Development Group Ltd., respectively.

In 1999, Dr. Zou and Evan Energy, together with other U.S. investors, established AACI to focus on coal mining and CBM exploration in China. From 2000 to 2004, while working on coal mine construction, AACI, led by Dr. Zou and Mr. Luwu Yang, implemented what we believe was China's first functional degas systems and China's first successful MLD well for degasification under a degas project in Daning Coal Mine. Mr. Yang was the then degas manager of Daning Coal Mine. He later served as AACI's vice president overseeing AACI's CBM business and is currently the president of Beijing Orion. In 2004, Dr. Zou terminated all of his interests and management positions in CBM Energy Associates, L.C., and he terminated his management positions and interests in AACI in 2006 and 2008, respectively.

Entering into Production Sharing Contracts

Panzhuang PSC

The PSC for the Panzhuang concession was originally entered into on March 3, 2003, by CUCBM, the owner of the exploration rights for the Panzhuang concession, and SAE (US), an independent third party, and was approved by MOFCOM on March 14, 2003.

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On July 8, 2005, CUCBM, SAE (US) and SAE, which was at the time 50% owned by each of SAE (US) and CBM Energy, amended the Panzhuang PSC, pursuant to which SAE replaced SAE (US) to become the foreign contractor and operator for the Panzhuang Project. On the same date, CUCBM, SAE (US) and SAE entered into a deed of assignment, pursuant to which all of SAE (US)'s participation interests in the Panzhuang PSC was assigned to SAE. The amendment to the PSC was approved by MOFCOM on September 14, 2005.

On June 5, 2006, AAGI acquired the entire issued share capital of SAE, which became a wholly-owned subsidiary of AAGI.

In early February 2008, our Parent Company acquired the entire issued share capital of AAGI, and AAGI and SAE became our direct and indirectly wholly-owned subsidiaries, respectively, upon the completion of the acquisition of AAGI and the share swap with our Parent Company. For further details, please refer to the subsection headed "Our Subsidiaries" below and the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.

On August 31, 2010, CUCBM and SAE amended the Panzhuang PSC, pursuant to which the preparation period was extended until the Panzhuang ODP was approved by the NDRC. The amendment to the PSC was approved by MOFCOM on November 8, 2010.

The Panzhuang ODP, was submitted to NDRC in 2009 and NDRC granted approval of the Panzhuang ODP in November 2011.

On July 22, 2013 and August 8, 2014, respectively, CUCBM and SAE further amended the Panzhuang PSC, pursuant to which the participation interest of SAE in the Panzhuang concession increased from 50% to 80%, and CUCBM's participation interest in the Panzhuang concession correspondingly adjusted to 20%.

As advised by our PRC legal adviser, King & Wood Mallesons, the PSC we entered into with CUCBM is legally binding under PRC law, and all of the above transfers, assignments and modifications in connection with the PSC that took place within the PRC have obtained the required MOFCOM approvals under all relevant PRC laws and regulations.

Mabi PSC

The PSC for the Mabi concession was entered into on July 15, 2004, by CUCBM, the owner of the CBM exploration rights for the Mabi concession, and AACI, in which CUCBM and AACI held 30% and 70% participation interest, respectively, and was approved by MOFCOM on September 17, 2004.

On August 25, 2005, CUCBM, AACI and AAGI amended the Mabi PSC to, among other things, make AAGI the foreign contractor and operator. On the same date, CUCBM, AACI and AAGI entered into a deed of assignment, which transferred all of AACI's participation interests in the Mabi PSC to AAGI. The amendment to the PSC was approved by MOFCOM on September 14, 2005.

HISTORY AND CORPORATE STRUCTURE

In early February 2008, our Parent Company acquired the entire issued share capital in AAGI, which holds a 70% participation interest in the Mabi PSC.

As a result of CUCBM's internal restructuring, in 2008, CNPC de facto assumed all of CUCBM's rights and obligations under the Mabi PSC. On March 18, 2012, AAGI, CUCBM and CNPC amended the Mabi PSC, pursuant to which CUCBM formally transferred all its rights and obligations under the Mabi PSC to CNPC, which subsequently assigned all of its commercial and operational rights and obligations under the PSC to its subsidiary, PetroChina, while CNPC remains a party to the Mabi PSC.

On July 6, 2012, AAGI and CNPC further amended the Mabi PSC, pursuant to which both parties agreed to extend the exploration phase to September 30, 2014. The amendment also provides that if a draft overall development plan has been completed and submitted to CNPC by September 30, 2014 pending approval by NDRC, the exploration period will be deemed to have been further extended to the date of the overall development plan approval.

Both amendments to the Mabi PSC dated March 18, 2012 and July 6, 2012 were approved by MOFCOM on October 9, 2012. The draft overall development plan, Mabi ODP I, was submitted to NDRC in July 2013 and NDRC granted the preliminary approval in November 2013. According to the amendments to the Mabi PSC, the exploration period has been extended to the date of the approval of the overall development plan. We plan to submit an official Mabi ODP I to NDRC during the third quarter of 2015.

As advised by our PRC legal adviser, King & Wood Mallesons, the PSC we entered into with CNPC is legally binding under PRC law, and all of the above transfers, assignments and modifications in connection with the PSC that took place within the PRC have obtained the required MOFCOM approvals under all relevant PRC laws and regulations.

Each of CUCBM and CNPC is independent of and not connected with us or any of our subsidiaries, our Directors, senior management or Substantial Shareholders. Our PSCs were negotiated on an arm's length basis, reflect normal commercial terms and have been approved by MOFCOM, as required under PRC law.

CHANGE IN SHAREHOLDING STRUCTURE

For details of the change in the shareholding structures of our Group, please refer to the sections headed "Statutory and General Information — Changes in our share capital" and "Statutory and General Information — Corporate reorganization" and in Appendix V to this prospectus.

HISTORY AND CORPORATE STRUCTURE

PRE-IPO INVESTMENT

Pre-IPO Capital Raising

In February 2008, Baring PE and Chengwei Entities invested in our Group pursuant to the Series A Preferred Parent Share Purchase Agreement.

In March 2010, WP China, Baring PE, Chengwei Entities and certain other investors invested in our Parent Company pursuant to the WP Series B Preferred Parent Share Subscription Agreement.

In April 2011, CDB-CITIC invested in our Parent Company pursuant to CDB-CITIC Series B Preferred Parent Share Subscription Agreement.

In April and May 2012, Baring PE, WP China, Chengwei Entities and certain other investors invested in our Parent Company pursuant to AAG Subscription Agreement.

In February, June and August 2013, Chinastone Entities, WP China, Baring PE, Chengwei Entities, PA Investment and certain other investors invested in our Parent Company pursuant to the Series C Preferred Parent Shares Subscription Agreements.

In September 2014, our Parent Company issued and WP China, Baring PE, Chengwei Entities, Chinastone Entities and certain other investors severally subscribed for the Convertible Bonds pursuant to the Convertible Bonds Subscription Agreement.

Further details of the above agreements and our Pre-IPO capital raising are set out in the section headed “Statutory and General Information — Corporate Reorganization” in Appendix V to this prospectus.

The Joint Sponsors are not aware of any special circumstances or incidents that would lead to a belief that the investment by the Pre-IPO Investors was or is not in compliance with the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange, Guidance Letter HKEx-GL43-12 and Guidance Letter HKEx44-12 based on their review of the relevant documentation.

HISTORY AND CORPORATE STRUCTURE

The following table provides a summary of the key features of the pre-IPO capital raising activities of our Parent Company:

	Name of pre-IPO investors					Others
	WP China	Baring PE	Chengwei Entities	CDB-CITIC	ChinaStone Entities	
Series of investments	(a) WP Series B Preferred Parent Shares Subscription Agreement	(a) Series A Preferred Parent Share Purchase Agreement	(a) Series A Preferred Parent Share Purchase Agreement	CDB-CITIC Series B Preferred Parent Shares Subscription Agreement	(a) Series C Preferred Parent Shares Subscription Agreement	(a) Series A Preferred Parent Share Purchase Agreement ¹
	(b) AAG Subscription Agreement	(b) WP Series B Preferred Parent Shares Subscription Agreement	(b) WP Series B Preferred Parent Shares Subscription Agreement	(b) WP Series B Preferred Parent Shares Subscription Agreement	(b) Series C Preferred Parent Shares Subscription Agreement	(b) WP Series B Preferred Parent Shares Subscription Agreement ²
	(c) Series C Preferred Parent Shares Subscription Agreement	(c) AAG Subscription Agreement	(c) AAG Subscription Agreement	(c) AAG Subscription Agreement	(c) Convertible Bonds Subscription Agreement ⁶	(c) AAG Subscription Agreement ³
	(d) Convertible Bonds Subscription Agreement	(d) Series C Preferred Parent Shares Agreement	(d) Series C Preferred Parent Shares Agreement	(d) Series C Preferred Parent Shares Agreement	(d) Convertible Bonds Subscription Agreement ⁶	(d) Series C Preferred Parent Shares Subscription Agreement ⁴
	(e) Convertible Bonds Subscription Agreement	(e) Convertible Bonds Subscription Agreement	(e) Convertible Bonds Subscription Agreement	(e) Convertible Bonds Subscription Agreement	(e) Convertible Bonds Subscription Agreement ⁶	(e) Convertible Bonds Subscription Agreement ⁵
Date of investment agreements	(a) March 12, 2010	(a) February 4, 2008	(a) February 4, 2008	May 28, 2010	(a) February 18, 2013	(a) February 4, 2008
	(b) April 20, 2012	(b) March 12, 2010	(b) March 12, 2010		(b) June 6, 2013	(b) March 12, 2010
	(c) June 6, 2013	(c) April 20, 2012	(c) April 20, 2012		(c) September 29, 2014	(c) April 20, 2012
	(d) September 29, 2014	(d) June 6, 2013	(d) June 6, 2013			(d) June 6, 2013 and Aug 29, 2013
		(e) September 29, 2014	(e) September 29, 2014			(e) September 29, 2014
Amount of consideration paid	(a) US\$25 million; US\$40 million and US\$20 million	(a) approximately US\$74.1 million	(a) approximately US\$74.1 million	US\$10 million	(a) approximately US\$49.0 million	(a) equal shares in AAGI
	(b) approximately US\$17.0 million	(b) approximately US\$5.9 million	(b) approximately US\$1.1 million		(b) approximately US\$1.7 million	(b) approximately US\$1.5 million
	(c) approximately US\$21.2 million	(c) approximately US\$16.0 million	(c) approximately US\$3.2 million		(c) approximately US\$21.8 million	(c) approximately US\$13.8 million
	(d) approximately US\$51.9 million	(d) approximately US\$10.0 million	(d) approximately US\$7.0 million			(d) approximately US\$10.1 million
		(e) approximately US\$37.0 million	(e) approximately US\$7.1 million			(e) approximately US\$2.5 million
Payment date of consideration	(a) March 16, 2010; April 21, 2011 and October 21, 2011	(a) February 4, 2008	(a) February 4, 2008	April 25, 2011	(a) April 12, 2013	(a) February 4, 2008
	(b) May 2, 2012	(b) March 16, 2010	(b) March 16, 2010		(b) June 18, 2013	(b) March 16, 2010
	(c) June 15, 2013	(c) April 24, 2012	(c) April 23, 2012		(c) December 8, 2014	(c) Various dates from April 12, 2012 to April 28, 2012
	(d) September 27, 2014	(d) June 19, 2013	(d) June 18, 2013			(d) Various dates from June 12, 2013 to August 31, 2013
		(e) October 1, 2014	(e) September 30, 2014			(e) September 30, 2014

HISTORY AND CORPORATE STRUCTURE

Basis of determining the consideration	Name of pre-IPO Investors					Others
	WP China	Baring PE	Chengwei Entities	CDB-CITIC	Chinastone Entities	
	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations	the consideration was determined with reference to the timing of subscription and financial performance of our Parent Company and was based on arm's length negotiations
Cost per Share paid	(a) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (b) US\$0.60 prior to the Capitalization Issue and approximately US\$0.21 after the completion of the Capitalization Issue (c) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (d) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue	(a) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (b) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (c) US\$0.60 prior to the Capitalization Issue and approximately US\$0.21 after the completion of the Capitalization Issue (d) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (e) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue	(a) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (b) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (c) US\$0.60 prior to the Capitalization Issue and approximately US\$0.21 after the completion of the Capitalization Issue (d) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (e) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue	(a) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (b) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (c) US\$0.60 prior to the Capitalization Issue and approximately US\$0.21 after the completion of the Capitalization Issue (d) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (e) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue	(a) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (b) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (c) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue (d) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (e) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue	(a) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (b) US\$0.48 prior to the Capitalization Issue and approximately US\$0.17 after the completion of the Capitalization Issue (c) US\$0.60 prior to the Capitalization Issue and approximately US\$0.21 after the completion of the Capitalization Issue (d) US\$0.72 prior to the Capitalization Issue and approximately US\$0.26 after the completion of the Capitalization Issue (e) US\$0.37 upon the completion of the conversion of the Convertible Bonds after the completion of the Capitalization Issue
Discount to Offer Price⁷	(a) 60.66% (b) 51.40% (c) 39.83% (d) 14.37%	(a) 60.66% (b) 60.66% (c) 51.40% (d) 39.83% (e) 14.37%	(a) 60.66% (b) 60.66% (c) 51.40% (d) 39.83% (e) 14.37%	60.66%	(a) 39.83% (b) 39.83% (c) 14.37%	39.83% (a) 51.40% (b) 51.40% (c) 51.40% (d) 39.83% (e) 14.37%

HISTORY AND CORPORATE STRUCTURE

Use of Proceeds	Name of pre-IPO Investors					Others
	WP China	Baring PE	Chengwei Entities	CDB-CITIC	ChinaStone Entities	
	(a) Invested in the Panzhuang and Mabi Projects	(a) Invested in the Panzhuang and Mabi Projects	(a) Invested in the Panzhuang and Mabi Projects	(a) Invested in the Panzhuang and Mabi Projects	(a) Invested in the Panzhuang and Mabi Projects	(a) Invested in the Panzhuang and Mabi Projects
	(b) Invested in the Panzhuang and Mabi Projects	(b) Invested in the Panzhuang and Mabi Projects	(b) Invested in the Panzhuang and Mabi Projects	(b) Invested in the Panzhuang and Mabi Projects	(b) Invested in the Panzhuang and Mabi Projects	(b) Invested in the Panzhuang and Mabi Projects
	(c) Invested in the Panzhuang and Mabi Projects	(c) Invested in the Panzhuang and Mabi Projects	(c) Invested in the Panzhuang and Mabi Projects	(c) Invested in the Panzhuang and Mabi Projects	(c) Invested in the Panzhuang and Mabi Projects	(c) Invested in the Panzhuang and Mabi Projects
	(d) Invested in the Panzhuang and Mabi Projects	(d) Invested in the Panzhuang and Mabi Projects	(d) Invested in the Panzhuang and Mabi Projects	(d) Invested in the Panzhuang and Mabi Projects	(d) Invested in the Panzhuang and Mabi Projects	(d) Invested in the Panzhuang and Mabi Projects
	(e) Invested in the Panzhuang and Mabi Projects	(e) Invested in the Panzhuang and Mabi Projects	(e) Invested in the Panzhuang and Mabi Projects	(e) Invested in the Panzhuang and Mabi Projects	(e) Invested in the Panzhuang and Mabi Projects	(e) Invested in the Panzhuang and Mabi Projects

As at the Latest Practicable Date, the net proceeds from the Pre-IPO Investments by the Pre-IPO Investors had not been fully utilized. More than \$100 million is still on the Group's account and will be invested to Panzhuang and Mabi Projects according to operation progress of the projects.

Strategic benefits to Company

In conjunction with their investment, the Pre-IPO Investors provided capital and strategic advice to our Parent Company in relation to our Group's business based on their extensive experience gained from advising companies in their investment portfolios, which the Directors believe have brought strategic benefits to our Group.

Share-based payments

The Pre-IPO Investment does not involve any share-based payment.

HISTORY AND CORPORATE STRUCTURE

	Name of pre-IPO Investors						
	WP China	Baring PE	Chengwei Entities	CDB-CITIC	Chinastone Entities	PA Investment	Others
Shareholding in our Parent Company upon completion of the Pre-IPO capital raising	29.94%	25.13%	5.88%	4.15%	8.43%	4.20%	22.27%
Shareholding in our Company upon Listing ^a	25.27%	20.67%	4.71%	0.00%	7.66%	2.95%	18.74%

Notes:

1. Orion, Evan Energy, Box Six Seven Four, Dr. Zou, CBM Energy Co., Limited, Guiyong Cui (our non-executive Director), Wei Huang, Yang Lin, Jing Li, Min Shao, Haijiao Yu, Yan Jing, Jingyi Zhang, Feng Zhang, Timothy Hawkes exchanged the AAGI ordinary shares held by them for an equal number of Series A-1 Preferred Parent Shares pursuant to Series A Preferred Parent Share Purchase Agreement. Further details are set out in the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.
2. Dr. Zou, Box Six Seven Four, and eight of our existing employees, including our senior management members, Yang Lin, Jing Li, Bing Wang, Jingyi Zhang and Mingzhu Fan, either directly or through their wholly-owned companies, invested in our Parent Company pursuant to the WP Series B Preferred Parent Share Subscription Agreement. Further details are set out in the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.
3. Evan Energy, Box Six Seven Four, The Zou 2011 Family Trust, Timothy Hawkes, Orion, Ann Zou, Vertex Asia Growth Ltd., Elife (HK) Investment Limited ("Elife"), Wei Huang and Hongjin Li, all of which are our independent third parties, and fourteen of our existing employees, including our senior management members, Yang Lin and Bing Wang, Jing Li, Jingyi Zhang and Mingzhu Fan, either directly or through their wholly-owned companies, invested in our Parent Company pursuant to AAG Subscription Agreement. Further details are set out in the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.
4. VTD, Timothy Hawkes, one ex-employee, all of which are our independent third parties and three of our existing employees, invested in our Parent Company pursuant to the Series C Preferred Parent Share Subscription Agreements. Further details are set out in the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.
5. Elife, Timothy Hawkes, both of which are our independent third parties, Guiyong Cui (our non-executive Director), and four of our existing employees, either directly or through their wholly-owned companies, invested in our Parent Company pursuant to the Convertible Bonds Subscription Agreement. Further details are set out in the section headed "Statutory and General Information — Corporate Reorganization" in Appendix V to this prospectus.
6. On November 28, 2014, Chinastone Hong Kong Holdings Limited assigned its right to subscribe for the Convertible Bonds under the Convertible Bonds Subscription Agreement in the amount of US\$20,133,109.38 and US\$3,389,189.22 to two of its affiliates, Chinastone Energy Holdings Limited and Chinastone Asia Holdings Limited, respectively.
7. Calculated based on HK\$3.35, being the midpoint of the indicative Offer Price range, on the basis of our enlarged share capital immediately upon completion of the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme). The US\$ has been translated into HK\$ at US\$1: HK\$7.7535, being the noon buying rate as of May 29, 2015, as set forth in the H.10 statistical release of the Federal Reserve Bank of New York.
8. The shareholding after the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

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Description of our pre-IPO investors

WP China

WP China is a company incorporated under the laws of the BVI on September 24, 2008 and is one of our Controlling Shareholders. Zhen Wei and Peter Randall Kagan were appointed to the Parent Board as director representatives of WP China in March 2010 and April 2011, respectively. In September 2014, Bo Bai was appointed to the Parent Board as a director representative of WP China. Upon the incorporation of our Company, Zhen Wei, Peter Randall Kagan and Bo Bai were appointed to our Board. For details, please refer to the paragraph headed “Relationship with Controlling Shareholders — Our Controlling Shareholders” of this prospectus.

Baring PE

Baring PE is a company incorporated under the laws of the BVI on December 11, 2007 and is one of our Controlling Shareholders. Gordon Sun Kan Shaw was appointed to the Parent Board as a director representative of Baring PE in February 2008. In May 2014, Guiyong Cui was appointed to the Parent Board as a director representative of Baring PE. Upon the incorporation of our Company, Gordon Sun Kan Shaw and Guiyong Cui were appointed to our Board. For details, please refer to the paragraph headed “Relationship with Controlling Shareholders — Our Controlling Shareholders” of this prospectus.

Chengwei Entities

Chengwei Entities are comprised of Chengwei Partners, L.P., a limited liability partnership organized under the laws of the Cayman Islands on January 6, 2005, Chengwei Evergreen Capital, L.P. (previously known as Chengwei Ventures Evergreen Fund, L.P.), a limited liability partnership organized under the laws of the Cayman Islands on July 8, 2004, Chengwei Ventures Evergreen Advisors Fund, LLC, a company incorporated under the laws of the Cayman Islands on August 10, 2004, each of which will be our Shareholder upon completion of our Reorganization. Chengwei Entities are investment funds that make investments in primarily China-based companies and managed by Chengwei Evergreen Management, LLC (previously known as Chengwei Ventures Evergreen Management, LLC), a limited liability company incorporated under the laws of the Cayman Islands on July 2, 2004 that is comprised of individual partners and members, who manage Chengwei Entities. The investors of Chengwei Entities are principally institutional investors, including university endowments. Other than Chengwei Entities’ investment in our Parent Company, Chengwei Entities are independent from and not connected with our Directors, senior management or our Substantial Shareholders or any of our subsidiaries or any of their respective associates.

CDB-CITIC

CDB-CITIC is a joint venture company established on August 1, 2008, whose shareholders are China Development Bank Capital Corporation Ltd., a company established under the laws of the PRC, and CITIC Capital Holdings Limited, a company incorporated under the laws of Hong Kong. CDB-CITIC focuses on high potential industries and long-term growth companies in the PRC in sectors such as advanced technology, renewable energy, new agriculture and related

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services industries. Zhijie Zeng was appointed to the Parent Board as a director representative of CDB-CITIC in May 2011. Upon the incorporation of our Company, Zhijie Zeng was appointed to our Board. Other than CDB-CITIC's investment in our Parent Company and Mr. Zeng's directorship in our Company, CDB-CITIC is independent from and not connected with our Directors, senior management or our Substantial Shareholders or any of our subsidiaries or any of their respective associates.

Chinastone Entities

Chinastone Entities are comprised of Chinastone Hong Kong Holdings Limited, a company incorporated under the laws of Hong Kong on March 12, 2013, an affiliate of Ping An Group, and Chinastone Overseas Holdings Limited, a limited company incorporated in the BVI on March 5, 2013, an independent third party. Chinastone Hong Kong Holdings Limited is the Hong Kong investment platform of Chinastone Energy Fund, which is managed by Chinastone Management Limited, its general partner, and is funded by Shenzhen Pingan Innovation Capital Investment Limited (深圳市平安創新資本投資有限公司) ("**Shenzhen Pingan**"), its limited partner. Chinastone Capital Management Limited is owned as to 50% by San Shan (Hong Kong) Limited (三山(香港)有限公司) ("**San Shan HK**"), an independent third party, and as to 50% by Shenzhen Pingan, which is ultimately wholly owned by Ping An Insurance (Group) Company of China ("**Ping An Group**"). Therefore, Ping An Group and San Shan HK are each deemed to be interested in 68,055,556 shares, representing the entire interest in our Parent Company held by Chinastone Hong Kong Holdings Limited in accordance with Division 2 and 3 of Part XV of the SFO. In June 2013, Lei Jin, our non-executive Director, was appointed by Chinastone Entities to the Parent Board. Lei Jin was appointed to our Board upon the incorporation of our Company. Other than Chinastone Entities' investment in our Group and save as disclosed above in relation to Ping An Group, Chinastone Entities are independent from and not connected with our other Directors, senior management or our Substantial Shareholders or any of our subsidiaries or any of their respective associates.

PA Investment

PA Investment is a segregated portfolio company incorporated under the laws of the Cayman Islands on May 3, 2013 and was established as a special purpose company and managed by Ping An of China Securities (Hong Kong) Company Limited, and is ultimately wholly owned by Ping An Group. Other than PA Investment's investment in our Parent Company and save as disclosed above in relation to Ping An Group, PA Investment is independent from and not connected with our Directors, senior management or our Substantial Shareholders or any of our subsidiaries or any of their respective associates.

Others

Dr. Zou is our chairman and executive Director. Guiyong Cui is our non-executive Director. Jing Li is our co-chief executive officer. Evan Energy, Box Six Seven Four, The Zou 2011 Family Trust, VTD, Timothy Hawkes, Orion, Ann Zou, Vertex Asia Growth Ltd., Arizon Energy Investment Holdings and Elife are all independent third parties. Yang Lin, Bing Wang, Jingyi Zhang and Mingzhu Fan, who invested in our Parent Company either individually or through companies wholly-owned by them, are our senior management members and not our connected

HISTORY AND CORPORATE STRUCTURE

persons. The remaining pre-IPO investors are nine of our employees and two of our ex-employees, who invested in our Parent Company either individually or through companies wholly-owned by them and are independent third parties.

Preferred Shareholders Rights

Set out below is a summary of certain rights to which the Series A Investors, Series A-1 Investors, Series B Investors and Series C Investors are entitled under our Parent Company's memorandum and articles of association by shareholders' resolutions of our Parent Company dated September 18, 2014, and the Restated Shareholders Agreement. Our Parent Company's memorandum and articles of association also provides certain rights to which the Convertible Bondholders are entitled upon conversion of their Convertible Bonds into Series D Preferred Shares, in the event the Listing does not occur by the IPO Long Stop Date. Once the Listing becomes unconditional, the Convertible Bonds will automatically convert into ordinary shares of our Parent Company in accordance with the terms of the Convertible Bonds Subscription Agreement and the Deed of Amendment. The Restated Shareholders Agreement, the Amendment to the Restated Shareholders Agreement and all such special rights therein will terminate upon the Listing. Our Company conditionally adopted our Memorandum of Association and Articles of Association by the resolutions of our sole Shareholder dated June 5, 2015, the terms of which are summarized in the section headed "Summary of the Constitution of Our Company and Cayman Islands Company Law" in Appendix IV to this prospectus.

Dividend Preference

The Series A Investors, Series B Investors and Series C Investors have the right to fixed dividends accruing at the rate of 8% per annum of the applicable issue price of each Series A, Series B and Series C Preferred Parent Shares, respectively, from and after the date on which the Series A, Series B and Series C Preferred Parent Shares were issued. Accrued dividends shall accrue from day to day, whether or not declared, and shall be cumulative and compounded annually.

Veto Rights

The following matters are subject to the prior approval of the Series A Investors, Series B Investors and Series C Investors:

- modification of or amendment to or termination of the constitutional documents of our Parent Company and its subsidiaries;
- increase, reduction, cancellation or other change to the authorized or issued share capital of our Parent Company, which has the effect of diluting or reducing the effective shareholding of the Series A Investors, Series B Investors or Series C Investors in our Parent Company or their effective interest in any subsidiary or issuance of any other equity or debt securities of our Parent Company or any subsidiary;
- changes in the nature of business of the Group members or expansion into new business lines; and

HISTORY AND CORPORATE STRUCTURE

- entry into any binding agreement to take any of the foregoing actions.

The following matters are subject to the prior approval of the Investor Directors (as defined below):

- Annual budget and transactions with related parties of our Parent Company are subject to Directors' approval by at least two-thirds of the directors of our Parent Company, which shall include at least one Investor Director (as defined below) appointed by each of the Series A Investors, Series B Investors and Series C Investors.

Nomination, appointment and removal of directors

The board of our Parent Company shall consist a maximum of nine persons, including two directors nominated by more than 50% of the Series A Investors, two directors nominated by more than 50% of the Series B Investors, one director nominated by more than 50% of the Series C Investors, one director appointed by more than 50% of holders of ordinary shares of our Parent Company whose beneficial owners are or used to be members of the senior management or employees of our Parent Company, one director appointed by WP China so long as it maintains more than 30% of the total number of ordinary shares in our Parent Company to be issued under the Convertible Bonds Subscription Agreement, and one director appointed by Evan Energy (one of the Series A-1 Preferred Parent Shareholders) (collectively the “**Investor Directors**” and each an “**Investor Director**”), for so long as such Preferred Parent Shareholder maintains a percentage ownership equal to or greater than 5% on a fully diluted basis according to the Restated Shareholders Agreement. Only the Preferred Parent Shareholder entitled to nominate an Investor Director shall be entitled to remove or replace that Investor Director. The Chenwei Entities and CDB-CITIC are also entitled to appoint one board observer each, who are entitled to attend and participate (but not vote) in all meetings of the board as well as receive relevant materials provided for the board.

Others rights

The Series A Investors, Series B Investors and Series C Investors are also entitled to special rights including: (i) conversion right to convert their Preferred Parent Shares into ordinary shares of our Parent Company at the then applicable conversion price if certain conditions are met pursuant to the Restated Shareholders Agreement; (ii) liquidation preference right in respect to distributions made by our Parent Company upon the occurrence of any liquidation event of our Parent Company, for an amount equal to their respective original issue price plus interest accruing at 8% per annum; (iii) redemption right in whole or part at their option at any time after the later of December 31, 2016 and if any of the Series D Preferred Parent Shares are issued pursuant to the conversion of the Convertible Bonds, the second anniversary of the date on which the first Series D Preferred Parent Share is issued; (iv) information rights in respect to necessary tax filings and in relation to their investment in our Parent Company; (v) pre-emptive rights to subscribe for any new equity securities in our Parent Company on a pro-rata basis. The Series A-1 Investors are also entitled to liquidation preference right over the ordinary shareholders of our Parent Company, which are subject to those of the Series A Investors, Series B Investors and Series C Investors. The Series A Investors, Series B Investors and Series C Investors also have a non-competition undertaking

HISTORY AND CORPORATE STRUCTURE

from the Non-Competition Obligors (as defined in the Restated Shareholders Agreement) to not, enter into any business within the competing business scope or that otherwise competes directly or indirectly with any business conducted or as contemplated from time to time to be conducted by any member of the Group without the prior written consent of at least 50% of the Series A Investors, Series B Investors and Series C Investors.

Termination of the special rights upon the Listing

All the Series A, Series A-1, Series B, Series C Preferred Parent Shares will be converted into ordinary shares of our Parent Company on a one-for-one basis either automatically upon the Listing becoming unconditional or at any time at the option of the holders. All Convertible Bonds will be converted into ordinary shares of our Parent Company upon the Listing becoming unconditional. All special rights will terminate upon completion of the Listing.

Principal terms of the Convertible Bonds

Set forth below is a summary of the principal terms and conditions of the Convertible Bonds.

Interest Rate: the Convertible Bonds bear interest on its outstanding principal amount from and including its issue date at the rate of 12% per annum.

Maturity Date: the earlier of:

- (i) the third anniversary of September 30, 2014 if the consent of the Majority Lenders (as defined under the Reserve-based Facility) for the issuance of the Convertible Bond is received in accordance with the terms of the Reserve-based Facility;
- (ii) the date that is six months after the Final Maturity Date (as defined in the Reserve-based Facility); and
- (iii) such other date between the dates specified in paragraphs (i) and (ii) as the Majority Lenders may agree.

Mandatory Conversion:

Immediately upon the Listing becoming unconditional, all outstanding Convertible Bonds shall be mandatorily and automatically converted into ordinary shares of our Parent Company. The number of ordinary shares of our Parent Company to be issued on a mandatory conversion of the Convertible Bonds shall be determined according to the formula set forth below:

Redemption Amount

—————
IPO Price

HISTORY AND CORPORATE STRUCTURE

where:

Redemption Amount = the principal amount of the Convertible Bonds to be redeemed and all accrued but unpaid interest, accrued at the rate of 12% per annum compounded quarterly from the issue date of the Convertible Bond.

IPO Price = the final Hong Kong dollar price per share of our Company offered in the IPO (before brokerage and transaction levies and trading fees).

Optional Conversion:

- (a) If the Listing is not completed by the IPO Long Stop Date, then, during the period commencing from the date immediately after the IPO Long Stop Date and expiring on the third anniversary of September 30, 2014:
 - (i) the Convertible Bondholders together holding more than two-thirds of the aggregate principal amount of the Convertible Bonds outstanding shall have the right (but not the obligation) to require our Parent Company to convert all the outstanding Convertible Bonds into Series D Preferred Parent Shares;
 - (ii) any Convertible Bondholder shall have the right (but not the obligation) to require our Parent Company to convert any or all of the outstanding Convertible Bonds held by such Convertible Bondholder into Series D Preferred Parent Shares. The number of Series D Preferred Parent Shares to be issued on an optional conversion of the Convertible Bonds shall be determined by dividing the the principal amount of the Convertible Bonds to be redeemed and all accrued but unpaid interest, by the conversion price of US\$1.00, subject to adjustment.

Redemption prior to Maturity: our Parent Company shall have the right, at any time after June 30, 2016, to redeem part or all of the Convertible Bonds. Upon the shareholders of our Parent Company ceasing to hold 50% or more of the outstanding voting securities of our Parent Company, each of the Convertible Bondholders shall have the right to require our Parent Company to redeem part or all of the Convertible Bonds held by it.

Lock-up of Pre-IPO Investors

Certain of our Pre-IPO Investors, namely, Chengwei Entities, Chinastone Hong Kong Holdings Limited, Evan Energy and Craig L. Massey (as trustee of the Grantor Retained Annuity Trust I of E. Morgan Massey), have undertaken to us and the Joint Bookrunners that, commencing on the Listing Date and for a period of 6 months thereafter, they will not sell or otherwise transfer or dispose of any Shares or other securities of our Company without prior consent of our Company and the Joint Bookrunners.

The 2012 Share Swap

On April 5, 2012, our Parent Company established Northern Gas, a direct new BVI subsidiary.

On June 1, 2012, our Parent Company entered into two termination agreements with Shanxi Shengyang and one of its subsidiaries, respectively, to terminate all the previous contractual arrangements with Shanxi Shengyang Group relating to co-operation over certain CBM assets in Inner Mongolia. On the same date, AAGI entered into two termination agreements with Shanxi Shengyang, Yang Lin and Wei Huang to terminate all the previous contractual arrangements with these parties relating to the acquisition of the share capital of Shanxi Shengyang. On the same date, Northern Gas entered into an equity pledge agreement and a future share transfer agreement with Shanxi Shengyang, Yang Lin and Wei Huang to obtain effective control over the operating and financial policies of and benefits from the business activities of Shanxi Shengyang Group.

Through the distribution of the shares of Northern Gas by our Parent Company to then existing Parent Shareholders on June 6, 2012, Northern Gas ceased to be a wholly-owned subsidiary of our Parent Company and became wholly owned by then existing Parent Shareholders.

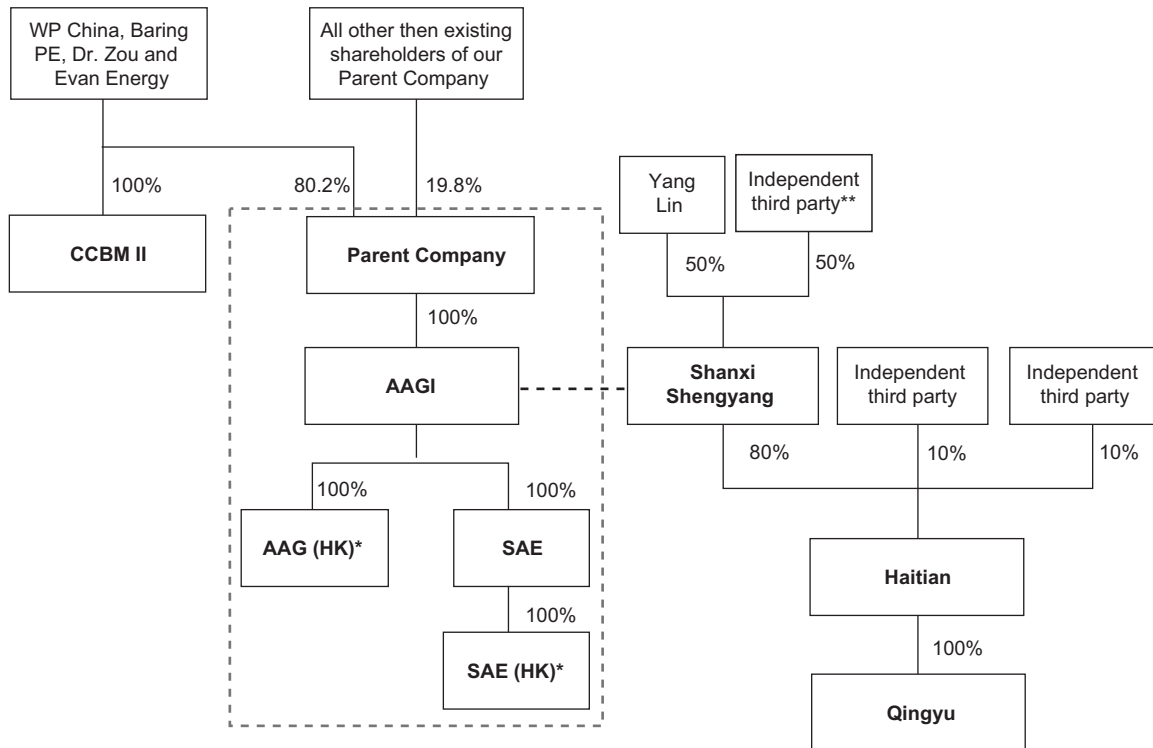
On September 20, 2012, Northern Gas terminated the equity pledge agreement and the future share transfer agreement with Shanxi Shengyang, Yang Lin and Wei Huang. On the same date, Meiya entered into similar agreements with Shanxi Shengyang, Yang Lin and an independent third party to obtain the decision making rights over the operating and financial policies and benefits from the business activities of Shanxi Shengyang Group.

On August 30, 2012, Northern Gas acquired all the shares in CCBM II and its wholly-owned foreign enterprise in the PRC, Meiya, from WP China, Baring PE, Dr. Zou and Evan Energy, which own 37.9%, 35.8%, 19.5% and 6.8%, respectively, of the issued share capital of CCBM II. As a result, CCBM II and Meiya became wholly-owned subsidiaries of Northern Gas.

HISTORY AND CORPORATE STRUCTURE

As advised by our PRC legal adviser, King & Wood Mallesons, the above agreements, which were entered into for the purpose of the 2012 Share Swap and subject to PRC law, are valid, legally binding and enforceable under PRC law.

The shareholding and corporate structure of our Group immediately before completion of the 2012 Share Swap is set out below:



----- contractual arrangements

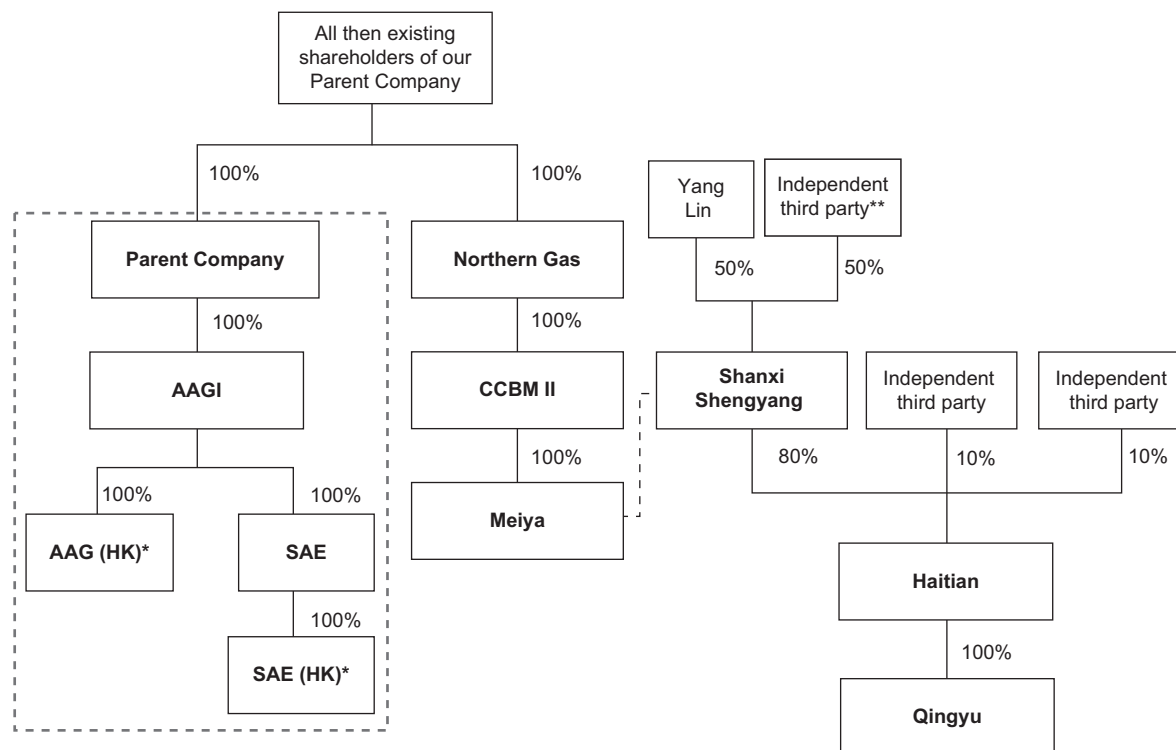
----- the Group

* deregistered on December 28, 2012

** Wei Huang, our ex-employee

HISTORY AND CORPORATE STRUCTURE

The shareholding and corporate structure of our Group immediately after completion of the 2012 Share Swap is set out below:



--- the Group

---- contractual arrangements

* deregistered on December 28, 2012.

** In July 2014, Wei Huang, our ex-employee, transferred his entire equity interest in Shanxi Shengyang to Jing Li, the co-chief executive officer of our Company.

REORGANIZATION

In December 2014, we underwent the Reorganization in preparation for the Listing.

On December 23, 2014 our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law. On the same day, one subscriber Share was transferred to our Parent Company and our Company allotted and issued 9,999 Shares to our Parent Company which were fully paid.

On December 30, 2014, our Company issued one nil-paid Share to our Parent Company and our Parent Company and our Company entered into a sale and purchase agreement pursuant to which our Company allotted and issued 835,069,048 fully paid Shares to our Parent Company and crediting one nil paid Share held by our Parent Company as fully paid. In consideration, on December 31, 2014, our Parent Company transferred its 100% equity interest in each of AAGI and AAG Energy (China), and assigned a total amount of US\$429,655,905.89 of accounts receivables from AAGI held by our Parent Company as of December 30, 2014,

HISTORY AND CORPORATE STRUCTURE

which represents the amount of shareholder loans as of December 30, 2014, to our Company. Upon completion of the transfer, we were a direct wholly-owned subsidiary of our Parent Company and AAGI and AAG Energy (China) became our direct wholly-owned subsidiaries, and the shareholder loans were converted to equity. For details on the shareholder loans, please refer to the section headed “Financial Information — Liquidity and Capital Resources — Net Current Assets and Liabilities” in this prospectus.

On February 27, 2015, certain of our Preferred Parent Shareholders entered into the Amendment to the Restated Shareholders Agreement and passed written resolutions on May 30, 2015, and on January 29, 2015, the Convertible Bondholders entered into the Deed of Amendment, pursuant to which, among other things, all the Preferred Parent Shareholders and the Convertible Bondholders agreed that immediately upon the Listing becoming unconditional, and in accordance with the written resolutions and the terms of the Restated Shareholders Agreement and the Deed of Amendment, respectively, all the Preferred Parent Shares and the Convertible Bonds will be converted into ordinary shares of our Parent Company.

On April 23, 2015, our Company repurchased one issued Share at nominal consideration and such Share was cancelled on the same date.

Immediately upon the Listing becoming unconditional and immediately after the conversion of the Preferred Parent Shares and the Convertible Bonds into ordinary shares of our Parent Company, our Company will issue the Additional Shares to our Parent Company at par value.

Pursuant to the written resolutions of the sole Shareholder passed on March 31, 2015, the authorized share capital of our Company was increased from US\$250,000 divided into 2,500,000,000 Shares to US\$600,000 divided into 6,000,000,000 Shares by the creation of an additional 3,500,000,000 Shares.

On May 20, 2015, our Parent Company entered into a conditional share repurchase agreement with all the existing shareholders of our Parent Company, in which our Parent Company agreed that, immediately upon the Listing becoming unconditional and immediately after the conversion of the Preferred Parent Shares and the Convertible Bonds into ordinary shares of our Parent Company and the issue of the Additional Shares, our Parent Company will repurchase all (but three) issued and outstanding ordinary shares of our Parent Company held by the existing shareholders of our Parent Company, and in consideration, transfer 835,079,048 ordinary shares in our Company and the Additional Shares to the existing shareholders of our Parent Company in proportion to their respective shareholding percentage in our Parent Company. Immediately upon completion of the Share Repurchase, all the existing shareholders of our Parent Company will cease to hold any shares in our Parent Company, with the exception of Dr. Zou, Baring PE and WP China, who will each hold one ordinary share in our Parent Company.

Upon completion of the above, our Parent Company will cancel all the issued and outstanding ordinary shares of our Parent Company repurchased from the existing shareholders of our Parent Company.

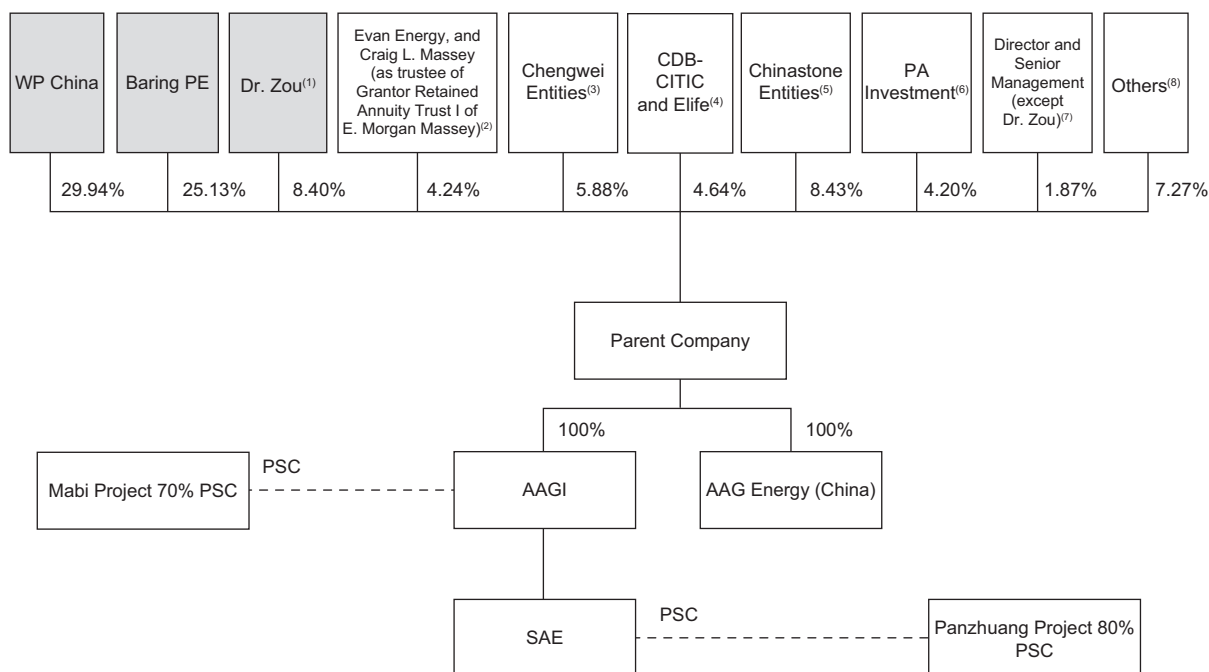
HISTORY AND CORPORATE STRUCTURE

CAPITALIZATION ISSUE

Pursuant to the resolutions of our sole Shareholder passed on June 5, 2015, the Directors are authorised to allot and issue a total of 1,496,483,718 Shares by way of capitalization of the sum of US\$149,648.37 standing to the credit of the share premium account of the Company, credited as fully paid at par to the Shareholders as appearing on the register of members of the Company on the date of the Prospectus, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares of the same category.

CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure upon completion of Pre-IPO Investments and immediately before the Reorganization, assuming the Preferred Parent Shares have been converted into ordinary shares of our Parent Company on a one-for-one basis.



■ our Controlling Shareholders

Notes:

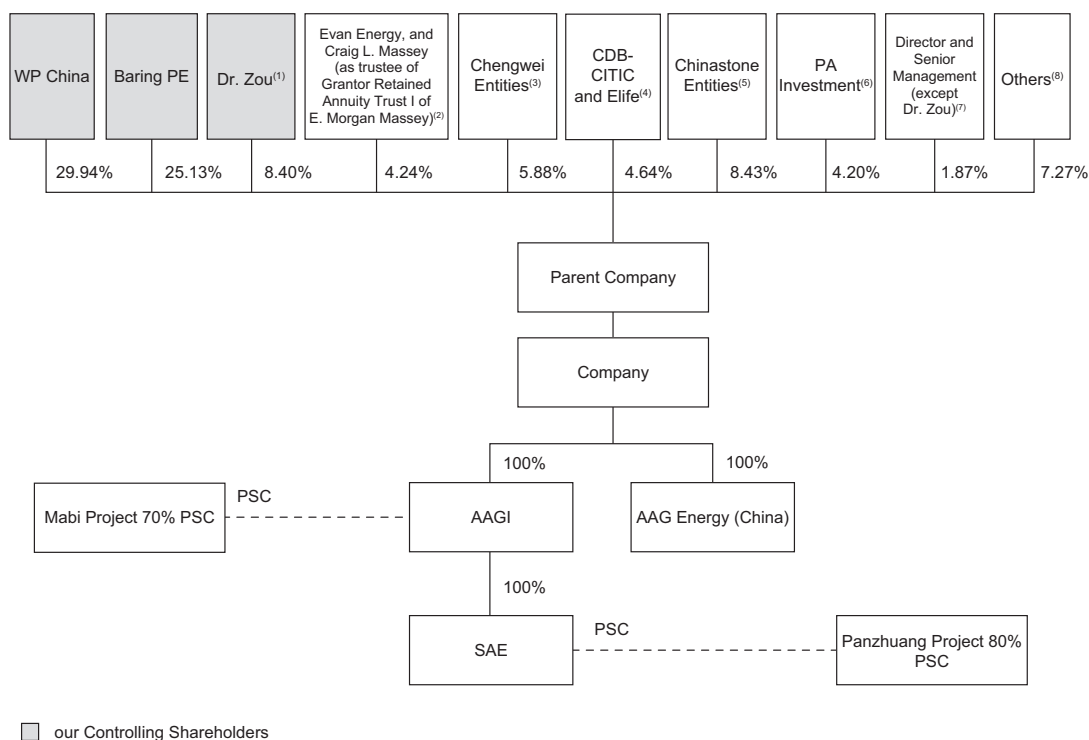
1. Dr. Zou beneficially owns 8.40% of our Parent Company's total issued share capital. Dr. Zou is deemed to be interested in 2.75% and 0.42% of our Parent Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou's descendants as beneficiaries of The Zou 2011 Family Trust and The Zou 2012 Family Trust, respectively. Dr. Zou is also deemed to be interested in 1.12% of our Parent Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou and his descendants as beneficiaries of Zou GRAT.

HISTORY AND CORPORATE STRUCTURE

2. Evan Energy (under control of Mr. Morgan Massey) and Craig L. Massey (as trustee of Grantor Retained Annuity Trust I of E. Morgan Massey) who acquired our Parent Company's shares from Evan Energy on December 21, 2012, both of which are independent third parties, beneficially owns 1.84% and 2.40% of our Parent Company's total issued share capital, respectively.
3. Chengwei Entities are comprised of Chengwei Evergreen Capital, L.P. (previously known as Chengwei Ventures Evergreen Fund, L.P.), Chengwei Partners, L.P. and Chengwei Ventures Evergreen Advisors Fund, LLC, which beneficially own approximately 5.18%, 0.06% and 0.64% of our Parent Company's total issued share capital, respectively, all of which are independent third parties.
4. CDB-CITIC and Elife, beneficially own 4.15% and 0.49% of our Parent Company's total issued share capital, and are independent third parties, respectively. CITIC Capital Holdings Limited directly owns 44.44% equity interest in CDB-CITIC and ultimately wholly owns Elife. Therefore, CITIC Capital Holdings Limited is deemed to be interested in both CDB-CITIC and Elife's interest in our Company in accordance with Division 2 and 3 of Part XV of the SFO.
5. Chinastone Entities are comprised of Chinastone Hong Kong Holdings Limited, an affiliate of Ping An Group, and Chinastone Overseas Holdings Limited, an independent third party, which beneficially owns 8.15% and 0.28% of our Parent Company's total issued share capital, respectively. Chinastone Hong Kong Holdings Limited is the Hong Kong investment platform of Chinastone Energy Fund, which is managed by Chinastone Management Limited, its general partner, and is funded by Shenzhen Pingan, its limited partner. Chinastone Capital Management Limited is owned as to 50% by San Shan HK, an independent third party, and as to 50% by Shenzhen Pingan, which is ultimately owned as to 99.88% by Ping An Group. Therefore, Ping An Group and San Shan HK are each deemed to be interested in 68,055,556 shares, representing 100% of the interest in our Parent Company held by Chinastone Hong Kong Holdings Limited in accordance with Division 2 and 3 of Part XV of the SFO.
6. PA Investment beneficially owns 4.20% of our Parent Company's total issued share capital, and is ultimately wholly owned by Ping An Group. Therefore Ping An Group is deemed to be interested in PA Investment's interest in our Parent Company in accordance with Division 2 and 3 of Part XV of the SFO.
7. Our non-executive Director, Mr. Guiyong Cui, invested in our Parent Company pursuant to the share exchange agreement dated February 4, 2008 in connection with our Parent Company's acquisition of AAGI and beneficially owns 0.01% of our Parent Company's total issued share capital. The shares of our Parent Company held by our senior management (except Dr. Zou) includes shares beneficially owned by members of our senior management individually or through companies wholly-owned by them, collectively amounting to 1.86% of our Parent Company's total issued share capital.
8. Others refer to Ann Zou, an independent third party, acquired shares of our Parent Company from CBM Energy; Box Six Seven Four, an independent third party under the control of Mr. Craig Massey who ceased to be our Parent Company's director in June 2013; Timothy Hawkes, an independent third party, who invested in our Parent Company pursuant to the share exchange agreement dated February 4, 2008 in connection with our Parent Company's acquisition of AAGI; Orion, an independent third party, which acquired our shares of our Parent Company from Orion Energy Holding, Inc on August 14, 2008; Vertex Asia Growth Ltd., which is an independent third party, invested in our Group pursuant to the AAG Subscription Agreement; VTD, an independent third party, invested in our Parent Company pursuant to the Series C Preferred Parent Share Subscription Agreement; Arizon Energy Investment Holdings Inc., an independent third party; two of our ex-employees and nine of our existing employees whom invested in our Parent Company directly or through their wholly-owned companies, and all of whom are independent third parties. The above-mentioned shareholders are independent from each other.

HISTORY AND CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure after completion of the Reorganization and immediately before the completion of the Capitalization Issue and the Global Offering, assuming the Preferred Parent Shares have been converted into ordinary shares of our Parent Company on a one-for-one basis.



Notes:

1. Dr. Zou beneficially owns 8.40% of our Parent Company's total issued share capital. Dr. Zou is deemed to be interested in 2.75% and 0.42% of our Parent Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou's descendants as beneficiaries of The Zou 2011 Family Trust and The Zou 2012 Family Trust, respectively. Dr. Zou is also deemed to be interested in 1.12% of our Parent Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou and his descendants as beneficiaries of Zou GRAT.
2. Evan Energy (under control of Mr. Morgan Massey) and Craig L. Massey (as trustee of Grantor Retained Annuity Trust I of E. Morgan Massey) who acquired our shares in our Parent Company from Evan Energy on December 21, 2012, independent third parties, beneficially owns 1.84% and 2.40% of our Parent Company's total issued share capital.
3. Chengwei Entities are comprised of Chengwei Evergreen Capital, L.P. (previously known as Chengwei Ventures Evergreen Fund, L.P.), Chengwei Partners, L.P. and Chengwei Ventures Evergreen Advisors Fund, LLC, which beneficially own approximately 5.18%, 0.06% and 0.64% of our Parent Company's total issued share capital, respectively, all of which are independent third parties.
4. CDB-CITIC and Elife, beneficially own 4.15% and 0.49% of our Parent Company's total issued share capital, and are independent third parties, respectively. CITIC Capital Holdings Limited directly owns 44.44% equity interest in CDB-CITIC and ultimately wholly owns Elife. Therefore, CITIC Capital Holdings Limited is deemed to be interested in both CDB-CITIC and Elife's interest in our Company in accordance with Division 2 and 3 of Part XV of the SFO.
5. Chinastone Entities are comprised of Chinastone Hong Kong Holdings Limited, an affiliate of Ping An Group, and Chinastone Overseas Holdings Limited, an independent third party, which beneficially owns 8.15% and 0.28% of our Parent Company's total issued share capital, respectively. Chinastone Hong Kong Holdings Limited is the Hong Kong investment platform of Chinastone Energy Fund, which is managed by Chinastone Management Limited, its general partner, and is funded by Shenzhen Pingan, its limited partner. Chinastone Capital Management Limited is owned as to 50% by San Shan HK, an independent third party,

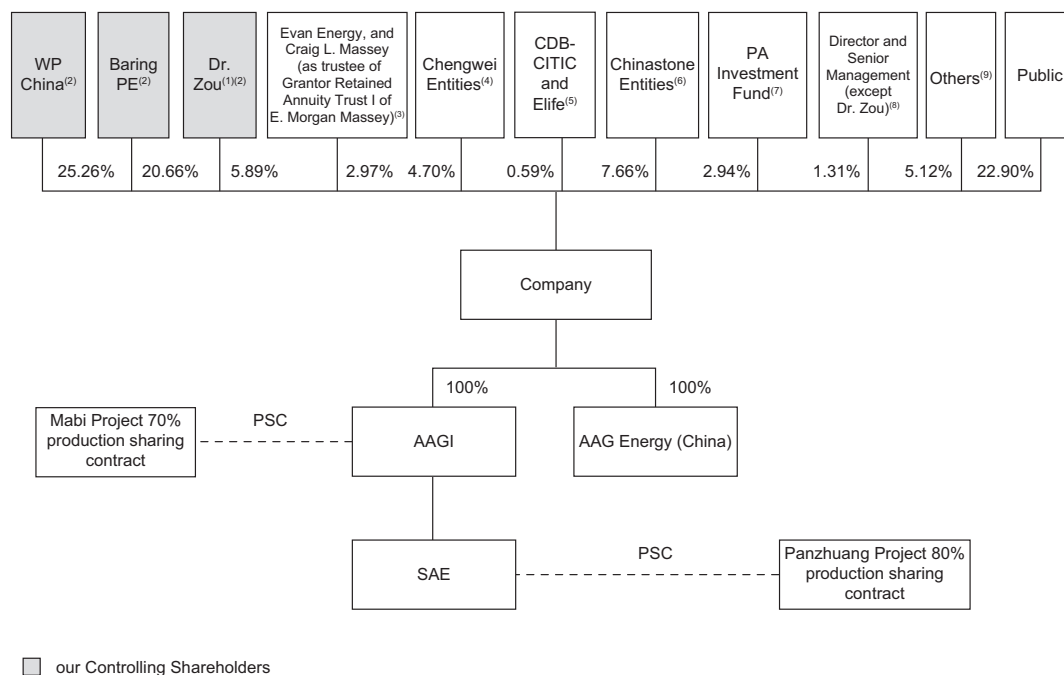
HISTORY AND CORPORATE STRUCTURE

and as to 50% by Shenzhen Pingan, which is ultimately owned as to 99.88% by Ping An Group. Therefore, Ping An Group and San Shan HK are each deemed to be interested in 68,055,556 shares, representing 100% of the interest in our Parent Company held by Chinastone Hong Kong Holdings Limited in accordance with Division 2 and 3 of Part XV of the SFO.

6. PA Investment beneficially owns 4.20% of our Parent Company's total issued share capital, and is an independent third party. PA Investment is ultimately wholly owned by Ping An Group. Therefore Ping An Group is deemed to be interested in PA Investment's interest in our Parent Company in accordance with Division 2 and 3 of Part XV of the SFO.
7. Our non-executive Director, Mr. Guiyong Cui, invested in our Parent Company pursuant to the share exchange agreement dated February 4, 2008 in connection with our Parent Company's acquisition of AAGI and beneficially owns 0.01% of our Parent Company's total issued share capital. The shares held by our senior management (except Dr. Zou) includes shares in our Parent Company beneficially owned by members of our senior management individually or through companies wholly-owned by them, collectively amounting to 1.86% of our Parent Company's total issued share capital. Certain senior management members who are our Parent Company's shareholders also hold share options in our Company pursuant to the Pre-IPO Share Option Scheme. For details of the share options and the grantees, please refer to the section headed "Appendix V. Statutory and General Information — Pre-IPO Share Option Scheme" in this prospectus.
8. Others refer to Ann Zou, an independent third party, acquired shares of our Parent Company from CBM Energy; Box Six Seven Four, an independent third party under the control of Mr. Craig Massey who ceased to be our Parent Company's director in June 2013; Timothy Hawkes, an independent third party, who invested in our Parent Company pursuant to the share exchange agreement dated February 4, 2008 in connection with our Parent Company's acquisition of AAGI; Orion, an independent third party, which acquired our shares in our Parent Company from Orion Energy Holding, Inc on August 14, 2008; Vertex Asia Growth Ltd. which is an independent third party, invested in our Parent Company pursuant to the AAG Subscription Agreement; VTD, an independent third party, invested in our Parent Company pursuant to the Series C Preferred Parent Share Subscription Agreement; Arizon Energy Investment Holdings Inc., an independent third party; two of our ex-employees and nine of our existing employees whom invested in our Parent Company directly or through their wholly-owned companies, all of whom are independent third parties. Certain of our employees who are our Parent Company's shareholders also hold share options of our Company pursuant to the Pre-IPO Share Option Scheme. For details of the options and the grantees, please refer to the section headed "Appendix V. Statutory and General Information — Pre-IPO Share Option Scheme" in this prospectus. The above-mentioned shareholders are independent from each other.

HISTORY AND CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure immediately after the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and taking into account the Sale Shares to be sold by the Selling Shareholder, but without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range:



Notes:

1. Dr. Zou will beneficially own 5.89% of our Company's total issued share capital. Dr. Zou will be deemed to be interested in 1.93% and 0.29% of our Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou's descendants as beneficiaries of The Zou 2011 Family Trust and The Zou 2012 Family Trust, respectively. Dr. Zou is also deemed to be interested in 0.79% of our Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou and his descendants as beneficiaries of Zou GRAT.
2. Our Shares held by WP China, Baring PE and Dr. Zou will not be counted as part of the public float.
3. Evan Energy (under control of Mr. Morgan Massey) and Craig L. Massey (as trustee of Grantor Retained Annuity Trust I of E. Morgan Massey) who acquired our Shares from Evan Energy on December 21, 2012, both of which are independent third parties, beneficially owns 1.29% and 1.68% of our Company's total issued share capital, respectively. The Shares held by Evan Energy and Craig L. Massey (as trustee of Grantor Retained Annuity Trust I of E. Morgan Massey) will be counted as part of the public float.
4. Chengwei Entities are comprised of Chengwei Evergreen Capital, L.P. (previously known as Chengwei Ventures Evergreen Fund, L.P.), Chengwei Partners, L.P. and Chengwei Ventures Evergreen Advisors Fund, LLC, which will beneficially own 4.21%, 0.04% and 0.45% of our Company's total issued share capital, respectively. The Shares held by Chengwei Entities will be counted as part of the public float.
5. The Shares held by CDB-CITIC and Elife will not be counted as part of the public float. The above corporate structure chart assumes that the Over-allotment Option is not exercised. CDB-CITIC, the Selling Shareholder, will sell 95,239,080 Shares representing approximately 2.86% of the total issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

HISTORY AND CORPORATE STRUCTURE

6. Chinastone Entities are comprised of Chinastone Hong Kong Holdings Limited, an affiliate of Ping An Group, and Chinastone Overseas Holdings Limited, an independent third party, which beneficially owns 7.46% and 0.20% of our Company's total issued share capital, respectively. Chinastone Hong Kong Holdings Limited is the Hong Kong investment platform of Chinastone Energy Fund, which is managed by Chinastone Management Limited, its general partner, and is funded by Shenzhen Pingan, its limited partner. Chinastone Capital Management Limited is owned as to 50% by San Shan HK, an independent third party, and as to 50% by Shenzhen Pingan, which is ultimately owned as to 99.88% by Ping An Group. Therefore, Ping An Group and San Shan HK are each deemed to be interested in 248,046,164 shares, representing 100% of the interest in our Company held by Chinastone Hong Kong Holdings Limited in accordance with Division 2 and 3 of Part XV of the SFO. The Shares held by Chinastone Hong Kong Holdings Limited will not be counted as part of the public float.
7. PA Investment is ultimately wholly owned by Ping An Group. Therefore Ping An Group is deemed to be interested in 97,860,526 shares, representing 2.94% of the interest in our Parent Company held by PA Investment in accordance with Division 2 and 3 of Part XV of the SFO. The Shares held by PA Investment will not be counted as part of the public float.
8. Our non-executive Director, Mr. Guiyong Cui, invested in our Parent Company pursuant to the share exchange agreement dated February 4, 2008 in connection with our Parent Company's acquisition of AAGI and beneficially owns 0.01% of our Company's total issued share capital. The Shares held by our senior management (except Dr. Zou) includes Shares beneficially owned by members of our senior management individually or through companies wholly-owned by them, collectively amounting to 1.30% of our Company's total issued share capital. Certain of our senior management members who are our Shareholders also hold share options of our Company pursuant to the Pre-IPO Share Option Scheme. For details of the share options and the grantees, please refer to the section headed "Appendix V. Statutory and General Information — Pre-IPO Share Option Scheme" in this prospectus. Our Shares held by senior management (except Dr. Zou and Guiyong Cui) will be counted as part of the public float.
9. Others refer to Ann Zou, Timothy Hawkes, Orion, Vertex Asia Growth Ltd., VTD, Box Six Seven Four, Arizon Energy Investment Holdings, two of our ex-employees and nine of our existing employees whom invested in our Parent Company either directly or through their wholly-owned companies, and all of whom are independent third parties. Certain of our employees who are our Shareholders also hold share options of our Company pursuant to the Pre-IPO Share Option Scheme. For details of the share options and the grantees, please refer to the section headed "Appendix V. Statutory and General Information — Pre-IPO Share Option Scheme" in this prospectus. They are independent from each other. Our Shares held by others, will be counted as part of the public float.

HISTORY AND CORPORATE STRUCTURE

OUR SUBSIDIARIES

Acquisition of AAGI and SAE by our Parent Company

On June 5, 2006, AAGI acquired all of the outstanding 7,000,000 shares of SAE from SAE (US) and CBM Energy pursuant to a stock purchase agreement dated April 20, 2006 by and among AAGI, SAE (US), CBM Energy and IMC.

On February 4, 2008, our Parent Company issued 82,716,469 Series A-1 Preferred Parent Shares in exchange for 82,716,469 shares of AAGI pursuant to a share exchange agreement dated February 4, 2008 by and among our Parent Company and certain shareholders of AAGI, who are independent third parties and certain our existing employees.

Upon the completion of the acquisition, AAGI and SAE are directly and indirectly wholly-owned by our Parent Company. The principal activities of AAGI and SAE are operating the Mabi and Panzhuang projects in the PRC, respectively.

AAG Energy (China)

On August 8, 2013, AAG Energy (China) was established and incorporated in the BVI as a direct, wholly-owned subsidiary of our Parent Company, and a holding company which currently does not operate any business. AAG Energy (China) was authorized to issue a maximum of 50,000 no par value shares of a single class.

BUSINESS

OVERVIEW

We are the leading independent CBM producer in China as measured by 2013 and 2014 total gross production as well as total net proved and probable (2P) reserves as of December 31, 2014, according to SIA Energy. We focus on the development and value optimization of unconventional gas resources to supply clean energy to the Chinese economy. We have production sharing contracts with two of the four state-owned enterprises authorized by the Chinese government to partner with foreign companies to explore, develop and produce China's CBM assets, namely CUCBM and PetroChina (through its parent company, CNPC). Pursuant to these production sharing contracts, we are the operator of the Panzhuang and Mabi concessions, granting us the right to explore, develop and produce the CBM within them. The Panzhuang and Mabi concessions are located in the southern Qinshui Basin, which contains the largest amount of proved CBM geological reserves of any basin in China and is the most active CBM producing basin in China, according to SIA Energy. We hold 80% and 70% of the participating interests under the Panzhuang PSC and the Mabi PSC, respectively. The Panzhuang concession is the most commercially advanced Sino-foreign CBM asset in China, according to SIA Energy, as it is the first and only Sino-foreign CBM concession in China to have received overall development plan approval. The Panzhuang concession has the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy.

We believe that we are well positioned to benefit from the strong growth of natural gas demand in China. Natural gas only accounted for 4.2% of China's total primary energy mix in 2012, which is substantially lower than the global average level of 21.3%, according to SIA Energy. The Chinese government has expressed its goal of increasing the proportion of natural gas in China's primary energy mix to 10% in 2020, and has enacted policies to incentivize natural gas consumption. The Chinese government has made the promotion of natural gas consumption a critical policy initiative to reduce energy intensity, air pollution and greenhouse gas emissions. China's gas consumption per capita is expected to grow from 11.0 cubic feet per day during 2012 to 22.2 cubic feet per day by 2020, representing a CAGR of 9.2%, according to SIA Energy. However, China's natural gas market is constrained by a lack of growth in domestic conventional gas production, which leaves significant room for the development of domestic unconventional gas production, including CBM production. In addition, the period from 2015 to 2020 will see a favorable pricing environment in China for CBM producers, according to SIA Energy. As a result of the strong gas demand and tight gas supply in China, we have been able to quickly realize commercial sales of our CBM production and negotiate favorable contract terms with our customers. Our average sales prices were RMB1.37 per cubic meters (US\$6.15 per mcf), RMB1.49 per cubic meters (US\$6.80 per mcf) and RMB1.73 per cubic meters (US\$7.98 per mcf) in 2012, 2013 and 2014, respectively.

The following table illustrates our combined reserve data as of December 31, 2014.

Reserve Data	Gross	Net¹
	<i>(bcf)</i>	<i>(bcf)</i>
Total proved (1P)	107.9	82.3
Total proved + probable (2P)	907.4	624.7
Total proved + probable + possible (3P)	2,586.2	1,653.6

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Note

1. Net gas reserves are our share of the gas reserves according to the terms of each production sharing contract and after adjustments for fuel and shrinkage.

The following tables illustrate our key well production data as of the dates and during the periods indicated.

	As of December 31,		
	2012	2013	2014
Total number of wells drilled	152	240	329
Number of producing production wells	50	95	119

	For the Year Ended December 31,		
	2012	2013	2014
Average daily production per well (mcf)	340.3	334.3	692.1
Total gross production ¹ (mmcf)	3,585	6,090	13,254

Note

1. Represents a CAGR of 92.3% from 2012 to 2014

We began pilot drilling and production of CBM in Panzhuang within two months of acquiring it in June 2006. We became one of the first CBM producers in China to realize commercial sales when we began selling CBM from pilot production in the Panzhuang concession in 2008. In 2011, the Panzhuang concession became the first Sino-foreign CBM concession to receive overall development plan approval from the NDRC and is the only concession to have received NDRC approval. Since then, gross production for the Panzhuang concession has increased significantly, rising to 3,487 mmcf, 5,493 mmcf and 12,631 mmcf in 2012, 2013, and 2014, respectively, representing a CAGR of 90.3%. Our average daily production rates in the Panzhuang concession were 9.7 mmcf, 25.4 mmcf and 47.9 mmcf during the months of December 2012, December 2013, and December 2014, representing a CAGR of 122.2% and our daily average per well gross production rate in the Panzhuang concession was 958.9 mcf during December 2014, being the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy. We expect to continue to ramp up production in Panzhuang concession over the next several years.

The Mabi concession is significantly larger than the Panzhuang concession, with a total area of 898.2 square kilometers. We plan to develop the Mabi concession in different phases, and expect to eventually operate under two or three overall development plans covering the Mabi concession. We began CBM pilot production in Mabi in the first half of 2010 and in November 2013 we received preliminary approval for the Mabi ODP I from the NEA, a state bureau administered by the NDRC, which covers an annual capacity of 35.3 bcf from a total area of 131.7 square kilometers. This preliminary approval allows us to begin obtaining all necessary government approvals for final approval of the Mabi ODP I from the NDRC. We are working with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I during the third quarter of 2015, and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, expect the NDRC to grant final approval within six to twelve months of this submission, after which we will commence

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commercial development under the Mabi PSC. In addition to the areas included in the Mabi ODP I, we have received MOLAR certification for other areas within the Mabi concession, and we will continue working to certify the remaining reserve areas. Once these certifications have been received, we will work towards obtaining approval for additional overall development plans to maximize reserves development within the Mabi concession.

We sell CBM to pipeline-linked customers, LNG producers and pipeline distributors, and we plan to sell it to additional gas distributors and directly to industrial users in the near future. We contract for the sale of most of our CBM under long-term take-or-pay sales agreements that obligate the buyer to pay for the entire commitment amount during each delivery term. The Panzhuang and Mabi concessions are serviced by key gas transportation infrastructure, including gas pipelines and LNG plants, which provide us easy access to our customers and flexibility across our customer base. The Tongyu Pipeline transports CBM from the Panzhuang concession within Shanxi Province and directly Henan Province, and the Yubei Pipeline and Yuji Pipeline further transport CBM within Henan Province and to Shandong Province. The Mabi concession is connected to the adjacent PetroChina Central Processing Hub, which is connected to the cross-country West-East Pipeline One. This pipeline transports natural gas to areas in eastern China such as Jiangsu Province and Shanghai. Our concessions are also in close proximity to several LNG plants. We believe our proximity to transportation infrastructure and domestic end markets enables us to price our gas products competitively at attractive netback wellhead prices due to our significantly reduced transportation costs, as well as to service a wide variety of customers.

Costs incurred during the exploration phase are borne by us and costs incurred during the development and production phases are shared by us and our Chinese partners according to our respective participating interests. We share CBM produced at the concessions with our Chinese partners according to the allocation mechanism set forth in the production sharing contracts, which enables us to recover the CBM exploration costs, for which we are fully responsible, to recover development and operating costs in accordance with our participation interests, and to share any remaining CBM with our Chinese partners, largely according to our participation interests.

As we carried out our commercial development and production activities in the Panzhuang concession, our revenues from Panzhuang grew from RMB92.4 million in 2012 to RMB138.4 million in 2013 and further to RMB425.9 million in 2014, and we had other income of nil, RMB64.3 million and RMB151.2 million during 2012, 2013 and 2014, respectively. EBITDA from the Panzhuang concession has increased from RMB19.7 million in 2012 to RMB154.3 million in 2013 and further to RMB489.5 million in 2014. As we have ramped up production in the Panzhuang concession, our revenue and profitability have significantly improved and will continue to improve. No revenue was generated from the Mabi concession in 2012, 2013 or 2014. We had overall negative EBITDA of RMB19.5 million in 2012, and overall EBITDA of RMB98.9 million in 2013 and RMB391.3 million in 2014, and we had overall adjusted EBITDA of negative RMB19.5 million in 2012, and overall adjusted EBITDA of RMB104.0 million in 2013 and RMB433.0 million in 2014. We had loss for the year of RMB71.7 million during 2012, and profit of RMB39.6 million in 2013 and profit of RMB195.0 million in 2014. For more information regarding EBITDA and adjusted EBITDA, please see the section headed "Financial Information — Non-HKFRS Financial Measures."

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COMPETITIVE STRENGTHS

We are the leading independent CBM producer in China as measured by 2013 and 2014 total gross production as well as total net 2P reserves as of December 31, 2014, according to SIA Energy, and we believe the following strengths have contributed to our leading position and growth, and differentiate us from our competitors:

Premium portfolio of assets across the production, development and exploration phases with significant low-risk development potential

We believe the size, quality and location of our CBM assets are essential to our leading position. Our current CBM assets are located in the southern Qinshui Basin, Shanxi Province, and have a combined area of 965.6 square kilometers under the Panzhuang PSC and the Mabi PSC. The Qinshui Basin is the most active CBM producing basin in China according to SIA Energy, and has direct access to large-scale infrastructure, including pipelines and LNG plants. According to SIA Energy, during 2014, total commercial CBM production in China was 309.8 mmcf per day, of which 256.1 mmcf per day, or 83%, came from the Qinshui Basin. According to SIA Energy, the Qinshui Basin was certified by the MOLAR as having the most proved CBM geological reserves among all CBM areas in China as of the end of 2011.

The Panzhuang and Mabi concessions are two of the most commercially advanced CBM concessions in China, based on their progress in the overall development plan approval process, infrastructure availability, production activities and cash generating abilities. According to SIA, we have the largest 2P reserves of the foreign CBM producers in the Qinshui Basin. The following table sets forth our reserve data as of December 31, 2014:

<u>Reserve Data</u>	<u>Gross</u>	<u>Net</u>	<u>Drilling Location Inventory</u>	<u>Post-tax NPV10%¹</u>
	<i>(bcf)</i>	<i>(bcf)</i>	<i>(no. of wells)</i>	<i>(US\$ millions)</i>
Total				
Proved (1P)	107.9	82.3	37	383.7
Proved + probable (2P)	907.4	624.7	3,556	1,721.0
Proved + probable + possible (3P)	2,586.2	1,653.6	12,566	N/A
Panzhuang				
Proved (1P)	107.9	82.3	37	383.7
Proved + probable (2P)	217.3	164.9	102	753.5
Proved + probable + possible (3P)	351.8	265.1	185	N/A
Mabi				
Proved + probable (2P)	690.1	459.8	3,454	967.5
Proved + probable + possible (3P)	2,234.4	1,388.5	12,381	N/A

Note:

1. Represents our share of the future gross revenue from the CBM concession under the production sharing contracts, after additions for cost recovery and deductions for value-added taxes, royalties, future capital costs and operating expenses. The future net revenue is presented after deduction of income taxes and has been discounted at an annual rate of 10% to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this prospectus should not be

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construed as being the fair market value of the properties. For further information on the bases and assumptions used in determining future net revenue, please see Appendix III to this prospectus. For risks associated with the net present values, please see the section headed "Risk Factors — The CBM reserve data and present value calculations presented in this prospectus are only estimates, and the actual production, revenue and expenditures with respect to our net reserves under each production sharing contract may differ materially from these estimates."

CBM differs from conventional oil and gas in that the geologic risk is inherently lower and the ultimate internal rates of return are more contingent on execution ability than geologic risk. Our efforts to date have derisked our assets and increased production through development work and delineation drilling. The anthracite coal seams in the Panzhuang concession are characterized by high gas content, relatively shallow and consistent seams with relatively favorable permeability. The Panzhuang concession possesses several, repeatable, laterally continuous individual coal seams ranging from an average thickness of 0.5 meters to 5.7 meters. Aggregate average thickness, including all seams, is 9.7 meters. Average gas content ranges from 17.5 cubic centimeter per gram up to 28.5 cubic centimeter per gram. The consistent repeatable nature of these anthracite coal seams results in a low geologic risk environment for drilling activities and is a controlling factor in keeping per well individual capital expenditures considerably lower than other types of oil and gas developments. Our current wells in the Panzhuang concession have already demonstrated attractive internal rates of return in excess of 50% at current price and cost structure.

The Mabi concession is considerably larger than the Panzhuang concession and is relatively deeper with slightly lower gas content. The Mabi concession possesses several, repeatable, laterally continuous individual coal seams ranging from an average thickness of 0.5 meters to 3.4 meters. Aggregate average thickness, including all seams, is 8.8 meters. Average gas contents range from 9.1 cubic centimeter per gram up to 14.4 cubic centimeter per gram. The consistent repeatable nature of these anthracite coal seams results in low geologic risk environment for drilling activities and is a controlling factor in keeping per well individual capital expenditures considerably lower than other types of oil and gas developments. The existing wells at Mabi are currently generating positive economic internal rates of returns above our threshold rates and we believe that we will continue to improve the internal rate of return as we continue to develop the Mabi concession.

Proven ability to develop CBM resources by applying suitable technologies and technical know-how

We have developed technical competency and know-how to apply suitable exploration, drilling and production technologies to optimize CBM production from our concessions. Our ability to develop CBM resources using our technical competency and know-how is evidenced by our successful track record of migrating reserves into proved and probable categories, which have higher certainty and lower risk, as well as the significantly increased performance of our wells.

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The following table illustrates the migration of our reserves from possible to probable and proved, as of June 30, 2012, December 31, 2013 and December 31, 2014, respectively, as a result of our exploration and development activities.

<u>Reserves</u>	<u>June 30, 2012</u>	<u>December 31, 2013</u>	<u>December 31, 2014</u>
Gross reserves			
Proved (1P) (bcf)	85.7	78.4	107.9
Proved + probable (2P) (bcf)	494.9	878.7	907.4
Proved + probable + possible (3P) (bcf)	3,880.1	3,179.9	2,586.2
Net reserves			
Proved (1P) (bcf)	43.2	62.8	82.3
Proved + probable (2P) (bcf)	285.9	602.9	624.7
Proved + probable + possible (3P) (bcf)	2,303.8	2,011.2	1,653.6

The numbers in our reserve reports change over time as our knowledge of a given reserve area increases and the underlying assumptions are adjusted. This happens as we update future drilling and development plans, as our understanding of single well production and geological conditions in an area improve while we carry out drilling and exploration activities, and as gas prices and other commercial factors change. As our understanding of a given reserve area improves, we may migrate that area from a lower standard to a higher standard, either from 3P to 2P or from 2P to 1P. This migration will often cause the reserve numbers in that area to decrease, mainly because certain reserves in the migrating area that previously met the requirements for inclusion under the lower standards do not qualify under the higher standards and thus are not included in the reserve totals following migration. As drilling and production increase, and as economic conditions change, some of those reserves will eventually qualify for inclusion in the reserve totals under the higher standard. Our improved knowledge of reserve areas and the migration of certain areas from 3P to 2P are the reasons our 3P reserves in the December 31, 2014 reserve report were 593.7 bcf less than in the December 31, 2013 reserve report, and those 3P reserves were 700.2 bcf less than in the June 30, 2012 reserve report. The increase in 2P reserves of 28.7 bcf between the December 31, 2013 and December 31, 2014 reserve reports was less than the increase in 2P reserves of 383.8 bcf between the June 30, 2012 and December 31, 2013 reserve reports mainly because we decelerated our drilling and production testing of new exploration wells during 2014 in order to focus our resources on increasing production at already existing wells. For more information about reserve estimates, see the section headed "Risk Factors — Risks Related to Our Business and Our Industry — The CBM reserve data and present value calculations presented in this prospectus are only estimates, and the actual production, revenue and expenditures with respect to our net reserves under each production sharing contract may differ materially from these estimates."

We have applied and improved a number of drilling techniques that are tailored to the local geology of our CBM concessions and have been a pioneer in this area, which enabled us to realize commercial sales in the Panzhuang concession within two years of acquiring it. As of December 31, 2014, we had drilled 15 geology parameter wells and 60 production wells, and we had completed 22.2 square kilometers of 3-D seismic surveys and over 65.3 kilometers of 2-D seismic surveys. In addition, we have acquired comprehensive geological data from 176 core holes, 17 hydrological wells, 15 geology parameter wells and 60 production wells. We have also employed a remote-controlled pumping system and a real-time monitoring system on each production well. We deploy well-established dewatering methods and procedures and effective

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well maintenance techniques. We believe our ability to identify and employ suitable technologies and production techniques has enabled us to significantly increase production volumes and to enhance well economics by achieving significant cost reductions, performance improvements and operating efficiencies.

The following table sets forth various well data for the Panzhuang concession.

Number of wells in production

as of December 31, 2012	28
as of December 31, 2013	45
as of December 31, 2014	50
CAGR from 2012 to 2014	33.6%

Gross production volume (mmcf)

during 2012	3,487
during 2013	5,493
during 2014	12,631
CAGR from 2012 to 2014	90.3%

Average daily production per well (mcf)

during 2012	340.3
during 2013	334.4
during 2014	692.1
CAGR from 2012 to 2014	42.6%

Average daily production per well (mcf)

during December 2012	347.5
during December 2013	564.1
during December 2014	958.9 ¹
CAGR from 2012 to 2014	66.1%

Cost per well (RMB million)

as of December 31, 2012	
Multilateral well	14.3
Single-lateral horizontal wells	N/A
as of December 31, 2013	
Multilateral well	13.6
Single-lateral horizontal wells	N/A
as of December 31, 2014	
Multilateral well	N/A
Single-lateral horizontal wells	8.6

Note:

1. Represents the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy.

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We employ multiple proven CBM extraction techniques in both concessions, including horizontal drilling and multi-seam hydraulic fracturing, and will continue to explore other techniques to enhance our internal rate of return for CBM extraction. We have been successful in increasing recovery rates and well performance. Our average production rate per well during December 2014 in the Panzhuang concession was the highest among all CBM operators in China as of December 31, 2014, according to SIA Energy. In 2014, virtually all of the production increase at the Panzhuang concession was due to enhancements to surface gathering infrastructure from existing wells. In the Panzhuang concession, we will continue to drill additional horizontal wells and enhance infrastructure, which we believe will result in steady production growth. While developing the Mabi concession, we have already employed multi-seam hydraulic fracturing and pad-drilled well technology. The pad-drilled directional wells we drilled in the Mabi concession have demonstrated positive economic internal rates of return.

We believe that our success in using suitable technology to increase production can be replicated at other parts of the concessions we currently operate as well as at concessions we may secure in the future. In addition, we remain committed to identifying technologies and production techniques that will allow us to enhance performance and increase economic rates of return. We believe that as we further ramp up production in accordance with our overall development plan, the cost of implementing appropriate technology will further decrease due to economies of scale, making our operations more profitable. Our experience and technical know-how will help us identify commercial development potential, increase production levels at our current assets and better position us to compete for other unconventional development opportunities. Because the CBM assets operated by other foreign CBM operators are not as commercially advanced as ours, we believe we are better positioned for new development opportunities and our advantages are difficult to replicate.

Proven track record of obtaining required regulatory approvals

In November 2011, the Panzhuang Project became the first and only Sino-foreign CBM project to date in China to receive overall development plan approval from the NDRC, enabling large-scale commercial development. We worked closely with a number of parties, including our Chinese partner and various government authorities to address their requirements, concerns and considerations regarding the Panzhuang ODP, and to ensure that the Panzhuang ODP was prepared and presented in a proper manner. In progressing from plan formulation to submission and approval, our prompt and effective communication with relevant government authorities was essential in obtaining the respective approvals. We believe the quality of our assets and our technical competency were also critical factors in the process of obtaining ODP approval for the Panzhuang concession.

We began CBM pilot production in the Mabi concession in the first half of 2010 and we received preliminary approval for the Mabi ODP I from the NEA in November 2013. We are currently working with our Chinese partner to prepare to submit the Mabi ODP I to the NDRC during the third quarter of 2015 and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, we expect to receive the final NDRC approval for the Mabi ODP I within six to twelve months of this submission. We plan to explore and develop the Mabi concession in different phases and expect to submit additional

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overall developments plans covering the remaining areas. We believe our experience in receiving the respective regulatory approvals will also better position us to compete for new development opportunities and this advantage is difficult to replicate.

Access to established infrastructure enables sales to target markets with significant demand for CBM

Both the Panzhuang and Mabi concessions are located close to established gas transportation and processing infrastructure. This infrastructure was constructed and connected to our concessions by third parties who were attracted by the quality and significant potential volume of the CBM in the Qinshui Basin. This infrastructure provides us with access to gas distribution facilities and our markets and customers, which include industrial users, city gas distributors, pipeline gas distributors and LNG producers in Shanxi, Henan and Shandong provinces and in other coastal regions in China. Because of this infrastructure, we are able to contract for the sale of most of our CBM under long-term take-or-pay sales agreements that obligate the buyer to pay for the entire commitment amount during each delivery term. Our access to infrastructure will allow us to take to market our increased production volumes as we continue to ramp up production in our concessions.

The main infrastructure connecting us with markets and customers includes various regional pipelines near our CBM concessions, such as the Tongyu Pipeline, which is China's first large-scale CBM pipeline with a maximum annual capacity of 70.6 bcf. The Tongyu Pipeline originates in the Panzhuang concession and was constructed to transport CBM from the southern Qinshui Basin in Shanxi Province to Henan Province. Through the Tongyu Pipeline, the Panzhuang concession can be further connected to the Yubei and Yuji pipelines, which transport gas to the Shandong Province. We have been a partner of Shanxi Tongyu, the operator of the Tongyu Pipeline, since 2010, and commenced pipeline sales through the Tongyu Pipeline in May 2012. In addition, the Jincheng-Changzhi-Taiyuan Pipeline connects Jincheng, a city near the Mabi and Panzhuang concessions, to Taiyuan, the capital of Shanxi Province and has a transmission capacity of 35.3 bcf from Jincheng to Changzhi and 70.6 bcf from Changzhi to Taiyuan. In addition to the regional pipelines, PetroChina, our Chinese partner in the Mabi concession, operates the PetroChina Central Processing Hub adjacent to both the Panzhuang and Mabi concessions, connecting them with the cross-country West-East Pipeline One, which is part of an extensive pipeline network that transports gas to various domestic markets. The West-East Pipeline One has total capacity of 635.6 bcf, and the maximum annual capacity currently available to the Qinshui Basin is 176.6 bcf, which is determined by the capacity of the connecting pipeline operated by PetroChina that connects PetroChina Central Processing Hub near our concessions and the West-East Pipeline One. Our proximity to the existing pipeline infrastructure provides us with access to markets with substantial gas demand. It also enables us to supply these markets at lower transportation costs compared to alternative sources of gas, such as pipeline gas imports from Central Asia and seaborne LNG imports.

We also sell our gas to various LNG producers, such as ENN Energy and Shuntianda. Both ENN Energy and Shuntianda have built plants connected to our gas gathering stations in the Panzhuang concession in order to process and transport our CBM to downstream users in Henan Province as well as coastal cities. We have been selling gas to ENN Energy since 2008,

to Shuntianda since October 2013, and to Sanxia Yizhong, a LNG producer connected to the Tongyu Pipeline in Henan Province, since December 2014. There are a number of additional LNG producers in the vicinity of our concessions that we can sell to.

The pipeline network and gas distributors servicing our region connect our concessions to markets of significant energy demand, including Luoyang and Zhengzhou, the two largest industrial cities in Henan Province, which are approximately 200 kilometers from the Panzhuang and Mabi concessions. Through existing infrastructure, our gas can be further transported to other large markets with significant energy demand, such as the provinces of Shandong and Jiangsu. According to the China Statistics Yearbook, Shandong, Jiangsu and Henan provinces ranked first, fourth and fifth in China, respectively, by energy consumption in 2012 and are three of the five most heavily populated provinces in China with a combined population of approximately 270 million in 2012. In addition, in the medium- to long-term future we will begin targeting customers in the heavily-populated coastal regions of eastern China through the West-East Pipeline One and Yuji Pipeline. Because of the carrying capacity of these pipelines and the demand of our target markets, we believe we have the capacity to transport and sell as much CBM as we can produce in the foreseeable future.

Long-standing relationships with CUCBM and PetroChina as well as other suppliers and business partners

We have a long history of cooperation with CUCBM and PetroChina. CUCBM and CNPC, the parent company of PetroChina, are two of the four state-owned enterprises authorized by the PRC government to partner with foreign entities to develop CBM resources. CUCBM was established in 1996 to enter into production sharing contracts with foreign CBM developers. Members of our management team and certain of our key shareholders have been working with CUCBM since its inception in 1996 when they participated in the development of the Linxing CBM concession. CUCBM supported our acquisition of the Panzhuang concession in 2006, and we have been working closely with CUCBM since then and throughout Panzhuang's exploration and development stages. Our relationship with CUCBM was critical in obtaining regulatory approvals for the Panzhuang ODP, which involved the review and approval of numerous regulatory agencies. We have also developed a joint sales arrangement with CUCBM, in which we work with CUCBM to negotiate and enter into formal sales agreements with potential customers. In addition, in July 2013, we entered into the Panzhuang PSC Amendment with CUCBM, under which we clarified our respective participating interests and areas to be solely operated by CUCBM under the Panzhuang PSC. We believe our mutually beneficial relationship with CUCBM will continue throughout the Panzhuang concession's commercial production and beyond.

In 2008, CNPC ceased to be a shareholder of CUCBM and CNPC de facto assumed all of CUCBM's rights and obligations under the Mabi PSC. In March 2012, CUCBM transferred its rights under the Mabi PSC to CNPC. CNPC subsequently assigned all of its commercial and operational rights and obligations under the contract to its subsidiary, PetroChina, while CNPC remains a party to the Mabi PSC. Since 2008, we have worked closely with PetroChina in exploring the Mabi concession. PetroChina has worked with us to obtain the necessary regulatory approvals for the Mabi operations, including the preliminary approval of the Mabi ODP

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I by the NEA, supported the reserves certification process and issued letters of support for our exploration program. We believe that PetroChina will continue to partner with us in developing the Mabi concession and bringing it to commercial production.

Our relationship with our Chinese partners is a key factor in our future growth given the key role of the Chinese partners in Sino-foreign cooperative CBM projects in China as a result of the PRC regulatory requirements. We believe that we have developed strong relationships with our Chinese partners and we are well-positioned to further strengthen this relationship in our current and future projects. We also have long-standing relationships with a number of well-known international and domestic companies providing high quality drilling and completion services, such as Beijing Orion and Schlumberger.

Strong management team with extensive industry experience, complementary skill sets and successful execution track record

We believe the extensive experience of our management team in China's CBM industry distinguishes us from other independent CBM producers. Our management team combines expertise and best practices in international unconventional resource development with local knowledge of China's geological, operating and regulatory environment. Certain members of our management team have been actively involved in the CBM industry for over 20 years and have introduced and developed many technologies critical for CBM production in China. Our chairman, Dr. Zou, has 31 years of experience in the Chinese and U.S. energy resources industries and is considered one of the pioneers of China's CBM industry. Our co-chief executive officer structure brings together the complementary skill sets of our two senior officers, forming unparalleled leadership to our CBM operations. Our co-chief executive officer and president, Mr. Jing Li, has more than fifteen years of experience in China's coal and CBM industries. Mr. Li has strong relationships with CUCBM and PetroChina, as well as regulatory agencies and our business partners, which are critical to effectively managing our above-ground operations, the regulatory approval process for the overall development plans and our sales and marketing efforts. Mr. Carl Lakey, our co-chief executive officer and chief operating officer, has more than 30 years of experience in the international oil and gas industry, with particular expertise in managing large-scale field development projects. He has over five years of operating experience in different CBM basins in North America and has worked for major energy corporations in the U.S. Since he joined our company in October 2013, Mr. Lakey has been instrumental in optimizing our surface and subsurface technical capabilities, which has contributed to the significant ramp-up in our production, and in implementing international corporate governance best practices. Our chief financial officer, Allen Mak, has over 31 years of experience in finance and accounting, including six years as the chief financial officer of a leading independent upstream oil and gas company operating in China that listed on the Hong Kong Stock Exchange during his tenure. Our chief legal officer, Ms. Yang Lin, has more than ten years of experience in China's coal and CBM industries. Our chief geologist, Mingzhu Fan, has over 31 years of experience in China's CBM and conventional petroleum industries and is a key member of the China CBM Association and considered one of the leading CBM geologists in China. Our senior management team has a track record of achievements and breakthroughs in various aspects of CBM production and business, including business development, geological assessment, exploration, production and operation, marketing and sales, and government and public

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relations. Our management team has been essential to our success and we plan to continue leveraging their local knowledge and international experience to facilitate our growth and expansion.

OUR STRATEGIES

We believe we can maintain our competitiveness and growth and increase shareholder value by implementing the following strategies.

Continue to grow production and cash flows from operations by developing our extensive inventory of low-risk, repeatable, high-return drilling opportunities

Our gross production volume reached 3.6 bcf in 2012 and has since increased to 13.3 bcf in 2014, representing a CAGR of 92.2%. The receipt of NDRC approval for the Panzhuang ODP in November 2011 enabled us to pursue additional development opportunities and increase the pace of development, resulting in increased production. Much of this production uplift was realized from drilling new wells and optimizing the performance of existing wells. More of this work will continue in 2015 and 2016. As of December 31, 2014, the company had two rigs actively drilling in the Panzhuang concession and more will be added in order to meet our goal of drilling an additional 30 horizontal wells in 2015. In the Panzhuang concession, we currently have 102 additional high-quality drilling opportunities to capture the existing 2P reserves. In the Mabi concession, we will continue pilot and delineation drilling with the primary intent of improving individual well rates of return. This work will continue until the Mabi ODP is approved, upon which we will ramp up drilling and development activity to commercialize the 3,454 2P drilling location inventory in the Mabi concession. We expect these activities to result in increased gas production and cash flows. According to the NSAI report, gross annual production from the Panzhuang concession may exceed 17.6 bcf in 2016 under 2P production assumptions. As a result of increases in production, our EBITDA in the Panzhuang concession has grown from RMB19.7 million in 2012 to RMB154.3 million in 2013 and further to RMB489.5 million in 2014.

CBM pilot production started in the Mabi concession in the first half of 2010. Since then, additional pilot and parameter wells have increased our gross 2P reserves to 690.1 bcf. Full year gross production from our pilot production in 2014 was 623 mmcf. We received preliminary approval of the Mabi ODP I in November 2013. We are working with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I during the third quarter of 2015, and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, expect the NDRC to grant final approval within six to twelve months of this submission, after which we will accelerate the development under the Mabi ODP I.

Enhance the value of our assets through efficient development, effective operations processes and production enhancements

We will strive to increase the value of our existing assets through efficient development. To increase efficiency beyond current levels, we will focus on both the ultimate gas recovery of individual wells and the investment cost to obtain the gas. We will aim to increase ultimate gas recovery by increasing the relative contribution from coal seam 15 and the many smaller seams. Collectively, these coal seams represent a larger gas in place target than coal seam 3, which dominates our current production. We expect to continue to evolve our completion and stimulation design to improve the ratio of gas recovery to cost. We intend to further increase ultimate gas recovery through tighter quality control and continued evolution in both the drilling and completion practices. Past implementation of these initiatives has resulted in improved annual gross production volume from 3.6 bcf in 2012 to 13.3 bcf in 2014, representing a CAGR of 92.2%.

We also plan to lower per well production costs with increased service company competition, more effective well designs, efficient execution, and greater company control over all aspects of drilling and completions. We intend to optimize existing and future well production and operating practices with a view towards optimizing cost structure and maximizing per well gas recovery. These activities will involve improvements to surface compression, pipelines, lift equipment, well remediation programs and personnel operating practices.

Continue to migrate reserves through continued development and delineation of our assets

We have a substantial amount of contingent resources under our contracted areas, including 8.6 bcf and 261.5 bcf of best estimate net contingent resources, in the Panzhuang and Mabi concessions, respectively, as of December 31, 2014. We intend to continue to convert our contingent resources into reserves, and to migrate possible reserves into 2P reserves, by the ongoing development of our assets, including additional development drilling, further improvements to surface facilities, and the adoption and optimization of drilling and completion techniques to allow us to produce gas from additional coal seams in our concessions. We successfully increased our net 1P reserves from 43.2 bcf as of June 30, 2012, to 82.3 bcf as of December 31, 2014, an increase of 91%, and we increased our net 2P reserves from 285.9 bcf as of June 30, 2012 to 624.7 bcf as of December 31, 2014, an increase of 119%. As of December 31, 2014, we still had 1,028.9 bcf in net possible reserves. By continuing to convert resources into reserves and migrate reserves into categories with higher certainty and lower risk, we will improve the certainty of recoverable CBM, reduce development risk, increase our aggregate production and increase the expected asset life of our concession, all of which should increase the total net present value of our assets.

We also intend to carry out additional delineation drilling in the Mabi concession to increase our resource base. Our Mabi concession covers an area of 898.2 square kilometers and because of its large size, we will continue implementing our delineation drilling program to assess the outer perimeter of the areas that are already being developed or appraised. We

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believe that given the presence of predictable and continuous coal seams in the Mabi concession, additional delineation drilling could further increase our resource base in Mabi and the value of the Mabi concession.

Expand our customer base and target industrial customers to optimize our sales prices and orders on a continued basis

Gas prices vary in China across customer location and industry. As we increase our production capacity, we will be able to sell increasing amounts of CBM to large-volume purchasers, such as industrial users, who typically pay higher prices than residential users. Our average sales price has increased from RMB1.37 per cubic meter (US\$6.15 per mcf) during 2012 to RMB1.49 per cubic meter (US\$6.80 per mcf) in 2013 and RMB1.73 per cubic meter (US\$7.98 per mcf) in 2014, and we anticipate our average sales price will continue to increase as we continue focusing our marketing efforts on industrial users and city gas distributors in regions with substantial demand for natural gas, including major industrial cities, and to whom we are able to transport our gas through pipeline networks. For example, the existing pipelines connected to our gas gathering stations enable us to transport our CBM to Henan and Shandong provinces, which include several major industrial centers and approximately 191 million residents. We also plan to use the West-East Pipeline One to target additional markets with strong and stable demand for natural gas.

We plan to expand our customer base by building long-term relationships with pipeline-linked customers that have stable demand in order to reduce customer concentration risk, improve our financial stability and realize higher sales prices. We have entered into and are in the process of entering into additional long-term sales contracts with additional pipeline-linked customers, including a number of city gas distributors in cities with a large number of companies engaged in heavy industry. For example, we are currently in discussions with aluminum and petrochemical industrial users in Henan Province, which we would be able to reach using our existing pipeline connections. Because these pipeline-linked customers have large and stable demand and can offer better pricing and payment terms, we expect to focus our sales to them as we increase our production level in the future. If realized, these increases in realized sales prices could also result in a significant increase in the total net present value of our existing assets.

Further strengthen cooperative relationship with partners and regulatory agencies

We intend to leverage our relationships with CUCBM and PetroChina to continue developing the Panzhuang and Mabi concessions and to explore additional CBM or gas development opportunities. For example, we are currently working with our Chinese partner to prepare to submit the Mabi ODP I to the NDRC during the third quarter of 2015 and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, we expect to receive the final NDRC approval for the Mabi ODP I within six to twelve months of this submission. We also intend to maintain and leverage our relationships with service providers, including those that provide drilling, technical design, reservoir testing and surface construction services. We intend to strengthen our relationships with our transporters and downstream customers, including Shanxi Tongyu, the owner and operator of the Tongyu Pipeline through which we distribute a portion of our gas from the Panzhuang concession, ENN

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Energy and Shuntianda, owners and operators of LNG plants near our concessions and city gas distributors along the pipelines connected to our concessions. We also plan to maintain regular communications with various regulatory agencies concerning the status and operations of our current projects in order to facilitate the regulatory approval processes for our projects and to maintain our involvement in developments in the CBM industry in China.

We believe that our continued effort to strengthen relationships with our business partners and regulatory agencies is vital to developing and operating our current CBM concessions and to growing our business by acquiring new concessions.

Increase our reserves by acquiring and developing assets and companies through acquisitions and securing additional production sharing contracts in China

We plan to expand our operations by securing additional CBM and gas production sharing contracts. As new concessions are made available through production sharing contracts, we believe we are well-positioned to secure contracts that we choose to pursue by leveraging our technical expertise, our strong track record of managing CBM assets, our knowledge of the regulatory approval process and our established relationships with PetroChina, CUCBM and various regulatory agencies. We expect to continue to focus on upstream exploration and commercial development.

We plan to selectively acquire existing production sharing contracts from other foreign CBM operators in China. We may also seek to enter into production sharing contracts with qualified Chinese companies for the development of concessions that are granted to these companies. We believe our track record and our technological know-how will help us to capture these business opportunities. We frequently assess other CBM and gas concessions, focusing our search on China and other Asian countries. Except for the Inner Mongolia Option described below, we currently do not have any identified acquisition targets.

In addition to Panzhuang and Mabi, certain of our shareholders own the rights to three CBM concessions in Inner Mongolia that are at an early exploration stage. On December 12, 2012, our Parent Company and CCBM II entered into the Inner Mongolia Option, under which our Parent Company (or its designated foreign entity) has the exclusive right, at its election, to participate in the Inner Mongolia Project as the foreign party to the relevant production sharing contracts or other similar forms of arrangement as allowed under the relevant PRC laws and regulations at the time. On March 16, 2015, our Parent Company assigned all of its rights and obligations under the Inner Mongolia Option Agreement to us. For details, please see the section headed “Relationship with Controlling Shareholders — The Inner Mongolia Project and Our Arrangement with Shanxi Shengyang” of this prospectus.

Maintain a disciplined, growth-oriented financial funding strategy

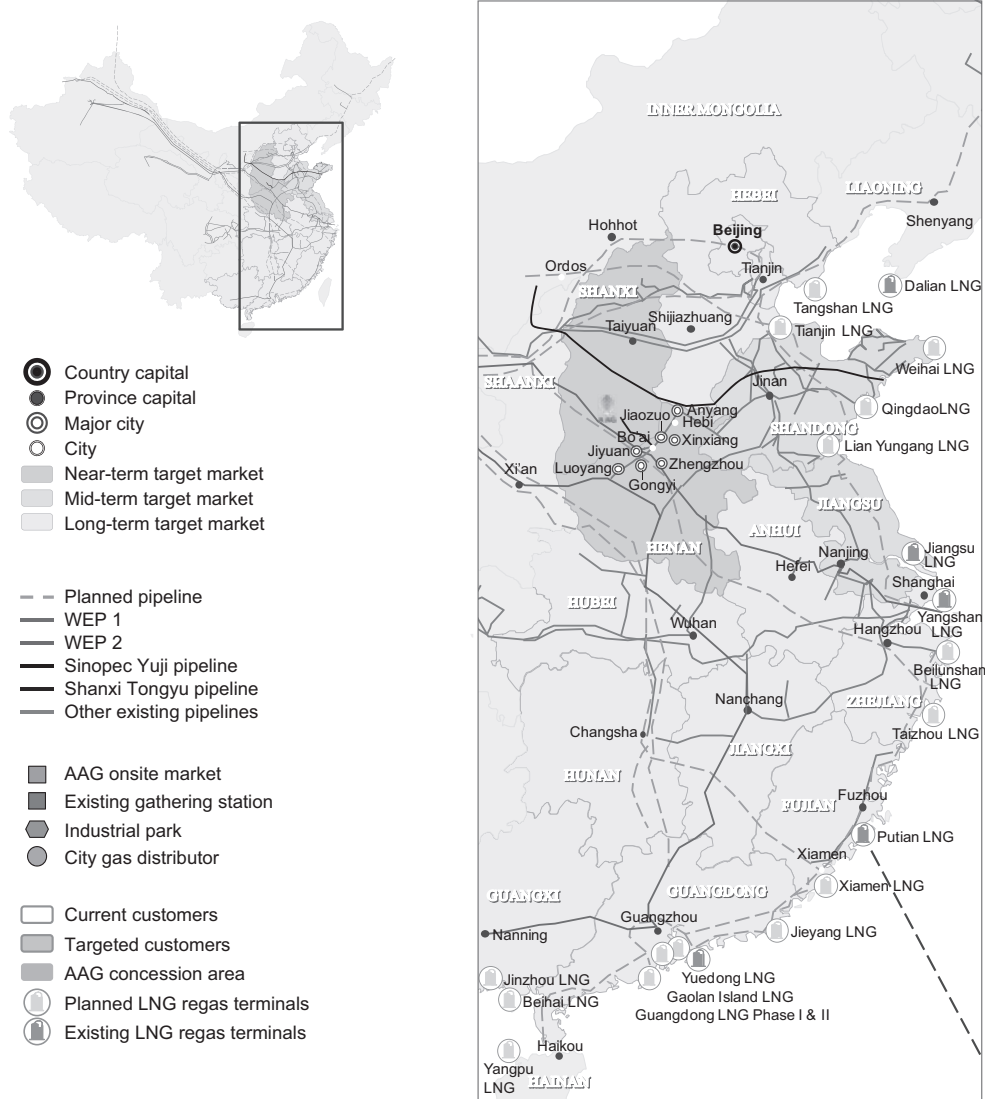
We strive to maintain a healthy financial position, including reasonable debt levels, to give us the flexibility to implement our exploration, development and acquisition strategies and maximize the value of our existing assets. In November 2013, we entered into the US\$100.0 million syndicated Reserve-based Facility, and we will continue to strengthen and expand our relationships with financial institutions to maintain adequate low cost funding. As of December 31, 2014, we had approximately RMB1,332.2 million of funds available, comprised of

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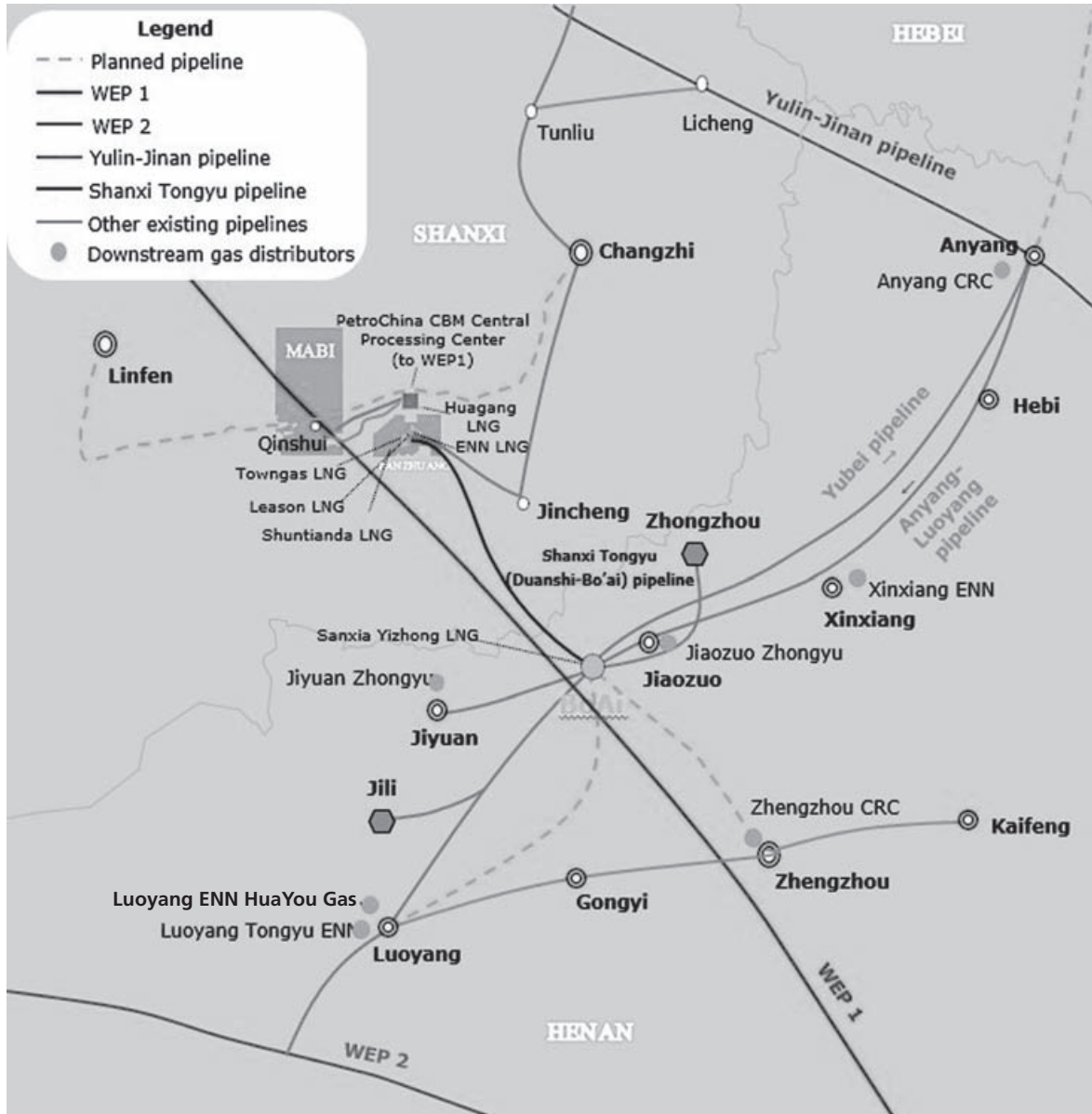
RMB1,099.7 million of cash and cash equivalents and RMB232.5 million of undrawn credit facilities. Going forward, by combining our funds from operations, the proceeds of this Offering and financings from external sources, we believe we will have sufficient cash flow to fully fund our existing development plans going forward.

OUR CONCESSIONS

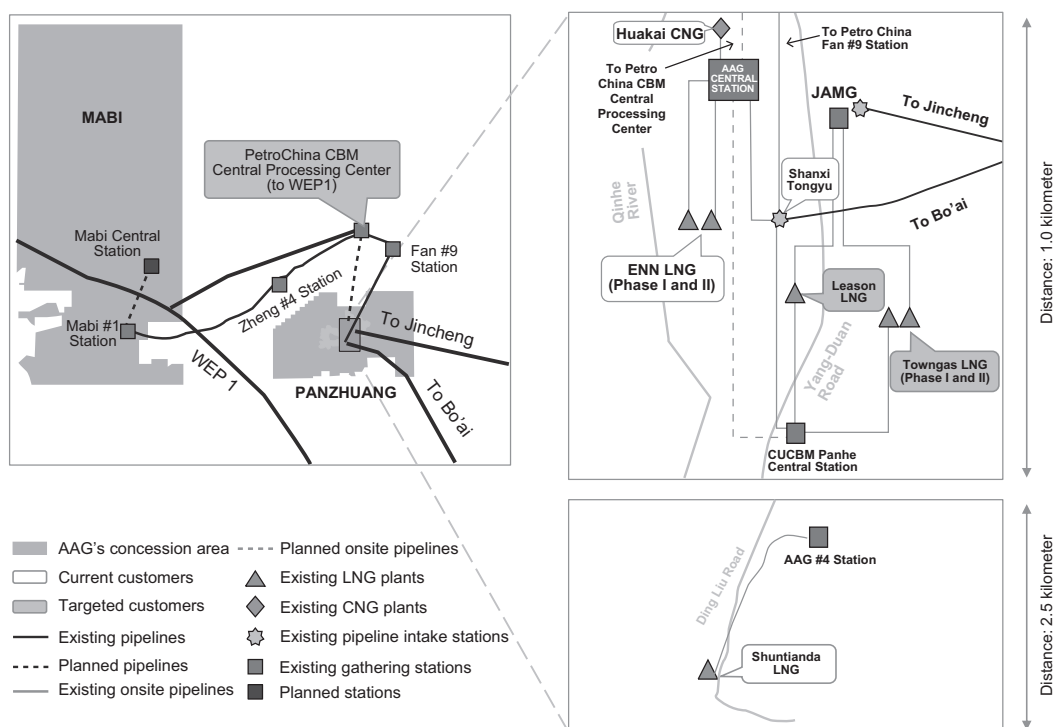
The following maps show the location of the Panzhuang and Mabi concessions and the pipeline network servicing these areas:



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The following table sets forth a summary of our CBM concessions under our production sharing contracts:

	<u>Panzhuang</u>	<u>Mabi</u>
Date of production sharing contract	March 3, 2003	July 15, 2004
Term	25 years ¹	30 years ¹
Status under production sharing contract	Development Phase	Exploration Phase
Year of expiration	2028	2034
Total area developable by us under the production sharing contract	67.4 sq.km ²	898.2 sq.km ³
Participating interest under the production sharing contract	80% ⁴	70%
Date of approval of overall development plan	November 28, 2011	N/A ⁵

Notes:

1. The term may be extended upon mutual agreement by both parties.
2. Total area under the mining license granted pursuant to the production sharing contract, is 141.8 square kilometers, which includes an area of 74.4 square kilometers which will be developed solely by CUCBM or its authorized third parties pursuant to the Panzhuang PSC Amendment. Please see footnote 4 below for more details regarding the Panzhuang PSC Amendment.
3. Total area under the exploration license granted pursuant to the Mabi PSC, excluding an area of 405.8 square kilometers that we relinquished in 2012.
4. In July 2013, after negotiations and based on our respective commercial interests, we and CUCBM agreed to adjust our respective participating interests under the Panzhuang PSC to 80% and 20% from 50% to 50%, respectively, as well as to designate an area totaling 74.4 square kilometers in the Panzhuang concession to be solely operated by CUCBM, or the "CUCBM sole-operation area," with the remaining area to be jointly operated by us and CUCBM, or the "joint operation area." Prior to the acquisition of the Panzhuang concession by our Parent Company from the previous foreign operator, CUCBM had independently carried out certain CBM operations in the CUCBM sole-operation area because the then foreign operator had suspended its operations. Since becoming the foreign operator of the Panzhuang concession, we have so far carried out CBM operations only in the joint operation area. Considering the CBM development potential of the CUCBM sole-operation area and the historical costs incurred by CUCBM, we believe that it is in our best interest to exclude this area from our CBM development plan in exchange for

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a higher participating interest under the Panzhuang PSC. Based on these considerations, we entered into the Panzhuang PSC Amendment with CUCBM. No additional consideration was payable under the Panzhuang PSC Amendment. There is no provision under the Panzhuang PSC that automatically triggers any adjustments to either the participating interest or the development area; neither does the Mabi PSC contain any such provisions.

5. We received preliminary approval for the Mabi ODP I from the NEA in November 2013 and are working with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I during the third quarter of 2015. Based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, we expect the NDRC to grant final approval within six to twelve months of this submission.

The following table illustrates key data of our concessions.

	<u>Panzhuang</u>	<u>Mabi</u>
Total number of wells drilled	75	254
Geology parameter wells ¹	15	135
Producing production wells	50	69
Non-producing production wells ²	10	50
Dry wells	—	—
Gross production volume (mmcf)		
during 2012	3,487	98
during 2013	5,493	597
during 2014	12,631	623
CAGR from 2012 to 2014	90.3%	152.1%
Average daily production per well (mcf)		
during 2012	340.3	12.2
during 2013	334.4	32.7
during 2014	692.1	24.7 ⁸
CAGR from 2012 to 2014	42.6%	42.3%
Average daily production per well (mcf)		
during December 2012	347.5	26.9
during December 2013	564.1	44.6
during December 2014	958.9 ³	22.4
CAGR from 2012 to 2014	66.1%	-8.8%
Incurred costs (RMB million)⁴		
Exploration costs ⁵	600.2	1,223
Exploration costs recovered	535.3	—
Development costs ⁶	1,066.9	—
Development costs recovered	—	—
Proved reserves to production ratio (years)⁷		
Gross	8.5	N/A
Net	8.2	N/A
Average coal seam depth (meters)		
Coal seam 3	472	712
Coal seam 15	568	803

Notes:

1. Geology parameter wells are wells drilled for the purposes of allowing geologists and reservoir engineers to identify resource and reserves and their migrations. CBM production from these wells is to prove the productivity of our reserves and are not counted towards our gross or net production volume.
2. Non-producing production wells are production wells drilled and pending completion.
3. Represents the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy.

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4. Incurred costs are subject to confirmation by our respective Chinese partners, which is given once every two years. During the Track Record Period, there have been no material disagreements between us and our respective Chinese partners as to the recovery of incurred costs. We recover confirmed costs in accordance with the production allocation mechanism under our production sharing contracts. See “— Production Sharing Contracts — Cost Recover and CBM Production Allocation.”
5. Incurred exploration costs of RMB593.2 million for the Panzhuang concession have been confirmed by audits conducted by CUCBM, covering all periods through October 2013, and our incurred exploration costs of RMB618.7 million for the Mabi concession have been confirmed by audits conducted by PetroChina, covering all periods through year end 2012. We recovered all outstanding exploration costs for the Panzhuang concession in the beginning of 2015.
6. Incurred development costs of RMB701.2 million for the Panzhuang concession have been confirmed by audits conducted by CUCBM, covering all periods through October 2013, which includes interest owed to us by the Chinese party for development cost payments we made on their behalf. We began recovering development costs for the Panzhuang concession in 2015.
7. Calculated by dividing (i) the number of 1P reserves as of December 31, 2014, by (ii) total production for the year ended December 31, 2014.
8. Average daily production per well for the Mabi concession decreased from 32.7 mcf to 24.7 mcf, mainly because in 2014 (i) production from wells previously drilled and completed gradually decreased consistent with the normal production lifecycle of wells and (ii) we focused on testing and optimizing pad-drilled well fracturing techniques in existing and newly-drilled geology parameter wells, which did not immediately contribute to gas production.

Our drilling activities for both exploration and pilot commercial programs have been successful in terms of identifying reserves that have been certified by NSAI. The wells we have drilled, together with 2-D seismic surveys, have allowed us to achieve an estimated total gross 2P reserves of 907.4 bcf and an estimated total gross 3P reserves of 2,586.2 bcf in the Panzhuang and Mabi concessions as of December 31, 2014.

For exploration and PRC reserve certification purposes, we had drilled 150 vertical wells and directional parameter wells in Panzhuang and Mabi as of December 31, 2014. The parameter wells are drilled to obtain geological data and conduct reservoir tests. Through these parameter wells, comprehensive reservoir data was obtained by means of well loggings, coal coring, gas content analysis, permeability tests, fracturing and production tests, which together enable us to identify the most suitable commercial development technologies for each reservoir and to obtain certification of CBM reserves from MOLAR.

As of December 31, 2014, we had 50 producing wells, including 49 horizontal wells and one vertical well, in Panzhuang, and during the month of December 2014 we produced a gross volume of 1,486 mmcf and average per well production reached 958.9 mcf per day.

Reserve Disclosure

Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by application of development projects from a given date forward under defined conditions. Reserves must be discovered, recoverable, commercial, and remaining as of the evaluation date based on the planned development projects to be applied. Proved, or 1P, reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable. Probable and possible reserves are those additional reserves which are progressively less certain to be recovered than proved reserves.

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The reserve estimates shown herein are for 1P, 2P and 3P reserves, respectively. 1P reserves are inclusive of proved developed reserves and proved undeveloped reserves. 2P reserves include proved and probable reserves. 3P reserves include proved, probable and possible reserves.

Gross gas reserves are 100% of the reserves attributable to each production sharing contract before adjustments for fuel and shrinkage. Net gas reserves are our share according to the terms of each production sharing contract and after adjustments for fuel and shrinkage.

The following table sets forth our reserve data as of December 31, 2014:

Reserve Data	Gross	Net	Post-tax NPV10%¹
	<i>(bcf)</i>	<i>(bcf)</i>	<i>(US\$ millions)</i>
Total			
Proved (1P)	107.9	82.3	383.7
Proved + probable (2P)	907.4	624.7	1,721.0
Proved + probable + possible (3P)	2,586.2	1,653.6	N/A
Panzhuang			
Proved (1P)	107.9	82.3	383.7
Proved + probable (2P)	217.3	164.9	753.5
Proved + probable + possible (3P)	351.8	265.1	N/A
Mabi			
Proved + probable (2P)	690.1	459.8	967.5
Proved + probable + possible (3P)	2,234.4	1,388.5	N/A

Note:

1. Represents our share of the future gross revenue from the CBM concession under the production sharing contracts, after additions for cost recovery and deductions for value-added taxes, royalties, future capital costs and operating expenses. The future net revenue is presented after deduction of income taxes and has been discounted at an annual rate of 10% to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this prospectus should not be construed as being the fair market value of the properties. For further information on the bases and assumptions used in determining future net revenue, please see Appendix III to this prospectus. For risks associated with the net present values, please see the section headed "Risk Factors — The CBM reserve data and present value calculations presented in this prospectus are only estimates, and the actual production, revenue and expenditures with respect to our net reserves under each production sharing contract may differ materially from these estimates."

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The following table illustrates the migration of our reserves from possible to probable and proved, as of June 30, 2012, December 31, 2013 and December 31, 2014, respectively, as a result of our exploration and development activities.

<u>Reserves</u>	<u>June 30, 2012</u>	<u>December 31, 2013</u>	<u>December 31, 2014</u>
Gross reserves			
Proved (1P) (bcf)	85.7	78.4	107.9
Proved + probable (2P) (bcf)	494.9	878.7	907.4
Proved + probable + possible (3P) (bcf)	3,880.1	3,179.9	2,586.2
Net reserves			
Proved (1P) (bcf)	43.2	62.8	82.3
Proved + probable (2P) (bcf)	285.9	602.9	624.7
Proved + probable + possible (3P) (bcf)	2,303.8	2,011.2	1,653.6

Our reserve estimates and the future net revenue have been prepared by NSAI in accordance with generally accepted petroleum engineering and evaluation principles set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. NSAI used standard engineering and geosciences methods or a combination of methods, including performance analysis, volumetric analysis, and analogy, that it considered to be appropriate and necessary to classify, categorize, and estimate volumes in accordance with the 2007 PRMS definitions and guidelines.

These reserve amounts are estimates only and should not be construed as exact quantities. Estimates may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, these estimates are based on certain assumptions including, but not limited to, that the properties will be developed in a manner that is consistent with our current development plans, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If these volumes are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received, costs incurred, and actual production rates may vary from assumptions made while preparing this report.

Our independent technical report also contains a number of projections concerning future production. Our actual production has in the past exceeded the projections set forth in independent technical reports prepared by NSAI. In the December 2013 NSAI technical report, NSAI forecasted that in 2014 Panzhuang would have 2P gross production of 10.6 bcf and 3P gross production of 10.8 bcf, while Panzhuang's actual gross production in 2014 was 12.6 bcf. Further, the December 2014 NSAI technical report forecasted that in 2015 Panzhuang would have 2P daily gross production of 43.8 mmcf and 3P daily gross production of 44.9 mmcf, while actual daily gross production in Panzhuang during the three months ended March 31, 2015 was 46.9 mmcf. We cannot assure you that our actual production numbers will continue to exceed the projections provided by NSAI to the same degree that they have historically, or at all, and

our actual growth rates in future periods may differ significantly from historical growth rates for a number of reasons, including those set forth in the sections titled “Forward-looking Statements” and “Risk Factors” elsewhere in this prospectus.

A substantial portion of our reserves are located in undeveloped areas; such volumes are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geological and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data.

Independent Technical Report and Qualifications of Independent Technical Expert

Our independent technical report has been prepared in accordance with Chapter 18, Rules 18.18 through 18.33, of the Listing Rules. The estimates in the report have been prepared in accordance with the definitions and guidelines set forth in the PRMS approved by the Society of Petroleum Engineers. Our Directors confirm that no material changes have occurred since the effective date of the Independent Technical Report.

Our independent technical report has been prepared by NSAI. NSAI performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. NSAI is familiar with recognized industry reserves and resources definitions, in particular those promulgated by the U.S. Securities and Exchange Commission, Alberta Securities Commission, Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers, World Petroleum Council, and American Association of Petroleum Geologists.

The technical persons responsible for preparing the reserves and resources estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Society of Petroleum Engineers Standards and the requirements listed in Rule 18.22 of the Listing Rules. NSAI is comprised of independent petroleum engineers, geologists, geophysicists, and petrophysicists and does not own an interest in our properties nor is it employed on a contingent basis. None of the staff of NSAI is an employee or director of us or owns any interest in us.

Panzhuang Concession

Situated in Jincheng, a city within the southern Qinshui Basin and in Shanxi Province, the Panzhuang concession extends over an area of 67.4 square kilometers under the Panzhuang PSC, as amended.

We began pilot production in the Panzhuang concession in 2006 and initial commercial sales began in February 2008. The Panzhuang ODP was approved by the NDRC on November 28, 2011, at which point we completed pilot production during the exploration phase and entered into the development phase under the Panzhuang PSC. As of December 31, 2014, we had acquired comprehensive data from 176 core holes, 17 hydrological wells, 15 geology parameter wells, 60 production wells, 27 CBM vertical wells, and 22.2 square kilometers of 3-D seismic surveys and over 65.3 kilometers of 2-D seismic surveys. As of December 31, 2014, we operated 49 producing production horizontal wells and one gas gathering station vertical well, as well as four gas gathering stations in the Panzhuang concession. We completed construction of

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one gas gathering station in February 2015. We are currently constructing one and plan to build an additional two gas gathering stations. The Panzhuang concession will enter into the commercial production phase under the Panzhuang PSC upon the completion of government inspections of the construction projects under the Panzhuang ODP. As advised by our PRC legal adviser, King & Wood Mallesons, upon the completion of the relevant government inspections, there are no material legal impediments for the Panzhuang Project to enter into the commercial production phase in accordance with the Panzhuang PSC.

We have significantly increased production in the Panzhuang concession, and had annual gross production of 3,487 mmcf, 5,493 mmcf and 12,631 mmcf in 2012, 2013 and 2014, respectively, which accounted for all of our total commercial CBM production during those periods. In the Panzhuang concession, between the granting of preliminary approval in July 2007 and final approval in November 2011, monthly average daily production rates ranged from 0.50 mmcf to 9.58 mmcf, and then ranged from 7.50 mmcf to 10.32 mmcf in 2012, 9.55 mmcf to 25.38 mmcf in 2013 and 25.69 mmcf to 47.95 mmcf in 2014. Our average daily per well gross production in the Panzhuang concession during December 2012, December 2013 and December 2014 was 347.5 mcf, 564.1 mcf and 958.9 mcf, respectively, which was the highest average per well production rate of any CBM concession in China in December 2014, according to SIA Energy. The NSAI report anticipates that gross production of the Panzhuang concession during 2015, 2016 and 2017 will be 16.0 bcf, 17.6 bcf and 22.7 bcf, respectively, using 2P reserve estimates, and 16.4 bcf, 20.1 bcf and 29.7 bcf, respectively, using 3P reserve estimates.

We believe that one of the most important factors in increasing production will be our ability to drill new wells. Other important factors in ramping up production include our ability to increase our average per well production and to enhance our operating efficiency by applying more advanced techniques.

There are two major, laterally continuous coal seams in the Panzhuang concession. The two major coal seams are coal seam 3 in the Lower Permian Formation and coal seam 15 in the Upper Carboniferous Formation. Coal seam 3 has an average depth of 472 meters, an average thickness of 5.7 meters, a gas saturation of 100%, and an average gas content of 18.0 cm³/g. Coal seam 15 has an average depth of 568 meters, an average thickness of 2.7 meters, a gas saturation of 100% and an average gas content of 20.9 cm³/g. The gas content for coal seam 3 indicates a high saturation, although there is evidence that the saturated conditions do not exist across the entire concession. Historical production data from horizontal wells in Panzhuang indicate a normal dewatering time of one month with water rates for existing coal seam 3 horizontal wells typically less than 20 barrels per day. These wells reach their peak production rate around six months from first gas production, and that rate can be maintained for periods exceeding 5.5 years.

We have installed pumping and monitoring systems to remotely control our production wells and ensure proper bottomhole pressure is maintained so that CBM production is stable and can gradually increase. We have implemented a water recirculation system to better maintain steady pump operation, which helps to pump out coal fines and avoid pump stops due to coal fine chokes. We will strive to continue to improve our pumping and well maintenance.

Panzhuang ODP

During the exploration phase, we prepared an overall development plan, which included, among other things, details regarding recoverable reserves, development well patterns, a master design, a production profile, an economic analysis and time schedule of development of the CBM reserves, and an estimate of the duration of the production phase. The Panzhuang ODP was submitted to the NDRC in July 2009. After the NDRC approved the Panzhuang ODP on November 28, 2011, the Panzhuang concession entered into the development phase of the production sharing contract.

The following table summarizes the key information in the Panzhuang ODP.

Date of Panzhuang ODP approval	November 28, 2011
Annual total designed production capacity	17.5 bcf/year
Number of horizontal wells	186
Number of vertical wells	62
Length of gas collecting and connecting pipelines	285 km
Number of gas gathering stations	17
Number of dewatering and compression stations	1
Dispatch center	1
Primary transmission pipeline	Tongyu Pipeline
Total project investment	RMB1.3 billion

Panzhuang Development Schedule and Strategy

The NSAI report contemplates that during the term of the Panzhuang PSC, it will be necessary to drill an additional 185 horizontal wells to develop 3P reserves. As of December 31, 2014, we had 49 producing production horizontal wells and one vertical well in the Panzhuang concession, which generated the highest average gas per well production rates of any CBM concession in China, according to SIA Energy. As of December 31, 2014, we operated four gas gathering stations to support our ramp-up in CBM production. We completed the construction of one additional gas gathering station in February 2015.

We expect our production volume to increase largely in proportion with increasing well count. We plan to drill 32 horizontal wells in the Panzhuang concession in 2015. The NSAI report assumes we will need to increase our well count in the Panzhuang concession to 76, 105 and 134 by the end of 2015, 2016 and 2017, respectively, for the development of our 2P reserves. The NSAI report also assumes we will need to increase our well count by 76, 112 and 147 by the end of 2015, 2016 and 2017, respectively, for the development of 3P reserves in the Panzhuang concession. As we ramp up production, we expect to benefit from economies of scale and decrease our production costs on a per unit basis by sharing labor and materials among wells in a large-scale operation and by increasing operating leverage by sharing the field-level engineering, labor, logistics and other service costs, which are relatively fixed. We anticipate that during 2015 and 2016 total capital expenditures of US\$136.5 million (RMB834.9 million) and US\$156.3 million (RMB956.0 million) will be necessary for the development of the 2P reserves and 3P reserves, respectively, in the Panzhuang concession. These net investment amounts will be mostly funded by cash generated by operating activities, existing cash and cash equivalents, borrowings under the Reserve-based Facility and net proceeds from the Global Offering.

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We will continue to sell the CBM produced in the Panzhuang concession by utilizing the established infrastructure serving it. Pipelines such as the Tongyu Pipeline and LNG plants, including plants constructed by ENN Energy and Shuntianda, will continue to transport CBM from the Panzhuang concession to markets in China with high economic growth and demand for energy.

Mabi Concession

Situated in Jincheng and Linfen, Shanxi Province in the southern Qinshui Basin, the Mabi concession extends over an area of 898.2 square kilometers under the Mabi PSC.

We began pilot production at the Mabi concession in 2010. Gross production in the Mabi concession was 98 mmcf, 597 mmcf and 623 mmcf for 2012, 2013 and 2014. Our producing wells in the Mabi concession had an average daily per well gas production rate of 22.4 mcf during December 2014. The NSAI report estimates that gross production of CBM in the Mabi concession during 2015, 2016 and 2017 will be 4.3 bcf, 5.3 bcf and 5.3 bcf, respectively, using 2P reserve estimates, and 5.4 bcf, 6.8 bcf and 7.2 bcf, respectively, using 3P reserve estimates.

There are two major, laterally continuous coal seams throughout the Mabi concession. As with the Panzhuang concession, the two major coal seams are coal seam 3 in the Lower Permian formation and coal seam 15 in the upper Carboniferous formation. Coal seam 3 has an average depth of 712 meters, an average thickness of 3.2 meters, a best estimate average gas content saturation of up to 85% and a best estimate gas content of 11.8 cm³/g. Coal seam 15 has an average depth of 803 meters, an average thickness of 3.4 meters, a best estimate gas content saturation of up to 75% and a best estimate gas content of 12.2 cm³/g. The average apparent density of coal seam 3 is 1.46 g/cm³ and the average apparent density of coal seam 15 is 1.49 g/cm³.

Mabi Development Schedule and Strategy

As of December 31, 2014, we had completed over 1,161.7 kilometers of 2-D seismic surveys in Mabi and acquired data from 41 core holes and 135 geology parameter wells. We began pilot production in 2010. Because of its large size, we will explore and develop the Mabi concession in different phases, and expect to eventually submit two or three overall development plans covering the Mabi concession. We began CBM pilot production in Mabi in the first half of 2010 and in November 2013 we received preliminary approval for the Mabi ODP I from the NEA, which covers an annual capacity of 35 bcf from a total area of 131.7 square kilometers. This preliminary approval allows us to begin obtaining all necessary government approvals for final approval of the Mabi ODP I from the NDRC. We are working with our Chinese partner to submit the application for NDRC's final approval of the Mabi ODP I during the third quarter of 2015, and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, expect the NDRC to grant final approval within six to twelve months of this submission, after which we will commence commercial development under the Mabi ODP I. In addition to the areas included in the Mabi ODP I, as of December 31, 2014, we have received MOLAR certification for other areas within the Mabi concession totaling 288.3 square kilometers, and we will continue working to certify the remaining reserve areas, which we anticipate completing by the end of 2016. Once these MOLAR certifications have been received, we will work towards obtaining approval for additional overall development plans so

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that we can commercially develop all reserves within the Mabi concession. We believe that we will be able to receive approval for one or more overall development plans in these remaining areas within approximately three to four years after the areas have been certified. As advised by our PRC legal adviser, King & Wood Mallesons, upon our receiving the NDRC final approval of the Mabi ODP I, there are no material PRC legal impediments for the Mabi concession area under the Mabi ODP I to enter into the development phase in accordance with the Mabi PSC. The Mabi concession area under the Mabi ODP I will enter into the production phase upon the completion of government inspections of the construction projects under the Mabi ODP I. As advised by our PRC legal adviser, King & Wood Mallesons, upon our receiving the NDRC final approval of the Mabi ODP I and the completion of the relevant government inspections, there are no material PRC legal impediments for the Mabi concession area under the Mabi ODP I to enter into the production phase in accordance with the Mabi PSC.

As of December 31, 2014, we had drilled 254 wells in the Mabi concession, including 135 geology parameter wells and 119 pilot production wells. MOLAR certified a reserve area of 211.0 square kilometers for coal seam 3 and 132.1 square kilometers for coal seam 15 in May 2012 and further 1P reserve area of 201.0 square kilometers for coal seam 3 and 110.5 square kilometers for coal seam 15 in August 2014, demonstrating the commerciality of the Mabi concession. In 2015, we plan to engage in significant fracture stimulation, and mobilize two drilling rigs in the Mabi concession by June 30, 2015 in preparation for more drilling operations. We also plan to stimulate multiple seams, including thinner seams. We will continue to evaluate the most suitable technology for drilling, fracturing, pumping and increasing reserves. The NSAI report estimates that we will have to increase our number of producing wells in the Mabi concession to 137, 149 and 190 by the end of 2015, 2016 and 2017, respectively, for the development of both our 2P and 3P reserves in the Mabi concession. When we begin larger scale development, we will expect to benefit from economies of scale and decrease our production costs on a per unit basis by sharing labor and materials among wells and by increasing operating leverage by sharing the field-level engineering, labor, logistics and other service costs, which are relatively fixed. We anticipate that during 2015 and 2016 total capital expenditures of US\$73.8 million (RMB451.4 million) and US\$76.5 million (RMB467.9 million) will be necessary for the development of the 2P reserves and 3P reserves, respectively, in the Mabi concession. These net investment amounts will be mostly funded by cash generated by operating activities, existing cash and cash equivalents and net proceeds from the Global Offering.

In November 2014, we connected the Mabi concession to the PetroChina Central Processing Hub, which allows us to deliver CBM to PetroChina and other customers connected to the PetroChina Central Processing Hub. We will supply the CBM produced from the Mabi concession by utilizing the gas processing and transportation infrastructure built by PetroChina, including the PetroChina Central Processing Hub, as well as the central gas processing station that we plan to build for the Mabi concession, and the West-East Pipeline One. This infrastructure connects Mabi to coastal cities in China with high demand for energy and that are willing to pay higher gas prices.

PRODUCTION SHARING CONTRACTS

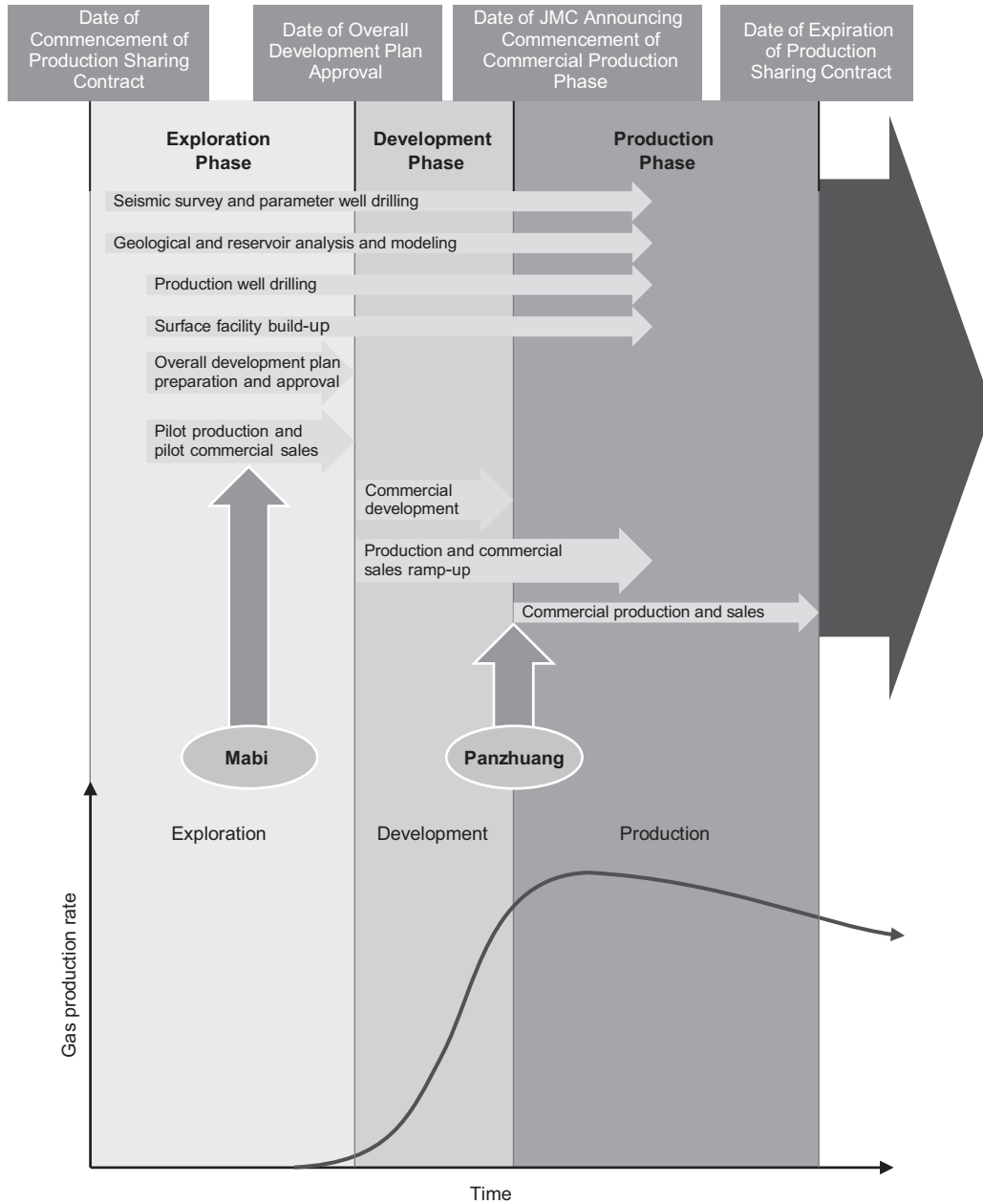
Phases of the Production Sharing Contracts

Under the production sharing contracts between us and each of our Chinese partners, CUCBM and PetroChina, we operate our CBM concessions as contractor and operator. CUCBM and PetroChina, through CNPC, are authorized by the PRC government to partner with foreign companies to explore, develop and produce China's CBM resources, and hold the exploration and mining licenses issued by MOLAR that are necessary for CBM operations in the Panzhuang and Mabi CBM concessions.

The Panzhuang PSC has a term of 25 years and the Mabi PSC has a term of 30 years, both of which may be extended upon mutual agreement by the parties. Our production sharing contracts typically comprise three phases: the exploration phase, development phase and production phase.

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The following chart illustrates the operational activities performed or to be performed during each phase of the production sharing contracts, the current status of the Panzhuang and Mabi concessions and the general trend for gas production rates under the life of the production sharing contracts.



Exploration phase

The exploration phase of the Panzhuang PSC began on April 1, 2003, the date of commencement of the implementation of the contract, and ended on November 28, 2011, when the NDRC approved the Panzhuang ODP. The exploration phase of the Mabi PSC began on October 1, 2004, the date of commencement of the implementation of the contract, and will end upon the date the NDRC approves an overall development plan, pursuant to an amendment to the Mabi PSC dated July 6, 2012 which extended the exploration phase. Under both production

sharing contracts, we are obligated to undertake a minimum amount of work during the exploration phase. Under the Panzhuang PSC, during the exploration phase, we were required to complete a pilot development report, a reserve report, an environmental impact report and an overall development plan, as well as secure long-term CBM sales agreements. The Panzhuang PSC does not specify a minimum drilling requirement. Under the Mabi PSC, during the extended exploration phase, we are required to complete an overall development plan, a reserves report, and various environmental reports, as well as to have, by December 31, 2014, drilled at least 65 exploratory wells and 18 pilot development wells, which we did. During this phase, we conduct basic exploratory work, seismic surveys, parameter well drilling and reservoir testing in order to understand the basic geological conditions, coal seam occurrences and CBM reservoir parameters. We then perform appraisal work, reserve and pilot development well drillings to verify reserves and evaluate the commerciality of any CBM discovery. With the exception provided under the Panzhuang PSC Supplement as described below, we bear all the costs incurred during this phase, all of which are deemed exploration costs under the production sharing contracts. We also begin pilot production, pilot sales and initial commercial sales during the exploration phase for the purpose of demonstrating commerciality.

Development phase

The development phase begins when the NDRC approves an overall development plan for a CBM field, which under the Panzhuang PSC was November 28, 2011. As of the Latest Practicable Date, we were in the process of obtaining approval for the Mabi ODP I for the Mabi PSC. The overall development plan outlines, among other things, the total cost of investment, the quantity of recoverable reserves and a schedule for the development of the reserves. The development phase ends when the total commercial production of the CBM field has ramped up to the designated capacity specified in the overall development plan and has been announced by the joint management committee in accordance with the terms of the overall development plan. Under the Panzhuang PSC, as amended by the Panzhuang PSC Supplement, we are responsible for 80% of the development costs of the Panzhuang concession, which, for cost recovery purposes, include the costs incurred during the development phase and between January 1, 2011 and the commencement date of the development phase. Under the Mabi PSC, we are responsible for 70% of the costs incurred during the development phase, which are deemed development costs under the Mabi PSC. Under the terms of the production sharing contracts, if either party does not pay its share of incurred costs when they become due, the other party may pay on their behalf and the paying party will be entitled to recover the paid amount and accrued interest from the other party.

Production phase

The production sharing contract enters the production phase when production of CBM has ramped up to the designated capacity specified in the overall development plan and has been announced by the joint management committee in accordance with the terms of the overall development plan. Production continues to ramp up until peak production is reached and the production phase continues until the expiration of the production sharing contract, or as otherwise provided under the production sharing contracts. Pursuant to the Panzhuang PSC, as amended by the Panzhuang PSC Amendment, we are responsible for 80% of the costs incurred during the production phase, and under the Mabi PSC we are responsible for 70% of the costs

incurred during the production phase. Under the terms of the production sharing contracts, if either party does not pay its share of incurred costs when they become due, the other party may pay on their behalf and the paying party will be entitled to recover the paid amount and accrued interest from the other party.

Cost Recovery and CBM Production Allocation

Production allocation under the production sharing contracts allows us to recover from the proceeds of commercial sales all of the costs that we incur during the exploration, development and production phases and share the remaining production of CBM according to our participation interests. All funds are initially remitted to an account jointly controlled and managed by us and the Chinese partner. Any transfer of funds in the account must be authorized by the designated representative of the Chinese partner and us. Bank statements for this account are reviewed and reconciled on a monthly basis by the finance departments of both parties, which procedure is reviewed and audited every year.

After the payment of VAT and royalties, the portion of the sales revenue, tax refunds and subsidies that we are entitled to under the production sharing contract is transferred to a bank account designated by us.

Value-Added Tax, Government Subsidies and Royalties

Before revenues are allocated to the parties under the production sharing contracts, a portion of revenues from the CBM production is first paid to the authorities as VAT, royalties and mineral resource compensation fees.

The VAT rate is 13% under current PRC regulation, and VAT amounts paid are fully refundable under regulations issued by the Ministry of Finance and the State Taxation Administration, except for a small portion that is retained by local authorities. CUCBM received a VAT refund for sales under the Panzhuang PSC totaling RMB58.7 million between 2008 and 2013, among which RMB44.1 million was distributed to us in 2014 pursuant to the production sharing contract allocation mechanism in effect during the respective year

CUCBM obtains a government subsidy of RMB0.2 per cubic meter of CBM sold, which is to be distributed to us in accordance with the allocation mechanism under the Panzhuang PSC. CUCBM received total subsidies of RMB73.4 million between 2008 and 2013, RMB63.5 million of which was distributed to us in 2013 as our portion of the subsidy income for those years. We are entitled to receive subsidy income of RMB56.1 million for gas sold in 2014 and expect to receive that subsidy income in 2015.

We and our Chinese partners are also required to pay royalties to the PRC government based on annual gross production. If gross CBM production for a field is less than 1 bcm during a given year, no royalty is due. If gross CBM production is between 1.0 bcm and 2.5 bcm, between 2.5 and 5 bcm or greater than 5 bcm, the amount of the royalties payable on the CBM produced in that field is 1%, 2% or 3% of gross production, respectively. We did not pay any royalties to the PRC government for our CBM production in either the Panzhuang or Mabi concession during 2012, 2013 and 2014 because the annual gross CBM production of each concession was less than 1.0 bcm during each year.

Cost Recovery CBM and Remainder CBM

Our production sharing contracts allocate to us a portion of the CBM produced at our concessions. A portion of the CBM is allocated for recovering costs incurred in the operating, exploration and development of our concessions, and the remainder of the CBM is shared among us and our Chinese partners according to our participation interests. Under our production sharing contracts, after deducting applicable value-added tax and royalties, annual gross CBM production is allocated between the relevant Chinese partner and us as follows:

- *Cost recovery CBM.* Cost recovery CBM is the CBM allocated to the Chinese partner and us for recovering all of the costs incurred. 70% and 80% of annual gross production of CBM is deemed as cost recovery CBM under the Panzhuang PSC and the Mabi PSC, respectively. Cost recovery CBM is allocated until all costs incurred by both parties have been fully recovered. If there is insufficient cost recovery CBM to recover all costs during the calendar year, the unrecovered amounts are carried forward to the succeeding calendar year. Cost recovery CBM is allocated as follows:
 - *Operating cost recovery CBM.* During the production phase of the production sharing contracts, we and our Chinese partners are each allocated operating cost recovery CBM in proportion to the amount of unrecovered costs incurred by us during the production phase, which are determined in accordance with our respective participating interests. Under the Panzhuang PSC, as amended by Panzhuang PSC Amendment, CUCBM's and our participating interests are 20% and 80%, respectively, and under the Mabi contract, PetroChina's and our participating interests are 30% and 70%, respectively. Unrecovered operating costs are carried forward to the succeeding calendar year.
- *Exploration and development costs recovery CBM.* Prior to the production phase, as well as after all of the operating costs incurred during the production phase have been recovered, cost recovery CBM is allocated to the Chinese partner and us for the recovery of exploration and development costs. With the exception provided under the Panzhuang PSC Supplement as described below, we bear all of the exploration costs, which must be fully recovered before development costs can be recovered. Upon the full recovery of exploration costs, any remaining CBM is allocated between the Chinese partner and us for the recovery of development costs according to our respective participating interest in the CBM concessions. Under the Panzhuang PSC, as amended by the Panzhuang PSC Supplement, we are responsible for 80% of the development costs of the Panzhuang concession, which, for cost recovery purposes, include the costs incurred during the development phase and between January 1, 2011 and the commencement date of the development phase. The remaining 20% of the development costs will be borne by CUCBM. Under the Mabi PSC, development costs are allocated to PetroChina and us at 30% and 70%, respectively. For the purpose of recovery, exploration costs do not incur any interest, while development costs incur interest at a fixed compound annual rate of nine percent. Unrecovered exploration costs and development costs are carried forward to the succeeding calendar year.

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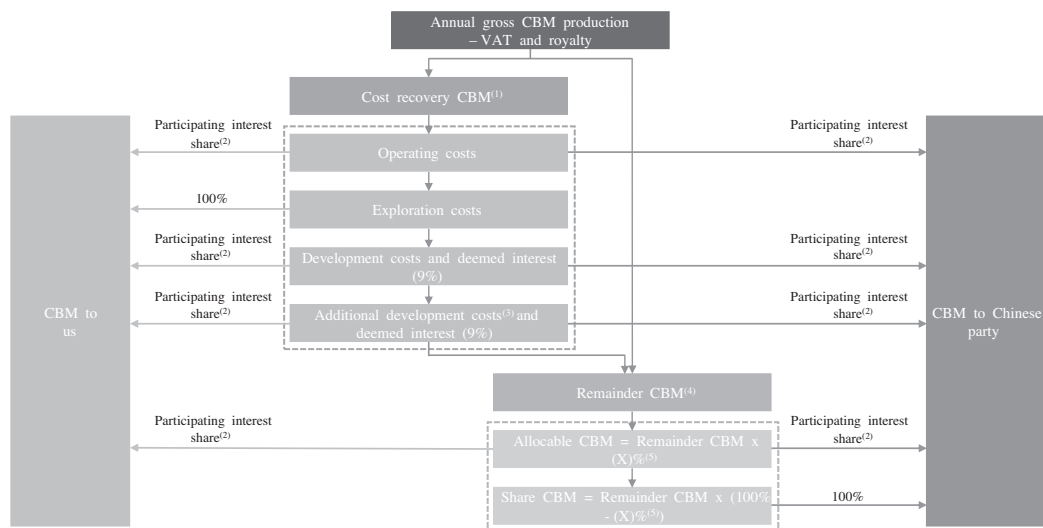
Because operating cost recovery CBM is only applicable after the production sharing contract has entered into the production phase, cost recovery CBM produced from pilot production during either the exploration or the development phases is allocated directly as exploration and development costs recovery CBM, respectively.

- Remainder CBM.** Remainder CBM is the annual gross CBM production (after deducting applicable value-added tax and royalties, but including any tax refunds, government subsidies and interest income) minus the cost recovery CBM. This includes (i) the annual gross CBM production not allocated to cost recovery, which is 30% of the CBM production under the Panzhuang PSC and 20% of the CBM production under the Mabi PSC, and (ii) any cost recovery CBM that remains after all costs have been fully recovered, including all operating costs, exploration costs, development costs with deemed interest of 9%, and additional development project costs with deemed interest of 9%. This remainder CBM is further divided into allocable remainder CBM and share CBM. A majority of remainder CBM is allocable remainder CBM, which is annually allocated between our Chinese partner and us according to our respective actual participating interests in the CBM concessions for that year. The other portion of the remainder CBM is share CBM, which is allocated 100% to the Chinese partner. The allocable remainder CBM equals the total remainder CBM production multiplied by a factor (X) and the share CBM equals the remainder CBM minus the allocable remainder CBM. The factor (X) is determined in accordance with a set of successive incremental tiers on the basis of the annual gross CBM production in accordance with the table below. Currently, the annual gross CBM production from Panzhuang and Mabi are both less than 500 million cubic meters; therefore, 100% of the remainder CBM is allocable remainder CBM.

<u>Annual gross CBM production from each CBM field (million cubic meters)</u>	<u>Factor (X) for each CBM field within the Panzhuang concession</u>	<u>Factor (X) for each CBM field within the Mabi concession</u>
equal to or less than 500	X1 = 100%	X1 = 100%
over 500 to 800	X2 = 98%	X2 = 99%
over 800 to 1,200	X3 = 96%	X3 = 98%
over 1,200 to 1,800	X4 = 94%	X4 = 95%
over 1,800 to 2,500	X5 = 92%	X5 = 93%
over 2,500 to 5,000	X6 = 90%	X6 = 91%
over 5,000	X7 = 88%	X7 = 90%

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The chart below summarizes the CBM distribution waterfall under the production sharing contracts.



Notes:

1. CBM production available for cost recovery is set at 70% under the Panzhuang PSC and 80% under the Mabi PSC.
2. Under the Panzhuang PSC, as amended by the Panzhuang PSC Supplement, we are responsible for 80% of the development costs of the Panzhuang concession, which, for cost recovery purposes, include the costs incurred during the development phase and between January 1, 2011 and the commencement date of the development phase. The remaining 20% of the development costs will be borne by CUCBM. Under the Mabi PSC, we and PetroChina are responsible for 70% and 30% of the development costs, respectively.
3. Additional projects refer to projects that are designed either to improve the producing capability of the reservoir or to substantially increase the recoverable reserves therein through additional investments.
4. Remainder CBM includes (i) the annual gross CBM production not allocated to cost recovery, which is 30% of CBM production under the Panzhuang PSC and 20% under the Mabi PSC, and (ii) any cost recovery CBM that remains after all costs have been fully recovered.
5. Factor (X) is determined in accordance with a set of successive incremental tiers on the basis of the annual gross CBM production.

According to the production sharing contracts, we, as the operator of the concessions, prepare monthly account statements to be shared with our Chinese partners. These account statements include information relating to (i) revenue from the sales of CBM, which sales proceeds go into a jointly controlled account, (ii) all costs incurred from the CBM production, which include operating, exploration and development costs that we have paid and are entitled to recover under the production sharing contracts, and (iii) any allocable CBM. Once the statement is approved, we are allowed to transfer the revenue equivalent for the cost recovery CBM and remainder CBM allocated to us from the jointly controlled account to our own account. For example, we were entitled to receive 94.0% of the revenue generated from the CBM produced in the Panzhuang concession during 2014, after payments of VAT and royalties. This is because we recover (i) the entire amount of cost recovery CBM, which is 70% of CBM revenues, as we have paid for all of the costs in Panzhuang during the exploration phase, and (ii) 80% of the remainder CBM, which is the remaining 30% of CBM revenues, based on our participating interest in the Panzhuang concession. In January 2015 we recovered all of the

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outstanding costs incurred during the exploration phase, therefore our portion of the revenues generated from the CBM produced in the Panzhuang concession will be 80% under the Panzhuang PSC from that time onwards.

Working Example

This working example is intended to illustrate production allocation under the production sharing contracts, and does not represent actual or expected revenues, expenses or costs for either the Panzhuang or Mabi concessions.

Each example assumes that CBM has been sold and the revenues from those sales have been received in the jointly controlled account, and that after the payment of all value-added tax and royalties and the receipt of all government subsidies, the amount in the jointly controlled account available for allocation is RMB1,000.

The table below illustrates CBM allocation according to our working example.

	Panzhuang		Mabi	
	Our Group	CUCBM	Our Group	Petro China
Amount available for allocation	1,000		1,000	
Cost recovery CBM	700		800	
Operating costs	200		—	
Allocation of operating costs	160 (80%)	40 (20%)	— (70%)	— (30%)
Exploration costs	0		300	
Allocation of exploration costs	— (100%)	— (0%)	300 (100%)	— (0%)
Development costs (including interest)	500		300	
Allocation of development costs	400 (80%)	100 (20%)	210 (70%)	90 (30%)
Additional development costs (including interest)	—		—	
Allocation of additional development costs (including interest)	— (80%)	— (20%)	— (70%)	— (30%)
Unallocated cost recovery CBM	—		200	
Originally designated remainder CBM	300		200	
Total remainder CBM	300		400	
Allocable CBM	294 (98%)		400 (100%)	
Allocation of allocable CBM	235.2 (80%)	58.8 (20%)	280 (70%)	120 (30%)
Share CBM	6 (2%)		— (0%)	
Allocation of share CBM	— (0%)	6 (100%)	— (0%)	— (100%)
Total allocation	795.2	204.8	790	210

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Step 1 — Separation of cost recovery CBM and remainder CBM

Under the Panzhuang PSC, 70%, or RMB700 under our working example, is originally designated as cost recovery CBM. Under the Mabi PSC, 80%, or RMB800 is originally designated as cost recovery CBM.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Amount available for allocation				
Cost recovery CBM	700	70	800	80
Remainder CBM	300	30	200	20
	1,000	100	1,000	100

Step 2 — Allocation for the recovery of incurred operating costs

If the development of the concession has entered into the production phase of the production sharing contract, cost recovery CBM is first used to reimburse incurred operating costs, which under the production sharing contracts are shared according to each party's participating interest. In this working example, we assume 2018 projected production levels and that the Panzhuang concession has already entered the production phase while Mabi has not. We further assume that in Panzhuang the parties have incurred RMB200 in unrecovered operating costs, and under the Panzhuang PSC, in which we and CUCBM have 80% and 20% participating interests, CUCBM would be responsible of RMB40 of those operating costs and we would be responsible for RMB160. As the Mabi concession has not entered the production phase, there are no unrecovered operating costs. Operating costs are reimbursed to each party according to the actual amount of operating costs that they incurred, and if a party pays more or less than their participating interest under the production sharing contract, their reimbursement is adjusted accordingly.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Amount of operating costs				
Our Group	160	80	—	70
Chinese Partner	40	20	—	30
	200	100	—	100

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Step 3 — Allocation for the recovery of unrecovered exploration costs

After operating costs have been recovered, or if the production sharing contract has not yet entered into the production phase, cost recovery CBM is used to reimburse all unrecovered exploration costs before all unrecovered development costs. Costs incurred during the exploration phase are deemed as exploration costs and costs incurred during the development phase are deemed as development costs. As we are responsible for all exploration costs under both production sharing contracts, we receive all of the funds allocated for the recovery of exploration costs and interest does not accrue on unrecovered amounts. Under our working example, we will assume that all exploration costs in the Panzhuang concession have already been recovered.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Amount of exploration costs				
Our Group	—	100	300	100
Chinese Partner	—	0	—	0
	—	100	300	100

Step 4 — Allocation for the recovery of unrecovered development costs

Cost recovery CBM is then used to reimburse all unrecovered development costs, which are shared according to each party's participating interest, and unrecovered amounts accrue interest. For example, assuming that unrecovered development costs, including all deemed interests, were RMB500 under the Panzhuang PSC, we would be responsible for RMB400 and CUCBM would be responsible for RMB100. Assuming that unrecovered development costs were RMB300 under the Mabi PSC we would be responsible for RMB210 of those costs and PetroChina would be responsible for RMB90. Development costs are reimbursed to each party according to the actual amount of development costs that they incurred, and if a party pays more or less than their participating interest under the production sharing contract, their reimbursement is adjusted accordingly. For the purposes of our working example, we assume that all parties incurred development costs according to their respective participating interests.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Allocation of development costs (including interests)				
Our Group	400	80	210	70
Chinese Partner	100	20	90	30
	500	100	300	100

Step 5 — Allocation for the recovery of additional development costs

If there have been any additional development costs, those additional costs are reimbursed to the party that incurred them, along with any interest accrued on unrecovered amounts. Our working example assumes there have been no additional development costs.

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Step 6 — Allocation of remainder CBM

After allocation is made for the recovery of all operating costs, exploration costs, development costs and additional development costs, any remaining cost recovery CBM is deemed remainder CBM. In addition, all CBM not originally designated as cost recovery CBM is also remainder CBM. Thus, under our working example, RMB300 and RMB400 is deemed to be remainder CBM under the Panzhuang PSC and the Mabi PSC, respectively.

	Panzhuang	Mabi
	<i>(RMB)</i>	<i>(RMB)</i>
Originally designated cost recovery CBM	700	800
(Operating cost)	(200)	—
(Exploration cost)	—	(300)
(Development cost)	(500)	(300)
(Additional development cost)	—	—
	—	—
Remaining cost recovery CBM	—	200
Originally designated remainder CBM	300	200
	—	—
Total remainder CBM available for allocation	300	400

The total remainder CBM available for allocation is separated as either allocable CBM or share CBM, based upon annual gross CBM production within the CBM field and the terms of the production sharing contract. Allocable CBM is allocated annually to each party according to their actual participating interest for that year, while all share CBM goes to our Chinese partner. In our working example, we assume that annual gross CBM production for the Panzhuang and Mabi concessions is 22.7 bcf (642.8 million cubic meters) and 5.3 bcf (150.1 million cubic meters), respectively (each of which represents our 2017 projected production volumes for the development of our 2P reserves, according to the NSAI report), making the amount of allocable CBM 98% and 100%, respectively, according to the formula for the factor (X) set forth in the respective production sharing contracts. The allocable remainder CBM equals the total remainder CBM production multiplied by the factor (X) and the share CBM equals the remainder CBM minus the allocable remainder CBM. Thus, the amount of remainder CBM that would be allocable CBM for Panzhuang and Mabi under our working example would be RMB294 and RMB400, respectively.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Total remainder CBM				
Allocable CBM	294	98	400	100
Share CBM	6	2	—	0
	—	—	—	—
	300	100	400	100

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The allocable CBM is then allocated to us and our Chinese partners annually according to our respective actual participating interests for that year, which we will assume for purposes of our working example are the same as the participating interests under the production sharing contracts.

	Panzhuang		Mabi	
	<i>(RMB)</i>	<i>(%)</i>	<i>(RMB)</i>	<i>(%)</i>
Allocation of allocable CBM				
Our Group	235.2	80	280	70
Chinese Partner	58.8	20	120	30
	294	100	400	100
Allocation of share CBM				
Our Group	—	0	—	0
Chinese Partner	6	100	—	100
	6	100	—	100

Management and Operations

The production sharing contracts provide for a joint management committee to perform supervisory functions for each CBM field. According to the production sharing contracts, each party appoints the same number of representatives to the joint management committee, which may range from two to five. Currently, under both the Panzhuang PSC and the Mabi PSC, we and our Chinese partners each appoint five representatives. Under both contracts, each party designates one chief representative. The chairman of the joint management committee is the chief representative designated by the Chinese partner, whereas the vice chairman is the chief representative designated by us.

The joint management committee typically meets quarterly or at the request of our Chinese partners or us. Decisions of the joint management committee are to be made unanimously, and each decision is equally binding on both parties. When an agreement cannot be reached, the parties may convene another meeting in an attempt to find a new solution based on the principle of mutual benefit. During the Track Record Period and up to the Latest Practicable Date, there has been no material disagreement between the Chinese partners and us.

The joint management committee has the authority to, among other things, review and approve operational and budgetary plans, assess on an ongoing basis the commerciality of the CBM fields, review and adopt the overall development plan and any supplemental overall development plan, review and examine matters required to be submitted to the relevant PRC authorities, as well as approve significant procurements, expenditures and insurance coverage.

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We have been designated as the operator of the CBM fields under both the Panzhuang PSC and the Mabi PSC. As the operator, we are responsible for the day-to-day operations of the CBM fields, for implementing the decisions of the joint management committee, and for making decisions that are not the responsibility of the joint management committee. As the operator, our obligations specifically include the following:

- applying the appropriate technology and managerial experience to perform the CBM operations reasonably, economically and efficiently in accordance with sound international practice;
- preparing and carrying out work programs and budgets;
- procuring equipment and supplies and subcontracting services related to the CBM operations;
- preparing, budgeting and executing annual personnel training programs; and
- maintaining complete and accurate accounting records of all costs and expenditures of the CBM operations and keeping the accounting books secure and in good order.

Ownership of Data and Assets

Under the production sharing contracts, our Chinese partners own all data, records, samples, vouchers and other original data obtained in the course of performing the CBM operations. After the earlier of (i) full recovery by us of our development costs or (ii) expiration of the production phase, our Chinese partner shall also own all the assets purchased, installed and constructed under the production sharing contracts, except any assets leased or imported for use on a temporary basis. Before this, we and our Chinese partners jointly control and own the assets that have not been explicitly defined in either of the production sharing contracts. As we have not yet fully recovered our development costs under either of the production sharing contracts, neither CUCBM nor PetroChina has obtained ownership of any of the assets purchased, installed and constructed under the production sharing contract for either Panzhuang or Mabi.

The production sharing contracts specifically provide that during the term of the relevant production phase, the assets are to be used solely for the CBM operations of the CBM fields in the contract area. Without the consent of both us and our Chinese partner, the assets cannot be used for any other purpose. We believe that our Chinese partners' eventual ownership of the assets in this respect will not affect our financial position, because our ability to realize future economic benefits under the production sharing contracts stems from our entitlement to the CBM produced over the term of the production sharing contract, and such entitlement is not dependent upon us owning the assets.

Sale of CBM to Third Party Purchasers

The production sharing contracts provide that we may sell our share of the CBM to third party purchasers. We have the following sales options: (i) market and sell jointly with the Chinese partner to buyers, including those who are able to purchase in U.S. dollars; (ii) sell our share of the CBM to the Chinese partner or its affiliates; (iii) sell our share of CBM independently to Chinese users subject to relevant PRC laws and regulations and governmental procedures; or (iv) sell to other lawful destinations or buyers. We currently market and sell jointly with CUCBM the CBM produced at the Panzhuang concession. We also sell the pilot production CBM in our Mabi concession as CNG directly to PetroChina, who is also a CNG producer. Please see the subsection headed “Sales and Marketing” below for more details.

Relinquishment of Contract Areas

During the exploration phase, we may decide that it is not economically feasible to develop certain contract areas and may choose to relinquish such contract areas by notifying the Chinese partner with the support of a report setting forth our exploratory findings. For example, during the Track Record Period, based on preliminary exploration results, we have determined that an area of approximately 405.8 square kilometers in the Mabi concession is not economically feasible for further development, and we relinquished this area during the second half of 2012. We did not recognize any impairment loss as a result of the relinquishment because we expensed the exploration costs in 2007 when there was no convincing evidence for commercial development in this 405.8 square kilometer area at that time. We are entitled to recover the relevant exploration costs incurred for such relinquished areas under the production sharing contracts.

Abandonment of Contract Areas

Pursuant to the production sharing contracts, during the development or the production phase, we may choose to abandon certain contract areas after development and production activities have been carried out there, if we have come to the conclusion that production is no longer economically feasible. Abandonment includes plugging the well, removing all equipment and restoring the area to its original condition. If either party to the production sharing contracts plans to abandon commercial production from a portion of the contract area, it must give prior written notice to the other party. If the other party agrees to abandon commercial production from the area, both parties will pay abandonment costs in proportion to their respective participating interests in the CBM field. Upon service of notice to abandon commercial production from a portion of the contract area by us, if the Chinese partner decides not to abandon development or commercial production, all of our rights and obligations, other than obligations incurred prior to our abandonment, under the production sharing contract in respect of the abandoned area, including the obligation to pay abandonment costs and site restoration, are transferred to the Chinese partner and terminated with respect to us. As of the Latest Practicable Date, we have not abandoned any contract areas.

Termination of Production Sharing Contract and Operational Rights

Circumstances under which a production sharing contract may be terminated prior to its expiration include (i) if no commercially viable CBM reservoir has been discovered, then after the exploration phase; (ii) if there is only one CBM field in commercial production in the contract area, then upon termination of the production phase of that CBM field; (iii) if there are two or more commercially viable CBM fields or CBM fields in commercial production in the contract area, then upon termination of the production phase of the CBM field with the latest termination date; and (iv) both parties can terminate upon a material breach of the contract terms and failure to remedy such breach by the other party, subject to arbitration as provided in the production sharing contract. Further, under the Panzhuang PSC, neither party has the right to unilaterally terminate the contract. Under the Mabi PSC, neither party has the right to unilaterally terminate the contract except that the Chinese partner can terminate the contract if (i) we fail to pay the contract signing fee, (ii) we fail to complete the minimum work requirement pursuant to the contract during the exploration phase, unless otherwise provided therein, or (iii) we fail to pay certain project facilitation fees incurred by the Chinese partner or fulfill certain personnel hiring and training obligations pursuant to the contract. If the production sharing contract terminates because no viable CBM reservoir has been discovered, we will not be able to recover costs we have incurred from our CBM exploration activities. In the event of an early termination due to a material breach, the production sharing contract will remain in full force and effect until any dispute concerning the breach has been settled through arbitration. Under the Mabi PSC, if PetroChina terminates a production sharing contract because of our material breach and failure to remedy such breach, we may not be able to recover our costs incurred under the Mabi PSC.

Under the Panzhuang PSC, our operational rights in the Panzhuang concession will terminate and be taken over by CUCBM or its designated entity if we fail to bear all the costs and expenditures incurred during the exploration phase or if our participation interest under the contract becomes less than 50% in the development of the CBM field. There are no provisions under the Mabi contract that may enable the Chinese partner to take over our operational rights in the Mabi concession.

For details of the applicable laws and regulations governing production sharing contracts in the PRC, please see the section headed “Regulation — Regulatory Framework for Sino-Foreign Cooperation in CBM Extraction” of this prospectus.

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PRODUCTION AND SALES

The following table shows our gross production volume, gross sales volume, average sales prices and unit production costs for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
Gross Production Volume (mmcf)	3,585	6,090	13,254
Panzhuang	3,487	5,493	12,631
Mabi	98	597	623
Net Production Volume (mmcf)	2,636	3,829	10,040
Panzhuang	2,636	3,829	10,040
Mabi	—	—	—
Gross Sales Volume (mmcf)	2,636	3,629	9,240
Panzhuang	2,636	3,629	9,240
Mabi	—	—	—
Net Sales Volume (mmcf)	2,241	3,279	8,686
Panzhuang	2,241	3,279	8,686
Mabi	—	—	—
Average Sales Price			
RMB per cubic meters	1.37	1.49	1.73
US\$ per mcf	6.15	6.80	7.98
Unit Net Production Costs¹			
RMB per cubic meters	1.2	0.7	0.4
US\$ per mcf	5.6	3.2	2.0

Note:

1. Calculated by dividing the sum of net operating expenses (excluding depreciation and amortization expenses) by net production volume. See the section headed "Financial Information — Liquidity and Capital Resources — Production Costs" for more information.

Gross production volume is the total amount of CBM produced in the contracted areas. Net production volume is equal to gross production volume (i) less utilization loss, which is the CBM lost during the production, transmission, gathering, compression and purifying processes, and sometimes used for power generation at the production sites, and (ii) multiplied by the percentage of CBM allocated to us under the production sharing contracts. Since we commenced large-scale transmission through the Tongyu Pipeline in May 2012, we have realized more stable gas delivery and intake and utilization loss has decreased. Gross sales volume is gross production volume less (i) utilization loss and (ii) amounts sold to pay applicable VAT and local taxes. Net sales volume is that portion of gross sales volume allocated to us under the production sharing contract. For the foreseeable future, we believe that substantially all of our gas can be transported and sold through either the pipelines or the LNG facilities adjacent to our concessions.

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Drilling Activities

<u>Wells drilled (cumulative)</u>	<u>For the Year Ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total wells drilled	152	240	329
Panzhuang	39	58	75
Geology parameter wells ¹	11	13	15
Producing production wells	28	45	50
Non-producing production wells ²	—	—	10
Mabi	113	182	254
Geology parameter wells ¹	91	132	135
Producing production wells	22	50	69
Non-producing production wells ²	—	—	50

Notes:

1. Geology parameter wells are wells drilled for the purposes of allowing geologists and reservoir engineers to identify resource and reserves and their migrations. CBM production from these wells is to prove the productivity of our reserves and is not counted towards our gross or net production volume.
2. Non-producing production wells are production wells drilled and pending completion.

RELATIONSHIP WITH OUR CHINESE PARTNERS

CUCBM was initially established in 1996. It was the first state-owned company with the authority to enter into production sharing contracts for CBM exploration, development and production with foreign companies. In 2008, CNPC ceased to be a shareholder of CUCBM and CNPC de facto assumed all of CUCBM's rights and obligations under the Mabi PSC to CNPC. CUCBM continues to be our Chinese partner for the Panzhuang PSC and has actively supported our exploration and development activities in the Panzhuang concession, including the submitting and obtaining approval for the Panzhuang ODP. In July 2013, we entered in the Panzhuang PSC Amendment with CUCBM, under which the parties agree that, the participating interests of CUCBM and us would be adjusted to 20% and 80%, respectively, and the coal seam in a total area of 74.4 square kilometers under the Panzhuang PSC would be solely operated by CUCBM. The Panzhuang PSC Amendment was entered into after the parties' commercial negotiations considering their respective interests. For more information regarding our entering into the Panzhuang PSC Amendment with CUCBM, please see "Business — Our Concessions".

Pursuant to CNPC's internal management rules, it assigned all of its rights and obligations under the Mabi PSC to its subsidiary, PetroChina, though CNPC remains a party to and retains certain administrative rights under the Mabi contract. In 2008, CNPC de facto assumed all of CUCBM's rights and obligations under the Mabi PSC. On March 18, 2012, CUCBM transferred its rights under the Mabi PSC to CNPC. CNPC subsequently assigned all of its commercial and operational rights and obligations thereunder to PetroChina, while CNPC remains a party to the contract. On July 6, 2012, AAGI and CNPC further amended the Mabi PSC, pursuant to which both parties agreed to extend the exploration phase to September 30, 2014. The amendment also provides that if a draft overall development plan has been completed and submitted to CNPC by September 30, 2014 and is pending approval by NDRC, the exploration period will be deemed to have been further extended to the date of the overall development plan approval.

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PetroChina has been active and cooperative in applying for and obtaining various governmental approvals and permits in relation to the Mabi concession, as well as in the reserves certification process for the Mabi reserves.

The production sharing contracts are the foundation for our cooperation with the Chinese partners, and all parties have closely observed the provisions in the respective production sharing contracts. As required by PRC law, we rely on our Chinese partners to apply and obtain certain major licenses and approvals for our projects, such as the CBM exploration and mining licenses and the overall development plan approval. Although we and our Chinese partners are jointly responsible for identifying and negotiating sales terms with customers, we currently enter into CBM sales agreements with customers through CUCBM, pursuant to a joint sales arrangement between us and CUCBM. Our Chinese partners rely on our technological and managerial expertise and capital investments for the efficient development of the CBM resources. After years of cooperation, we have established strong relationships with CUCBM and PetroChina, which we believe will contribute to our future growth given the key role of the Chinese partners in Sino-foreign CBM projects as a result of the PRC regulatory requirements. During the Track Record Period, we did not have any material disagreements with CUCBM or PetroChina. We expect to further develop our working relationships with CUCBM and PetroChina in current and future projects.

We operate under the direction and guidance of the joint management committees under the production sharing contracts for each of the Panzhuang and Mabi concessions. We have independent access to third party suppliers. Our management and operational decisions are made by our Directors and senior management, each of whom is independent of the Chinese partners and has substantial experience in the CBM industry. We possess the technologies to perform the exploration and development work for the CBM operations, as well as the necessary capability and personnel to perform all essential administrative functions, including financial and accounting management. In addition, we maintain an independent financial management system and make financial decisions according to our business needs. In the past, we obtained financing from external sources to finance all of the development of the Panzhuang and Mabi CBM fields without reliance on our Chinese partners. Other than trade and other receivables incurred in the normal course of business, there is no amount due to or from either of the Chinese partners. As the sole CBM field operator under each of the production sharing contracts, we are solely responsible for carrying out the daily operations of the CBM concessions.

Each of CUCBM and PetroChina is independent of and not connected with us or any of our subsidiaries, Directors, senior management or substantial shareholders. Neither CUCBM nor PetroChina has any common shareholders or members of management with our Company. Our production sharing contracts were negotiated on an arm's length basis, reflect normal commercial terms and comply with PRC laws.

SALES AND MARKETING

We began initial commercial sales of the CBM from the pilot production in the Panzhuang concession in 2008 together with CUCBM. Under the production sharing contracts, we have the option to market and sell jointly with the Chinese partners to third parties. We have chosen this option and established a joint sales arrangement with CUCBM. Such arrangement gives us more bargaining power in our negotiations with pipeline operators and customers because we, together with our Chinese partner, offer greater volume and stability of gas supply. Under the joint sales arrangement, we directly approach and negotiate with potential customers before CUCBM enters into sales contracts with them. At the same time that CUCBM enters into a sales agreement with the customer, we enter into a CBM sales cooperation agreement with CUCBM under which we are responsible for delivering the contracted amount of CBM to the customer and CUCBM is responsible for keeping monthly transaction records, issuing sales receipts, paying taxes and royalties and applying for tax refunds and government subsidies. Payments for the CBM sold are made into the jointly controlled bank account opened by CUCBM. The portion of the sales revenue, tax refunds and subsidies that we are entitled to under the production sharing contract is transferred to a bank account designated by us. As advised by our PRC legal adviser, King & Wood Mallesons, the CBM sales agreements that we and our Chinese partners entered into with our customers are legally binding and enforceable under PRC laws.

In accordance with the production sharing contract, we can sell the CBM produced in the Mabi concession by either working with PetroChina to establish a joint sales arrangement or selling directly to PetroChina.

As provided in the production sharing contracts, we may also choose to sell our portion of the CBM directly to customers, subject to PRC rules and regulations. Our PRC legal adviser, King & Wood Mallesons, has advised us that we can make direct CBM sales under the production sharing contracts and the Petroleum Regulations, provided that we comply with any additional regulations and governmental procedures. In addition, our PRC legal adviser has advised us that under the current regulatory framework we would be able to make direct sales through PRC-incorporated subsidiaries, although we currently have not established any such subsidiaries. For more information regarding our direct sales of CBM, please see the section headed "Risk Factors — The inability of our customers to satisfy their obligations to us or the limitations on us arising from our joint sales arrangements with CUCBM or PetroChina may materially and adversely affect our business, financial conditions and results of operations."

Customers

We categorize our current and target customers as follows:

Pipeline-linked customers. Pipeline-linked customers are those downstream customers, including city gas distributors, LNG producers and industrial users, for whom we compress and transport our CBM gas through the Tongyu and other pipelines. In May 2012, we began selling to Jiyuan Gas, the city gas distributor in the city of Jiyuan in Henan Province, where a number of companies engaged in heavy industries are located. In July 2014, we entered into a ten-year sales contract with Luoyang Tongyu ENN, a gas distributor in city of Luoyang in Henan Province. In December 2014, we began selling to Sanxia Yizhong, a pipeline-linked LNG producer located at the terminal of Tongyu Pipeline with a total planned production capacity of

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42.4 mmcf per day. Sanxia Yizhong currently sells its LNG to the Henan, Shandong, Hubei, Jiangsu, Zhejiang and other coastal cities. We deliver CBM through pipelines to city gas gathering stations, from which point the city gas distributors distribute the CBM to end users, including industrial, commercial and residential users. During 2012, 2013 and 2014, 36.6%, 33.0% and 37.8% of our net CBM sales volume was from pipeline-linked customers.

In light of the production ramp-up in the Panzhuang concession and in anticipation of the commercial development in the Mabi concession once the Mabi ODP I is approved by the NDRC, to the extent our production can sustain additional long-term sale contracts, we also plan to enter into contracts with additional city gas distributors, such as Luoyang city and Zhengzhou city in Henan Province. We also plan to sell directly to large industrial users linked to the Tongyu Pipeline, such as aluminum plants and petrochemical plants, which will use the gas for their own purposes without further distribution. Our targeted markets have significant energy demand. For example, according to China Statistical Yearbook, Shandong and Henan provinces ranked first and fifth in China, respectively, in terms of energy consumption in 2012 and are two of the three most heavily populated provinces in China with a combined population of approximately 191 million in 2013. During 2012, Shandong and Henan provinces consumed 237.4 bcf and 261.0 bcf of natural gas, respectively, according to China Statistical Yearbook. Many cities in these provinces, including Zhengzhou, Luoyang, Jiaozuo and Jinan, are home to a number of companies involved in heavy industry and have substantial demand for natural gas.

LNG producers. We sell CBM at the wellhead to LNG producers, who liquefy and transport the CBM in trucks to other parts of China. Historically, the large majority of our revenues from LNG producers have been attributable to ENN Energy, our largest customer during the Track Record Period and an LNG producer located near our central gas gathering station in Panzhuang, which transports our CBM to provinces in southern China and along the coast. ENN Energy's two LNG plants have a capacity of approximately 15.9 mmcf per day. Our gross sales volume to ENN Energy was 1,439 mmcf, 2,208 mmcf and 3,940 mmcf, representing 54.6%, 60.8% and 42.6% of our gross sales volume during 2012, 2013 and 2014, respectively. We also sell the CBM produced in the Panzhuang concession to Shuntianda, the owner and operator of a LNG plant near the Panzhuang concession. Shuntianda's LNG plant has a capacity of approximately 10.9 mmcf per day. During 2012, 2013 and 2014, 54.6%, 60.8% and 50.0% of our net CBM sales volume was from LNG producers.

Pipeline distributors. We currently sell a portion of the CBM we produce to one pipeline gas distributor, Shanxi Tongyu, the operator of the Tongyu Pipeline, China's first inter-provincial CBM pipeline. In the future, we plan to sell to PetroChina in its capacity as the operator of the West-East Pipeline One. After purchasing from us, pipeline gas distributors sell and transport the CBM to their downstream customers through the pipelines they operate. During 2012, 2013 and 2014, 2.3%, 6.2% and 12.2% of our net CBM sales volume was from one pipeline distributor customer, Shanxi Tongyu.

CNG producers. We have in the past sold pilot production from the Panzhuang concession as CNG. Such pilot sales of our CBM are made using spot sales and are appropriate in the early development of a CBM concession, when production volumes are lower and no gas gathering and pipeline infrastructure is linked to the area CBM production.

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The table below shows the proportion of our CBM sales volume attributable to our different customer types for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(percent of gross sales volume)</i>		
Pipeline-linked customers	36.6	33.0	37.8
LNG producers	54.6	60.8	50.0
Pipeline distributors	2.3	6.2	12.2
CNG producers	6.5	—	—

We believe our existing supply relationship with our customers and the quality and potential of our reserves have demonstrated to potential customers our ability to provide a steady supply to our target customers. As demand exceeds production levels and with several off-take options in place, we can choose to contract with the customers that can offer more favorable pricing and payment terms to us. We expect to focus our sales to pipeline-linked customers in the future as we continue to ramp up production. Recent government policies direct major cross-country pipelines operated by the state to open their capacity to third party market participants, which provides us access to coastal cities in China, such as Jiangsu, Guangdong and Shanghai. These are the most economically advanced regions in China, having both the willingness and affordability to increase clean energy's share in their energy mix. All three markets have strong industrial gas demand. As such, we are able to realize higher gas prices in these markets.

We believe that there will continue to be sufficient customer demand for our CBM in the future. This is due to (i) China's supply-constrained natural gas market, (ii) the increasing energy demand in our targeted markets, (iii) PRC government policies that encourage the consumption of CBM, and (iv) the availability of our access to pipeline transmission infrastructure and alternative gas distribution channels. For further discussion, please see the section headed "Industry Overview."

Sales Agreements

We currently sell most of our CBM jointly with our Chinese partners under long-term take-or-pay sales contracts, under which the buyer is obligated to pay for the entire take-or-pay amount committed during each delivery term. If there is a supply shortfall caused by us, we are required to deliver the supply shortfall within a certain period of time or pay liquidated damages. Our five largest CBM sales contracts during the Track Record Period include our contract with ENN Energy, Jiyuan Gas, Shuntianda, Luoyang Tongyu ENN and Sanxia Yizhong. Net CBM sales volume under these five contracts contributed 87.0%, 93.9% and 85.2% of our total net CBM sales volume during 2012, 2013 and 2014. CBM sales revenue derived from these five contracts were RMB76.4 million, RMB131.6 million and RMB379.9 million during 2012, 2013 and 2014, respectively, contributing 87.9%, 95.1% and 89.2% of our total CBM sales revenue during the respective periods. Net CBM sales volume derived from our contract with our largest customer contributed 54.6%, 60.9% and 42.6% of our total net CBM sales volume during 2012, 2013 and 2014, respectively. CBM sales revenue derived from this customer were RMB47.2 million, RMB85.2 million and RMB197.0 million during 2012, 2013 and 2014, respectively, contributing 54.3%, 61.6% and 46.3% of our total CBM sales revenue during the respective periods.

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The contracts with our five largest customers are all take-or-pay contracts and typically provide for the following terms:

Term and annual delivery commitment. The CBM sales contracts typically have a term of ten to 15 years, commencing after a trial supply period, during which neither party has a delivery or purchase commitment. The trial period will typically be for up to one year. After the trial supply period, we commit to deliver an increasing amount of CBM each year up to a certain amount throughout the term of the contract.

Price and payments. Under the sales contracts, the CBM sales price is adjusted on an annual basis. Price for the first year of delivery is usually fixed, and then price adjustment mechanisms are applied to calculate prices for each year during the remainder of the contract. The adjustment mechanism will consider year-on-year changes in the wellhead market prices or the citygate market prices of natural gas. The wellhead market price is the market price at which CBM is sold when it is initially produced from the wells in oilfields near our concessions, Changqing Oilfield and Zhongyuan Oilfield, and the citygate market price is the market price at which CBM is sold when it arrives at the gas gathering stations of Luoyang city and Jiaozuo city after being transported through the Tongyu Pipeline. Under these contracts, price adjustments may also be made based on the published Chinese national natural gas price or other agreements between the parties, such as a discount rate or a floor price.

Adjustments in actual deliveries. During the term of the CBM sales contracts, the parties typically agree in advance on the take-or-pay quantity for each month. During a given month, if the buyer fails to take all of the take-or-pay quantity and the shortfall is less than 20% to 30% of the quantity specified in the contract, the buyer can continue to take and we are obliged to deliver the make-up CBM, which is the amount of CBM already paid for but not taken by the buyer, during a make-up period, which is typically the subsequent 24 calendar months, at the price effective at the time when the shortfall occurred or when the actual delivery occurs, whichever is higher. If the buyer fails to take all the make-up CBM it is entitled to during the make-up period, it forfeits its right to that amount of CBM. During a given month, to the extent any make-up CBM is deliverable by us, the amount to be delivered will not exceed 15% of the monthly take-or-pay quantity. If the buyer fails to take more than 20% to 30% of the monthly take-or-pay quantity specified in the contract, the buyer is liable for damages and we are no longer obligated to deliver the portion of the shortfall that exceeds 20% to 30% of the take-or-pay quantity.

During a given month, if we fail to deliver all of the take-or-pay quantity and the shortfall is less than 20% to 30% of the take-or-pay quantity, we are obligated, upon the buyer's request, to deliver the supply shortfall during a shortfall supply period, which is typically the subsequent 24 calendar months, at the price effective at the time when the supply shortfall occurred or when the actual delivery occurs, whichever is lower. If we fail to deliver the full amount of the supply shortfall CBM the buyer is entitled to during the supply shortfall period, we are liable for liquidated damages for any supply shortfall at the price effective at the time such shortfall occurs. During a given month, to the extent any supply shortfall CBM is deliverable by us, the amount to be delivered will not exceed 15% of the monthly take-or-pay quantity. If we fail to supply more than 20% to 30% of the monthly take-or-pay quantity in a given month, we are liable for liquidated damages.

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Breach of contract and damages. In the event of a breach by us or the customer, the breaching party is obligated to cure the breach within a certain period. If the breaching party fails to cure the breach, the non-breaching party is entitled to compensation from the breaching party for any direct and actual losses, including liquidated damages. Our inability to deliver or our customers' inability to take a portion of the take-or-pay amount due to short-term scheduled facility maintenance does not constitute breach of the contracts. During the Track Record Period and up to the Latest Practicable Date, there has not been any breach by us or our customers to fulfill sales or purchase obligations under the sales contracts.

Events of force majeure. Under the contracts, events of force majeure include a decrease in production volume caused by abnormal geological structures or changes in coalbed extraction conditions, well bore collapses, pipeline leakages, and any natural disasters, civil disturbances or government interventions. The parties' obligations under the sales contracts will be suspended during the continuance of events of force majeure.

SUPPLIERS

We outsource a majority of the work related to our operations at Panzhuang and Mabi to third parties, including various well drilling, logging and completion services, surface facility construction, reservoir studies and gas transportation. We perform some of the work related to our operations in-house, such as design and implementation of drilling methods and daily well pumping activities. Such activities allow us to better apply our techniques to the process, ensure quality and progress on work performance and reduce operating expenses.

We typically procure independent third-party service providers through invitations or a bidding process. We consider cost, work quality, track record and proposed delivery schedule in our selection process and seek to balance our cost considerations with our need for quality work. We also conduct detailed due diligence on the service providers such as reviewing their qualifications, track record and necessary licenses, permits and approvals for their operations.

We enter into agreements with contractors on both turnkey and day-rate bases. We typically enter into contracts with our fracturing and drilling service suppliers on a turnkey basis, where these contractors manage the entire drilling process. We usually pay a fixed amount per project or an amount calculated based on a fixed rate per meter of well drilled in installments. We are typically required to make down payments to these contractors upon the signing of the contracts. Turnkey contractors assume all cost and expenses incurred when performing their services, including supplying staff, drilling materials, utilities, equipment and the drilling work, as well as all financial risk for cost overruns and delays in the completion of the well. We have recently begun entering into contracts with contractors on a day-rate basis, where we play an active role in managing the drilling process. The contract consideration is largely calculated based on fixed rates for each day, either operating or standing by, plus a fixed amount for mobilization at the beginning of the job and for demobilization at the end of the job. While day-rate contractors assume all cost and expenses incurred when performing their services, we are responsible for avoiding unnecessary work performed and costs incurred, as well as any delays in the completion of the well. All of our drilling service providers submit the drilling design plan and engineering progress in advance to us for our approval before commencing services. They are also required to submit to us a daily report detailing each day's progress. We have the right

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to inspect and review the performance at the work sites. Our contracts with suppliers also stipulate the liabilities of each party under various scenarios of breach of contract or non-performance, and providers are typically responsible for accidents arising from their providing of services for which they are at fault. In the event that there are delays or other breaches by a supplier, we are entitled to request mitigation or specific performance by the supplier. If the work conducted by the supplier fails to meet the quality, environmental, health and safety and other applicable standards set forth under the agreements, and, as a result of the defect, we suffer any losses, we are entitled to a capped amount of liquidated damages. For losses resulting from force majeure, parties bear their own respective losses. As advised by our PRC legal adviser, King & Wood Mallesons, the service contracts we entered into with our suppliers are legally binding and enforceable under PRC law.

During the Track Record Period, our three largest drilling and fracturing service suppliers were Beijing Orion, CNPC Bohai Drilling Engineering Company Limited (Down-hole Operation Branch) and Shengli Oilfield Aokailong Products Engineering Co., Ltd. In addition to these domestic drilling service providers, we also work with Schlumberger, a leading international oilfield service provider. The drilling service contracts that we enter into with third party drilling service suppliers are typically turn-key drilling construction agreements. Under the turn-key drilling construction agreements, we are responsible for providing the overall CBM drilling plan and monitoring the quality and safety throughout the construction period. The service suppliers are responsible for exploration, drilling, reporting, coordination with local workers and farmers and other facilitating services. The service suppliers are obliged to comply with the laws of environmental protection and production safety, and must maintain proper insurance for workers and equipment. We pay the service supplier service fees in three or four instalments upon the completion of various project milestones, subject to the completed work passing our quality inspection. We did not experience any material delays, quality issues or safety issues with our suppliers in the Track Record Period. Should any of our existing contractors be unable or unwilling to continue providing their services to us, we believe that we would be able to timely identify replacement service providers and enter into services contracts with them on commercially reasonable terms without significantly affecting our business operations.

During the Track Record Period, our largest surface construction material, machinery and equipment supplier was Shandong Coal Mine Geological Exploration and Drilling Supplies Plant.

Purchases from our five largest suppliers accounted for approximately 46.9%, 29.3% and 33.6% of our total materials, services and logistics expenditures of RMB606.3 million, RMB1,767.2 million and RMB543.0 million for 2012, 2013 and 2014, respectively.

TRANSPORTATION

We transport a substantial amount of our CBM through pipeline infrastructure servicing the Qinshui Basin. The Tongyu Pipeline transports CBM from the Panzhuang concession within Shanxi Province and directly to Henan Province, and the Yubei Pipeline and Yuji Pipeline further transport CBM within Henan Province and to Shandong Province. In the future, when our production in the Mabi concession ramps up to a significant level, the West-East Pipeline One can transport our gas to the coastal areas in eastern China, such as Jiangsu Province and Shanghai. In addition, the Jincheng-Changzhi-Taiyuan Pipeline connects Jincheng, a city near

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our concessions, to Changzhi and further to Taiyuan, the capital of Shanxi Province. The following table sets forth the CBM transportation capacity of the pipelines servicing the Qinshui Basin as of the Latest Practicable Date:

<u>Pipeline</u>	<u>CBM Transportation Capacity</u> (bcf/y)
Tongyu Pipeline (Duanshi-Bo'ai)	70.6
West-East Pipeline One	176.6
Jincheng-Changzhi	35.3
Changzhi-Taiyuan	70.6
Jincheng-Houma	17.5
Yangqu-Taiyuan	17.7

Source: SIA Energy

During the Track Record Period, we have not experienced any shortage of transmission capacity. According to SIA Energy, the total daily production volume in the Qinshui Basin is expected to increase to 500.9 mmcf by 2020. The capacity of these pipelines exceeds the total production by all the CBM producers in our region. Further, CBM transportation in our region is supplemented by LNG and CNG distribution channels. As such, we believe we will continue to have access to sufficient transmission infrastructure as we ramp up production.

To secure pipeline transmission, we enter into gas transmission agreements with pipeline operators. A portion of the gas produced from Panzhuang is currently sold to the Henan market through the Tongyu Pipeline under a gas transmission agreement between CUCBM and Shanxi Tongyu entered into in December 2013, under which Shanxi Tongyu will compress and transport our CBM to gas distributors, for a tariff, from September 2013 through May 2027. The tariff under this agreement is initially set at RMB0.49 per cubic meter, subject to adjustment to the standards set by the NDRC. The parties also agree that the tariff will gradually decrease as the volume of gas transported increases, subject to market conditions. There are no minimum or maximum transportation commitments by either party under the agreement.

We believe we have secured access to sufficient pipeline transmission capacity for our CBM produced from the Panzhuang concession through the Tongyu Pipeline for the foreseeable future, because (i) our estimated 2P annual gross production for the Panzhuang concession by the end of 2017 is 22.7 bcf, which is significantly less than the maximum annual capacity of the Tongyu Pipeline, (ii) there is little competition among us and the other CBM producers in the region for pipeline capacity given the gap between the total production volume in the region and total pipeline capacity as well as the other gas distribution channels servicing the region, and (iii) recent government policies have directed major cross-country pipelines operated by the state-owned pipeline operators to open their unutilized capacity to third party market participants, allowing us access to additional pipeline capacity.

INVENTORY CONTROL

Our inventory consists of materials and supplies used for operating and maintaining our gas producing activities, which we store in our own warehouses. Materials and supplies amounted to RMB4.1 million, RMB7.1 million and RMB1.1 million as of December 31, 2012, 2013 and 2014, respectively. Due to the nature of our CBM production business, we cannot store the CBM we produce. We only stock up materials and supplies for production purposes. We conduct periodic stock-taking for accounting reporting and ad hoc stock-takes, and our management reviews inventory reports frequently and reviews the age of inventory at least monthly or as they may consider necessary, and uses computerized processes to track inventory movements and perform aging analysis. During the Track Record Period, there was no material change to our inventory policy.

PROPERTIES

As of the Latest Practicable Date, in the Panzhuang concession, we constructed five gas gathering stations, had one gas gathering station under construction and had plans to build two additional gas gathering stations. We operated or maintained geology parameter wells and producing wells in a total area of approximately 273,000 square meters. In the Mabi concession, we operated or maintained geology parameter exploratory and producing wells and one set of gas gathering facilities in a total area of approximately 213,000 square meters.

We enter into temporary land use contracts and obtain temporary land use permits from local authorities for the areas of land on which we operate or maintain our wells. We occupy these areas under temporary arrangements mainly because (i) with the exception of a small area of forestland which is owned by the state, most of these areas of land are owned by rural collectives and, under PRC law, only land owned by the state can be granted with long-term land use rights, (ii) the life span of a producing CBM well may be uncertain and is typically less than the term under a long-term land use certificate, (iii) exploratory wells are shut down within a shorter period of time upon completion of their reserve certification function, leaving the parcel of land no longer useful for our operations, (iv) our wells are widely dispersed throughout our concession areas and each well site occupies only a small area of land, and (v) we understand that it is not uncommon for mining companies to carry out their operations on collectively-owned land using short-term arrangements. As such, we have historically chosen not to secure long-term land use rights, and the relevant competent land administration authorities have confirmed that there has not been any incident of non-compliance during the Track Record Period in connection with our use of the relevant areas of land. The land parcels currently used by us by way of temporary occupation in the Panzhuang concession and the Mabi concession are located in the counties of Fushan, Anze, Yicheng, Qinshui and Yangcheng of Shanxi Province.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance

which require a valuation report with respect to all our interests in land or buildings, for the reason that, as of December 31, 2014 none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

Temporary Land Use Contracts

We negotiate and enter into temporary land use contracts with villagers' committees or the rural collective economic organizations representing local rural collectives owning the relevant land parcels pursuant to PRC law prior to obtaining the temporary land use permits required for our CBM operations. With respect to certain areas of land in Mabi which are owned by the state and administrated by the local forestry bureau, we have negotiated and entered into temporary land use contracts with the forest farms representing the local forestry bureau. Consideration under these contracts is based on our negotiations with individual villagers' committees and ranges from RMB1.05 to RMB3.90 per square meter. The term of our temporary land use contracts is generally one or two years, which parallels the term of land use permits granted by the local land authority, and we may choose to renew the contracts at the end of their respective terms based on the productivity and remaining life span of the wells within the contracted land area. Since the commencement of our operations in the Panzhuang and Mabi concessions, we have not had any material disputes with the villagers' committees with whom we enter into temporary land use contracts or experienced any material difficulties in renewing these contracts. As advised by our PRC legal adviser, King & Wood Mallesons, the temporary land use contracts we entered into with villager committees, rural collective economic organizations and the state-owned forest farms are binding, legal and enforceable under PRC law.

Supplemental Undertakings

To ensure our continued use of the lands where we operate or maintain our wells, we have entered into supplemental undertakings with a number of villagers' committees that give us the option of automatically renewing the temporary land use contracts, or have included provisions providing for such option in the temporary land use contracts that we entered into since December 2012. This allows us to continue occupying and using the land covering a material part of our well sites for CBM exploration, development and production purposes throughout the term of our production sharing contracts. Under these undertakings or contracts, land use fee adjustments at each renewal are subject to the national rates for land use compensation. The villagers' committees have further agreed under these supplemental undertakings or contracts that during the entire period of our CBM operations, they will not sublease the relevant land to any other parties without our consent. Neither party can terminate the temporary land use contracts or these supplemental undertakings without the other party's consent. As advised by our PRC legal adviser, King & Wood Mallesons, these temporary land use contracts and the signed supplemental undertakings securing our longer term use of the land are legally binding and enforceable under PRC law.

Temporary Land Use Permits

In addition to entering into land use contracts, we are required to obtain temporary land use permits for the areas in which we operate or maintain our wells. As of the Latest Practicable Date, our well sites, including sites where wells have been drilled and sites where pre-drilling preparation work has begun, occupied an area of approximately 273,000 square meters in the

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Panzhuang concession and an area of approximately 213,000 square meters in the Mabi concession. Of these areas, we have previously obtained temporary land use permits from the appropriate and competent government authority for 100% of our well sites in the Panzhuang concession and 99.7% of our well sites in the Mabi concession. As of the Latest Practicable Date, temporary land use permits covering approximately 35.0% of our well sites in the Panzhuang concession expired in December 2014 and are currently under renewal process. Although we applied to renew such permits prior to their expirations, the applications have not been formally processed due to the fact that the land authority in the town of Yangcheng has temporarily suspended processing renewal applications pending the completion of a land resources survey in the area. Based on our communication with the land authority, the land survey will be completed in the fourth quarter or by the end of 2015, after which the land authority will resume the normal processing of renewal applications. We have submitted applications for all of the outstanding temporary land use permits for the lands in the Mabi concession and we do not have any expired temporary land use permits in the Mabi concession. If we are unable to obtain the outstanding temporary land use permits, we may be subject to a fine of RMB10 to RMB30 per square meter, or a total of RMB0.96 million to RMB2.89 million, or be ordered to vacate those parcels for which the permits are outstanding, which will materially and adversely affect our operations. We will provide updates concerning the status of our outstanding permits in our annual reports until we have obtained or renewed all of the outstanding permits.

In the opinion of our PRC legal adviser, King & Wood Mallesons, and as confirmed and required by the competent land administration authority, provided we apply for temporary land use permits and take such other measures for their approval as required by PRC laws and regulations and the land administration authority, (i) there is no material legal impediment to our obtaining the outstanding temporary land use permits or renewing the existing temporary land use permits upon their expiration, (ii) the risk of local authorities not issuing or renewing these existing temporary land use permits is low and (iii) the possibility of us being ordered by the relevant land authorities to return the land or being subject to monetary penalties for failure to obtain or renew the temporary land use permits is remote. Our Directors and the Joint Sponsors are both of the opinion that our inability to thus far obtain the relevant outstanding temporary land use permits will not materially affect our operations and development plans, including drilling plans, projected production schedules, future production volumes and the risk of not obtaining the remaining permits is low because (i) based on our prior experience, we expect to obtain substantially all of the outstanding permits within two months after the land authority completes the land resources survey and resumes the normal processing of renewal applications, (ii) we obtained approval from the Ministry of Land and Resources for the land use in connection with our CBM operations, which is one of the pre-approvals necessary for the overall development plan approval by the NDRC, (iii) we have obtained written confirmations from all of the relevant local land administration authorities confirming that we are allowed to use the land parcels on a temporary basis for our operations, (iv) all of the relevant local authorities have agreed in principle to issue the outstanding permits to us and extend the terms of the existing permits upon their expiration, (v) we have secured relevant temporary land use contracts and undertakings from the rural collectives owning the land and (vi) we have in the past successfully carried out our business operations in land areas for which we had not obtained temporary land use permits, and have from time to time had gaps between the

expiration and renewal of temporary land use permits and during such periods the relevant local authorities have not required us to return any temporarily occupied land nor imposed any penalties on us.

The costs associated with the temporary land use contracts and permits for exploration wells, uncompleted production wells and completed production wells with a contract or permit of more than one year are capitalized under property, plant and equipment, and the costs for completed production wells with a contract or permit of less than one year are expensed when incurred.

Compensation Agreements

As of the Latest Practicable Date, we have also entered into compensation agreements with local farmers, and, in the case of a small area of the Mabi concession, state-owned forest farms, which allow us to access an area of approximately 971,000 square meters in the Panzhuang concession and an area of approximately 1,238,000 square meters in the Mabi concession, and to build roads and surface fixtures for our operations on a non-exclusive and temporary basis. These compensation agreements cover all the areas of land we currently use as roads and surface fixture sites. Under these compensation agreements, we pay the local farmers or the forest farms a fee to access and use the land. We may renew the agreements if we need to continue to use the land for our operations. The term of these compensation contracts is generally two years, and we may choose to renew the contracts at the end of their respective terms based on the needs of our operations. The amount of compensation is based on our negotiation with local farmers, and the amount ranges from RMB1.05 to RMB3.90 per square meter. As confirmed by the competent land administrative authorities, we are not required to obtain the temporary land use permit for the existing well site roads used jointly with local villagers or the forest farms. As advised by our PRC legal adviser, King & Wood Mallesons, these compensation agreements contracts are valid and legally binding and enforceable agreements under PRC laws and regulations, pursuant to which we have the right to access and use the areas of land. We paid approximately RMB8.6 million, RMB12.2 million and RMB10.2 million to the local farmers for temporary land use contracts and compensation agreements in 2012 and 2013 and 2014, respectively.

Contingency Plans

In the opinion of our PRC legal advisor, King & Wood Mallesons, there is no material legal impediment to our continuing to access or occupy the relevant land for the purpose of carrying out our CBM operations. In addition, the relevant competent land administration authorities have confirmed that given the nature of CBM operations, we are permitted to access and use such land parcels by way of temporary occupation. Notwithstanding the above, in the event that our use of the land under temporary occupation is disrupted because the relevant rural collectives fail to perform its obligations under the temporary land use contracts, the supplemental undertakings or the temporary compensation agreements, we have the following options:

- if we are unable to use the parcels of land where we build roads and other ancillary surface fixtures, it is economically and operationally feasible to build additional facilities in other parcels of land nearby that belong to other rural collectives, with whom we will enter into relevant land use contracts;

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- if we are unable to use the parcels of land where we operate our vertical wells, it is economically and operationally feasible to drill and operate additional vertical wells in other parcels of land nearby that belong to other rural collectives, with whom we will enter into relevant land use contracts; and
- if we are unable to use the parcels of land where we operate our horizontal wells, based on our current technologies and experience, it is not feasible to drill other wells in nearby parcels given the significant drilling costs and technical difficulties, in which case we will resort to legal actions to enforce our rights under the relevant contracts.

We have been granted the right to use three parcels of land totaling 42,269 square meters under three land use certificates issued to us by the local government of Qinshui Town with expiration dates of May 20, 2058, September 22, 2060 and September 22, 2060, respectively. On these lands, we have constructed our central gas gathering station, the Number 1, Number 2 and Number 3 gas gathering stations and our production management center for the Panzhuang concession, and we also have constructed our local office, ancillary facilities and employee dormitories. We completed the construction of our Number 4 gas gather station in September 2014 and of our Number 5 gas gathering station in February 2015. We also plan to construct our Number 11 and Number 13 gas gathering stations for the Panzhuang concession. Our Number 4, Number 5, Number 11 and Number 13 gas gathering stations are located on two additional parcels of land totaling 13,302 square meters, for which we have entered into the relevant land use right grant contracts and paid the corresponding land grant consideration. We will apply for the land use certificates for such additional parcels of land after the completion of the construction of the gas gathering stations. As advised by our PRC legal adviser, King & Wood Mallesons, there are no material legal impediments for us to obtain the land use certificates once the construction completion inspection is completed by relevant local authorities on these gas gathering stations. Our Number 1, Number 2 and Number 3 and central gas gathering stations began trial operations in 2008, 2010, 2011 and 2013, respectively. We review the construction plans of our gas gathering stations from time to time as our project progresses. Pursuant to relevant land use regulations, if we decide not to use the underlying land, the local government has the right to reclaim the land use right without repaying our land grant consideration and without owing us any additional compensation. We therefore must forego the land grant consideration. As of the Latest Practicable Date, we have determined that one planned gas gathering station was no longer necessary for the Panzhuang Project and may forego our right to use the underlying land. For more details regarding our rights to use and access land for our operations as well as the risks associated with our rights to certain areas, please see the section headed “Risk Factors — Our rights and ability to continue to use parcels of land in which we conduct our CBM operations may be adversely affected if we are unable to obtain land use certificates or temporary land use permits and enforce our temporary land use arrangement with the rural collectives and forest farms.”

As of the Latest Practicable Date, we had entered into three lease agreements for our headquarters’ offices and two lease agreements for residential use for our employees in Beijing, 13 lease agreements in Panzhuang for office, residential, storage and employee use, one lease agreement for residential use for our employees supporting the Panzhuang concession in Jiaozuo, Henan Province, and 38 lease agreements in Mabi for office, residential and storage use. All of these agreements were entered into with independent third parties. The lessors of

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some of these properties have provided us with ownership certificates, though some of the lessors could not provide the certificates to us because they do not possess them. The majority of these tenancy agreements have not been filed with the competent authorities. Our PRC legal adviser, King & Wood Mallesons, has advised us that the tenancy agreements between us and each of these lessors are legal, valid, enforceable and binding on the parties to these agreements and the absence of record filing will not affect the validity of these tenancy agreements and that we are unlikely to be required to vacate these premises, although we, as the lessee, might be subject to administrative penalties of no more than RMB10,000. Our Directors believe that these leased properties in the Panzhuang and Mabi concessions are not crucial to our operations and that if we were required to vacate the leased premises, we would be able to relocate to alternative premises within six months without materially affecting our operations or incurring any material costs. We expect costs associated with such relocation to be approximately RMB8.0 million.

For more information regarding our properties, including details regarding our temporary use of land, please see Appendix V to this prospectus.

COMPETITION

We compete with both existing foreign CBM players and potentially new emerging players to secure additional production sharing contracts with the four entities authorized by the PRC government to cooperate with foreign companies in CBM exploration, development and production in the PRC, namely CUCBM, CNPC, Sinopec and Henan CSG. We believe there are a number of barriers to foreign CBM developers wishing to enter the CBM development industry in China, including technical capability, financial resources, experience, track record and relationships with PRC counterparties.

We believe our major competitive advantages include:

- premium assets with significant development potential;
- proven ability to develop CBM resources by applying suitable technologies and technical know-how;
- access to established infrastructure enables sales to target markets with significant demand for CBM;
- long-standing relationships with CUCBM and PetroChina as well as long-term relationships with suppliers and other business partners;
- experience in managing the government approval process under production sharing contracts; and
- strong management team with extensive industry experience and successful execution track record.

UTILITIES

Electricity for our CBM operations is provided by local electricity companies and the price is charged at the national rate for industrial use set by the Chinese government. Water required in drilling is sourced by our drilling service providers from local villages and water required for gas compression is sourced by us from local villages. Water prices are charged at local rates. During the Track Record Period, our operations have not been interrupted by a shortage of electricity or water supply. Alternative suppliers of electricity and water are available to support our concessions at competitive prices.

TECHNOLOGY AND KNOW-HOW

We believe our strong commitment to improving operational and technical excellence is an important factor in our success. The industry in which we operate is characterized by intense competition and one key differentiating factor is our ability to identify the best reserves and apply the appropriate technology to cost-efficiently extract CBM reserves. Our co-chief executive officer structure combines the complementary skill sets of Mr. Carl Lakey and Mr. Jing Li. Mr. Carl Lakey has almost 30 years of experience in the oil and gas industries with many years in the U.S. specifically devoted to CBM development and production. Mr. Jing Li has over 15 years of experience in the coal and CBM industries in China, having built strong relationships with our business partners and regulatory agencies. Mr. Mingzhu Fan, our chief geologist, has over 30 years of CBM experience in China. Mr. Chris Hogle, our vice president of technology, has over 30 years of oil and gas industry experience and 13 years of CBM industry experience in both North America and Asia. Mr. James Landry, our director of drilling, is a horizontal drilling expert with a background in horizontal shale drilling. Collectively this team and other essential members of our company provide the foundation for our technical expertise and continued growth.

We have focused our technology and know-how on the following major areas:

- having devoted 10 years to the acquisition of the geologic data that is essential to understanding our reserves and surrounding areas;
- employing a number of tools to help complete our geologic understanding including conducting 22.2 square kilometers of 3-D and 1,227.0 kilometers of 2-D seismic surveys, and drilling 217 core holes, 17 hydrological wells, 150 geology parameter wells and 179 production wells;
- identifying and developing drilling, fracturing and pumping technologies that are suitable to the geology of the areas where we drill;
- improving well productivity and decreasing costs by applying the most suitable technology to each drilling area and by improving drilling designs and supervision, production systems, well maintenance and operation efficiency; and
- evaluating other gas fields.

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To further increase the efficiency of our operations, we license certain specialized technical software for engineering and economic analysis of our operations. For example, we currently license numerical reservoir simulation software from a large oil and gas service company to help optimize our well design and spacing.

Costs related to technical research and development activities are part of our regular costs incurred for exploration, testing and production operation. Research and development costs related to well drilling and reservoir tests are capitalized as part of exploration costs, of which we do not have a specific category to separate the cost amount. Costs incurred for salaries and benefits, business travels, and professional services for our research and development technical staff are expensed, and such costs were RMB2.3 million, RMB4.1 million and RMB6.3 million in 2012, 2013 and 2014, respectively.

ENVIRONMENTAL MATTERS

Our operations in the PRC are required to comply with PRC environmental laws and regulations administered by central and local government environmental protection bureaus. We are also subject to environmental rules promulgated by provincial and local PRC governmental agencies in Shanxi Province. The Ministry of Environmental Protection sets national environmental protection standards, but local environmental protection bureaus may set stricter local standards.

We are required to obtain an approval for our environmental impact assessment as a supporting document for the approval of the overall development plan. In order to obtain this approval, our environmental impact assessment must demonstrate to the relevant environmental protection government agencies that the project complies with all applicable environmental standards. Once we obtain approval of overall development plan from the NDRC, local and provincial environmental protection agencies supervise our compliance with environmental protection laws and regulations and conduct inspections of our CBM fields from time to time. We obtained the environmental impact assessment approval for Panzhuang in 2009 and have begun preparing the environmental impact assessment report for Mabi in 2012.

We have a centralized environmental, health and safety, or EHS department. Panzhuang and Mabi also have their own respective teams and dedicated workers responsible for monitoring and ensuring that environmental and safety measures are followed. We implemented EHS management systems for both Panzhuang and Mabi operations based on ISO 14001 and OHSAS 18001 standards. Panzhuang EHS management system was certified by DNV in April 2012 to be in compliance with these standards. We plan to have DNV review and evaluate our performance and implementation of the EHS management system. Our EHS policies focus on ensuring our CBM emissions control, treatment of waste water and slurry and treatment of soil erosion are in accordance with the relevant regulations and policies of national and local governments. We have made preventive measures to handle environmental hazards, such as minimizing gas emissions and burning, sedimenting and recycling waste water, solidifying and embedding slurry, land reclamation and revegetation. As required by our EHS policies, we actively monitor our operations and the operations of our contractors, who are obligated to

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observe our EHS policies pursuant to the service contracts between them and us. We have also entered into agreements for the treatment of hazardous waste with competent and qualified professional firms to treat the waste oil arising out of CBM exploration.

We have implemented emergency measures to manage, report and investigate any potential incident related to fire, personal injuries, vehicular accidents, environmental pollution and equipment malfunction. Our emergency management measures follow similar procedures established by relevant government agencies as well as CUCBM and PetroChina. Our production team organizes emergency drills every month and analyzes the effectiveness of the emergency plans following these drills.

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility that fails to comply with orders requiring it to cease or cure operations causing environmental damage. We have received the environmental impact assessment for the Panzhuang concession and the water environmental impact assessments for both the Panzhuang and Mabi concessions, all of which have been approved by the competent government authorities. Receiving these approvals requires that we take certain steps to ensure our processes for handling and disposing of waste water have a minimal impact upon the environment. Our operations produce only a small amount of waste water because our coal ranks as anthracite and most of the water originally in the coal has been lost due to the high temperatures during the maturation process. In both the Panzhuang and Mabi concessions, produced water passes through filters and then into cement containment pits on the well sites. From these pits, most of the water either evaporates or is pumped back down the casing and used to cool our progressive cavity pumps. Excess water is either hauled to containment pits at other sites for evaporation or reuse or, for a small portion of our produced water, taken to local sewage treatment plants by third party contractors. Our PRC counsel is of the opinion that our treatment of waste water complies with relevant laws and regulations in all material respects because, to date and according to the current construction status of each project, (i) the environmental impact assessment for the Panzhuang concession and the water environmental impact assessments for both the Panzhuang and Mabi concessions have all been approved and (ii) our gas gathering stations in the Panzhuang concession have obtained or are in the processing of applying for the trial operation approvals and construction inspection files. In 2012, 2013 and 2014, we did not experience any incidents in our CBM concessions that had a material adverse impact on our business or results of operations.

EHS management expenditures in connection with our CBM operations are covered under each production sharing contract. These expenditures primarily relate to safety precaution and land restoration and thus are likely to increase in the future due to the planned rapid expansion of our operations. We are not currently involved in any environmental or safety claim and we believe that our EHS management systems and facilities are adequate for us to comply with applicable national and local environmental protection regulations.

Costs for compliance with applicable environmental laws and regulations, which are not material during the Track Record Period, are part of the costs incurred for well production, surface facility construction and operation activities.

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As advised by our PRC legal adviser, King & Wood Mallesons, we have complied with all the material and applicable laws, regulations and requirements relating to environmental protection of the PRC during the Track Record Period and up to the Latest Practicable Date. We have also established internal procedures and designated responsible personnel to ensure our ongoing compliance.

CORPORATE SOCIAL RESPONSIBILITY

We recognize the importance of addressing responsibly the impact of our business activities on our employees and local communities.

We have formed a local community coordination team to identify the key needs of the local community in which we operate, as we believe that building and maintaining a mutually beneficial relationship with the local community is an important responsibility of ours. The coordination team engages in regular dialogue with local county governments to ensure that our operations are in line with our social and environmental responsibilities and contribute to local communities. Local social economic issues are a key consideration in our business decisions. We have invested in improving the local environment, including local wildlife, trees and infrastructure, and will continue these efforts in the future.

Employment and training is another of our focuses as we believe that localization is an important means of enhancing local social development. We partner with local educational institutions and have been providing internship positions to students from local technical schools. In cooperation with local government, we also regularly provide members of the local community with basic CBM knowledge, safety awareness and customer service training.

EMPLOYEES AND CAREER DEVELOPMENT

As of December 31, 2012, 2013 and 2014, we employed 456, 553 and 591 full-time employees, respectively. As of December 31, 2014, we had 59, 531 and 1 full-time employees located in Beijing, Shanxi Province and Henan Province, respectively. The following table sets forth the number of employees by function as of December 31, 2014:

Function	As of December 31, 2014	
	Number of Employees	Percentage of Total Employees
Production	363	61.4
Technical service	42	7.1
General administration.	85	14.4
Project Support	101	17.1
Total	<u>591</u>	<u>100.0</u>

Our employees are employed under employment contracts that set out fully, among other things, the employee's responsibilities, remuneration and grounds for termination of employment. In accordance with PRC law, our employees that are PRC citizens are employed through employee dispatching agreements we have entered into with two employee agents, Beijing Foreign Enterprise Human Resources Service Co., Ltd. and Shanxi Runyang Human Resources Service Co., Ltd., both of which are third-party service providers authorized to enter into

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employment contracts with local employees on behalf of foreign enterprises. Under the employee dispatching agreements, the dispatch term of each employee is typically one to two years. We are obliged to provide the employee agents with a monthly compensation package by the end of each month, which includes an employee's salary, contribution to mandatory social insurance funds, other benefits and a service fee. The employee agents are obliged to complete regulatory procedures required for dispatching the employees and make monthly payments to the employee, including salary, contribution to social insurance funds and other benefits. Our employees who are non-PRC citizens have entered into employment agreements with AAGI.

We consider our relations with our employees to be amicable. We have complied with all the relevant laws, regulations and requirements relating to fair recruitment standards, working conditions, employment contracts and codes of conduct with respect to our employees in Beijing and Shanxi Province. During the Track Record Period, we did not encounter any material difficulties in recruiting and retaining our employees and we have not experienced any material interruption to our operations as a result of labor disputes. We also review annually the compensation packages of our management and other key talents to ensure their compensation remains competitive in the CBM market.

We consider our employees to be our key competitive advantage in the CBM market. We are committed to providing active training and career development for every employee. We conduct internal ethic education workshops regularly to educate every employee as to their responsibilities toward meeting our vision, mission and code of ethic. We also offer an active English learning program to enable each employee to improve their basic English communication skills. We have also arranged various domestic and overseas training programs to ensure the development of talented and motivated employees to contribute the continued performance and growth of our business. Investing in the career development of our employees has been a priority in our human resources development plan.

As advised by our PRC legal adviser, King & Wood Mallesons, we have complied with applicable employment and labor laws and regulations in all material respects during the Track Record Period. We have also established internal procedures and designated responsible personnel to ensure our ongoing compliance.

OCCUPATIONAL HEALTH AND SAFETY

We base our health and safety rules on government regulations and require all employees to follow these rules. We established a health and safety committee, which consists of one of our co-chief executive officers and some key employees, to set general health and safety guidelines. Our EHS department is responsible for formulating and implementing safety guidelines and operational procedures and standards. We conduct safety training periodically for our employees and contractors.

We require all of our employees to follow our workplace health and safety management system documents, which are based on the PRC Production Safety Law and other applicable government regulations. The health and safety management system also comply with OHSAS 18001:2007. Up to the Latest Practicable Date, we have not been materially affected by any failure to comply with safety standards or PRC law.

BUSINESS

We have made, and will continue to make, efforts to take necessary measures to ensure the safety of our employees. These measures include ensuring that the design, installation, use and maintenance of our equipment meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, and providing suitable protective devices to our employees.

During the Track Record Period and up to the Latest Practicable Date, there has not been any material incident concerning occupational health or safety. As advised by our PRC legal adviser, King & Wood Mallesons, we have complied with all material applicable occupational health and safety laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date. We have also established internal procedures and designated responsible personnel to ensure our ongoing compliance.

INTELLECTUAL PROPERTY

Our engineers and technicians in the course of their work have developed various know-how and techniques relating to reserve management improvement and optimizing CBM recovery. Our intellectual property rights consist of trademarks, domain names and software that we use for marketing, business development and operation purposes and are material to our business. As of the Latest Practicable Date, we had registered 21 trademarks and 1 software in China and had registered three trademarks in Hong Kong which are material to our business. Our registered domain names include *www.aagenergy.com*, *www.asianamericangas.com*, *www.aagenergy.com.cn* and *www.asianamericangas.com.cn*. See the section headed “Statutory and General Information — Further Information About the Business of Our Company — Our intellectual property rights” in Appendix V to this prospectus for further details of our intellectual property rights.

We recognize the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We believe that we have taken all reasonable measures to prevent any infringement of our intellectual property rights. We are currently not aware of any pending or threatened claims against us or our subsidiaries relating to any alleged infringement by us of any intellectual property rights owned by third parties. Our employment contracts and supply contracts contain confidentiality provisions to protect our confidential information and know-how.

During the Track Record Period and up to the Latest Practicable Date, there has not been any incident of material infringement involving our intellectual property rights.

INSURANCE

As protection against operating hazards, we maintain insurance coverage on our properties and equipment, including wells, gas gathering stations, pipelines, well site and wellhead equipment, and other machinery and supplies. We maintain property damage insurance, insurance for operator's extra expenses such as limited redrilling, seepage and pollution expenses and third party liability insurance as well as workplace injury insurance for our operations. We have engaged Willis Insurance Brokers Co Ltd., an insurance broker, to review our insurance policy and practice with respect to our CBM development projects. We also carry

group insurance for all members of the joint management committee of the Panzhuang and Mabi concessions. We also carry director and officer liability insurance for our directors and officers. We will continue to assess our risk portfolio and make necessary and appropriate adjustment. Based on our best knowledge of insurance practices within the PRC, we believe that our level of insurance is adequate and comparable to that maintained by gas companies in the PRC. However, we may not have sufficient coverage for all foreseeable risks, either because insurance is not available or because of unreasonably high premium costs. We did not make any material claim under our insurance policies during the Track Record Period.

INTERNAL CONTROL AND RISK MANAGEMENT

We have implemented a series of measures to manage the risks that face in our operations. Our internal control team, which is led by our internal control committee and reports directly to our Audit Committee and our co-chief executive officers, formulates and implements a series of internal control systems over financial reporting. Our legal department, led by our chief legal officer and corporate secretary, ensures our compliance with existing legal requirements and monitors and promptly react to changes in PRC laws and regulations that impact our operations. We have implemented a project contract procurement and review system, which requires the decision to enter into a major project contract be jointly made by our legal, finance, operations, technical and other relevant departments. Each of our corporate departments, including finance, operations, human resources, environmental protection and safety department, regularly report to our management with respects to any compliance issues. We have also hired an outside PRC legal adviser, King & Wood Mallesons, who handles various legal and regulatory matters regarding our operations.

REGULATORY AND COMPLIANCE MATTERS

We are required by laws and regulations in the PRC to obtain a number of licenses, permits and approvals from the relevant authorities to conduct our CBM exploration activities in the PRC. During the Track Record Period and up to the Latest Practicable Date, we have obtained all the key licenses, permits and approvals necessary for the respective development stages of the Panzhuang Project and the Mabi Project. Also, our Chinese partners, namely CUCBM and PetroChina, are responsible for obtaining some of the key licenses, permits and approvals relating to the CBM properties, including the exploration permit and the mining permit. The ability to obtain such licenses permits and approvals are not within our control and those key licenses, permits and approvals belong to CUCBM and PetroChina. The following table shows the key license and permits that we have already obtained for the operations in the Panzhuang and Mabi and their respective validity periods.

BUSINESS

Panzhuang Concession

<u>License/Approval/Permit</u>	<u>Authorized Entity</u>	<u>Issuance Authority</u>	<u>Issuance Date</u>	<u>Expiry Date</u>	<u>Description</u>
Business Licenses	SAE	AIC of Beijing City; AIC of Shanxi Province	July 10, 2014; October 22, 2013	July 27, 2019; August 9, 2015	Granting the engagement in CBM exploration, development and production in Panzhuang
Approval of the Production Sharing Contract	CUCBM	MOFCOM	March 14, 2003	N/A	Approving the Panzhuang production sharing contract
Approval of the Assignment by the Foreign Party of the Production Sharing Contract	CUCBM	MOFCOM	September 14, 2005	N/A	Approving SAE(US)'s transfer of the foreign party's interest in the Panzhuang production sharing contract to SAE
Approval of the Second Amendment of the Production Sharing Contract	CUCBM	MOFCOM	November 8, 2010	N/A	Approving the second amendment of the production sharing contract as to preparation period
Approval Letter regarding the Initiation of Preparation Work for the Shanxi Jincheng Panzhuang CBM Development Project	CUCBM	NDRC	July 11, 2007	N/A	Approving the initiation of preparation work for the preparation, submission and approval of the overall development plan
Land Use Permit	SAE	Qinshui County Government	March 4, 2009	May 20, 2058	Granting the right to use the land for the construction of the gas gathering stations and office buildings
Approval of the Overall Development Plan	CUCBM	NDRC	November 28, 2011	N/A	Approving the details of the overall development plan
Mining License	CUCBM	MOLAR	June 27, 2012	June 27, 2032	Granting the mining right for the entire area of the Panzhuang Project
Land Use Permit	SAE	Qinshui County Government	May 14, 2013	September 22, 2060	Granting the right to use the land for the construction of the gas gathering stations
Land Use Permit	SAE	Qinshui County Government	May 14, 2013	September 22, 2060	Granting the right to use the land for the construction of the gas gathering station
Production Safety Permit	SAE	Shanxi Administration of Coalmine Safety	July 29, 2014	July 28,2017	Approving the operational activities relating to well drilling, CBM exploration and exploitation etc.

BUSINESS

Mabi Concession

License/Approval/Permit	Authorized Entity	Issuance Authority	Issuance Date	Expiry Date	Description
Business Licenses	AAGI	AIC of Beijing City; AIC of Shanxi Province	September 23, 2014; September 29, 2014	September 30, 2015; September 30, 2015	Granting the engagement in CBM exploration, development and production in Mabi
Approval of the Production Sharing Contract	CUCBM	MOFCOM	September 17, 2004	N/A	Approving the Mabi production sharing contract
Approval of the Assignment by the Foreign Party of the Production Sharing Contract	CUCBM	MOFCOM	September 14, 2005	N/A	Approving AACI's transfer of the foreign party's interest in the Mabi production sharing contract to AAGI
Approval of the Second and Third Amendment of Production Sharing Contract	PetroChina	MOFCOM	October 9, 2012	N/A	Approving CUCBM's transfer of the PRC party's major interest in the Mabi production sharing contract to PetroChina, the span of exploration phase and related matters
Approval Letter regarding the Initiation of Preparation Work for the Shanxi Southern Mabi Concession of Qinshui Basin CBM Development Project	PetroChina	NDRC	November 12, 2013	N/A	Approving the initiation of preparation work for the preparation, submission and approval of the overall development plan
Exploration License	PetroChina	MOLAR	February 21, 2014	February 20, 2016	Granting the exploration right for the Mabi Project
Production Safety Permit	AAGI	Shanxi Administration of Coalmine Safety	July 29, 2014	February 20, 2016	Approving onshore oil (gas) extraction activities and well operations

In the opinion of King & Wood Mallesons, save as otherwise disclosed in the prospectus, we have complied with all applicable material laws and regulations during the Track Record Period. In addition, King & Wood Mallesons considers that the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC are not applicable to our Listing or Reorganization.

LEGAL PROCEEDINGS

We are not currently a party to any material legal, arbitral or administrative investigative proceedings, and we are not aware of any pending legal, arbitral or administrative proceedings against us which may have a material adverse effect on our operations or financial condition. However, we may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), WP China, Baring PE and Dr. Zou (our chairman) will hold approximately 25.26%, 20.66% and 5.89% of the issued share capital of our Company, respectively, calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range, and will remain as our group of Controlling Shareholders.

WP China, Baring PE and Dr. Zou will discuss major issues regarding our Group's business from time to time through various communication channels, such as telephone and emails, and reach consensus on these issues before Shareholders or Board meetings are convened. In addition to the standard corporate resolutions, our Controlling Shareholders and our Board passed unanimous written resolutions on all key corporate decisions including matters such as the issuance of warrants, introduction of new investors, work plans and financing for the Panzhuang and Mabi concessions and the relevant Reorganization steps, the details of which are set out in the paragraph headed "History and Corporate Structure — Reorganization" of this prospectus. Although WP China, Baring PE and Dr. Zou are a group of Controlling Shareholders in our Company, they are not acting in concert for the purposes of the Takeovers Code.

Set out below is further information in relation to our Controlling Shareholders and their related entities.

WP China

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, WP China is a limited liability company incorporated under the laws of the BVI and is wholly-owned by Asia X Investments I LLC, a Delaware limited liability company. Since March 2010, WP China has invested in our Company.

Asia X Investments I LLC

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Asia X Investments I LLC is a limited liability company incorporated in the State of Delaware and collectively owned as to 100% by Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P., both limited partnerships incorporated in the State of Delaware.

Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P.

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P., both limited partnerships incorporated in the State of Delaware (collectively, "**WP X**"), are private investment funds with limited partners investors, who collectively own as to 100% of the partnership interests in WP X. Warburg Pincus LLC, a New York limited liability company, is appointed by Warburg Pincus X, L.P., the general partner of WP X, as the investment manager of WP X. Warburg Pincus & Co., a New York general partnership, is the ultimate general partner of WP X.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

To the best of our Directors' knowledge, WP X will be deemed under the SFO to be interested in a significant stake in the issued share capital of our Company through Asia X Investments I LLC and WP China, details of which have been disclosed in the section headed "Substantial Shareholders" of this prospectus.

Warburg Pincus & Co.

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Warburg Pincus & Co. is a New York general partnership. Warburg Pincus & Co. is the ultimate general partner of WP X. Mr. Peter Randall Kagan, our non-executive Director, is a partner of Warburg Pincus & Co.

Warburg Pincus LLC

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries Warburg Pincus LLC is a New York limited liability company of which Mr. Peter Randall Kagan, our non-executive Director, is a managing director and a member.

Baring PE

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Baring PE is a company incorporated under the laws of the BVI and is owned by the limited partnerships that comprise The Baring Asia Private Equity Fund IV, which are limited partnerships registered under the laws of the Cayman Islands and a majority of which represents Baring Asia Private Equity Fund IV, L.P. Baring PE is owned as to 99.3% by The Baring Asia Private Equity Fund IV, L.P. Baring PE has been an investor in our Company since February 2008.

The Baring Asia Private Equity Fund IV, L.P.

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, The Baring Asia Private Equity Fund IV, L.P., a limited partnership registered under the laws of the Cayman Islands, is an Asian regional private equity fund with limited partners comprised of institutional investors. The Baring Asia Private Equity Fund IV, L.P. is one of the limited partnerships comprising The Baring Asia Private Equity Fund IV and controls a majority of issued shares in Baring PE.

Baring Private Equity Asia GP IV Limited

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Baring Private Equity Asia GP IV Limited is a limited liability company incorporated under the laws of Cayman Islands. Baring Private Equity Asia GP IV Limited is the ultimate general partner of The Baring Asia Private Equity Fund IV.

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Baring Private Equity Asia GP IV Limited will be deemed under the SFO to be interested in a significant stake in the issued share capital of our Company through The Baring Asia Private Equity Fund IV, L.P., The Baring Asia Private Equity Fund IV and Baring PE,

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

details of which have been disclosed in the section headed “Substantial Shareholders” of this prospectus. Baring Private Equity Asia GP IV Limited disclaims beneficial ownership of such shares in our Company, except to the extent of its economic interest.

Dr. Zou

Dr. Zou is the principal founder of our Group and has had effective control of our overall management since the establishment of our Group. He, being our chairman, is primarily responsible for our Group’s overall corporate strategies and, together with our senior management, has been actively involved in the daily management of our Group.

THE INNER MONGOLIA PROJECT AND OUR ARRANGEMENT WITH SHANXI SHENGYANG

Background

In early 2008, we became aware of a potential CBM business opportunity in Inner Mongolia. However, after taking into consideration that (i) the relevant CBM concessions were still in a very early exploration stage and involved many of uncertainties; and (ii) to directly invest in the relevant CBM concessions, we would need to negotiate and enter into a production sharing contract with a Chinese partner authorized by the State Council to participate in the Sino-foreign cooperative CBM project and such process would take at least two to three years to complete; we decided to secure our potential investment in these CBM concessions by entering into contractual arrangements with Shanxi Shengyang, a PRC entity established by our senior management members, Ms. Yang Lin and Wei Huang, before the above conditions were satisfied. Shanxi Shengyang was established in July 2008 to acquire control of certain CBM concessions in Inner Mongolia from two independent third parties. Our Parent Company subsequently entered into cooperation agreements with Shanxi Shengyang Group and obtained the right to participate in the exploration and development of the CBM concessions in Inner Mongolia (the “**Inner Mongolia Project**”) controlled by Shanxi Shengyang Group from time to time. Shanxi Shengyang Group was consolidated into our financial statements since its establishment and was deconsolidated on June 6, 2012 as a result of the 2012 Share Swap.

Details of the Inner Mongolia Project

Shanxi Shengyang Group currently controls three CBM concessions, which are situated in northeastern Xilingol League, Inner Mongolia and extend over areas of 365.6 square kilometers, 508.802 square kilometers and 513.5 square kilometers, respectively, under the exploration licenses. According to our experiences in Panzhuang and Mabi Projects, there are uncertainties of obtaining the governmental approvals as to our investment in the Inner Mongolia Project. For example, we would need to obtain government approvals, including MOLAR and NDRC, in order to invest in the Inner Mongolia Project and the approval process would be protracted and uncertain. Other than the exploration licenses for the three CBM concessions which were granted in November 2013, July 2013 and August 2014, respectively, no other government and regulatory approvals have been obtained as of the Latest Practicable Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Basic geological information of these three CBM concessions is shown in the following table:

CBM Concession	Acreage (km²)	Target Coal Formations	Coal rank	Coal thickness (m)	Coal depth (m)
Wunite	513.565	Jurassic/Cretaceous	Lignite and higher-rank	0–34	0->500
Ehebaolige	365.616	Jurassic/Cretaceous	Lignite and fat coal	0–60	0–2500
Wurigentala	508.802	Jurassic/Cretaceous	Lignite and higher-rank	0–36	260–2200

Note: As of December 31, 2014, geological data had been acquired from 14 geological parameter wells, 138.8 km 2-D seismic surveys and 148 square km geo-chemical tests in the three CBM concessions.

Inner Mongolia Option

In order to participate in the future upside of the Inner Mongolia Project, on December 12, 2012, our Parent Company and CCBM II entered into the Inner Mongolia Option Agreement under which our Parent Company (or our designated foreign entity) has the exclusive right to participate as the only foreign investor in the Inner Mongolia Project by entering into production sharing contract or any other similar forms of arrangement as allowed under relevant PRC laws and regulations at the time. Our PRC legal adviser, King & Wood Mallesons, has confirmed that, CCBM II (through Meiya) will obtain the decision-making rights over the operating and financial policies and benefits from the business activities of Shanxi Shengyang Group after the relevant contractual arrangements between Meiya, Shanxi Shengyang, Ms. Yang Lin and Wei Huang are duly executed and become effective and the relevant agreements are duly performed by the contractual parties. The Inner Mongolia Option will expire at the earlier of (i) our Parent Company or any foreign company designated by our Parent Company entering into a production sharing contract with a Chinese partner authorized by the State Council for the Inner Mongolia Project and all relevant PRC governmental and regulatory approvals and consents having been obtained; or (ii) three years after the Listing. If and when our Company proposes to exercise the Inner Mongolia Option, an independent valuer will be appointed to evaluate the fair value of the Inner Mongolia Project as soon as practicable. We and CCBM II will negotiate the consideration for the Inner Mongolia Project in good faith for a one month period starting from the date when the independent valuer opines on the fair value of the Inner Mongolia Project. If the parties cannot agree upon a consideration after good faith negotiation, the consideration for the Inner Mongolia Project will be set at the fair value opined by the independent valuer. We will decide whether to exercise the Inner Mongolia Option when the consideration is determined. The due date of the consideration for the Inner Mongolia Project will be negotiated among the parties following the exercise of the Inner Mongolia Option. The commercial rationale for such an arrangement is so that that we can have the right to participate in the future upside of the Inner Mongolia Project, but at the same time, to avoid the potential risks and uncertainties associated with investing in the Inner Mongolia Project. We consider it is in the best interest of our Group

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

that we do not exercise the Inner Mongolia Option or pay the consideration until the Inner Mongolia Project is more established and a fair valuation of the Inner Mongolia Project can be obtained from an independent valuer.

Under the Inner Mongolia Option Agreement, CCBM II is required to provide us with notification on the status of the Inner Mongolia Project from time to time and all information in relation to the Inner Mongolia Project upon our request. The completion of our exercise of the Inner Mongolia Option is subject to certain conditions including, among other things, obtaining all relevant PRC governmental and regulatory approvals and consents.

In connection with the Inner Mongolia Option, on December 12, 2012, CCBM II, Meiya, Shanxi Shengyang and one of its subsidiaries entered into the Option Agreement to reflect CCBM II's obligations under the Inner Mongolia Option Agreement.

Assignment of the Inner Mongolia Option from our Parent Company to our Company

On March 16, 2015, CCBM II, our Parent Company and our Company, among others, entered into the Inner Mongolia Option Supplemental Agreement, pursuant to which our Parent Company assigned all of its rights and obligations under the Inner Mongolia Option Agreement to our Company at nil consideration.

Our PRC legal adviser, King & Wood Mallesons, has confirmed that the Inner Mongolia Option Agreement, the Option Agreement and the Inner Mongolia Option Agreement Supplemental Agreement are valid and legally binding under PRC laws and regulation.

Reasons to exclude the Inner Mongolia Project from the Group

Given the Inner Mongolia Project is still at its planning stage and there are certain risks and uncertainties associated with investing in the Inner Mongolia Project, we consider that it is in the best interest of our Group that we do not exercise the Inner Mongolia Option until the Inner Mongolia Project is more established. These risks and uncertainties include:

- operational risks and uncertainties such as, the exploration has been limited in scale and the reserves and commerciality need to be further tested; and
- according to our experiences in Panzhuang and Mabi Projects, there are uncertainties of obtaining the governmental approvals as to our investment in the Inner Mongolia Projects. For example, we would need to obtain government approvals, including but not limited to MOLAR and the NDRC, in order to invest in the Inner Mongolia Project and the approval process would be protracted and uncertain.

Given the location and the early stage of the Inner Mongolia Project, and the likely different target customers, the Inner Mongolia Project is very distinct from the Panzhuang and Mabi concessions. Because of these risks and uncertainties, it would be in our best interests in the near-term to focus on exploring and developing our CBM business in the Panzhuang and Mabi concessions. We also believe that given the early stage of the Inner Mongolia Project, the location of the project and the likely customers of the CBM to be produced from the project, the Inner Mongolia Project does not pose any material competition to us.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In light of the reasons stated above, our Directors are of the view that it is in our and our Shareholders' best interests to exclude the Inner Mongolia Project prior to the completion of the Global Offering. We intend to exercise the Inner Mongolia Option at a time when, taking into account the commercial value of the Inner Mongolia Project, the consideration we have to pay for exercising the Inner Mongolia Option and other relevant factors, it is in our Shareholders' best interests to do so. In any event, this will be after (i) all the relevant PRC government approvals have been obtained; (ii) the relevant production sharing contract or any other similar forms of arrangement as allowed under relevant PRC laws and regulations is in place; and (iii) we have gained an appropriate understanding of the Inner Mongolia Project in order to assess whether it is in our Shareholders' interests to exercise the Inner Mongolia Option. If our Company has not applied the proceeds intended to be used for expanding our operations by acquiring interests in other CBM concessions by the time the Inner Mongolia Option is ready to be exercised and depending on our funding available at the time, our Company may use the proceeds to pay for the consideration for the exercise of the Inner Mongolia Option.

As of the Latest Practicable Date, save for the Inner Mongolia Project, there was no other business operated by our Controlling Shareholders which will compete or is likely to compete with our core business.

Any exercise of the Inner Mongolia Option will constitute a notifiable and/or connected transaction in the event that CCBM II remains our connected person. We will comply with the then applicable requirements of the Listing Rules to acquire participation interests in the Inner Mongolia Project through exercising the Inner Mongolia Option, including seeking appropriate independent Shareholders' approval as required. We will also disclose the status of the Inner Mongolia Project in our annual reports and prepare and issue a competent person report for the Inner Mongolia Project after the exercise of the Inner Mongolia Option in accordance with the Listing Rules at the relevant time. For further details of the review process in connection with the exercise of the Inner Mongolia Option, see the paragraph headed "Corporate Governance Measures for Exercising the Inner Mongolia Option" in this section below.

Except for the Inner Mongolia Option, we do not, as of the date of this prospectus, have any interests in the Inner Mongolia Project. Our management is independent of the management of Shanxi Shengyang Group and the Inner Mongolia Project. Shanxi Shengyang Group has its own personnel, who are experienced in the exploration and development of CBM in the PRC. Since our inception, our core business has been the exploration, development and production of CBM in Shanxi Province in the PRC.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, save as disclosed above, none of our Controlling Shareholders were engaged or had interests, in any business which, directly or indirectly, competes or may compete with our Group's business, i.e. business related to exploration, development and production of CBM in the PRC, which is discloseable under rule 8.10 of the Listing Rules. Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Our Directors believe that our Group is capable of carrying on its business independent of our Controlling Shareholders without unduly relying upon them, taking into consideration the following factors:

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Independence of Business Operations

We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We do not rely on our Controlling Shareholders or their respective associates for our operations. We have independent access to suppliers and customers and an independent management team to handle our daily operations. We have been focusing on our business line for the exploration, development and production of CBM in Shanxi Province in the PRC. Our Board believes that on the back of our solid track record, we are able to carry on business independent of our Controlling Shareholders after the Listing. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our Shareholders as a whole.

Management and Administrative Independence

Our Company's management and operational decisions are made by our Board and our senior management. Our Board comprises one executive Director, seven non-executive Directors and four INEDs. Save for (i) Dr. Bo Bai, our non-executive Director, is a managing director of Warburg Pincus Asia LLC, a wholly owned subsidiary of Warburg Pincus LLC; (ii) Mr. Peter Randall Kagan, our non-executive Director, is a partner of Warburg Pincus & Co. and a managing director and a member of Warburg Pincus LLC; (iii) Mr. Zhen Wei, our non-executive Director, is a managing director of Warburg Pincus Asia LLC, a wholly owned subsidiary of Warburg Pincus LLC; (iv) Mr. Gordon Sun Kan Shaw, our non-executive Director, is a managing director of Baring Private Equity Asia Limited; and (v) Dr. Guiyong Cui, our non-executive Director, is a managing director of Baring Private Equity Asia Limited, none of our Directors has any directorships or equity interests in any of WP China or Baring PE.

Since our Controlling Shareholders, save as disclosed above, do not engage in businesses which are in competition with our Group's business, our Directors do not consider that there is any issue, which will arise in relation to our management independence. Our Company is of the view that the abovementioned concurrently held positions will not affect the independence of our Board due to the followings:

- (i) Dr. Bo Bai, Mr. Peter Randall Kagan, Mr. Zhen Wei, Mr. Gordon Sun Kan Shaw, and Dr. Guiyong Cui, our non-executive Directors, are not involved in the daily management of our Company. They mainly provide strategic guidance to our Company; and
- (ii) the daily management of our Company is carried out by our chairman, Dr. Zou, the co-chief executive officers of our Company and various members of our senior management. Dr. Zou and members of our senior management form the core management group of our Company, which has been responsible for the daily management of our Company, including assisting our Board in making sound management decisions, carrying out the decisions of our Board, performing overall strategic financial planning and analysis for our Group, overseeing the business development, project development and management, finance and accounting issues, the sales and financial aspects of management of the business and other essential operations of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a director and his personal interests.

Having considered the above factors, our Directors are satisfied that our management team is able to perform its roles in our Company independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders (except for Dr. Zou being our chairman and executive Director) upon completion of the Global Offering.

Financial Independence

During the Track Record Period, none of our Controlling Shareholders provided any loans or advances to us other than WP China and Baring PE's subscription of the Convertible Bonds.

Our own finance department is responsible for discharging the treasury, accounting, reporting, group credit and internal control functions of our Company, independent from our Controlling Shareholders. Our Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by our Controlling Shareholders. Therefore, our Directors are of the view that our Company operates independently of our Controlling Shareholders from the financial perspective.

CORPORATE GOVERNANCE

Our Company has adopted the Code and will comply with the code provisions (except code provision A.2.1) in the Code. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and co-chief executive officers, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our Directors will review our corporate governance policies and compliance with the Code. We will state in our interim and annual reports whether we have complied with the Code and will provide details of, and reasons for, any deviations from it in our corporate governance report which will be included in our annual reports.

Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, which provides, among other matters, prohibitions on directors' dealings in securities and protection of minority shareholders' rights.

Our Company is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including INEDs) so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our INEDs, details of whom are set out in the section headed "Directors and Senior Management" of this prospectus, individually and together possess the requisite knowledge and experience for a seat on our Board. All of our INEDs are experienced and will provide impartial and professional advice to protect the interest of our minority Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' rights after the Listing.

Corporate Governance Measures for Exercising the Inner Mongolia Option

We have adopted the following additional corporate governance measures to further protect our Shareholders' interests in respect to the exercise of the Inner Mongolia Option:

- (i) any conflicted Director, meaning any Director who is also a director or member of the senior management of CCBM II or its subsidiaries, will abstain from participation in any Board meeting or part thereof when matters relating to the exercise of the Inner Mongolia Option or any other connected transactions pursuant to contractual arrangements with any Controlling Shareholder are discussed, unless his/her attendance is requested/approved by a majority of the INEDs. Notwithstanding his/her attendance, he/she shall not vote or be counted towards the quorum in respect of such matters;
- (ii) an independent board committee comprising all of our INEDs will review and decide, by simple majority vote, whether or not to exercise, or relinquish the right to exercise, the Inner Mongolia Option. When considering whether or not to exercise the Inner Mongolia Option, our independent board committee will consult with our chairman, Dr. Zou, and relevant members of our senior management and consider whether exercising the Inner Mongolia Option at such time would be in the best interest of our Shareholders as a whole. We will disclose the status of the Inner Mongolia Project and such decisions and the underlying rationale in our annual reports. CCBM II is required to, and to procure Shanxi Shengyang Group to, provide all information upon our request to assist our independent board committee and/or independent financial adviser in their assessment of the Inner Mongolia Option or other matters related thereto; and
- (iii) the exercise of the Inner Mongolia Option will constitute a notifiable and/or connected transaction under the Listing Rules in the event that CCBM II is still our connected person at the time of exercise. We will comply with applicable reporting, announcement and/or independent Shareholders' approval requirements under and prepare and issue a competent person report for the Inner Mongolia Project after the exercise of the Inner Mongolia Option in accordance with the Listing Rules at the relevant time.

CONFIRMATION

Except as disclosed above, neither our Controlling Shareholders nor any of our Directors is, as of the Latest Practicable Date, interested in any business, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board consists of 12 Directors, comprising one executive Director, seven non-executive Directors and four INEDs.

The table below sets forth the age, position and date of appointment of each of our Directors:

<u>Name</u>	<u>Age</u>	<u>Time of joining our Group</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Roles and Responsibilities</u>
Dr. Zou (鄒向東)	57	July 2004	Executive Director Chairman	January 28, 2015 January 28, 2015	Overall development and growth strategies, investor and public relations, board governance and supervision of key management issues; chairman of the Nomination Committee
Peter Randall Kagan	46	April 2011	Non-executive Director	January 28, 2015	Advising on industrial, geological and financial matters
Gordon Sun Kan Shaw (聶宇成)	50	February 2008	Non-executive Director	January 28, 2015	Advising on accounting, internal control and financial matters; member of the Audit Committee
Zhen Wei (魏臻)	43	March 2010	Non-executive Director	January 28, 2015	Advising on financial and compensation and incentive matters; member of the Remuneration Committee
Zhijie Zeng (曾之杰)	46	May 2011	Non-executive Director	January 28, 2015	Advising on investment environment and governmental matters
Lei Jin (金磊)	37	June 2013	Non-executive Director	January 28, 2015	Advising on business development matters
Guiyong Cui (崔桂勇)	52	May 2014	Non-executive Director	January 28, 2015	Advising on investor relations
Bo Bai (白波)	37	September 2014	Non-executive Director	January 28, 2015	Advising on human resources and business development matters
Yaowen Wu (吳耀文)	71	June 2015	INED	June 5, 2015	Independently overseeing the management; member of the Nomination Committee
Robert Ralph Parks	71	June 2015	INED	June 5, 2015	Independently overseeing the management; chairman of the Remuneration Committee; member of the Audit Committee

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Time of joining our Group</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Roles and Responsibilities</u>
Tin Yau Kelvin Wong (黃天祐)	54	June 2015	INED	June 5, 2015	Independently overseeing the management; chairman of the Audit Committee; member of the Nomination Committee
Fredrick J. Barrett	54	June 2015	INED	June 5, 2015	Independently overseeing the management; member of the Remuneration Committee

Executive Director

Dr. Zou (鄒向東博士), aged 57, is the primary founder of our Group and an executive Director. Dr. Zou is primarily responsible for our Group's overall development and growth strategies, investor and public relations, board governance and supervision of key management issues. Dr. Zou has been the chairman and chief executive officer of our Parent Company since February 2008 and October 2013, respectively. He has been a director, the chief executive officer and chairman of the board of directors of AAGI since July 2004, August 2006 and October 2013, respectively. He was the president of AAGI from July 2005 to October 2013. He has been a director and the president of SAE since June 2007.

Dr. Zou has over 30 years of experience in energy resources fields in the U.S. and the PRC, mainly in coal, CBM and petroleum exploration and development. He is considered one of the pioneers of China's CBM industry. From 1999 to 2006, he was a director, executive vice president, president and chief China representative of AACI and was responsible for development and implementation of AACI's short-term and long-term work plans, management of its daily operations and business development, including project acquisition, assessment and approvals, contract negotiation and approvals, and partner relations. During this period, he identified and developed two coal mining projects, Daning Coal Mine and Gaohe Coal Mine, and two CBM projects.

Dr. Zou was the general manager of CBM projects of Phillips China Inc. (菲力浦斯中國有限公司) from 1996 to 1997. He was responsible for the project coordination between Phillips China Inc. and its partners, overall management of the projects, negotiation of the production sharing contract and coordination of the support processes from Phillips China Inc. From 1994 to 1996, Dr. Zou was the vice president of CBM Energy Associates, L.C. and was responsible for its in-country management, partner relations and business development, including identification, contract negotiation and development of two CBM concessions, which led to the establishment of Shanxi Hedong CBM Company, Ltd., a joint venture established by CBM Energy Associates, L.C., Shanxi Energy Enterprise (Group) Corporation and four other local companies in Shanxi Province, and Fuxin Sino-American CBM Co. Ltd., a joint venture established by CBM Energy Associates, Inc. and Fuxin Energy Development Corporation, as the operators of the CBM concessions. From 1994 to 1997, Dr. Zou was the vice chairman and general manager for both

DIRECTORS AND SENIOR MANAGEMENT

Shanxi Hedong CBM Company, Ltd. and Fuxin Sino-American CBM Co., Ltd. and managed their daily operations, CBM explorations (drillings and reservoir evaluation), CBM sales contracts' negotiations and partner relations.

From 1989 to 1993, while pursuing his doctorate degree at the department of geology and geography of West Virginia University, Dr. Zou was a teaching assistant as well as a research assistant on a project sponsored by the U.S. Department of Energy entitled "Measuring and Predicting Reservoir Heterogeneity in Complex Deposystems." Prior to that, he worked as an engineer at the branch of geology & exploration, China Central Coal Research Institute (中國煤炭科學研究院地質勘探分院) from 1985 to 1989 and worked at Shanxi No. 2 Coal Geological Exploration Co. (山西煤田地質勘探二隊) from 1975 to 1978.

Dr. Zou obtained a bachelor of engineering degree in coal geology and exploration from Shanxi Mining College (山西礦業學院) in May 1982 and obtained a master degree from China Central Coal Research Institute (中國煤炭科學研究院) in December 1985. Dr. Zou earned his doctor of philosophy degree in geology from West Virginia University in December 1993.

Non-Executive Directors

Mr. Peter Randall Kagan, aged 46, is a non-executive Director. Mr. Kagan is primarily responsible for advising on industrial, geological and financial matters, Mr. Kagan was appointed to our Parent Company's board of directors in April 2011. He has also been one of the directors of AAGI and SAE since April 2011.

Mr. Kagan has over 17 years of experience with energy companies and investments and broad knowledge of the oil and gas industry. He is a partner of Warburg Pincus & Co., and a member and managing director of Warburg Pincus LLC, where he has been employed since 1997 and became a managing director in 2002. Mr. Kagan is also a member of Warburg Pincus LLC's executive management group. Prior to joining Warburg Pincus LLC, he worked in investment banking at Salomon Brothers in both New York and Hong Kong from 1990 to 1993. Currently, Mr. Kagan acts as a director for a number of listed companies. He is an independent non-executive director of MEG Energy Corp. (TSX: MEG), Antero Resources Corporation (NYSE: AR), Antero Resources Midstream Management LLC, Targa Resources Corp. (NYSE: TRGP) and Laredo Petroleum Holdings, Inc. (NYSE: LPI), respectively.

Mr. Kagan served as a director of Targa Resources GP LLC, the general partner of Targa Resources Partners LP (NYSE: NGLS), from February 2007 to February 2013 and of Targa Resources, Inc. (Nasdaq: TRGP) from February 2004 to December 2010, respectively. In addition, he was a director of Broad Oak Energy, Inc. from May 2006 to July 2011.

Mr. Kagan received his bachelor of arts degree cum laude from Harvard College in June 1990. He also obtained both juris doctor and master of business administration degrees with honors from the University of Chicago in June 1997.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gordon Sun Kan Shaw (蕭宇成), aged 50, is a non-executive Director. Mr. Shaw is primarily responsible for advising on accounting, internal control and financial matters. Mr. Shaw was appointed to our Parent Company's board of directors in February 2008. He is also one of the authorized representatives of our Company and has been one of the directors of AAGI and SAE since February 2008 and March 2010, respectively.

Mr. Shaw has over 20 years of private equity experience with a broad variety of experience in the finance industry across Asia. Mr. Shaw is a managing director of Baring Private Equity Asia Limited. Prior to joining Baring Private Equity Asia Limited in January 1999, Mr. Shaw was a director at Hong Kong-based AIG Investment Corporation (Asia) Ltd, which he joined in September 1993. Mr. Shaw served as a director of Airtac International Group (TT: 1590) from December 2009 to May 2013.

Mr. Shaw received his bachelor of science degree in electrical engineering from Massachusetts Institute of Technology in June 1986 and his master of business administration degree from Columbia University in October 1992. Mr. Shaw is a fellow of Life Office Management Association, Inc (LOMA).

Mr. Zhen Wei (魏臻), aged 43, is a non-executive Director. Mr. Wei is primarily responsible for advising on financial and compensation and incentive matters. Mr. Wei was appointed to our Parent Company's board of directors in March 2010. He has been one of the directors of AAGI and SAE since March 2010.

Mr. Wei joined Warburg Pincus Asia LLC, a wholly owned subsidiary of Warburg Pincus LLC, in 2002 and is currently a managing director leading investments in the consumer and retail, energy and natural resources and industrial sectors. Before that, he worked as a financial analyst at the investment banking division of Morgan Stanley Asia from 1997 to 1999 and a business analyst at McKinsey & Company from 1995 to 1997.

Mr. Wei obtained his bachelor of science degree from University of Texas at Austin in May 1995. He received his Master of Business Administration degree from Harvard Business School in June 2002.

Mr. Zhijie Zeng (曾之杰), aged 46, is a non-executive Director. Mr. Zeng is primarily responsible for advising on investment environment and governmental matters. Mr. Zeng was appointed to our Parent Company's board of directors in May 2011. He has also been a director of AAGI and SAE since February 2012 and December 2011, respectively.

Mr. Zeng has more than 16 years of experience in the venture capital industry. He has been the general manager of CDB-CITIC since 2008. Prior to joining CDB-CITIC, he was a managing director of Walden International from January 2001 to May 2008 and was responsible for the risk management of the company. Mr. Zeng also worked for CITIC Pacific Ltd. in Hong Kong from April 1998 to January 2001 and Mitsubishi Corporation (TYO: 8058), in Tokyo, Japan from September 1995 to April 1998.

Currently, Mr. Zeng acts as a director for a number of listed companies. He is an independent non-executive director of ChinaSoft International Limited (HKSE: 0354), E-House (China) Holdings Limited (NYSE: EJ) and Vimicro International Corporation (Nasdaq: VIMC).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zeng obtained his bachelor of science degree in economics from Nagasaki University in Japan in March 1996 and his master of management degree from Stanford University in June 2001.

Mr. Lei Jin (金磊), aged 37, is a non-executive Director. Mr. Jin is primarily responsible for advising on business development matters. Mr. Jin was appointed to our Parent Company's board of directors in June 2013. He has also been a director of AAGI and a director of SAE both since June 2013.

Mr. Jin has more than ten years of experience in private equity funds, principle investment, investment banking and corporate finance. Mr. Jin has been a managing director and a member of investment review committee of Chinastone Capital Management Limited since January 2011. Mr. Jin was an assistant to the chairman of a Hong Kong based investment company from June 2008 to December 2010 and served as board secretary to Shantou Dongfeng Printing Co., Ltd. (SHA:601515) from June 2008 to December 2010. He was a vice president of ABN AMRO from February 2007 to May 2008, an executive director of Cathay Fortune Corp. from September 2006 to January 2007, an international business director of a PRC conglomerate from February 2002 to August 2006 and a vice president of a securities company from February 2002 to August 2006.

Mr. Jin obtained his bachelor degree in economics from Shanghai Jiao Tong University in July 1999 and his master of philosophy degree in economics with merits from University of Cambridge in May 2002.

Dr. Guiyong Cui (崔桂勇博士), aged 52, is a non-executive Director. Dr. Cui is primarily responsible for advising on investor relations. Dr. Cui was appointed to our Parent Company's board of directors in May 2014. He was one of the directors of AAGI from July 2004 to June 2006 and has resumed such role since July 2014. He has also been one of the directors of SAE since July 2014.

Dr. Cui has over 20 years of experience in investment in the energy and resources sectors. He is a managing director of Baring Private Equity Asia Limited and is primarily responsible for the firm's investments in greater China. Prior to joining Baring, he worked as a managing director at HOPU Investment Management Co. Ltd. from May 2008 to September 2009 and became a partner since October 2009. He worked at Morgan Stanley Asia Limited from April 2007 to April 2008 and acted as a managing director of investment banking. From March 2004 to April 2007, he was employed by HSBC Group and held the position of managing director of Global Investment Banking Asia Pacific — Resources and Energy at HSBC Markets (Asia) Limited. From June 2002 to August 2003, he served as head of the investment banking division at ICEA Capital Limited. Dr. Cui was employed by N M Rothschild & Sons and assumed various positions from September 1994 to June 2002 including the position of managing director, investment banking and the chief representative China in N M Rothschild & Sons' Beijing Office. Dr. Cui is currently a non-executive director of China Shengmu Organic Milk Limited (HKSE: 1432) since March 2014. He also served as a non-executive director of Winsway Enterprises Holdings Limited (HKSE: 1733) from June 2010 to January 2012.

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Dr. Cui obtained his bachelor of engineering degree and master of engineering degree from the University of Science and Technology of Beijing (北京科技大學, previously known as Beijing Steel College (北京鋼鐵學院) in April 1982 and June 1987, respectively, and his doctor of philosophy degree from the University of Oxford in the United Kingdom in May 1995.

Dr. Bo Bai (白波博士), aged 37, is a non-executive Director. Dr. Bai is primarily responsible for advising on human resources and business development matters. Dr. Bai was appointed to our Parent Company's board of directors in September 2014.

Dr. Bai has over nine years of experience in investment in energy and industrial sectors. Dr. Bai joined Warburg Pincus in 2009 and is a Managing Director leading its investments in the energy and industrials sectors in Asia. Previously, he was a vice president at First Reserve Corporation from February 2008 to October 2009 and an associate at Goldman Sachs from February 2006 to February 2008.

Dr. Bai has served as a board member of China Advanced Gas Resources since November 2014, Kaifeng Baosteel Gases Company since July 2014, Southernpec Storage and Logistics Holding Limited since October 2013, and Sunnywell Group since March 2013, respectively.

On March 20, 2012, Dr. Bai was appointed as a director of Titan Group Investment Limited (“**TGIL**”), a company incorporated in the BVI engaged in oil storage services, and a subsidiary of Titan Petrochemicals Group Limited, which is a company listed on the Hong Kong Stock Exchange (stock code: 1192), engaged in the business of supplying oil products and provision of bunker refueling services. At that time, TGIL was financially distressed, and Dr. Bai's role included seeking a means for restructuring the TGIL group for the benefit of its shareholders and creditors. On June 18, 2012, one of TGIL's shareholders made an application to the Eastern Caribbean Supreme Court of the British Virgin Islands for the appointment of liquidators to TGIL. On July 17, 2012, liquidators were appointed to TGIL as part of the restructuring which Dr. Bai supported and assisted in implementing. On September 17, 2012 a consortium agreed to purchase substantially all of the assets of the TGIL group.

Dr. Bai received a bachelor of science degree and a master of science degree in physics from the University of Science and Technology of China in July 1998 and June 2001, respectively. He also received a doctor of philosophy degree in physics from Massachusetts Institute of Technology in February 2006, and obtained a certificate in financial technology option from the Sloan School of Management and the Electrical Engineering and Computer Science Department at Massachusetts Institute of Technology in June 2005.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Yaowen Wu (吳耀文), aged 71, is an INED. Mr. Wu is primarily responsible for independently overseeing the management. Mr. Wu joined our Group in June 2015.

Mr. Wu has served as chairman of the board of China Coal Energy Group Ltd (中國中煤能源集團有限公司) since October 2008. Mr. Wu served as an outside director of Baosteel Group Co. Ltd (寶鋼集團有限公司) from October 2005 to March 2013. Mr. Wu served as deputy general manager in charge of the overseas business of China National Petroleum Corporation (中國石油天然氣集團公司) from December 1996 to December 2003. Mr. Wu served as one of the board members and vice chairman in Petro China Company Limited (中國石油天然氣股份有限公司) from May 1999 to July 2004. Mr. Wu also served as chief petroleum engineer of the National Energy Ministry of the PRC (國家能源局) from July 1988 to May 1993. Prior to that, Mr. Wu was a general manager of Qinghai Petroleum Administration Bureau (青海石油管理局) from September 1986 to July 1988. He was a deputy general manager of China Offshore Oil Donghai Corporation from July 1983 to October 1986.

Mr. Wu obtained a bachelor of science degree in drilling engineering from the China University of Petroleum (中國石油大學, formerly known as 北京石油學院) in August 1968. Mr. Wu is a senior engineer in professor grade.

Mr. Robert Ralph Parks, aged 71, is an INED. Mr. Parks is primarily responsible for independently overseeing the management. Mr. Parks joined our Group in June 2015.

Mr. Parks was appointed as the chairman of Oaktree Capital (Hong Kong) Limited (“Oaktree”), covering the Asia Pacific region from February 2007 until March 2012. He is a member of the board of trustees of Rice University in Houston, Texas in the United States and serves as chairman of the board of Rice Management Company, which oversees the university's endowment. He was appointed as an adviser to the investment committee of the Carnegie Corporate, a charitable foundation, in New York City. He is also an independent non-executive director of Ambow Education in Beijing, PRC. He recently completed his last term as an independent non-executive director of The Siam Commercial Bank Public Company Limited (SET: SCB) in Bangkok, Thailand.

Mr. Parks has over 40 years of experience in investment banking and has held senior management positions in Asia Pacific, Europe and the United States. Prior to joining Oaktree, he was chairman and chief executive officer in JP Morgan Asia Pacific from early 2001 to November 2006. Prior to that, Mr. Parks joined the Beacon Group in 1997 and was a partner from 1998 to 2000. Mr. Parks joined Goldman Sachs & Co. in the beginning of 1981 and became a partner in 1986 and was a limited partner for two years until 1996. Mr. Parks started his investment banking career with Merrill Lynch in 1970. In 1995, Mr. Parks founded Pear Tree Point School in Darien, Connecticut, USA, an independent elementary day school, of which he remains the sole proprietor to the present time.

Mr. Parks obtained his bachelor of arts degree from Rice University in June 1966 and his master of business administration degree from Columbia University in June 1970.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Tin Yau Kelvin Wong (黃天祐博士), aged 54, is an INED. Dr. Wong is primarily responsible for independently overseeing the management. Dr. Wong joined our Group in June 2015. Through his past and current experience with reviewing audited financial statements of public companies, Dr. Wong's professional qualifications and related financial management experience (as mentioned below) have met the requirements under Rule 3.10(2) of the Listing Rules.

Dr. Wong is the immediate past chairman of The Hong Kong Institute of Directors (July 2009 to July 2014). He is a non-executive director of the SFC since October 2012, a convenor-cum-member of the Financial Reporting Panel since July 2013, the council adviser of the Hong Kong Chinese Orchestra Limited since November 2008, where he was the past chairman from October 2006 to October 2008, a former member of the Main Board and GEM Listing Committee of the Stock Exchange (May 2007 to May 2013), a member of the Standing Committee on Company Law Reform since February 2010, a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption since January 2011, a member of the Appeal Board Panel (Town Planning) since December 2009, a council member of The Hong Kong Management Association since July 2010 and a board director of the Hong Kong Sports Institute Limited since April 2012.

He is an executive director and deputy managing director of COSCO Pacific Limited (HKSE: 1199), where he is responsible for the management of work relating to capital markets and investor relations. Currently, Dr. Wong also acts as an independent non-executive director for a number of listed companies including:

- China ZhengTong Auto Services Holdings Limited (HKSE: 1728), where he is the chairman of the audit committee;
- CIG Yangtze Ports PLC (HKSE: 8233), where he is a member of the audit committee;
- I.T Limited (HKSE: 999), where he is the chairman of the audit committee; and
- Xinjiang Goldwind Science & Technology Co., Ltd. (HKSE: 2208 and SZSE: 002202), where he is the chairman of the audit committee.

Dr. Wong served as an independent non-executive director and chairman of the audit committee of China Metal International Holdings Inc. (HKSE: 319) from December 2004 to July 2013.

Dr. Wong obtained a professional diploma in business studies (banking) in November 1985, his master of business administration degree from Andrews University in Michigan in the United States in August 1992 and his doctor of business administration degree from The Hong Kong Polytechnic University in December 2007.

Mr. Fredrick J. Barrett, aged 54, is an INED. Mr. Barrett is primarily responsible for independently overseeing the management. Mr. Barrett joined our Group in June 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Barrett has over 30 years of experience in the energy and resources industry. Mr. Barrett currently serves as a non-executive director for Tamboran Resources, a private independent exploration and production oil and gas company headquartered in Sydney, Australia since September 2014. Mr. Barrett also currently serves on an advisory panel and steering committee for Santos Ltd. (ASX: STO), a leading oil and gas producer headquartered in Adelaide, Australia, providing technical and strategic advice on their unconventional programs in Australia since November 2014. Mr. Barrett served various positions in the Bill Barrett Corporation from 2002 to 2013, which was co-founded by him in January 2002, and he retired in January 2013. He served as president and executive director from January 2002 to July 2006, chief executive officer and chairman of the board from March 2006 to January 2013 and also served as chief operating officer from June 2005 to February 2006 and also served as president from July 2010 to January 2013, respectively. Prior to that, Mr. Barrett was a senior geologist for Barrett Resources in the U.S. Rocky Mountain Region from 1997 to 2001, and a geologist from 1989 to 1996. Mr. Barrett was a partner in the Terred Oil Company from 1987 to 1989, a private oil and gas partnership providing geologic services for the U.S. Rocky Mountain Region. Mr. Barrett worked as a project and wellsite geologist intern-in-training for various periods for Barrett Resources from 1983 to 1986, and held similar training internship roles for various periods for Barrett Energy and Aeon Energy from 1981 to 1983.

Mr. Barrett obtained his Bachelor of Science and master of science degrees in geology from Ft. Lewis College, Durango, Colorado, USA and Kansas State University, Manhattan Kansas, USA in April 1984 and March 1989, respectively. Mr. Barrett graduated from the Harvard Business School Advanced Management Program in May 2005.

Save as disclosed above, each of our Directors did not hold any other directorships in listed public companies in the three years immediately preceding the date of this prospectus.

Save as disclosed in this prospectus, each of our Directors has confirmed that there are no other matters relating to his appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out the details of experience of each of our senior management members:

<u>Name</u>	<u>Age</u>	<u>Present Position and Office</u>	<u>Position held since</u>	<u>Responsibilities within our Group</u>	<u>Year joined our Group</u>	<u>Years of experience in the energy resource industry</u>	<u>Years of experience in CBM mining and exploration</u>	<u>Experience focus in the field</u>	<u>Type of natural resources</u>
Our Senior management members									
Jing Li (李京)	45	Co-chief executive officer and president	January 2015	Overall business management and daily operation of our Group	2008	15	12	Business development, project management and marketing and sales management with experience in technical evaluations of CBM degasification system, CBM drilling and exploration	CBM, coal
Carl Lakey	53	Co-chief executive officer and chief operating officer	January 2015	Overall development and growth strategies, operations, the technical group and environmental, health and safety matters	2013	29	29	Oil & gas operations, engineering and management	Oil, gas
Allen Mak (麥雅倫)	53	Chief financial officer	January 2015	Financing, financial reporting, budget planning, internal control, project valuation and financial management of operations	2014	7	7	Financing, financial reporting, budget planning, internal control, project valuation and financial management of operations	CBM, coal
Yang Lin (林楊)	41	Chief legal officer and joint company secretary	January 2015	General legal matters and corporate compliance	2006	18	9	General legal matters and corporate compliance	CBM, coal
Bing Wang (王冰)	45	Vice president of government liaison	January 2015	Government relations and project approvals and supports	2005	10	10	CBM project management and government relations	CBM
Christopher Hogle	58	Vice president of technology	January 2015	All CBM technical functions including geology, drilling, pumping, fracturing and production	2012	40	24	CBM drilling and production	CBM, shale gas and oil

DIRECTORS AND SENIOR MANAGEMENT

Mr. Jing Li (李京), aged 45, is the co-chief executive officer and the president of our Company. Mr. Li has been the president of our Parent Company since October 2013. He was the senior vice president and the vice president of business development of our Parent Company from March 2011 to October 2013 and from February 2008 to March 2011, respectively. He was the vice president of business development of AAGI from February 2008 to October 2013 and has been the president of AAGI since October 2013. He is primarily responsible for our Group's overall business development and growth strategies, government and partner relations, sales and marketing, human resource management, administration matters and public relationships in relation to our CBM projects.

Mr. Li has over 15 years of experience in business development, project management and marketing and sales management in CBM and coal exploration and development business. Before joining our Group, from December 1999 to June 2008, he held various positions with AACI including deputy president of business development, business development director, project manager and marketing manager.

Mr. Li worked as a sales manager in Beijing Micromatic Machinery Co., Ltd. (北京邁克羅邁帝克機械有限公司) from June 1995 to May 1997 and a mechanical engineer in Capital Steel Corporation (首都鋼鐵集團) from July 1992 to May 1995.

Mr. Li obtained his bachelor degree in engineering from Shanghai Jiao Tong University (上海交通大學) in July 1992 and his bachelor degree in economics from Peking University (北京大學) in August 1998. He received his master of business administration degree from China Europe International Business School (中歐國際工商學院) in April 2000.

Mr. Carl Lakey, aged 53, is co-chief executive officer and chief operating officer. Mr. Lakey has been the chief operating officer of our Parent Company since October 2013. He has also been the chief operating officer of AAGI since October 2013. He is primarily responsible for Group's overall development and growth strategies, operations, the technical group and environmental, health and safety matters.

Mr. Lakey has over 29 years of experience in oil and gas operations, engineering and management. Most of this experience was onshore in the USA, with the recent remainder being in the PRC.

Prior to joining our Group, he worked at Delta Petroleum Corporation ("**Delta Petroleum**"), a U.S. oil and gas company which later became Par Petroleum Corporation (NYSE: PARR), as senior vice president of operations from April 2007 to April 2009 and as its acting chief operating officer from May 2009 to July 2010. He served as a chief executive officer from July 2010 and further served as a director of Delta Petroleum from August 2010 to August 2012. From May 2001 to April 2007, he worked as a director and manager in charge of production, engineering and operations for El Paso Corporation. He started his professional career with Mobil in 1985 and worked a variety of engineering and operations management assignments including planning until leaving ExxonMobil in 2001.

DIRECTORS AND SENIOR MANAGEMENT

When Mr. Lakey was the chief executive officer of Delta Petroleum, Delta Petroleum and certain of its subsidiaries filed for bankruptcy (the “**Bankruptcy**”) under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware on December 16, 2011. On August 16, 2012, the U.S. Bankruptcy Court confirmed the conclusion of Delta Petroleum’s financial restructuring and the emergence of Delta Petroleum and its subsidiaries from Chapter 11 protection as Par Petroleum Corporation.

Despite the Bankruptcy, the Directors are of the view that Mr. Lakey is suitable to serve as our Co-chief executive officer and chief operating officer because (i) Mr. Lakey possesses extensive experience in the oil and gas industry and with major U.S. energy companies, as well as the ability to manage large scale field development projects; and (ii) since Mr. Lakey joined the Company in October 2013 as our chief operating officer, Mr. Lakey has been instrumental in optimizing our subterranean technical capabilities and implementing international corporate governance best practices, all of which have contributed to the significant ramp-up in our production.

Following Delta Petroleum’s entry into bankruptcy proceedings a number of then stockholders initiated lawsuits against various officers and/or directors of Delta Petroleum, including Mr. Lakey, alleging violation of U.S. federal securities laws (the “**Litigation**”). On September 3, 2013 the trial court granted a motion by the defendants to dismiss the complaint and following an appeal by the plaintiffs, on April 7, 2015, the court of appeals affirmed the trial court’s decision to dismiss all claims against Mr. Lakey.

There has not been any occurrence of any similar litigation naming Mr. Lakey as a defendant while he served as a senior officer in any other company, and there are no other civil, regulatory or other proceedings pending or threatened related either (i) to the circumstances giving rise to the Litigation or (ii) to the Bankruptcy.

Mr. Lakey received his bachelor of science degree in petroleum engineering from Colorado School of Mines in August 1985.

Mr. Allen Mak (麥雅倫), aged 53, is our chief financial officer. Mr. Mak has been the chief financial officer of our Parent Company since August 2014. He is primarily responsible for financing, financial reporting, budget planning, internal control, project valuation and financial management operations of our Group.

Mr. Mak has over 31 years of experience in finance and accounting. He was previously an executive director and the chief financial officer of MIE Holdings Corporation (HKSE: 1555), a company listed on the Stock Exchange. Mr. Mak worked at MIE Holdings Corporation from 2008 until he joined the Group. He was also previously the chief financial officer of CITIC 21CN Company Limited (HKSE: 0241), a company listed on the Stock Exchange, for over three years.

Prior to his career as a chief financial officer, Mr. Mak was an investment banker and had over eleven years of experience in investment banking. He was an assistant director at Peregrine, executive director at Citicorp and the managing director and head of the investment banking group of a securities firm based in Hong Kong. Mr. Mak also worked in the private equity business for over three years as an investment director at CVC Asia Capital and Citicorp.

DIRECTORS AND SENIOR MANAGEMENT

Prior to Mr. Mak's career in investment banking and private equity, he worked for seven years in the accounting profession at Price Waterhouse (subsequently renamed as PricewaterhouseCoopers) in Hong Kong, and KPMG and Deloitte in Canada.

Mr. Mak obtained his bachelor degree in commerce from the University of British Columbia in Canada in May 1984. He is a chartered accountant certified by the Canadian Institute of Chartered Accountants.

Ms. Yang Lin (林楊), aged 41, is our chief legal officer. She has been the chief legal officer of our Parent Company since October 2013 and the chief legal officer of AAGI since October 2013, respectively. She is also the corporate secretary of AAGI. Ms. Lin was appointed as our joint company secretary in February 2008. She is primarily responsible for our Group's general legal matters and corporate compliance.

Ms. Lin has over 18 years of experience in providing legal advice, in particular nine years of experience in providing legal advice on CBM-specific matters. Ms. Lin served numerous positions in our Group since she joined our Group in February 2006. She was the vice president and general counsel of our Parent Company from February 2008 to October 2013. She was the vice president and general counsel and assistant corporate secretary of AAGI from February 2008 to October 2013 and was the general counsel of AAGI from August 2006 to February 2008. She was the vice president of legal and general counsel of AACI from February 2006 to June 2008.

Before joining our Group, Ms. Lin worked as an associate with Baker & Daniels LLP from February 2004 to February 2006 and as the legal counsel of China Minmetals Corporation (中國五礦集團公司) from August 1995 to August 2002.

Ms. Lin obtained her bachelor of law degree from University of International Business and Economics (對外經濟貿易大學) in June 1995 and her master of laws degree from New York University School of Law in May 2003. She was admitted to the New York State and the PRC bars in November 2004 and October 1996, respectively.

Mr. Bing Wang (王冰), aged 45, is our vice president of government liaison. Mr. Wang has been the vice president of government liaison of our Parent Company since November 2013. Mr. Wang served numerous positions in our Group since he joined our Group in June 2005. He is primarily responsible for government relations and project approvals and support.

Mr. Wang has over ten years of experience in project management, sales and marketing in the CBM business. Mr. Wang served as a director of operation from February 2012 to November 2013 and as a general manager of Panzhuang Project from October 2008 to February 2012. He was one of our core team members to conduct exploration and pilot operation tests for the Panzhuang Project. He was a business development manager of AAGI from January 2007 to September 2008 and a sales manager of AAGI from June 2005 to December 2006.

Before joining our Group, he was a vice general manager in Shanxi Kotel Micro Technique Co., Ltd. (山西科泰微技術有限公司) from September 2001 to May 2005 and the marketing manager in the Beijing branch of American ATMEL Company from July 1997 to September

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2001. Mr. Wang worked as a regional manager in Shanghai Jiahua United Company Limited (上海家化公司) from December 1995 to July 1997 and a branch manager in the Beijing branch of American NCH Company from December 1993 to December 1995.

Mr. Wang obtained his bachelor's degree in metallic material engineering from Northeast Heavy Machinery Institute (東北重型機械學院) in September 1992 and his master's degree in business administration from the Open University of Hong Kong in December 2000.

Mr. Christopher Hogle, aged 58, is our vice president of technology. Mr. Hogle has been the vice president of technology of our Parent Company since November 2013. He was the head of drilling and production of our Parent Company from September 2012 to October 2013. Mr. Hogle is primarily responsible for all technical functions including geology, drilling, pumping, fracturing and production.

Mr. Hogle has over 40 years of experience in oil and gas industry and 24 years of experience in project management and development in unconventional shale gas and CBM industries. Since 2005, Mr. Hogle has been involved in the technology transfer of CBM and shale gas concepts to Indian exploration and production companies.

Before joining our Group, he was a consultant for a gas company based in Brisbane, Australia from May 2010 to June 2012 providing technical and staff support. From November 2009 to March 2010, he was the director of the unconventional gas division of Epic Integrated Services, an integrated energy service company located in Houston, Texas, United States, where his focus was on the study of gas and water gathering, compression, and wellhead optimization in the Surat Basin CSG Australia.

From December 2007 to May 2011, he was a senior executive vice president of Reliance Natural Resources Limited (a company involved in sourcing, supply and transportation of gas, coal and liquid fuel and listed on the Bombay Stock Exchange, script ID: RNRL). He was responsible for large greenfield CBM projects identifying core hole sites to prove up reserves forecast and was involved in all technical and commercial evaluations of the business. From 2006 to 2008, he was an executive vice president of Great Eastern Energy Corporation Ltd. (a company listed on the Alternative Investment Market of the London Stock Exchange, stock code: GEEC), the first company to achieve CBM commercial production in India. He managed the Asansol CBM asset providing solutions and cost cutting on their completions and stimulations; improving well gas production while reducing the amount of produced water.

From 2005 to 2006, he was the manager of operations of the northern business unit of Baker Energy (a subsidiary of Michael Baker Corp, which is listed on the New York Stock Exchange, NYSEMKT: BKR) based in Wyoming, United States, where he managed over 1000 CBM wells with the primary task of well optimization of new and existing wells while reducing operating costs and increasing production. From 2002 to 2005, he was the vice president of operations at Wolverine Operations LLC, an oil and gas exploration and development company headquartered in Wyoming, United States, where he managed the operations of 300 CBM wells in the Wyoming Powder River Basin. From 1997 to 2002, he was the manager of operations at Paxton Resources LLC, an oil and gas exploration company based in Michigan, United States, where he supervised the drilling (vertical, directional, and horizontal), stimulation and installation of down hole production equipment. From 1993 to 1995, he was the operations manager of HRF

DIRECTORS AND SENIOR MANAGEMENT

Antrim Ltd. Partnership, an oil and gas exploration and development company based in Michigan, United States. From 1991 to 1993, he was the president of a gas production operation company based in Michigan, United States. From 1990 to 1991, he was the senior lease operator at a gas exploration and production company based in Michigan, United States. From 1975 to 1990, he was the co-owner and lease operator of a service company based in Michigan, United States, providing production service operations for wells of the Stony Point and Albion Scipio Trenton Black River Basin in Southern Michigan and filing all governmental production reports as well as company production reports.

Mr. Hogle took part time classes at North Central Michigan College in 2001. He worked with Dr. Mark Zoback of Stanford University in 2005 on a published study of fracturing coal in the Powder River basin. In 2003 to 2005, he worked with Western Research Institute on land applications of produced water and a study of produced water infiltration in reservoir study in the Powder River Basin.

Save as disclosed above, each of our senior management members did not hold any other directorships in listed public companies in the three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Our Other Experts

Led by our Chairman, Dr. Zou, and our co-chief executive officers, Mr. Li and Mr. Lakey, we have six other experts, who are our full time employees and responsible for improving our CBM related technology and know-how. All these experts possess extensive experience in the oil and gas drilling and production industry and are specialized in geology, wells drilling, CBM exploration and sales and marketing of the CBM projects. The following table sets out the details of experience of each of our other experts:

Name	Age	Present Position and Office	Position held since	Responsibilities within our Group	Year joined our Group	Years of experience in the energy resource industry	Years of experience in CBM mining and exploration	Experience focus in the field	Type of natural resources
Our other experts									
Mingzhu Fan (樊明珠)	56	Chief geologist	January 2015	Overall assessment of regional geology and specific geological characteristics of our different concessions	2008	33	33	CBM drilling, exploration and development and geology evaluation	CBM
Jingyi Zhang (張景驛)	46	Director of marketing and sales	January 2015	Pricing, marketing and sales management of CBM projects	2005	10	10	CBM marketing and sales under production sharing contracts	CBM
James Landry	42	Director of drilling engineering	January 2015	Drilling in both Mabi and Panzhuang CBM concessions	2014	10	5	drilling	Oil, gas
Ling Xiang (向靈)	44	Reservoir engineering manager	January 2015	Reservoir and production management and analysis in our CBM concessions	2013	23	8	CBM reservoir management	Oil, gas
Guoxian He (何國賢)	51	Geological evaluation manager	January 2015	Geological evaluation	2010	31	6	CBM geological evaluation and exploration deployment	CBM
Jinyu Ma (馬金鈺)	69	Senior engineer	January 2015	Geological evaluation	2010	46	30	CBM geological evaluation and exploration deployment	CBM

Mr. Mingzhu Fan (樊明珠), aged 56, is our chief geologist. Mr. Fan has been the chief geologist of our Parent Company since June 2008. He is responsible for the overall assessment of regional geology and specific geological characteristics of our different concessions.

Mr. Fan has over 33 years of experience in CBM well drilling, exploration and development. From May 2002 to May 2008, Mr. Fan was a senior engineer in Petroleum Exploration and Development Research Institute of Sinopec and engaged in geological evaluation and exploration deployment of CBM concessions and conducted scientific research on CBM-related

DIRECTORS AND SENIOR MANAGEMENT

fields. Mr. Fan, as a major researcher, participated in a project entitled “The New Round of National Oil and Gas Resources Assessment” from March 2003 to June 2006 and received the highest level award from MOLAR for such project. From December 1989 to April 2002, Mr. Fan was a senior engineer in Planning and Design Institute of North China Petroleum Bureau of Sinopec and completed various research projects on CBM exploration and production, such as a research project entitled “The Geologic Evaluation, Area Selection and Exploration Deployment of Coalbed Methane in Qinshui Basin” sponsored by CUCBM. From February 1982 to November 1989, Mr. Fan worked as an engineer in the Ninth and Fifth Brigade of Petroleum Prospecting and Exploration of North China Petroleum Bureau and participated in geological logging work at various CBM well sites.

Mr. Fan obtained his bachelor of petroleum and natural gas geology degree from Northwest University (西北大學) in January 1982.

Mr. Jingyi Zhang (張景驛), aged 46, is our director of marketing and sales. He has been the director of marketing and sales of our Parent Company since February 2008 and AAGI since February 2008, respectively. Mr. Zhang is primarily responsible for the pricing, marketing and sales management of our CBM projects. He joined our Group in 2005 as a marketing manager of AAGI.

Mr. Zhang has almost ten years of experience in marketing and sales.

Before joining our Group, he worked as marketing assistant in Promising International Education Group, Ltd. in Montreal, Canada from March 2002 to January 2004. Before that, Mr. Zhang was the director of marketing and sales in the Beijing office of DUCH Germany from January 1997 to April 1999 and department manager and engineer of National Center of Boiler & Pressure Vessel Inspection and Research in Beijing, China from July 1990 to December 1996.

Mr. Zhang obtained his bachelor's degree in engineering from Yanshan University (燕山大學) in July 1990, his bachelor of commerce degree from Concordia University in Montreal, Canada in May 2002 and his master of business administration degree from Dalhousie University in Halifax, Nova Scotia, Canada in October 2003, respectively.

Mr. James Landry, aged 42, has been our drilling engineering director since June 2014. He is responsible for drilling in both Mabi and Panzhuang concessions.

Mr. Landry has over five years of experience in drilling engineering and over ten years of experience in the oil and gas industry. Before joining the Group, he worked as a senior drilling engineer in the Utica Shale play for Chesapeake Energy Corporation from January 2012 to May 2014. From July 2009 to December 2011, he was a drilling engineer for Aera Energy LLC in Bakersfield, California. From May 2005 to September 2008, he worked as a drilling engineering intern (HSE) for Stone Energy Corporation in Lafayette, Louisiana. From June 2001 to December 2004, he served as a drilling and completion tech for petroleum coordinators in Lafayette, Louisiana.

He obtained a bachelor of science degree in petroleum engineering from the University of Louisiana at Lafayette in May 2008 and a bachelor of science degree from Louisiana State University in May 1999.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ling Xiang (向靈), aged 44, is our reservoir engineering manager. Ms. Xiang has been the reservoir engineering manager of our Parent Company since October 2013. She is responsible for reserve management, reservoir and production management and analysis in our CBM concessions.

Ms. Xiang has over eight years of experience in reservoir engineering and over 23 years of experience in the oil and gas industry. Before joining the Group, she worked as a reservoir consultant at the Beijing representative office of HESS (China) Oil and Gas Ltd. (赫世(中國)石油天然氣有限公司北京代表處) from January 2011 to July 2013, a senior reservoir engineer of Shell China Exploration and Production Ltd. (殼牌中國勘探與生產有限公司) from April 2007 to December 2010, a senior reservoir engineer of KerrMcGee China Petroleum Ltd. (科麥奇中國石油開發有限公司) from July 2006 to March 2007, a senior reservoir engineer of Schlumberger Oilfield services SIS in Beijing (斯倫貝謝SIS北京) from August 2004 to May 2005. She was a guest lecturer of engineering school of The University of Tokyo from October 2002 to March 2003, a reservoir software support engineer of Schlumberger Oilfield Service GeoQuest in Japan (斯倫貝謝SIS日本) from April 1997 to February 2003 and a field production engineer of Chuandong Natural Gas Production Company (川東天然氣開發公司) in China from July 1992 to October 1993.

Ms. Xiang obtained a bachelor of science degree in petroleum engineering from Southwest Petroleum University (previously known as Southwest Petroleum Institute (西南石油學院)) in July 1992 and a master of science degree in geosystem engineering from The University of Tokyo in March 1997.

Mr. Guoxian He (何國賢), aged 51, is our geological evaluation manager. Mr. He has been the geological evaluation manager of our Parent Company since July 2011. He was the senior geologist of our Parent Company from January 2010 to June 2011. He is responsible for geological evaluation in our concessions.

Mr. He has 31 years of experience in the oil and gas industry and six years of experience in the CBM field. Before joining our Group, he worked at North Petroleum Bureau of Sinopec as deputy chief engineer and director of research institute in Henan Province from 1983 to 2010.

Mr. He graduated with bachelor of science from China University of Geosciences (中國地質大學) in July 1991.

Mr. Jinyu Ma (馬金鈺), aged 69, is our senior engineer. Mr. Ma has been the senior engineer of our Parent Company since March 2010. He is responsible for geological evaluation analysis for our concessions.

Mr. Ma has 46 years of experience in the oil and gas industry and 30 years of experience in the CBM field. Before joining our Group, he worked at Petroleum Exploration and Development Research Institute of Sinopec from 2005 to 2010. He worked on various gas fields in Shanxi, Gansu and Henan provinces as engineer and technician from 1969 to 2005.

Mr. Ma graduated with bachelor of science from China University of Geosciences (中國地質大學) in 1970.

DIRECTORS AND SENIOR MANAGEMENT

For details of our research and development activities, please refer to the paragraph headed “Business — Technology and Know-how” of this prospectus.

JOINT COMPANY SECRETARIES

Ms. Yang Lin (林楊) is a joint company secretary of our Company. Please refer to the subsection headed “Senior Management” in this section above for details of her biography.

Ms. Siu Kuen Lai (黎少娟), is a joint company secretary of our Company and was appointed on March 31, 2015. She is also one of the authorized representatives of our Company. Ms. Lai is a senior manager of the listing services department of KCS Hong Kong Limited. She has over 15 years of professional and in-house experience in company secretarial field. Prior to joining KCS Hong Kong Limited, Ms. Lai worked in the corporate services division of KPMG Hong Kong for more than seven years and two listed companies in Hong Kong. She currently acts as sole/joint company secretary of several listed companies in Hong Kong, including, Boyaa Interactive International Limited (HKSE: 434), Qingdao Port International Co., Ltd. (HKSE: 6198) and Times Property Holdings Limited (HKSE: 1233).

Ms. Lai holds a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University in 1997. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

WAIVER FROM RULE 8.12 OF THE LISTING RULES

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver under Rule 8.12 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance — Waiver Pursuant to Rule 8.12 of the Listing Rules” of this prospectus.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Audit Committee

We have established an audit committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code on June 5, 2015. The Audit Committee consists of two INEDs and one non-executive Director, namely, Dr. Tin Yau Kelvin Wong, Mr. Robert Ralph Parks and Mr. Gordon Sun Kan Shaw, respectively. The chairman of the Audit Committee is Dr. Tin Yau Kelvin Wong, and INED who holds the appropriate qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to assist our Board in providing an independent view of our financial reporting process, internal control and risk management system, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B.1 of the Code on June 5, 2015. The Remuneration Committee consists of two INEDs and one non-executive Director, namely, Mr. Robert Ralph Parks, Mr. Fredrick J. Barrett and Mr. Zhen Wei. The chairman of the Remuneration Committee is Mr. Robert Ralph Parks, an INED.

The primary duties of the Remuneration Committee are to develop remuneration policies of our Directors, evaluate the performance, make recommendations on the remuneration package of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A.5.1 of the Code on June 5, 2015. The Nomination Committee consists of our executive Director, Dr. Zou, and two INEDs, namely, Dr. Tin Yan Kelvin Wong and Mr. Yaowen Wu. The chairman of the Nomination Committee is Dr. Zou, our executive Director. The primary function of the Nomination Committee is to make recommendations to our Board in relation to the appointment and removal of Directors.

DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and members of our senior management receive compensation from our Company in the form of salaries and bonuses.

The aggregate remuneration (including fees, salaries, discretionary bonus, contribution to pension schemes, housing and other allowances and other benefits in kind) incurred for the benefit of our Directors have was approximately RMB4.2 million, RMB4.7 million and RMB7.7 million for the years ended December 31, 2012, 2013 and 2014, respectively. Save as disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the years ended December 31, 2012, 2013 and 2014.

The aggregate remuneration (including fees, salaries, discretionary bonus, contribution to pension schemes, housing and other allowances and other benefits in kind) incurred for the benefit of our senior management for the three years ended December 2012, 2013 and 2014 was approximately RMB11.1 million, RMB18.4 million and RMB40.1 million, respectively. Save as disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our senior management for the years ended December 31, 2012, 2013 and 2014.

The aggregate remuneration (including fees, salaries, discretionary bonus, contribution to pension schemes, housing and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including one Director, during each of the years ended December 31, 2012, 2013 and 2014 were approximately RMB10.9 million, RMB16.3 million and RMB34.2

DIRECTORS AND SENIOR MANAGEMENT

million, respectively. For details of the Company's highest paid individuals during the Track Record Period, please refer to Note 21(d) to the Accountant's Report in Appendix I of this prospectus.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest-paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

There was no arrangement under which a Director waived or agreed to waive any remuneration for any of the three years ended December 31, 2014.

Under the arrangements currently in force, we estimate the aggregate remuneration payable to, and benefits in kind receivable by, our Directors in respect of the year ending December 31, 2015 to be approximately RMB8 million.

Our Board will review and determine the remuneration and compensation package of our Directors and senior management which, following the Listing will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

PRE-IPO SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme. For details of the Pre-IPO Share Option Scheme, see the section headed "Statutory and General Information — Pre-IPO Share Option Scheme" in Appendix V to this prospectus.

POST-IPO RSU SCHEME

We have conditionally approved and adopted the Post-IPO RSU Scheme. For details of the Post-IPO RSU Scheme, please see the section headed "Statutory and General Information — Post-IPO RSU Scheme" in Appendix V to this prospectus.

COMPLIANCE ADVISER

Our Company has appointed Haitong International Capital Limited as our compliance adviser (the "**Compliance Adviser**") upon the Listing in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance adviser's agreement with the Compliance Adviser, the material terms of which are as follows:

- (i) the term of the appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is the earlier;

DIRECTORS AND SENIOR MANAGEMENT

- (ii) pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will, inter alia, advise our Company with due care and skill on a timely basis when consulted by our Company in the following circumstances:
- before the publication by our Company of any regulatory announcement, circular or financial report;
 - where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases;
 - where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
 - where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.
- (iii) the Compliance Adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Listing Rules announced by the Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines;
- (iv) the Compliance Adviser will act as an additional channel of communication between our Company and the Stock Exchange; and
- (v) each of the Company and the Compliance Adviser has the right to terminate the agreement if the other party commits a material breach of the agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Substantial Shareholders	Capacity/Nature of Interest	Number and percentage of Shares held as of the date of submission of the prospectus of the Company	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹
Dr. Zou ²	Beneficial owner; Founder of discretionary trusts	70,141,771 ² (8.40%) (L)	195,837,678	5.89%	182,850,235	5.50%
Baring PE	Beneficial owner	209,821,780 (25.13%) (L)	686,736,210	20.66%	641,193,659	19.29%
Baring Private Equity Asia GP IV Limited ³	Deemed interest of controlled company	209,821,780 (25.13%) (L)	686,736,210	20.66%	641,193,659	19.29%
Warburg Pincus Private Equity X, L.P. ⁴	Deemed interest of controlled company	249,987,678 (29.94%) (L)	839,598,890	25.26%	783,918,885	23.58%
Warburg Pincus X Partners, L.P. ⁴	Deemed interest of controlled company	249,987,678 (29.94%) (L)	839,598,890	25.26%	783,918,885	23.58%
WP China	Beneficial owner	249,987,678 (29.94%) (L)	839,598,890	25.26%	783,918,885	23.58%
Chinastone Hong Kong Holdings Limited	Beneficial owner	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Chinastone Energy Fund ⁵	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	Capacity/Nature of Interest	Number and percentage of Shares held as of the date of submission of the prospectus of the Company	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹
Chinastone Capital Management Limited ⁵	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Shenzhen Pingan ⁵	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Pingan Trust Co.,Ltd ⁵	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Ping An Group ⁶	Deemed interest of controlled company	103,105,556 (12.35%) (L)	345,906,690	10.40%	345,906,690	10.40%

Notes:

The letter "L" denotes long position in our Shares.

- Calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range.
- To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, immediately upon completion of the Capitalization issue and the Global offering, Dr. Zou beneficially owns 195,837,678 Shares of our Company's total issued share capital. Dr. Zou is deemed to be interested in 64,123,535 Shares and 9,772,092 Shares of our Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou's descendants as beneficiaries of The Zou 2011 Family Trust and The Zou 2012 Family Trust, respectively. Dr. Zou is also deemed to be interested in 26,106,218 Shares of our Company's total issued share capital for the purposes of the SFO, which are beneficially owned by Dr. Zou and his descendants as beneficiaries of Zou GRAT. Each of The Zou 2011 Family Trust, The Zou 2012 Family Trust and the Zou GRAT is a discretionary trust established by Dr. Zou as a settlor and its beneficiaries are Dr. Zou and his family members.
- To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Baring Private Equity Asia GP IV Limited is the general partner of a limited partnership (Baring Private Equity Asia GP IV, L.P.), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund IV, L.P.), which is one of the limited partnerships comprising The Baring Asia Private Equity Fund IV and which controls a majority of the issued shares in Baring PE. Baring Private Equity Asia GP IV Limited is deemed to be interested in 686,736,210 Shares held by Baring PE immediately upon completion of the Capitalization Issue and the Global Offering. Baring Private Equity Asia GP IV Limited disclaims beneficial ownership of such shares in our Company, except to the extent of its economic interest.

SUBSTANTIAL SHAREHOLDERS

4. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Warburg Pincus & Co. is the managing member of Warburg Pincus Partners LLC, which is the sole shareholder of Warburg Pincus X LLC, which is the general partner of a limited partnership Warburg Pincus X L.P., which is the general partner of Warburg Pincus Private Equity X, L.P., a Delaware limited partnership, together with its affiliate Warburg Pincus X Partners, L.P., which controls a majority of the issued shares in WP China. As such, each of Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus X LLC, Warburg Pincus X L.P., Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P. are deemed to be interested in 839,598,890 Shares held by WP China immediately upon completion of the Capitalization Issue and the Global Offering.
5. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, each of Chinastone Energy Fund (the sole shareholder of Chinastone Hong Kong Holdings Limited), Chinastone Capital Management Limited (the general partner of Chinastone Energy Fund), Shenzhen Pingan (the limited partner of Chinastone Energy Fund and a holder of 50% interest in the capital of Chinastone Capital Management Limited), and Pingan Trust Co., Ltd (the sole shareholder of Shenzhen Pingan) is deemed to be interested in the Shares.
6. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Ping An Group ultimately owns 100% of Chinastone Hong Kong Holdings Limited, which is directly interested in 7.46% of our Shares. Ping An Group also ultimately owns 100% of the shares in PA Investment, which is directly interested in 2.94% of our Shares. Therefore, Ping An Group is deemed to be interested in 248,046,164 Shares held by Chinastone Hong Kong Holdings Limited and 97,860,526 Shares held by PA Investment upon completion of the Capitalization Issue and the Global Offering, representing approximately 10.40% of equity interest in our Company in accordance with Division 2 and 3 of Part XV of the SFO.

Save as disclosed above and in the section headed "History and Corporate Structure — Description of our Pre-IPO Investors," we are not aware of any other person who will, immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) have an interest or short position in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the Global Offering:

As of the date of this prospectus

	US\$	Approximate percentage of issued share capital
Authorized Share Capital:		
6,000,000,000 Shares	600,000.00	
Issued Share Capital:		
835,079,048 Shares	83,507.90	25.12%

Immediately upon Completion of the Capitalization Issue and the Global Offering

	US\$	Approximate percentage of issued share capital
Authorized Share Capital:		
6,000,000,000 Shares	600,000.00	
Existing Issued Share Capital:		
835,079,048 Shares	83,507.90	25.12%
Issue of Shares as part of the Capitalization Issue¹:		
1,496,483,718 Shares	149,648.37	45.01%
Total Issued Shares upon Completion of the Capitalization Issue:		
2,331,562,766 Shares	233,156.28	70.13%
Issue of the Additional Shares¹:		
326,645,234 Shares	32,664.52	9.83%
Issue of Shares as part of the Global Offering:		
666,160,920 Shares	66,616.09	20.04%
Total Issued Shares upon Completion of the Capitalization Issue and the Global Offering:		
3,324,368,920 Shares	332,436.89	100.00%

Note:

1. Calculated based on HK\$3.35 per Share, being the mid-point of the indicative Offer Price range.

SHARE CAPITAL

ASSUMPTIONS

The above tables assume that the Capitalization Issue and the Global Offering become unconditional and our Shares are issued pursuant to the Capitalization Issue and the Global Offering. It assumes that the Over-allotment Option is not exercised and takes no account of any Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme, any Shares to be issued pursuant to the Post-IPO RSU Scheme, and any Shares which may be allotted and issued, or repurchased by our Company pursuant to the general mandate given to our Directors to allot, issue or repurchase new Shares as described below.

RANKING

Our Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see the sub-section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — Alteration of capital” in Appendix IV to this prospectus.

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see the sub-section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — Variation of rights of existing shares or classes of shares” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with our Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any options granted under the Pre-IPO Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the share capital of our Company in issue immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme); and
- the aggregate nominal value of the share capital of our Company repurchased by us (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company's next annual general meeting is required by any applicable law or our Articles of Association to be held; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed "Statutory and General Information — Further Information About Our Group — Resolutions in Writing of the Sole Shareholder of our Company Passed on June 5, 2015" in Appendix V to this prospectus for details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue or to be issued immediately upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange(s) on which our Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — Further Information About Our Group — Repurchase by our Company of our Shares” in Appendix V to this prospectus.

The general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of our Company’s next annual general meeting; or
- the expiration of the period within which our Company’s next annual general meeting is required by any applicable law or our Articles of Association to be held; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed “Statutory and General Information — Further Information About Our Group — Resolutions in Writing of the Sole Shareholder of our Company Passed on June 5, 2015” in Appendix V to this prospectus for details of this repurchase mandate.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was adopted on March 31, 2015. Please refer to the section headed “Statutory and General Information — Pre-IPO Share Option Scheme” in Appendix V to this prospectus for details.

POST-IPO RSU SCHEME

The Post-IPO RSU Scheme was conditionally approved and adopted on June 5, 2015. Please refer to the section headed “Statutory and General Information — Post-IPO RSU Scheme” in Appendix V to this prospectus for details.

FINANCIAL INFORMATION

The following discussion and analysis of our business, financial condition and results of operations is based on and should be read in conjunction with our financial information for each of the years ended December 31, 2012, 2013 and 2014 including the notes thereto, as set out in the Accountant's Report, the text of which is set out in Appendix I to this prospectus and other financial information appearing elsewhere in this prospectus. Our financial information has been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ from those anticipated in these forward-looking statements for multiple reasons, including those set forth in the sections titled "Forward-looking Statements," "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are the leading independent CBM producer in China as measured by 2013 and 2014 total gross production as well as total net proved and probable (2P) reserves as of December 31, 2014, according to SIA Energy. We focus on the development and value optimization of unconventional gas resources to supply clean energy to the Chinese economy. We have production sharing contracts with two of the four state-owned enterprises authorized by the Chinese government to partner with foreign companies to explore, develop and produce China's CBM assets, namely CUCBM and PetroChina (through its parent company, CNPC). Pursuant to these production sharing contracts, we are the operator of the Panzhuang and Mabi concessions, granting us the right to explore, develop and produce the CBM within them. We hold 80% and 70% of the participating interests under the Panzhuang PSC and the Mabi PSC, respectively. The Panzhuang and Mabi concessions are located in the southern Qinshui Basin, which contains the largest amount of proved CBM geological reserves of any basin and is the most active CBM producing basin in China, according to SIA Energy. The Panzhuang concession is the most commercially advanced Sino-foreign operated CBM asset in China, according to SIA Energy, as it is the first and only Sino-foreign CBM concession in China to have received overall development plan approval. The Panzhuang concession has the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy.

We began pilot drilling and production of CBM in Panzhuang within two months of acquiring it in June 2006. We became one of the first CBM developers in China to realize commercial sales when we began selling CBM from pilot production in the Panzhuang concession in 2008. In 2011, Panzhuang became the first Sino-foreign CBM concession to receive overall development plan approval from the NDRC and is remains the only concession to have received NDRC approval. Since then, gross production for the Panzhuang concession has increased significantly, rising to 3,487 mmcf, 5,493 mmcf and 12,631 mmcf in 2012, 2013, and

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2014, respectively, representing a CAGR of 90.3%. Our average daily production rates in the Panzhuang concession were 9.7 mmcf, 25.4 mmcf and 47.9 mmcf during the months of December 2012, December 2013, and December 2014, representing a CAGR of 122.2%, and our average daily per well gross production rate during December 2014 in the Panzhuang concession was 958.9 mcf, being the highest average per well production rate of any CBM concession in China as of December 31, 2014, according to SIA Energy. We expect to continue to develop and to increase production in the Panzhuang concession over the next several years.

The Mabi concession is significantly larger than the Panzhuang concession, with a total area of 898.2 square kilometers. We plan to develop the Mabi concession in different phases, and expect to eventually operate under two or three overall development plans covering the Mabi concession. We began CBM pilot production in Mabi in the first half of 2010 and in November 2013 we received preliminary approval for the Mabi ODP I from the NEA, a state bureau administered by the NDRC, which covers an annual capacity of 35.3 bcf from a total area of 131.7 square kilometers. This preliminary approval allows us to begin obtaining all necessary government approvals for final approval of the Mabi ODP I from the NDRC. We are working with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I during the third quarter of 2015, and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, expect the NDRC to grant final approval within six to twelve months of this submission, after which we will commence full-scale commercial development under the Mabi ODP I. In addition to the areas included in the Mabi ODP I, we have received MOLAR certification for other areas within the Mabi concession, and we will continue working to certify the remaining reserve areas. Once these certifications have been received, we will work towards obtaining approval for additional overall development plans so that we can commercially develop all reserves within the Mabi concession.

Costs incurred during the exploration phase are borne by us and costs incurred during the development and production phases are shared by us and our Chinese partners according to our respective participating interests. We share CBM produced at the concessions with our Chinese partners according to the allocation mechanism set forth in the production sharing contracts, which enables us to recover the CBM exploration costs, for which we are fully responsible, to recover development and operating costs in accordance with our participation interests, and to share any remaining CBM with our Chinese partners, largely according to our participation interests.

As we carried out our commercial development and production activities in the Panzhuang concession, our revenues from Panzhuang grew from RMB92.4 million in 2012 to RMB138.4 million in 2013 and further to RMB425.9 million in 2014, and we had other income of nil, RMB64.3 million and RMB151.2 million during 2012, 2013 and 2014, respectively. EBITDA from the Panzhuang concession has increased from RMB19.7 million in 2012 to RMB154.3 million in 2013 and further to RMB489.5 million in 2014. As we have ramped up production in the Panzhuang concession, our revenue and profitability have significantly improved and will continue to improve. No revenue was generated from the Mabi concession in 2012, 2013 or 2014. We had overall negative EBITDA of RMB19.5 million in 2012, and overall EBITDA of RMB98.9 million in 2013 and RMB391.3 million in 2014, and we had overall adjusted EBITDA of negative RMB19.5 million in 2012, and overall adjusted EBITDA of RMB104.0 million in 2013 and RMB433.0 million in 2014. We had loss for the year of RMB71.7 million during 2012, and

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profit of RMB39.6 million in 2013 and profit of RMB195.0 million in 2014. For more information regarding EBITDA and adjusted EBITDA, please see the section headed “— Non-HKFRS Financial Measures.”

BASIS OF PRESENTATION

We are principally engaged in the exploration, development and production of CBM in China. Our Company was established as an exempted company incorporated in the Cayman Islands with limited liability on December 23, 2014.

In 2008, we acquired 100% of the shares of AAGI, as well as its subsidiary SAE, in exchange for cash and newly issued shares of our Parent Company. We conduct our principal business through AAGI and SAE through two production sharing contracts, one between us and CUCBM in relation to the Panzhuang concession under which we have a 80% participation interest and another between us and PetroChina in relation to the Mabi concession under which we have a 70% participation interest. The overall development plan of the Panzhuang concession was approved by the NDRC on November 28, 2011, and on that date the Panzhuang concession entered into the development phase under the production sharing contract. As of December 31, 2014, the Mabi concession was still in the exploration phase.

We have prepared the consolidated financial statements for the relevant periods in accordance with HKFRS issued by the HKICPA. Such financial information has been prepared under the historical cost convention.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition over successive periods have been, and will continue to be, affected by a number of factors, including our economic rights and obligations under the production sharing contracts, our project development and execution progress, changes in the demand and price of CBM in China, and the uncertainty of reserve estimates.

Production Sharing Contracts

Our economic obligations and rights to the reserves under the Panzhuang and Mabi concessions are governed by the production sharing contracts between each of CUCBM and PetroChina and us. Under the production sharing contracts, we are the contractor and operator of the Panzhuang and Mabi concessions, and we hold certain participating interests that largely determine the amount of costs we are responsible for and the amount of revenues allocated to us from CBM sales. Each of the production sharing contracts defines three phases: exploration phase, development phase and production phase.

Under each of the production sharing contracts, we bear all of the costs incurred during the exploration phase. During the development and production phases, we and our Chinese partners each bear costs in accordance with our respective participation interests under the production sharing contracts. After commercial sales begin, a portion of the CBM produced from our concessions is used to recover costs incurred under the production sharing contracts, and the remainder CBM is allocated to us and our Chinese partners largely in accordance with our

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respective participation interests. Under the Panzhuang PSC, our participation interest is 80%, and under the Mabi PSC, our participation interest is 70%. Our respective Chinese partners hold the remaining participation interests in each production sharing contract.

The structure of our production sharing contracts allows us to recover our costs incurred in operating, exploring and developing our CBM concessions from the proceeds of commercial sales. Under the production sharing contracts, after deducting value-added tax and royalties, 70% and 80% of the revenue generated from CBM sales under the Panzhuang and Mabi PSC, respectively, is allocated for cost recovery. The remainder of the revenue generated from CBM sales, or 30% and 20% under the Panzhuang PSC and the Mabi PSC, respectively, is shared between us and our Chinese partner largely in accordance with our respective participation interests. The cost recovery CBM from our concession is allocated according to the following mechanism:

- Cost recovery CBM is initially used to recover costs incurred during the exploration phase of the production sharing contract, or exploration costs. As we bear all of the exploration costs, all of the CBM production that is available for the recovery of exploration costs is allocated to us.
- Once all exploration costs have been fully recovered, the cost recovery CBM is allocated to recover costs incurred during the development phase, or development costs, in accordance with our Chinese partners' and our participation interests.
- Once the production sharing contract enters the production phase, operating costs incurred that relate to CBM production, such as extraction, stimulation and treatment, are recovered before other costs and in accordance with our Chinese partners' and our participation interests. After these operating costs have been recovered, any remaining cost recovery CBM is used to continue to recover exploration and development costs, until all such costs have been recovered.
- After we and our Chinese partners have recovered all of our operating, exploration and development costs from the cost recovery CBM, the remainder of the revenue generated from CBM sales for that period is allocated to us and our Chinese partners largely in accordance with our respective participation interests.

For more details on cost recovery and production allocation, please refer to the section headed "Business — Production Sharing Contracts — Cost Recovery and CBM Production Allocation" of this prospectus.

Project Development and Execution Progress

Under our production sharing contracts, initial exploration activities are carried out for the purposes of demonstrating commerciality and formulating an overall development plan for each CBM concession. The "commerciality" of a CBM discovery involves showing whether a discovery is economically feasible for development. During the exploration phase, we conduct 2-D seismic surveys, drill data wells, perform reservoir tests, analysis and production tests. In addition, we conduct pilot production programs, including drilling production wells, construction of surface facilities, production and sales, which are necessary for demonstrating the

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commerciality of CBM development. During the exploration phase, we are responsible for all of the exploration costs and we bear the risk of failure if no commercial CBM discovery is proved. We prepare one or more overall development plans for each concession once economic feasibility has been demonstrated. After an overall development plan has been approved by the NDRC, the production sharing contract enters into the development phase and we begin full-scale commercial development to ramp up production. The approved overall development plan serves as a guideline for our budget and expenditures related to the commercial development and production of the concession.

During the exploration phase of the Panzhuang concession we conducted our pilot production program. After several years of exploration, our Chinese partner submitted the Panzhuang ODP to the NDRC in January 2009 and it was approved in November 2011. Under the Mabi PSC, we are working with our Chinese partner to submit the application for final NDRC approval of the Mabi ODP I during the third quarter of 2015, and, based on our experience with the regulatory approval process for the Panzhuang ODP and recent NDRC practice, expect to receive final approval from the NDRC within six to twelve months of this submission, after which we will commence full-scale commercial development under the Mabi ODP I. The exploration phase of the Mabi PSC will end upon the approval of the overall development plan by the NDRC.

During the development and production phases of the production sharing contracts, our results of operations largely depend on how quickly we can increase production and conduct sales under the overall development plan while managing costs. Our ability to increase production is also dependent on building the necessary surface facilities and transmission capacity for our CBM. Commercial development requires large-scale well drilling and surface facility build-up, a process that involves significant capital expenditures. Our gross production volume across both the Panzhuang and Mabi concessions increased from 3,585 mmcf in 2012 to 6,090 mmcf in 2013 and further to 13,254 mmcf in 2014, primarily because of the drilling of additional wells and production increases at individual production wells.

Unit net production costs, which are calculated by dividing the sum of net operating expenses (excluding depreciation and amortization expenses) by net production volume, are high for the pilot production program during the exploration phase, but generally decrease during the commercial development and production phases due to improvements in operating efficiency and economies of scale. Our overall unit net production costs decreased from RMB1.2 per cubic meter (US\$5.6 per mcf) in 2012 to RMB0.7 per cubic meter (US\$3.2 per mcf) in 2013, and further to RMB0.4 per cubic meter (US\$2.0 per mcf) in 2014, primarily because of greater operating efficiencies from the sharing of field-level engineering labor, logistics, services and other administrative costs, which are relatively fixed. Decreases in unit net production costs become more pronounced as the concession is developed, as illustrated in the Panzhuang concession, which has already entered the development phase, where unit net production costs (excluding depreciation and amortization) decreased from RMB1.0 per cubic meter (US\$4.4 per mcf) in 2012 to RMB0.5 per cubic meter (US\$2.0 per mcf) in 2013, and further to RMB0.3 per cubic meter (US\$1.4 mcf) in 2014.

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Our operating costs consist of depreciation and amortization, employee benefits, materials, services, logistics and other expenses. For more details on the cost items, please refer to the subsection headed “Description of Selected Line Items in the Statement of Comprehensive Income” below. We expect to benefit from economies of scale and greater operating efficiencies from the sharing of field-level engineering labor, logistics, services and other administrative costs, which are relatively fixed.

Costs required for new development wells, production equipment, administrative facilities and gas gathering facilities are generally capitalized, as are interest expenses related to capital expenditures. Well drilling costs are normally the major capital expenditure item, and the well productivity affects our cash flow directly. Our ability to properly employ our technical know-how by using the best-suited drilling, stimulation and well completion methods, as well as production management after well completion, are crucial for maximizing CBM production and can significantly affect our profitability.

Our results of operations and our cash flow position improve as the concessions progress from pilot production to commercial production. For example, the Panzhuang concession has had a positive EBITDA since 2010, shortly before entering the development phase in 2011, and has generated an operating profit since 2013. We believe the following factors will also be applicable to the Mabi concession once it has progressed from pilot production to commercial production.

- *Ramp-up production.* The production sharing contract enters the production phase when CBM production has ramped-up to the production target specified in the overall development plan and the commencement of the production phase has been announced by the joint management committee. We expect our production volume to ramp-up largely in accordance with the increase of our producing well count as well as the performance of production enhancements to increase production per well.
- *Reduction of unit net production costs.* As described above, unit net production costs are high for the pilot production program during the exploration phase and are expected to decrease during the commercial development and production phases due to improvements in operating efficiency and economies of scale.
- *Reduction of drilling costs on a per well basis.* Drilling costs on a per well basis will decrease as a greater number of wells are drilled due to increased activity levels and as economies of scale are realized.

Our production volume has ramped-up largely in accordance with the increase of our producing well count as well as the increase in production per well. As we ramp up our production, we also benefit from economies of scale and decrease our production costs on a per unit basis by sharing labor and materials among wells in a large-scale operation and increasing operating leverage from sharing field-level engineering, labor, logistics and other services costs which are relatively fixed.

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Demand and Price of Natural Gas in China

Our ability to achieve profitability depends largely on the demand for and price of natural gas in China.

In recent years, China has accelerated the domestic production of CBM due to rising demand for natural gas. The penetration of natural gas grids in cities, together with the urbanization of China and the expansion of the industrial use of natural gas, including by the petrochemical and power industries, have been the driving force behind the rapid increase in demand. It is expected that CBM production will experience rapid growth in China over the next few years due to such factors as increased investments, better technology and understanding of local geological conditions, improved gas pricing environment, rapidly expanding mid- and downstream infrastructure, and increasing acceptance by both the central and local governments of unconventional gas development as a strategic priority. See the section headed “Industry Overview” of this prospectus for more details.

We sell our gas to LNG producers, including ENN Energy and Shuntianda. Both ENN Energy and Shuntianda have built LNG plants on the Panzhuang concession with pipelines connected to our gas gathering station in order to liquefy our gas and transport it in trucks to downstream users in other parts of China. We also use existing pipelines adjacent to our concession, including the Tongyu Pipeline and the West-East Pipeline One, to sell our gas to pipeline-linked customers, such as Jiyuan Gas. We also sell our gas to Tongyu Pipeline as a pipeline distributor. We expect that the Panzhuang concession will be connected to the PetroChina Central Processing Hub in the near future. We sell our gas at a higher wellhead price than the average price of domestic conventional gas, primarily because we target our sales to industrial users as they pay higher prices than residential users, whereas the large national oil companies sell a greater portion of their gas to residential users. We currently sell most of our CBM jointly with our Chinese partners under long-term take-or-pay sales contracts, under which the buyer is obligated to pay for the contracted quantity, but if there is a supply shortfall caused by us, we are obligated to deliver the supply shortfall within a certain period of time or pay liquidated damages. The CBM price is payable in advance for the ten days prior to delivery and payment is settled against the actual deliveries at the end of each month. The table below shows the proportion of our CBM sales volume attributable to our different customer types for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(percent of gross sales volume)</i>		
Pipeline-linked customers	36.6	33.0	37.8
LNG producers	54.6	60.8	50.0
Pipeline distributors	2.3	6.2	12.2
CNG producers	6.5	—	—

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As our production volume increases, we anticipate our relationships with pipeline-linked customers, who have large stable demand and can take larger volumes, will become increasingly important. The table below sets forth our average sales prices and average realized prices for domestic gas sales of national oil companies, including VAT, for the periods indicated.

	For the Year Ended December 31,					
	2012	2013	2014	2012	2013	2014
	<i>(RMB per cubic meter)</i>			<i>(US\$ per mcf)</i>		
Average sales price to pipeline-linked customers	1.44	1.52	1.72	6.44	6.95	7.94
Average sales price to LNG producers	1.35	1.51	1.84	6.06	6.87	8.51
Average sales price to pipeline distributors	0.85	1.15	1.30	3.81	5.25	5.99
Average sales price to CNG producers	1.33	—	—	5.97	—	—
Overall average sales price	1.37	1.49	1.73	6.15	6.80	7.98
Weighted average realized price for onshore domestic conventional gas sales of national oil companies	1.16	1.24	1.39	5.21	5.68	6.42

Our average sales price (which does not include the government subsidy or VAT refund) across all of our customers increased from RMB1.37 per cubic meter (US\$6.15 per mcf) in 2012 to RMB1.49 per cubic meter (US\$6.80 per mcf) in 2013, and further to RMB1.73 per cubic meter (US\$7.98 per mcf) in 2014, mainly due to adjustments to our sales contracts triggered by an increase in the market gas price.

Although CBM prices are negotiated between purchasers and suppliers, because CBM is a substitute energy source for natural gas and the price of natural gas is subject to regulation in China, our negotiated prices are affected by natural gas prices. Citygate prices reflect the wellhead price as well as the cost of transporting the gas by pipeline to the citygate. In June 2013, the NDRC expanded a pilot program nationwide under which it sets a maximum price in each region using a formula that links natural gas to competing fuels and then applies a discount and further adjustments based on socioeconomic factors and supplier costs in each area. In this pricing reform, the NDRC sets a provincial citygate price ceiling for non-residential natural gas sales. Beginning on September 1, 2014, the NDRC has applied a RMB0.40 per cubic meter upward adjustment to regulated price ceilings for legacy base gas across the country to close the gap between regulated legacy base and incremental price ceilings. According to SIA Energy, these NDRC reform initiatives on natural gas prices are likely to encourage CBM price increases. In February 2015, the NDRC announced that starting April 1, 2015, China's non-residential gas citygate price ceilings for incremental gas will be lowered by RMB0.44 per cubic meter, and that for legacy base gas, the ceilings will be raised by RMB0.04 per cubic meter. The NDRC also announced that for "direct supply" of natural gas to industrial end users, the citygate price will no longer be subject to government set price ceilings and can be negotiated directly by sellers and buyers starting April 2015. According to SIA Energy, these NDRC pricing reform initiatives will benefit usage and improve gas penetration in China's

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primary energy mix. In addition, for CBM price in China, which is not regulated and is determined by supply and demand and infrastructure availability, the reform impact may be slightly positive. For more information, please see the section headed “Industry Overview — Pricing Environment” The outlook for gas prices is also one of the key factors impacting our reserve estimates and future investment plans, which in turn affect our expected production volumes and sales revenue for future periods.

Uncertainty of Reserve Estimates

We prepare reserve estimates for each of our concession areas with the help of our independent technical expert and include only CBM that we believe is economically recoverable under defined conditions. Proved gas reserves are those quantities of CBM that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable from a given date forward and under defined economic conditions, operating methods and government regulations. Probable gas reserves are those additional reserves of CBM that analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. Our independent technical expert prepared the reserve estimates based on interpreting technical and economic data, including, but not limited to, well logs, geologic maps, core data, production data, historical price and cost information, and the production sharing contracts. In addition to the primary economic assumptions, our reserve estimates are based on assumptions, including that the properties will be developed consistent with our current development plans, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. Therefore, reserve estimates may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition, a significant portion of the reserves estimated are for undeveloped locations in the blocks. Such reserve estimates can only be made by analogy based on reservoir volume and recovery efficiency data of properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data.

The reserve estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and future gas revenue. Under HKFRS, we accounted for the depreciation of gas properties based on the unit of production method for the years ended December 31, 2012, 2013 and 2014. We apply the unit of production method based mainly on proved developed producing reserves in 2012 and 2013, and proved and probable developed producing reserves in 2014, estimated to be recoverable from existing wells based on the terms of the respective production sharing contracts. Thus, changes in proved and probable reserves will affect unit-of-production depreciation relating to gas properties recorded in our financial statements. A reduction in proved and probable reserves will increase depreciation charges for gas properties, assuming constant production levels, and will reduce our profit accordingly. The reserve estimates are also an important element in our testing for impairment. The most significant cause of the annual revision of the estimated reserves tend to be changes in the technical maturity of gas reserves resulting from new information becoming available from exploration, development and production activities and changes in gas price.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements appearing elsewhere in this prospectus, which have been prepared in accordance with HKFRS. The preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies represent critical accounting policies as they involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this prospectus.

Property, Plant and Equipment

Property, plant and equipment, other than exploration and evaluation assets and construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation of gas gathering stations, vehicles, furniture, fittings and others is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

Vehicles	5 years
Furniture, fittings and others	3 years
Gas gathering station	Shorter of remaining production sharing contract period or 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Construction in progress represents development costs occurred after the approval of

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overall development plan and the buildings, machinery and equipment for which the construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. Upon completion, the development costs recorded in construction in progress are transferred to gas properties. No depreciation is provided for construction in progress until they are completed and available for use. Spare parts are accounted for as property, plant and equipment when (a) they can be used only in connection with an item of property, plant and equipment; or (b) we expect to use them during more than one year. Other spare parts are classified as inventory. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within “other gains” in the consolidated statements of comprehensive income.

Gas Properties

Gas properties include drilling costs, exploration and evaluation costs, development costs and other direct costs attributable to the gas production properties. Gas properties are depreciated based on the unit of production method. Unit of production rates are based on proved and probable developed producing gas reserves estimated to be recoverable from existing facilities based on the current terms of the respective production sharing contract.

Gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flow to be associated with the assets and discounted rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will be revised, which may impact our results of operations or financial position.

Estimation of Proved and Probable Gas Reserves

Proved gas reserves are those quantities of CBM that, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward and under defined economic conditions, operating methods, and government regulations. Probable gas reserves are those additional reserves of CBM that analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves.

Our reserve estimates are prepared for each concession area and include only CBM that we believe can be reasonably produced within current economic and operating conditions. Reserves cannot be measured exactly. Reserve estimates are based on many factors that require evaluation by the engineers interpreting the available data as well as gas price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance as well as engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved

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recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved and probable reserves are key elements in our investment decision-making process. They are also an important element in testing for impairment. A reduction in proved and probable reserves will increase depreciation and amortization charges (assuming constant production) and reduce net profit. Proved and probable reserve estimates are subject to revision, either upward or downward based on new information, such as from drilling and production activities or from changes in economic factors, including gas prices, well cost and operating costs or development plans.

In general, changes in the technical maturity of gas reserves resulting from new information becoming available from exploration, development and production activities and change in gas price have tended to be the most significant cause of annual revision.

Exploration and Evaluation Expenditures and Assets

Exploration and evaluation expenditures mainly include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resources.

During the initial stage of a project, expenditures directly attributable to exploration activities on that project are expensed as incurred. These expenditures are capitalized as exploration and evaluation assets after the project reaches a stage at which there is a high degree of confidence in its viability, which is generally after completion of a feasibility study and the signing of the production sharing contract. Expenditures not directly attributable to exploration activities are expensed off as incurred.

Costs of exploratory wells are capitalized and evaluated for economic viability within one year after completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained.

Exploration and evaluation assets are measured at cost less impairment provisions. Exploration and evaluation assets are reclassified to gas properties when the technical feasibility and commercially viability of extracting a mineral resource are demonstrable.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and also tested for impairment immediately prior to reclassification to gas properties.

Exploration and evaluation assets are capitalized on a field-by-field basis and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable amount. The assessment involves judgment as to (i) whether the period for which we have the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; (ii) substantive expenditure on further

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exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and we have decided to discontinue such activities in the specific area; and (iv) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. While conducting an impairment review of its assets, we make certain judgments in making assumptions about the future gas prices, reserves and future development and production costs. Changes in these estimates could require a material change on the carrying amount of exploration and evaluation assets.

Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

Our management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of our customers and current market conditions. We reassess the provision on a regular basis.

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

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Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realization of future income tax assets is dependent on our ability to generate sufficient taxable income in future years to utilize income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on our income tax expenses.

TAXATION

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, are exempted from payment of local income tax. Our subsidiary incorporated in the British Virgin Islands under the International Business Companies Act of the British Virgin Islands is exempted from payment of local income tax. Our subsidiary incorporated in Samoa under the International Business Companies Acts of Samoa is exempted from payment of local income tax.

Our subsidiaries incorporated in Hong Kong have not provided any Hong Kong profit tax as there was no assessable profit during the Track Record Period.

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries registered in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for our branches registered in the PRC is 25%.

The following table sets forth our current income tax and deferred income tax for the years indicated:

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Current income tax	—	—	(73,112)
Deferred income tax	8,620	(29,083)	(6,948)
Total income tax benefit/(expense)	8,620	(29,083)	(80,060)

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The tax on our profit/(loss) before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Profit/(loss) before income tax	(80,311)	68,651	275,048
Tax benefit/(expense) calculated at applicable statutory tax rate	15,466	(23,128)	(92,921)
Tax losses with no deferred income tax assets recognized	(4,902)	(3,397)	(9,742)
Expenses not deductible for taxation purposes	(2,862)	(2,558)	(1,176)
Utilization of previously unrecognized tax losses	918	—	—
Income not subject to tax	—	—	23,779
	<u>8,620</u>	<u>(29,083)</u>	<u>(80,060)</u>
Income tax benefit/(expense)	<u>8,620</u>	<u>(29,083)</u>	<u>(80,060)</u>

DESCRIPTION OF SELECTED LINE ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME

Revenue. Our revenue substantially relates to the sales of CBM. CBM sales revenue is realized through the sales of our share of CBM to the customers.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us and specific criteria have been met for each of our activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Sales of gas are recognized when the gas is delivered to the customers. The amount of revenue to be received by us is allocated based on the terms of the production sharing contracts.

Other income. Other income consists of subsidy income and VAT refund.

- *Subsidy.* Government subsidies are granted by the PRC government according to “The Implementation Opinions of Subsidies Granted by the Ministry of Finance on The Development and Utilization of Coal Bed Methane” (財政部關於煤層氣(瓦斯)開發利用補貼的實施意見) at RMB0.2 per cubic meter of CBM sold. CUCBM applies for the subsidy on behalf of the Panzhuang concession as a whole each year, based on sales volumes during the previous year, and each year receives the subsidy for the previous year and distributes to us our share based on the calculation of sales revenue distribution. We recognize government subsidies when there is reasonable certainty that we will comply with the conditions for their receipt and that the subsidy will be received. We accounted for our subsidy income starting from the fourth quarter of 2013 because we agreed upon the subsidy distribution scheme with CUCBM in the fourth quarter of 2013. At that time we also recognized subsidy income relating to all CBM previously sold. Beginning from the fourth quarter of 2013, we recognize subsidy

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income for CBM sold at the same time we recognize the revenue from the sale of that CBM, thus subsidy income relating to CBM previously sold will not again be recognized in future periods.

- *VAT refund.* VAT refunds are granted by the PRC government according to “The Notice on Tax Policy Issued by The Ministry of Finance and The State Administration of Taxation on Speeding Up The Drainage of Coal Bed Methane” (財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知). CUCBM applies for the VAT refund on behalf of the Panzhuang concession as a whole each year, based on VAT payments made by CUCBM during the previous year, and each year receives the refund applied for in the previous year and distributes to us our share based on the calculation of sales revenue distribution. We recognize VAT refunds when there is reasonable certainty that we will comply with the conditions for their receipt and that the refund will be received. We accounted for our VAT refund starting from 2014 when CUCBM started to distribute the VAT refund after the local government approved CUCBM’s application. At that time we also recognized VAT refund relating to all CBM previously sold. Beginning from 2014, we recognize VAT refund for CBM sold at the same time we recognize the revenue from the sale of that CBM, thus VAT refunds relating to CBM previously sold will not again be recognized in future periods.

Operating expenses. Our operating expenses consist of depreciation and amortization, employee benefit expenses, materials, services and logistics and others.

- *Depreciation and amortization.* Our depreciation and amortization expenses include depreciation of gas properties, gas gathering stations, vehicles, furniture, fittings and others, and amortization of intangible assets and land use rights. For details on the depreciation of our gas properties, see “— Critical Accounting Policies and Estimates — Property, Plant and Equipment” and “— Critical Accounting Policies and Estimates — Gas Properties.” Under HKFRS, our accounting of unit of production for depreciation was based on the reserve definition as set out by the Society of Petroleum Engineers. We apply the unit of production method based on proved developed producing reserves in 2012 and 2013, and proved and probable developed and producing gas reserves in 2014, estimated to be recoverable from existing wells based on the current terms of the respective production sharing contracts. We began using proved and probable developed producing gas reserves for calculating unit of production in 2014 because in recent years we have gained greater confidence in the ability of our actual production to achieve or exceed the estimated proved and probable production set out in our reserve reports and we believe including probable developed producing reserves will more accurately reflect the reserve base available to us from our investment in the gas properties. For example, the December 2013 NSAI technical report forecasted that proved and probable gross production in the Panzhuang concession would be 10.6 bcf in 2014, while actual gross production in Panzhuang during 2014 was 12.6 bcf. Further, the December 2014 NSAI technical report forecasted that proved and probable daily gross production in the Panzhuang concession would be 43.8 mmcf in 2015, while actual daily gross production in Panzhuang during the three months ended March 31, 2015 was 46.9 mmcf. As a result of this change of accounting estimate, in 2014 our depreciation and

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amortization was RMB48.6 million less than it would have been had we used proved developed producing reserves, resulting in a RMB37.2 million increase in net profit in that year.

- *Employee benefit expenses.* Our employee benefit expenses include wages and salaries, housing benefits, contributions to pension plans and welfare and other expenses, as well as share-based compensation. Our housing benefits include our contributions to government-sponsored housing funds at a rate ranging from 10% to 12% of Chinese employees basic salaries or average annual salary in local cities, whichever is less. Our contributions to pension plans represent our contributions to the defined contribution plans organized by the municipal and provincial governments at a rate of 20% of Chinese employees basic salaries or average annual salary in local cities, whichever is less.

We operate a share option scheme, under which we receive services from employees as consideration for our equity instruments (options). The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted (i) including any market performance conditions (for example, an entity's share price); (ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and (iii) including the impact of any non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, we revise our estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, we issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

- *Materials, services and logistics.* Our materials, services and logistics include operating and maintenance costs of production wells and related facilities such as gas gathering stations, which include transportation costs, material and well maintenance costs, fuel and electricity costs, safety fees, third party service fees, as well as costs of feasibility studies and professional service expenses.
- *Others.* Other expenses include office expenses and others.

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Finance income/(costs), net. Our finances income/(costs) include interest income from saving accounts and term deposits, finance costs primarily from bank loan commitment fees, and exchange gains and losses primarily from currency translation gains or losses.

Income tax benefit/(expense). Our income tax benefit includes current income tax and deferred income tax. Income tax is provided on the basis of statutory profit for financial reporting purposes, adjusted for income and expenses items. The income tax rate applicable to our subsidiaries in the PRC was 25% for the years ended December 31, 2012, 2013 and 2014.

SUMMARY OF RESULTS OF OPERATIONS

The table below sets out our summary financial information for the years indicated:

	<u>For the Year Ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in thousands)</i>		
Revenue	92,397	138,382	425,895
— Panzhuang	92,397	138,382	425,895
— Mabi	—	—	—
Other income	—	64,262	151,197
<i>VAT refund</i>	—	—	95,117
— Panzhuang	—	—	95,117
— Mabi	—	—	—
<i>Subsidy</i>	—	64,262	56,080
— Panzhuang	—	64,262	56,080
— Mabi	—	—	—
Other gains	161	246	111
Operating expenses	(170,477)	(175,314)	(293,635)
— Depreciation and amortization	(58,416)	(71,349)	(107,772)
— Employee benefit expenses	(52,221)	(57,594)	(102,168)
— Materials, services and logistics	(45,815)	(33,831)	(56,656)
— Others	(14,025)	(12,540)	(27,039)
<i>Panzhuang</i>	(129,020)	(115,282)	(186,080)
— Depreciation and amortization	(56,171)	(66,895)	(98,487)
— Employee benefit expenses	(31,224)	(25,209)	(40,219)
— Materials, services and logistics	(33,373)	(19,476)	(35,296)
— Others	(8,252)	(3,702)	(12,078)
<i>Mabi</i>	(21,479)	(32,589)	(39,991)
— Depreciation and amortization	(1,858)	(4,293)	(7,183)
— Employee benefit expenses	(7,805)	(12,451)	(16,833)
— Materials, services and logistics	(8,742)	(9,452)	(9,124)
— Others	(3,074)	(6,393)	(6,851)
<i>Headquarters</i>	(19,978)	(27,443)	(67,564)
— Depreciation and amortization	(387)	(161)	(2,102)
— Employee benefit expenses	(13,192)	(19,934)	(45,116)
— Materials, services and logistics	(3,700)	(4,903)	(12,236)
— Others	(2,699)	(2,445)	(8,110)

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	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
EBITDA	(19,503)	98,925	391,340
— Panzhuang	19,672	154,295	489,510
— Mabi	(19,583)	(28,088)	(32,709)
Profit/(loss) from operations	(77,919)	27,576	283,568
Interest income	1,948	352	2,804
Finance costs	(3,714)	(1,813)	(6,872)
Exchange gains/(losses)	(626)	42,536	(4,452)
Finance income/(costs), net	(2,392)	41,075	(8,520)
Profit/(loss) before income tax	(80,311)	68,651	275,048
Income tax benefit/(expense)	8,620	(29,083)	(80,060)
Profit/(loss) for the year	(71,691)	39,568	194,988

REVIEW OF HISTORICAL OPERATING RESULTS

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue. Our revenue increased by RMB287.5 million, or 207.8%, from RMB138.4 million in 2013 to RMB425.9 million in 2014. This increase was due to an increase in net sales volume, from 3,279 mmcf in 2013 to 8,686 mmcf in 2014, and an increase in the average realized price from CBM sales from RMB1.49 per cubic meter (US\$6.80 per mcf) to RMB1.73 per cubic meter (US\$7.98 per mcf). The increase in net sales volume was a result of increased production in the Panzhuang concession due to new wells being put into production in 2014 and increased production from existing wells after the implementation of production enhancements, coupled with increased sales to existing customers and sales to new customers. The increase in the average realized selling price was due largely to adjustments to the selling price in our sales contracts triggered by an increase in the market gas price.

	Year Ended December 31,	
	2013	2014
Gross sales volume (mmcf)	3,629	9,240
Net sales volume (mmcf)	3,279	8,686
Number of wells drilled during the year	19	17
Accumulative number of producing wells	45	50
Average realized selling price		
RMB per cubic meter	1.49	1.73
US\$ per mcf	6.80	7.98
Revenue (in RMB in thousands)	138,382	425,895

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Gross sales volume is equal to gross production volume less the portion of produced CBM lost during the production process or used to pay applicable VAT and local taxes. Net sales volume is the amount of gross sales volume allocated to us under the production sharing contracts, which during 2013 and 2014, was (i) the entire 70% of the cost recovery CBM as we have paid for all costs in the Panzhuang concession during the exploration phase prior to obtaining ODP approval, (ii) 50% of the remaining 30% prior to July 21, 2013, and (iii) 80% of the remaining 30% beginning on July 22, 2013 pursuant to the Panzhuang PSC Amendment. As a result, we were allocated 90.4% of the gross CBM sales revenue during 2013 and 94.0% of the gross CBM sales revenue during 2014.

Other income. We had subsidy income of RMB64.3 million and RMB56.1 million in 2013 and 2014, respectively. We accounted for our subsidy income starting from the fourth quarter of 2013 after we agreed upon the subsidy distribution scheme with CUCBM in the fourth quarter of 2013. The subsidy income recorded in 2013 included subsidy income for the years 2008 to 2013.

Our VAT refund in 2014 included RMB45.7 million for the years 2008 to 2013 and RMB49.4 million for 2014. We accounted for our VAT refund starting from 2014, when CUCBM started to distribute the VAT refund after the local government approved CUCBM's application and wired the first VAT refund to CUCBM.

Other gains. Our other gains decreased by RMB0.1 million, or 54.8%, from RMB0.2 million in 2013 to RMB0.1 million in 2014, primarily due to the disposal of inventory at Panzhuang in 2013.

Operating expenses. Our operating expenses increased by RMB118.3 million, or 67.5%, from RMB175.3 million in 2013 to RMB293.6 million in 2014, primarily due to increases in depreciation and amortization as a result of increased production at Panzhuang, increased employee salary and benefits primarily due to the share-based compensation expenses and increased labor costs at the Panzhuang and Mabi concessions from increased production activities, and increased materials, services and logistics expenses due to increased production activities at Panzhuang and headquarters.

- *Depreciation and amortization.* Our depreciation and amortization increased by RMB36.4 million, or 51.0%, from RMB71.3 million in 2013 to RMB107.8 million in 2014, largely because of a substantial increase in production volume at Panzhuang due to production enhancements and putting new wells into production in 2014, which was partially offset by switching to use proved and probable developed producing reserves for calculating unit of production depreciation, which decreased depreciation and amortization by RMB48.6 million in 2014, resulting in a RMB37.2 million increase in net profit in that year. Depreciation and amortization at Mabi also increased primarily due to the furnishing of our new field office.
- *Employee benefit expenses.* Our employee benefit expenses increased by RMB44.6 million, or 77.4%, from RMB57.6 million in 2013 to RMB102.2 million in 2014, mainly due to an increase in share-based compensation in headquarters as well as increased headcount, pay raises and bonuses at Panzhuang and Mabi as a result of an increased number of production wells.

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- *Materials, services and logistics.* Our materials, services and logistics expenses increased by RMB22.8 million, or 67.5%, from RMB33.8 million in 2013 to RMB56.7 million in 2014, primarily due to increased operating costs at Panzhuang associated with an increased number of production wells and gas gathering stations and an increase in feasibility studies at headquarters.
- *Others.* Our other expenses increased by RMB14.5 million, or 115.6%, from RMB12.5 million in 2013 to RMB27.0 million in 2014, primarily due to a RMB7.2 million provision for impairment of trade receivables related to CNG sales to a customer from 2008 to 2012. Beginning in late 2011 our gas sales agreements with customers have required them to prepay on a monthly basis before we supply the gas.

EBITDA. Our EBITDA increased by RMB292.4 million, or 295.6%, from RMB98.9 million in 2013 to RMB391.3 million in 2014. Panzhuang's EBITDA increased from RMB154.3 million in 2013, to RMB489.5 million in 2014, due to increased sales volume, higher realized selling price, and recognition of VAT refund for the first time in 2014, which included VAT refund for the years 2008 to 2014, and was partially offset by higher operating expenses. Mabi's EBITDA was negative RMB28.1 million in 2013 and negative RMB32.7 million in 2014 since it was still in the exploration stage during both years. See “— Non-HKFRS Financial Measures” for more information on the use of EBITDA as a supplemental financial measure to assess operating performance.

Profit from operations. As a result of the foregoing, our profit from operations increased by RMB256.0 million, or 928.3%, from RMB27.6 million in 2013 to RMB283.6 million in 2014. This increase was primarily due to an increase in revenue and the recognition of VAT refund for the first time, which was partially offset by increased operating expenses.

Interest income. Our interest income increased by RMB2.5 million, or 696.6%, from RMB0.4 million in 2013 to RMB2.8 million in 2014, primarily due to interest earned from an increase in our cash and term deposit balances.

Finance costs. Our finance costs increased by RMB5.1 million, or 279.0%, from RMB1.8 million in 2013 to RMB6.9 million in 2014, mainly due to an increase in bank loan commitment fees.

Exchange gains/(losses). Our exchange gains/losses changed by RMB47.0 million, from a gain of RMB42.5 million in 2013 to a loss of RMB4.5 million in 2014, primarily from movements in foreign exchange rates resulting in foreign currency translation gains or losses due to intercompany loans provided by us to our subsidiaries being denominated in U.S. dollars while the local books and records are denominated in Renminbi.

Profit before income tax. Our profit before income tax increased by RMB206.4 million, or 300.6%, from RMB68.7 million in 2013 to RMB275.0 million in 2014, mainly because of an increase in revenue and recognition of VAT refund for the first time, partially offset by an increase in operating expenses.

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Income tax expense. Our income tax expense increased by RMB51.0 million, or 175.3%, from RMB29.1 million in 2013, to RMB80.1 million in 2014 given the increase in profit before income tax.

Profit. As a result of the foregoing factors, our profit increased by RMB155.4 million, or 392.8%, from RMB39.6 million in 2013 to RMB195.0 million in 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue. Our revenue increased by RMB46.0 million, or 49.8%, from RMB92.4 million in 2012 to RMB138.4 million in 2013. This increase was due to an increase in net sales volume, from 2,241 mmcf for 2012 to 3,279 mmcf for 2013 and an increase in the average realized selling price from CBM sales from RMB1.37 per cubic meter (US\$6.15 per mcf) to RMB1.49 per cubic meter (US\$6.80 per mcf). The increase in net sales volume was a result of increased production in the Panzhuang concession due to new wells being put into production in 2013 and increased production from existing wells after production enhancements, coupled with increased sales to existing customers and sales to new customers. The increase in the average realized selling price was due largely to adjustments to the selling price in our sales contracts.

	Year Ended December 31,	
	2012	2013
Gross sales volume (mmcf)	2,636	3,629
Net sales volume (mmcf)	2,241	3,279
Number of wells drilled during the year	9	19
Accumulative number of producing wells	28	45
Average realized selling price		
RMB per cubic meter	1.37	1.49
US\$ per mcf	6.15	6.80
Revenue (in RMB in thousands)	92,397	138,382

During 2012 and 2013, our net sales volume under the production sharing contracts was (i) the entire 70% of the cost recovery CBM as we have paid all of the costs in Panzhuang during the exploration phase prior to obtaining ODP approval, (ii) 50% of the remaining 30% prior to July 21, 2013, and (iii) 80% of the remaining 30% beginning on July 22, 2013 pursuant to the Panzhuang PSC Amendment. As a result, we were allocated 85.0% of the gross CBM sales revenue during 2012 and 90.4% of the gross CBM sales revenue during 2013. In 2012, we also recognized RMB5.5 million in revenue relating to services provided in connection with the Inner Mongolia Project prior to the 2012 Share Swap.

Other income. We had subsidy income of nil in 2012 and RMB64.3 million in 2013. We recognized subsidy income for the first time in 2013, of which RMB42.3 million related to subsidy income for CBM sold from the years 2008 to 2012 and RMB22.0 million related to subsidy income for CBM sold during 2013. We accounted for our subsidy income starting from the fourth quarter of 2013 after we agreed upon the subsidy distribution scheme with CUCBM. The subsidy income recorded in 2013 included subsidy income for the years 2008 to 2013.

Other gains. Our other gains were basically stable at RMB0.2 million in 2012 and 2013.

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Operating expenses. Our operating expenses increased by RMB4.8 million, or 2.8%, from RMB170.5 million in 2012 to RMB175.3 million in 2013 primarily due to an increase in depreciation and amortization expense and employee benefit expense, partially offset by a decrease in materials, services and logistics expense.

- *Depreciation and amortization.* Our depreciation and amortization increased by RMB12.9 million, or 22.1%, from RMB58.4 million in 2012 to RMB71.3 million in 2013, primarily due to an increase in production at Panzhuang as new wells were put into production in 2013 and production from existing wells increased after we implemented production enhancements.
- *Employee benefit expenses.* Our employee benefit expenses increased by RMB5.4 million, or 10.3%, from RMB52.2 million in 2012 to RMB57.6 million in 2013, due to increases in employee benefit expenses at our headquarters and the Mabi concession, partially offset by a decrease in those at Panzhuang. The increase in employee benefit expenses at headquarters was mainly caused by share-based compensation expenses of RMB5.1 million and higher remuneration to senior management in 2013, while the increase in employee benefit expenses at Mabi was primarily due to increased headcount, pay raises and bonuses as result of expanded operations in 2013. Employee benefit expenses at Panzhuang decreased mainly because during 2012 we accounted for all of the operating expenses incurred in the Panzhuang concession, whereas in 2013, pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, our employee benefit expenses were reduced to account for CUCBM's 20% portion of operating expenses incurred during both 2012 and 2013.
- *Materials, services and logistics.* Our materials, services and logistics expenses decreased by RMB12.0 million, or 26.2%, from RMB45.8 million in 2012 to RMB33.8 million in 2013, primarily due to decrease of materials and services expenses at Panzhuang, partially offset by increases at Mabi and our headquarters. Materials, services and logistics expenses at Panzhuang decreased mainly because during 2012 we accounted for all of the materials, services and logistics expenses incurred in the Panzhuang concession, whereas in 2013, pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, our materials, services and logistics expenses were reduced by CUCBM's 20% portion of operating expenses incurred. Materials, services and logistics expenses at our headquarters increased mainly due to increased professional service fees.
- *Others.* Our other expenses decreased by RMB1.5 million, or 10.6%, from RMB14.0 million in 2012 to RMB12.5 million in 2013, primarily due to decreases in other expenses at Panzhuang, partially offset by increase of those expenses at Mabi. Other expenses at Panzhuang decreased mainly because during 2012 we accounted for all of the others expenses incurred in the Panzhuang concession, whereas in 2013, pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, our other expenses were reduced to account for CUCBM's 20% portion of operating

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expenses incurred during both 2012 and 2013. Other expenses increased at Mabi primarily due to an increase of general and administrative expenses as we expanded our operations in 2013.

EBITDA. Our EBITDA improved by RMB118.4 million from negative RMB19.5 million in 2012, to positive RMB98.9 million in 2013. Panzhuang's EBITDA increased from RMB19.7 million in 2012 to RMB154.3 million in 2013, primarily due to increased sales volume, higher realized selling prices, the recognition of subsidy income for the first time in 2013, which included subsidy income for the years 2008 to 2013, and decreased operating expenses pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, partially offset by an increase in depreciation and amortization expenses. Mabi's EBITDA was negative RMB19.6 million in 2012 and negative RMB28.1 million in 2013 since it was still in the exploration stage during both years. See “— Non-HKFRS Financial Measures” for more information on the use of EBITDA as a supplemental financial measure to assess operating performance.

Profit/(loss) from operations. As a result of the foregoing, our loss/profit from operations improved by RMB105.5 million from a loss of RMB77.9 million in 2012 to profit of RMB27.6 million in 2013, primarily due to an increase of sales revenue, the recognition of subsidy income for the first time and decreased operating expenses pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, partially offset by an increase in depreciation and amortization expenses at Panzhuang and increases in operating expenses at Mabi and our headquarter.

Interest income. Our interest income decreased by RMB1.5 million, or 81.9%, from RMB1.9 million in 2012 to RMB0.4 million in 2013, primarily due to a significant drop in interest rates in 2013.

Finance costs. Our finance costs decreased by RMB1.9 million, or 51.2%, from RMB3.7 million in 2012 to RMB1.8 million in 2013, mainly due to a decrease in bank loan commitment fees.

Exchange gains/(losses). Our exchange gains/losses changed by RMB43.1 million, from a loss of RMB0.6 million in 2012 to a gain of RMB42.5 million in 2013, primarily from movements in foreign exchange rates resulting in foreign currency translation gains or losses due to intercompany loans provided by us to our subsidiaries being denominated in U.S. dollars while local books and records are denominated in Renminbi.

Profit/(loss) before income tax. Our loss before income tax was RMB80.3 million in 2012, and improved to a profit of RMB68.7 million in 2013, primarily due to increases in revenue, the recognition of subsidy income for the first time and decreased operating expenses pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, partially offset by an increase in depreciation and amortization expenses at Panzhuang and an increase in operating expenses at Mabi and our headquarters.

Income tax benefit/(expense). Our income tax benefit is mainly related to the deferred tax benefits recognized in relation to losses incurred in Panzhuang, which can be taken as a deduction of taxable income in future years in which we have a taxable profit. We had an

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income tax benefit of RMB8.6 million in 2012, and an income tax expense of RMB29.1 million in 2013. This increase in income tax expense was primarily due to the increase in profit before income tax.

Profit/(loss). As a result of the foregoing factors, we had a loss of RMB71.7 million in 2012 and a profit of RMB39.6 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding include cash generated by operating activities, borrowings and shareholder loans from the Parent Company. For details on investments in the Parent Company, see the section headed “History and Corporate Structure — Pre-IPO Investment — Pre-IPO Capital Raising.” Our primary uses of funds have been and will continue to be for operating activities and capital expenditures. We plan to fund our capital expenditures principally through the proceeds from the Global Offering, cash generated by operating activities, bank loan and debt financing and cash and cash equivalents. As of December 31, 2012, 2013 and 2014, and April 30, 2015, we had cash and cash equivalents of RMB32.0 million, RMB209.2 million, RMB1,099.7 million and RMB939.5 million, respectively, nearly all of which was held as cash at banks. As of December 31, 2012, 2013 and 2014, and April 30, 2015 we had long-term borrowings of RMB153.8 million, RMB357.8 million, RMB362.3 million, and RMB363.4 million respectively, all of which were non-current secured U.S. dollar bank borrowings.

On November 15, 2013, SAE, one of our subsidiaries, entered into the Reserve-based Facility, a senior-secured revolving facility agreement with The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank Limited, under which a maximum amount of up to US\$100.0 million is made available for SAE during a five-year term commencing on the date of the Reserve-based Facility. The available loan amount is determined by the lenders every December 31 and June 30 by dividing the net present value of projected cash flow from the Panzhuang concession by certain coverage ratios. We can draw up to the difference between the available loan amount and the amount currently outstanding under the Reserve-based Facility if this difference is positive or we must repay the difference if such amount is negative. In addition, beginning on July 1, 2015, the maximum amount available will be reduced every six months thereafter and ultimately to US\$20.0 million in the last six months of the five-year term. As of December 31, 2014, the lenders had determined that the available loan amount is the full US\$100.0 million under the Reserve-based Facility and we had utilized US\$62.0 million of that amount. The Reserve-based Facility, which requires principal repayments to be made every six months commencing July 1, 2015 on the last day of each interest period, bears interest at LIBOR plus a margin ranging from 5.00% to 5.50% per annum. The Reserve-based Facility contains certain restrictive covenants that limit SAE’s ability to, among other things,

- incur additional indebtedness with certain exceptions;
- declare dividends unless otherwise permitted under the facility;
- create or incur liens, acquire, merge or consolidate with others; or

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- dispose of any of our participating interest (i) in the Panzhuang Project pursuant to the Panzhuang PSC, as amended by the Panzhuang PSC Amendment or the Panzhuang PSC Supplement, or (ii) any shareholding in any person holding any such interest, or (iii) more than 33.3% of our participating interest in the Mabi Project pursuant to the Mabi PSC.

AAGI, our wholly owned subsidiary, has agreed to provide a corporate guarantee for SAE's obligations under the Reserve-based Facility until the lender, upon our achieving certain performance thresholds, releases AAGI of its obligations as a guarantor.

The Reserve-based Facility requires SAE to maintain a debt to equity ratio of not more than 1.50:1, and as of December 31, 2014, SAE had a debt to equity ratio of 0.36:1. In addition, the Reserve-based Facility contains the following restrictive covenants, among others:

- AAGI, SAE and their subsidiaries are only allowed to make certain permitted acquisitions, disposals, distributions and equity financings;
- AAGI, SAE and their subsidiaries are not allowed to make any substantial change to the general nature of their business; and
- restrictions on ownership: (i) AAGI and SAE must continue to be our wholly owned subsidiaries; (ii) prior to this Global Offering, any Substantial Shareholder must continue to hold at least 80% of the number of shares in SAE and AAGI that it held on the date the Reserve-based Facility was entered into; (iii) Dr. Zou, our chairman, must not resign as chairman of AAGI and SAE, (iv) after the completion of the Global Offering and until AAGI is no longer the guarantor under the Reserve-based Facility, the total number of ordinary shares of AAGI or SAE held by Dr. Zou must not be less than 40% of the total number of ordinary shares that he held on the date of the loan agreement, and (v) after AAGI is released as guarantor, the total number of ordinary shares of AAGI or SAE held by Dr. Zou must not be less than 25% of the total number of ordinary shares that he held on the date of the loan agreement.

SAE, one of our subsidiaries, is currently in negotiations to enter into a new senior-secured revolving credit facility agreement. The proceeds will be mainly used to repay the Reserve-based Facility, fund the capital and operating expenditures under the Panzhuang PSC and the Mabi PSC and for general corporate purposes. We believe that entering into the new facility will demonstrate the strong cash flow generated by the Panzhuang concession and will improve our cash position and liquidity.

Up to and as of the Latest Practicable Date, there were no restrictions preventing us from making further drawdowns under the Reserve-based Facility. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we have been in compliance with all loan covenants. Further, during such period, we did not experience any difficulty in obtaining credit facilities nor did we have any facilities withdrawn.

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Cash Flows

The table below sets forth our cash flows for each of the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Net cash (used in)/generated from operating activities	(27,518)	611	297,587
Net cash used in investing activities	(441,149)	(607,575)	(420,954)
Net cash generated from financing activities	461,514	787,666	1,014,039
Net (decrease)/increase in cash and cash equivalents	(7,153)	180,702	890,672
Cash and cash equivalents at beginning of year	39,301	32,036	209,194
Exchange losses on cash and cash equivalents	(112)	(3,544)	(193)
Cash and cash equivalents at end of the year	<u>32,036</u>	<u>209,194</u>	<u>1,099,673</u>

Operating Activities

Net cash generated from operating activities was RMB297.6 million in 2014, largely due to profit before income tax of RMB275.0 million, depreciation and amortization of RMB107.8 million, share-based compensation of RMB34.5 million, provision for bad debt of RMB7.2 million, increase in trade and other payables of RMB3.1 million, finance costs of RMB6.9 million mainly for bank loan commitment fees, exchange losses of RMB4.5 million mainly from foreign currency translation losses from the loan from us to our subsidiaries denominated in U.S. dollars while local books and records are kept in Renminbi, and decreases in inventories of RMB6.0 million. These were offset by an increase in trade and other receivables of RMB121.9 million, mainly due to the increase of receivables for subsidy income and VAT refund, interest income of RMB2.8 million, and interest paid of RMB22.6 million mainly for the Reserve-based Facility.

Net cash generated from operating activities was RMB0.6 million in 2013 largely due to profit before income tax of RMB68.7 million, depreciation and amortization of RMB71.3 million, share-based compensation of RMB5.1 million, finance costs of RMB1.8 million mainly for bank loan commitment fees. These were offset by an increase in trade and other receivables of RMB84.5 million, mainly for subsidy income of RMB64.3 million recognized near the end of 2013, exchange gain of RMB49.5 million mainly from foreign currency translation gains from the loan from us to our subsidiaries denominated in U.S. dollars while local books and records are kept in Renminbi, interest paid of RMB9.3 million mainly for the interest expense paid under the Reserve-based Facility, and an increase in inventories of RMB3.0 million.

Net cash used in operating activities was RMB27.5 million in 2012 largely due to loss before income tax of RMB80.3 million, exchange gains of RMB3.5 million mainly from foreign currency translation gains from the loan from us to our subsidiaries denominated in U.S. dollars while local books and records are kept in Renminbi, interest income of RMB1.9 million, increase in inventories of RMB2.2 million, and interest paid of RMB2.5 million paid under the Standard Bank Facility. These were offset by adjustments for depreciation and amortization of RMB58.4

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million, finance costs of RMB3.7 million mainly for bank loan commitment fees, decreased trade and other receivables of RMB5.2 million and decreased trade and other payables of RMB4.2 million.

Investing Activities

Net cash used in investing activities was RMB421.0 million in 2014 primarily due to purchases of property, plant and equipment of RMB423.9 million to increase production from existing wells in the Panzhuang concession and as more wells were drilled and gas gathering stations were built for the development of the Panzhuang concession and the exploration of the Mabi concession.

Net cash used in investing activities was RMB607.6 million in 2013 mainly as a result of purchases of property, plant and equipment of RMB607.9 million, as more wells were drilled and gas gathering stations were built for the development of the Panzhuang concession and the exploration of the Mabi concession.

Net cash used in investing activities was RMB441.1 million in 2012 primarily due to purchases of property, plant and equipment of RMB439.3 million, as more wells were drilled and gas gathering stations were built for the development of the Panzhuang concession and the exploration of the Mabi concession, as well as RMB3.9 million in final payments of the consideration for the acquisition of SAE in 2006.

Financing Activities

Net cash generated from financing activities was RMB1,014.0 million in 2014 largely due to RMB1,025.2 million in funds received from shareholder loans, which were subsequently converted into equity on December 31, 2014.

Net cash from financing activities was RMB787.7 million in 2013 due to RMB698.9 million in funds received from shareholder loans, RMB384.7 million of proceeds from bank borrowings under the Reserve-based Facility, offset by repayment of RMB155.1 million to fully repay the Standard Bank Facility, repayment of shareholder loans of RMB121.9 million, as well as RMB18.9 million paid for transaction costs for bank borrowings.

Net cash from financing activities was RMB461.5 million in 2012, largely due to RMB311.8 million in funds received pursuant to the shareholder loans and RMB157.8 million of proceeds from the Standard Bank Facility.

We recognized RMB4.7 million in expenses relating to the Global Offering as of December 31, 2014. The total estimated listing-related expenses (excluding underwriting commissions to the Underwriters and listing preparation fees to the Joint Bookrunners) in relation to the Global Offering are approximately RMB22.1 million, which we will charge against equity upon completion of the Global Offering.

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Cash and Cash Equivalents

We had cash and cash equivalents of RMB32.0 million, RMB209.2 million, RMB1,099.7 million and RMB939.5 million as of December 31, 2012, 2013 and 2014 and April 30, 2015, respectively. Our cash and cash equivalents consist of cash in hand and deposits with banks. The increase in our cash position is largely due to funds received from the Reserve-based Facility and shareholder loans in 2013, and cash generated from operations and funds received from shareholder loans in 2014.

Net Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of
	2012	2013	2014	April 30,
				2015
	<i>(RMB in thousands)</i>			
Current assets				
Inventories	4,123	7,103	1,078	1,295
Trade and other receivables	47,687	132,326	247,018	410,072
Cash and cash equivalents	32,036	209,194	1,099,673	939,544
Total current assets	83,846	348,623	1,347,769	1,350,911
Current liabilities				
Trade and other payables	222,290	287,134	243,327	244,582
Shareholder loans	1,065,778	1,600,666	—	—
Current income tax liabilities	—	—	73,112	85,719
Total current liabilities	1,288,068	1,887,800	316,439	330,301
Net current assets/(liabilities)	(1,204,222)	(1,539,177)	1,031,330	1,020,610

We recorded net current assets in the amount of RMB1,020.6 million as of April 30, 2015, compared to net current assets of RMB1,031.3 million as of December 31, 2014. This slight decrease is mainly attributable to a decrease in cash and cash equivalents and an increase in current income tax liabilities, partially offset by an increase in trade and other receivables.

We recorded net current assets in the amount of RMB1,031.3 million as of December 31, 2014, compared to net current liabilities of RMB1,539.2 million as of December 31, 2013. This change is mainly attributable to an increase in cash and cash equivalents principally due to cash generated from operations and funds received from shareholder loans, an increase in trade and other receivables principally due to the recognition of VAT refund, which was not received during 2014, notes receivable from one of our customers, and a decrease in shareholder loans due to the conversion of the shareholder loan into equity on December 31, 2014, as further discussed below and in the section headed “History and Corporate Structure — Reorganization.”

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We recorded net current liabilities in the amount of RMB1,539.2 million as of December 31, 2013, compared to net current liabilities in the amount of RMB1,204.2 million as of December 31, 2012. This was primarily due to an increase in the amount of shareholder loans, which was partially offset by an increase in cash and cash equivalents principally due to the receipt of funds from shareholder loans and the drawdown of funds under the Reserve-based facility, and an increase in trade and other receivables principally due to subsidy income recognized but not received during 2013.

On December 30, 2014, we entered into a sale and purchase agreement with the Parent Company, pursuant to which the Parent Company transferred its equity interest in each of AAGI and AAG Energy (China) and assigned US\$429.7 million (RMB2,628.2 million) of shareholder loan receivables from AAGI to our Company, in exchange for our Company issuing 835,069,049 ordinary shares to the Parent Company. This account receivable represents the amount of shareholder loan as of December 30, 2014. As a result of this exchange, on December 31, 2014, the shareholder loan converted to equity. For details, see the section headed “History and Corporate Structure — Reorganization.”

Based on past performance and current expectations, our Directors are of the opinion, after due and careful inquiry that cash on hand, expected cash flow to be generated from operations, proceeds from borrowings and the estimated net proceeds from the Global Offering will be adequate to support 125% of currently planned business operations, commitments and other contractual obligations for at least the next 12 months from the date of this prospectus and we have sufficient working capital for our present requirements.

Production Costs

Our production costs are our operating expenses excluding depreciation and amortization, and consist of well operating costs, station and surface operating costs and field level operating costs. Well operating costs include costs from the operation of individual wells. Station and surface operating costs include costs from the operation of our surface gas gathering and processing systems, including pipelines, gas gathering stations, compression and dehydration. Costs relating to the overall operation of the Panzhuang concession are classified under field level operating costs. Management also uses these cost categories to estimate our production costs in the future.

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The following table sets forth our net production costs for the Panzhuang concession for the years indicated.

	<u>For the Year Ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in thousands)</i>		
Well Operating Costs			
Workforce employment	3,651	2,964	4,210
Transportation of workforce	268	431	229
Consumables	1,208	622	1,307
Fuel, electricity and other services	1,655	785	3,455
Land leasing costs and others	<u>246</u>	<u>552</u>	<u>1,190</u>
Total well operating costs	<u><u>7,028</u></u>	<u><u>5,354</u></u>	<u><u>10,391</u></u>
Station and Surface Operating Costs			
Workforce employment	3,301	2,762	4,321
Transportation of workforce	54	91	195
Consumables (maintenance and repair)	1,430	837	1,639
Fuel, electricity and other services	<u>5,151</u>	<u>3,182</u>	<u>6,958</u>
Total station and surface operating costs	<u><u>9,936</u></u>	<u><u>6,872</u></u>	<u><u>13,113</u></u>
Field Level Operating Costs			
Workforce employment (engineering labor cost and other administrative labor cost)	24,272	19,483	31,688
Transportation of workforce and logistics	15,788	4,447	6,578
On and off-site administration	12,363	9,561	20,915
Environmental protection and monitoring	1,428	668	1,280
Production sharing contract charges ¹	<u>2,034</u>	<u>2,002</u>	<u>3,627</u>
Total field level operating costs	<u><u>55,885</u></u>	<u><u>36,161</u></u>	<u><u>64,088</u></u>
Total net production costs²	<u><u>72,849</u></u>	<u><u>48,387</u></u>	<u><u>87,592</u></u>

Notes:

1. Includes salaries, expenses and training fees of CUCBM's JMC representatives and mining license and other fees paid to CUCBM under the production sharing contract.
2. Total net production costs decreased in 2013 because during 2012 we accounted for all operating expenses, whereas in 2013, pursuant to our arrangement with CUCBM under the Panzhuang PSC Supplement, our operating expenses were reduced to account for CUCBM's portion of operating expenses incurred during both 2012 and 2013.

Two of the cost items required under Rule 18.03(3) of the Listing Rules are not applicable to us. Water consumption is not significant to our operations and was not separately recorded under our production costs. Non-income tax has been included in our net revenue. Due to the fact that our production amount in the past was below the threshold required to pay royalties, we did not have any royalty payment. We also did not have any governmental charges and contingency allowances in the operation of the Panzhuang concession that we recorded as production costs, though we pay VAT and local taxes to government agencies, which are netted off of revenue and not recorded as production costs.

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The following chart illustrates our unit production costs for the Panzhuang concession:

	For the Year Ended December 31,					
	2012	2013	2014	2012	2013	2014
	<i>(RMB per cubic meter)</i>			<i>(US\$ per mcf)</i>		
Unit net production costs¹						
Well operating costs	0.09	0.05	0.04	0.42	0.23	0.17
Station and surface operating costs	0.13	0.06	0.05	0.60	0.29	0.21
Field level operating costs	0.75	0.34	0.22	3.36	1.52	1.04
Total unit net production costs	0.97	0.45	0.31	4.38	2.04	1.42

Note:

1. Calculated by dividing the sum of net operating expenses (excluding depreciation and amortization expenses) by net production volume

The Mabi concession is still in the exploration phase under the Mabi PSC and does not have meaningful production volume.

The table below sets forth the impact on our EBITDA and adjusted EBITDA, which is EBITDA adjusted to exclude non-cash expenses such as share-based compensation expenses and provision for bad debt or non-recurring expenses, of a 5% increase in each of (i) labor costs, (ii) logistics costs, (iii) fuel and power costs and (iv) gas price, for the years indicated:

	Actual		Labor costs		Logistics costs		Fuel and power costs		Gas price	
	Amount	Amount	Change	Amount	Change	Amount	Change	Amount	Change	
	<i>(RMB in thousands, except percentages)</i>									
For the year ended										
December 31, 2013										
EBITDA	98,925	96,045	-2.91%	98,366	-0.56%	98,726	-0.20%	105,844	6.99%	
Adjusted EBITDA	103,979	101,099	-2.77%	103,420	-0.54%	103,780	-0.19%	110,898	6.65%	
For the year ended										
December 31, 2014										
EBITDA	391,340	386,232	-1.31%	390,724	-0.16%	390,820	-0.13%	412,635	5.44%	
Adjusted EBITDA	433,006	427,898	-1.18%	432,390	-0.14%	432,486	-0.12%	454,301	4.92%	

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CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

Property, Plant and Equipment

The following table sets forth the net book amount of our property, plant and equipment as of the dates indicated.

	<u>Vehicles</u>	<u>Furniture, Fittings and Others</u>	<u>Gas Properties</u>	<u>Gas Gathering Stations</u>	<u>Exploration and Evaluation Assets</u>	<u>Construction In Progress</u>	<u>Total</u>
	<i>(RMB in thousands)</i>						
As of December 31,							
2012	2,736	9,652	382,309	105,199	506,292	214,743	1,220,931
2013	3,912	13,510	396,440	124,721	811,302	480,477	1,830,362
2014	7,187	10,296	587,918	226,413	1,014,401	283,046	2,129,261

The increase in our property, plant and equipment was due largely to the increases in gas gathering stations, gas properties and exploration and evaluation assets, which were the result of entering into commercial production in the Panzhuang concession after obtaining overall development plan approval in November 2011, as well as the expansion of exploration activities in the Mabi concession.

As of December 31, 2012, 2013 and 2014, we had no property, plant and equipment secured for borrowings.

Land Use Rights

The following table sets forth the closing net book amount of land use rights as of the dates indicated.

	<u>Land Use Rights</u>
	<i>(RMB in thousands)</i>
As of December 31, 2012	13,300
As of December 31, 2013	13,111
As of December 31, 2014	12,829

Land use rights represent upfront prepayments made for the land use rights and leasehold land. Land use rights are expensed in the consolidated statements of comprehensive income on a straight-line basis over the period of the leases or when there is impairment, the impairment is expensed in the consolidated statement of comprehensive income. All of our land use rights relate to properties located in the PRC and are for an original lease period of 50 years. The decreases in the closing net book amount of land use rights from December 31, 2012 to December 31, 2013 and from December 31, 2013 to December 31, 2014 are due largely to amortization.

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Intangible Assets

The following table set forth the closing net book amount of intangible assets as of the dates indicated.

	Intangible Assets
	<i>(RMB in thousands)</i>
As of December 31, 2012	3,012
As of December 31, 2013	3,292
As of December 31, 2014	5,013

Intangible assets represent computer software. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives ranging from three to ten years. The increase in the closing net book amount of intangible assets from December 31, 2012 to December 31, 2013 is due largely to the addition of computer software, offset by amortization charges. The increase in the closing net book amount of intangible assets from December 31, 2013 to December 31, 2014 is due largely to the purchase of additional technical software, such as reservoir and drilling monitoring software, offset by amortization charges.

Trade and Other Receivables

Our trade and other receivables are composed of the following items as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Trade receivables			
— due from external customers	23,271	11,531	46,947
— due from CUCBM ¹	11,961	24,425	36,930
Notes receivable ²	—	—	29,500
Prepaid expenses	2,393	3,866	8,435
Staff advance	5,324	5,221	1,031
Rental and other deposits	3,053	3,779	3,771
Government grants receivables ³	—	64,262	107,920
Due from CUCBM for cash calls ⁴	873	16,715	14,566
Others	812	2,527	5,115
Provision for impairment	—	—	(7,197)
Total	47,687	132,326	247,018

Notes:

1. Trade receivables due from CUCBM represent cash revenue paid by the external customers into the bank account which is under CUCBM's title but jointly controlled by CUCBM and us.
2. Notes receivable are all bank acceptance with maturity dates within six months.
3. Government grants receivables represents the VAT refund and government subsidies for CBM production that have not been received through CUCBM.
4. Due from CUCBM for cash calls represents CUCBM's share of the cash calls for the development costs of the Panzhuang concession yet to be received.

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Trade receivables from external customers increased from December 31, 2013 to December 31, 2014 because of the general increase in sales volume due to increased production at Panzhuang. Trade receivables due from CUCBM increased from December 31, 2012 to December 31, 2013, and again to December 31, 2014 because of the general increase in sales volume. As of the Latest Practicable Date, we had collected RMB76.7 million of the RMB83.9 million in trade receivables due from external customers and CUCBM that were outstanding as of December 31, 2014.

Our trade receivables turnover days due from external customers, which is calculated by (i) taking the average of the trade receivables balance at the beginning and the end of the period, (ii) dividing by revenue for the period and (iii) multiplying by 365, decreased from 59 days in 2012 to 46 days in 2013 and further to 25 days in 2014, mainly due to improvements in the timeliness of settlements for gas sold to external customers during 2013 and 2014.

Notes receivable represents bank acceptance notes received from one of our customers in 2014. As of the Latest Practicable Date, RMB14.5 million of the notes receivable had been collected.

Other receivables increased from December 31, 2012 to December 31, 2013 mainly because (i) of government grants receivables from subsidy income as we began accounting for the government subsidy in 2013, which included subsidy income for the years 2008 to 2013 since we agreed upon the subsidy distribution scheme with CUCBM in the fourth quarter of 2013, and (ii) as we began recording amounts due from CUCBM for cash calls since CUCBM began contributing its 20% portion of expenses incurred for Panzhuang in 2012 and 2013 given that Panzhuang entered into the development stage in 2012 and pursuant to the Panzhuang PSC Amendment entered into in July 2013. Other receivables increased from December 31, 2013 to December 31, 2014 mainly due to government grants receivable as we recognized VAT refunds for the first time in 2014, which included VAT refunds for the years 2009 to 2014 after the local government approved CUCBM's VAT refund application and wired the first VAT refund to CUCBM in 2014. The increase in trade and other receivables in 2014 was partially offset by a provision for impairment due to the recognition of bad debt for the trade receivables from our only CNG sales customer, who stopped making payments in 2012.

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The following table sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Due from external customers			
— Within 6 months	16,265	4,334	39,750
— 6 months to 1 year	5,528	—	—
— 1 to 2 years	1,478	5,719	—
— 2 to 3 years	—	1,478	5,719
— over 3 years	—	—	1,478
	<u>23,271</u>	<u>11,531</u>	<u>46,947</u>
Due from CUCBM			
— Within 6 months	11,961	24,425	36,930
	<u>11,961</u>	<u>24,425</u>	<u>36,930</u>
Past due but not impaired			
— Within 6 months	16,265	4,334	39,750
— 6 months to 1 year	5,528	—	—
— 1 to 2 years	1,478	5,719	—
— 2 to 3 years	—	1,478	—
	<u>23,271</u>	<u>11,531</u>	<u>39,750</u>
Movement of bad debt provision			
Beginning of the year	—	—	—
Addition	—	—	7,197
End of the year	<u>—</u>	<u>—</u>	<u>7,197</u>

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material increase in customer defaults nor did we experience any material customer defaults.

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Trade and Other Payables

Our trade and other payables are composed of the following items as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Trade payables	22,754	36,330	14,285
Accrued drilling costs and other expenses	189,538	231,270	209,780
Social securities and other payables	9,998	19,534	19,262
Total	222,290	287,134	243,327

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Trade payables increased from December 31, 2012 to December 31, 2013 due primarily to increased payables relating to the drilling of vertical and horizontal wells and the construction of gas gathering stations for our exploration and development activities in the Panzhuang and Mabi concessions. Trade payables decreased from December 31, 2013 to December 31, 2014 due primarily to less payables relating to exploration and development activities in the Panzhuang and Mabi concessions.

Our accrued drilling costs and other expenses increased from of December 31, 2012 to December 31, 2013 primarily due to drilling more wells and the accrued drilling costs to equipment suppliers and service providers for our expanded exploration and development activities in the Panzhuang and Mabi concessions. Our accrued drilling costs and other expenses decreased from December 31, 2013 to December 31, 2014, primarily due to less wells drilled in 2014. As of the Latest Practicable Date, of the RMB14.3 million of trade payables outstanding as of December 31, 2014, we had settled RMB9.4 million.

The following table sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Within 6 months	20,944	35,046	13,374
6 months to 1 year	110	593	585
1 to 2 years	1,511	274	325
2 to 3 years	189	417	1
Total	22,754	36,330	14,285

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Inventories

Inventories are mainly spare parts and consumables with low value and are stated at the lower of cost and net realizable value. Our inventories increased from RMB4.1 million as of December 31, 2012 to RMB7.1 million as of December 31, 2013, mainly due to the increase in drilling and maintenance for production wells and gas gathering stations in the Panzhuang concession. Our inventories then decreased to RMB1.1 million as of December 31, 2014, mainly due to the reclassification of inventory used for drilling production wells into fixed assets in the Panzhuang concession.

CAPITAL EXPENDITURES

Our capital expenditures decreased by RMB184.0 million, or 30.3%, from RMB607.9 million in 2013 to RMB423.9 million in 2014, primarily due to less wells drilled resulting in decreases in expenditures for the drilling of both vertical and horizontal wells and decreases in the construction of gas gathering stations at the Panzhuang and Mabi concessions. Our capital expenditures increased by RMB168.7 million, or 38.4%, from RMB439.3 million in 2012 to RMB607.9 million in 2013, primarily due to more wells drilled resulting in increases in expenditures for drilling vertical and horizontal wells and increases in constructing gas gathering stations and other facilities in the Panzhuang and Mabi concessions.

INDEBTEDNESS

The table below sets forth our borrowings as of the dates indicated.

	As of December 31,			As of April 30,
	2012	2013	2014	2015
	<i>(RMB in thousands)</i>			
Bank borrowings	153,775	357,798	362,280	363,436

On December 23, 2011, SAE, one of our subsidiaries, entered into the Standard Bank Facility, a revolving facility agreement with Standard Bank and its affiliate, under which up to US\$55 million was made available for SAE during the first 28 months of a five-year term commencing on the date SAE notified the lender that the Panzhuang ODP has been approved. The entire amount of our secured bank borrowings as of December 31, 2012 was owed under the Standard Bank Facility. All outstanding borrowings under the Standard Bank Facility were repaid on December 13, 2013 and the facility was terminated on the same day.

On November 15, 2013, SAE entered into the Reserve-based Facility. Part of the proceeds from the Reserve-based Facility were used to repay the Standard Bank Facility in full. The entire amount of our secured bank borrowings as of December 31, 2013 and 2014 and April 30, 2015 was owed under the Reserve-based Facility. See the subsection headed “Liquidity and Capital Resources” above for more details.

SAE, one of our subsidiaries, is currently in negotiations to enter into a new senior-secured revolving credit facility agreement. The proceeds will be mainly used to repay the Reserve-based Facility and fund the capital and operating expenditures under the Panzhuang PSC and the Mabi PSC and for general corporate purposes.

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As of April 30, 2015, being the latest practicable date such information is available, we had long-term borrowings of RMB363.4 million. As of April 30, 2015, we had US\$38.0 million in available and unutilized banking facilities, all of which was available under the Reserve-based Facility. Since April 30, 2015, there has been no material change in the Company's indebtedness. Other than as disclosed herein and in note 16 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus, as of the Latest Practicable Date, we did not have any material mortgages, charges, contingent liabilities or guarantees. These long-term liabilities consisted of drawdowns under the Reserve-based Facility, net of unamortized transaction costs.

As of the Latest Practicable Date we had no debt securities issued or outstanding.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Our future contractual obligations relate to the acquisition of property, plant and equipment and lease contracts for office premises. Capital commitments primarily represent contractual obligations that we have entered into with non-related parties for the operations and construction of facilities and buildings at Panzhuang and Mabi. We lease office premises from non-related parties under operating lease agreements. Capital expenditure contracted for at the balance sheet date but not yet incurred and the future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet date but not recognized as liabilities, are as follows:

	As of December 31,			As of April 30,
	2012	2013	2014	2015
	<i>(RMB in thousands)</i>			
Capital expenditures in respect of property, plant and equipment contracted for but not yet incurred	318,880	234,130	354,787	355,298
Lease commitments:				
Not later than one year	7,491	5,434	3,884	4,833
Between one and five years	1,196	1,753	866	4,950
	8,687	7,187	4,750	9,783

We intend to use cash generated from operations, a portion of the net proceeds from the Global Offering and/or a portion of the proceeds from bank borrowings to fund our capital commitments and lease commitments.

MARKET RISKS

Our activities expose us to a variety of financial risks, including credit risk and market risk (including foreign exchange risk, cash flow and interest rate risk). Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

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Credit Risk

As the majority of the cash at bank balances are placed with state-owned banks and financial institutions in the PRC and Hong Kong and there has been no recent history of default in relation to these banks and financial institutions, the corresponding credit risk is relatively low. Our credit risk arises primarily from trade and other receivables. We have controls in place to assess the credit quality of our customers. We have concentration risk on trade receivables. Only limited provisions for uncollectible receivables were made in the past as our sales were only made to customers with good credit histories. The utilization of credit limits is regularly monitored.

Foreign Exchange Risk

We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than our functional currency.

As at December 31, 2012, 2013 and 2014, if the Renminbi had weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, profit before tax for the years or period would have been RMB10.6 million, RMB14.3 million, and RMB7.3 million lower or higher, respectively, mainly as a result of foreign exchange gains/losses on translations of U.S. dollar denominated receivables and payable held by the Group entities with their functional currency as Renminbi.

Interest Rate Risk

We have no significant interest bearing assets. Our income and operating cash flows are substantially independent of the changes in market rates. Our floating-rate bank borrowings expose us to cash flow interest rate risk. Our exposure to interest rate risk primarily relates to the interest rates for our outstanding borrowings and the interest income generated by excess cash invested in term deposits with original maturities of less than three months. We have not used any derivative financial instruments to manage our interest risk exposure.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, save as disclosed in the subsection headed "Indebtedness," there have been no circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange.

DIVIDENDS AND DIVIDEND POLICY

The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of

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shareholders. The declaration and payment of dividends may also be limited by financing arrangements that we or our subsidiaries enter into. Any restrictions on our subsidiaries' ability to pay dividends or distributions may limit our ability to pay dividends to our shareholders. For example, our Reserve-based Facility restricts SAE from making distributions to AAGI and prohibits AAGI from making distributions to us, including dividend payments, which in effect prevents us from distributing our operating income to our shareholders.

We have not paid or proposed any dividend since the date of our inception. We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review our dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, the payment by our subsidiaries or cash dividends to us, and other factors the Board may deem relevant, in determining whether dividends are to be declared and paid.

If we are deemed to be a PRC "resident enterprise" under the New EIT Law and Implementation Rules, dividends on our shares may become subject to a 10% withholding tax. See the section headed "Risk Factors — Risks Related to our Operations in the PRC — Dividends paid by us to our foreign shareholders, and capital gains realized by our foreign shareholders from the sales of our shares, may be subject to taxes under PRC tax laws" of this prospectus for more information.

DISTRIBUTABLE RESERVES

As of December 31, 2014, our reserves available for distribution, which is our share premium, were RMB2,628.6 million.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below for the purpose of illustrating the effect of the Global Offering on our consolidated net tangible assets as at December 31, 2014, as if the Global Offering had taken place on that date.

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The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position as at December 31, 2014, or at any future date.

	Audited consolidated net tangible assets attributable to equity holders of the Company as at December 31, 2014¹	Estimated net proceeds from the Global Offering²	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share³	
		<i>(RMB in thousands)</i>		<i>(RMB)</i>	<i>(HK\$)⁴</i>
Based on an Offer Price of HK\$3.00 per share	2,797,988	1,511,936	4,309,924	1.30	1.65
Based on an Offer Price of HK\$3.70 per share	2,797,988	1,868,745	4,666,733	1.40	1.77

Notes:

- The audited consolidated net tangible assets attributable to our equity holders as of December 31, 2014 is derived from the Accountant's Report of the Company as set out in Appendix I to this Prospectus and is determined as follows:

	As at December 31, 2014
	<i>(RMB in thousands)</i>
Audited consolidated net assets of the Group attributable to the equity holders of the Company	2,803,001
Less: Intangible assets	<u>(5,013)</u>
 Audited consolidated net tangible assets attributable to equity holders of the Company	 <u><u>2,797,988</u></u>

- The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$3.00 and HK\$3.70 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by us and takes no account of any shares which may be sold and transferred upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by us pursuant to the general mandate.
- The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 3,324,368,920 Shares are in issue assuming that the Global Offering have been completed on December 31, 2014, but takes no account of any shares which may be sold and transferred upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any shares which may be allotted and issued or repurchased by us pursuant to the general mandate.
- For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.7889. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Other than our obligations under the Reserved-based Facility for up to US\$100 million, pursuant to which AAGI is the guarantor, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New and revised accounting standards have been published that are mandatory for future accounting periods. We are in the process of assessing the impact of these new and revised accounting standards and currently believe they are unlikely to have a significant impact on our results of operations and financial position.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2014, being the date to which our latest consolidated financial results were prepared in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

SELECTED FINANCIAL RATIOS

The following table sets forth select financial ratios as of the dates indicated:

	As of December 31,		
	2012	2013	2014
EBITDA margin ¹	-21.1%	71.5%	91.9%
Interest coverage ratio ²	-24.3x	4.8x	10.8x

Notes:

1. EBITDA divided by revenue and then multiplied by 100%.
2. Profit before interest and tax divided by interest.

Our EBITDA margin increased from negative 21.1% in 2012 to 71.5% in 2013, mainly due to increased sales volume and higher realized selling prices coupled with the first time recognition of government subsidies. Our EBITDA margin increased further to 91.9% in 2014, mainly due to increased sales volume and higher realized selling prices coupled with the first time recognition of VAT refunds.

FINANCIAL INFORMATION

Our interest coverage ratio increased from negative 24.3x as of December 31, 2012 to 4.8x in 2013, and further to 10.8x as of December 31, 2014, mainly because profit/loss from operations increased from a loss of RMB77.9 million in 2012 to a profit of RMB27.6 million and further to a profit of RMB283.6 million in 2014.

NON-HKFRS FINANCIAL MEASURES

We include in this prospectus the non-HKFRS financial measures EBITDA and adjusted EBITDA. We provide a reconciliation of EBITDA and adjusted EBITDA to loss/profit for the year, our most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest income, finance costs, income tax and depreciation and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash expenses such as share-based compensation expenses and provision for bad debt or non-recurring expenses.

EBITDA and adjusted EBITDA are not standard measures under HKFRS. EBITDA and adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts and others, to assess our operating performance as compared to those of other companies in our industry, without regard to financing or capital structure. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to loss/profit from operations or any other measure of performance or as an indicator of our operating performance or profitability.

EBITDA and adjusted EBITDA should not be considered an alternative to loss/profit for the year, loss/profit from operations or any other measure of financial performance or liquidity presented in accordance with HKFRS. Our EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA and adjusted EBITDA in the same manner. The following table presents a reconciliation of EBITDA and adjusted EBITDA to loss/profit for each of the years indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	<i>(RMB in thousands)</i>		
Reconciliation of net profit to EBITDA:			
(Loss)/profit for the year	(71,691)	39,568	194,988
Income tax	(8,620)	29,083	80,060
Interest income	(1,948)	(352)	(2,804)
Finance costs	3,714	1,813	6,872
Exchange (gains)/losses	626	(42,536)	4,452
Depreciation and amortization	<u>58,416</u>	<u>71,349</u>	<u>107,772</u>
EBITDA	<u>(19,503)</u>	<u>98,925</u>	<u>391,340</u>
Share-based compensation expenses	—	5,054	34,469
Provision for bad debt	—	—	<u>7,197</u>
Adjusted EBITDA	<u>(19,503)</u>	<u>103,979</u>	<u>433,006</u>

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

See the section headed “Business — Our Strategies” of this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,143.7 million (assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range of HK\$3.00 to HK\$3.70 per Share), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering. We intend to use these net proceeds for the following purposes:

- approximately 60% of our total estimated net proceeds (approximately HK\$1,286.2 million, assuming an Offer Price of HK\$3.35 per Share) will be used for the exploration development of CBM in the Panzhuang and Mabi concessions;
- approximately 35% of our total estimated net proceeds (approximately HK\$750.3 million, assuming an Offer Price of HK\$3.35 per Share) will be used for expanding our operations by acquiring interests in other CBM or other unconventional gas concessions or participating in cooperation or joint venture projects in relation to the exploration, and development and processing of CBM or other unconventional gas concessions. We will prepare and issue a competent person report for the acquisition of interests in any other CBM or other unconventional gas concessions in accordance with the Listing Rules at the appropriate time; and
- approximately 5% of our total estimated net proceeds (approximately HK\$107.2 million, assuming an Offer Price of HK\$3.35 per Share) will be used for working capital and general corporate purposes;

We believe that the net proceeds from the Global Offering, together with cash generated from operating activities, our existing cash and cash equivalents and bank borrowings, will be sufficient to fund our planned capital expenditures and operating costs relating to the exploration, development and production activities of Panzhuang and Mabi concessions going forward until the time in which our internal operating cash flows are projected to be able to meet our needs.

If the Offer Price is set at the higher or lower end of the indicative Offer Price range, we estimate that our net proceeds from the Global Offering will increase to approximately HK\$2,368.9 million or decrease to approximately HK\$1,918.6 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro rata basis.

We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder in the Global Offering. We estimate that the Selling Shareholder will receive net proceeds of approximately HK\$309.5 million from the sale of the Sale Shares, based on the Offer Price of HK\$3.35 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Selling Shareholder.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is fully exercised by the Global Coordinators, the Over-allotment Option Grantors, namely WP China, Baring PE, Dr. Zou and The Zou 2011 Family Trust will receive net proceeds of approximately HK\$180.9 million, HK\$148.0 million, HK\$21.1 million and HK\$21.1 million for 55,680,005, 45,542,552, 6,493,722 and 6,493,722 Shares to be sold and transferred upon the full exercise of the Over-allotment Option, respectively, based on the Offer Price of HK\$3.35 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Over-allotment Option Grantors.

To the extent that our net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term interest-bearing deposit accounts with authorized financial institutions.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with 5 cornerstone investors (the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), who have agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) at the Offer Price which may be purchased with an aggregate amount of approximately HK\$1,775.0 million (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$3.35 being the mid-point of the Offer Price range set out in this Prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 529,848,000 Shares, representing approximately 15.94% of our issued share capital immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

The Cornerstone Placing will form part of the International Offering and none of such Cornerstone Investors will subscribe for any Share under the Global Offering (other than pursuant to their respective cornerstone investment agreements). The Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respect with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any Cornerstone Investors become a substantial shareholder of our Company (as defined under the Listing Rules).

The Shares to be subscribed for by the Cornerstone Investors may be affected by reallocation of Shares between the International Offering and Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the sub-section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus.

To the best knowledge of our Company, each of the Cornerstone Investors is an independent third party and is independent of the other Cornerstone Investors, is not our connected person and is not an existing shareholder or close associates of our Group.

Details of allocation to the Cornerstone Investors will be disclosed in the announcement of allotment results of our Company to be published on or about Monday, June 22, 2015.

OUR CORNERSTONE INVESTORS

OUR CORNERSTONE INVESTORS

We set out below a brief description of our Cornerstone Investors:

Shenzhen Tongyu Energy Investment Limited

Shenzhen Tongyu Energy Investment Limited (深圳通豫能源投資有限公司) (“**Shenzhen Tongyu**”) has agreed to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of US\$70 million (or approximately HK\$542.5 million based on an assumed exchange rate published by Reuters after the close of business on the Latest Practicable Date). Assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total number of Shares that Shenzhen Tongyu would subscribe for is 161,940,000 Shares, representing approximately 4.87% of our issued share capital immediately after the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

Shenzhen Tongyu is incorporated in the PRC with limited liability. It is a wholly-owned subsidiary of Chongqing Sanxia Energy Limited (重慶三峽能源有限公司) (“**Sanxia Energy**”), which principally engages in clean energy investment, management and operation, and is ultimately controlled as to 51% by Chongqing Sanxia Gas (Group) Limited (重慶三峽煤氣(集團)有限公司) (“**Sanxia Gas**”), and as to approximately 43% by Hengtong (Tianjin) Equity Investment Fund (亨通(天津)股權投資基金合夥企業(有限合夥)) (“**Hengtong Fund**”). Shanxi Tongyu is the owner and operator of the Tongyu Pipeline and our strategic partner since 2010 as well as our major customer, which is also majority controlled by Sanxia Gas and Hengtong Fund. Tongyu Pipeline is the main pipeline we rely on to deliver CBM produced in Panzhuang concession to our downstream customers. For further details on the Tongyu Pipeline, please refer to the section headed “Business — Access to established infrastructure enables sales to target markets with significant demand for CBM” in this prospectus.

Jiangsu Addor M&A Growth Equity Investment Fund (Limited Partnership)

Jiangsu Addor M&A Growth Equity Investment Fund (Limited Partnership) (“**Addor Fund**”) is the beneficiary of a proposed asset management arrangement to be entered into with China International Capital Corporation Limited (the “**QDII Manager**”) in the capacity of a qualified domestic institutional investor (the “**QDII**”) as asset manager and nominee of Addor Fund. Addor Fund has agreed to cause the QDII Manager to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of US\$50 million (or approximately HK\$387.5 million based on an assumed exchange rate published by Reuters after the close of business on the Latest Practicable Date). Assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total number of Shares that Addor Fund would subscribe for is 115,671,000 Shares, representing approximately 3.48% of our issued share capital immediately after the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

OUR CORNERSTONE INVESTORS

Addor Fund is managed in trust by Jiangsu Addor Capital Management Company Limited (“**Addor Capital**”), a core enterprise of Jiangsu Govtor Capital Group Ltd. Since launching its investment business in 1992, Addor Capital, as the first specialized equity investment fund management institution at provincial-level set up China, has sponsored a total of 55 equity investment funds of differentiated positioning with accumulated assets under management amounting to over RMB36 billion. Addor Capital focuses on the energy saving and environmental protection industry and in particular, has extensive investment experience in the clean energy sector with a track record of successful investment cases including China High Speed Transmission Equipment Group Co., Ltd. (00658.HK), Sinoma Energy Conservation Ltd. (603126), Jiangsu Akcome Science and Technology Co., Ltd. (002610), etc. Addor Capital was ranked seventh among the Zero2ipo - China Top 50 Venture Capital Firms 2014 (清科榜單2014年中國創業投資機構50強) and second among the Top 50 Local Firms (本土機構50強).

The QDII Manager is the parent company of China International Capital Corporation Hong Kong Securities Limited. The QDII Manager manages an investment fund in the capacity as a QDII for and on behalf of Addor Fund in accordance with applicable PRC laws, regulations and regulatory documents. The above arrangement will be achieved by an allocation of Offer Shares to the QDII Manager in a structured pass-through transaction. The QDII Manager and Addor Fund shall be treated in an equal manner as other cornerstone investors in the allocation process. The ultimate cornerstone investor is independent from the QDII Manager, the Joint Bookrunners and their respective associates. No financing has been provided by the QDII Manager and its affiliates or the QDII fund to the relevant cornerstone investor in connection with the cornerstone investment. The Joint Sponsors and the Joint Bookrunners confirm that material terms of the above cornerstone investment agreement are substantially the same as those entered into by other corporate investors taking part in the Global Offering. We have applied for and the Hong Kong Stock Exchange has granted its consent under paragraph 5(1) of Appendix 6 of the Listing Rules to allow Offer Shares to be placed to the QDII Fund as a “connected client” (as defined under paragraph 13 of Appendix 6 of the Listing Rules) of one of the Joint Bookrunners.

CMH International Limited

CMH International Limited (“**CMH**”) has agreed to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of HK\$380 million. Assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total number of Shares that CMH would subscribe for is 113,432,000 Shares, representing approximately 3.41% of our issued share capital immediately after the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

CMH is a Hong Kong based subsidiary of CMH Investment Co., Ltd. (“**CMH Investment**”) under China Minsheng Investment Corp., Ltd. (“**China Minsheng Investment**”). CMH Investment is an investment platform of China Minsheng Investment, focused on industrial innovation. China Minsheng Investment was established in May 2014 in Shanghai with a registered capital of RMB50 billion, and is a leading private investment company organized by

OUR CORNERSTONE INVESTORS

the All-China Federation of Industry & Commerce (ACFIC), and was launched by 59 well-known private enterprises throughout China. China Minsheng Investment's mainstay industries for industrial integration and overseas investment include emerging industries, including alternative energy, energy conservation and environmental protection. China Minsheng Investment has offices in Hong Kong, Singapore, and London.

Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership)

Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership) ("**Beibu Gulf Fund**") has agreed to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of US\$50 million (or approximately HK\$387.5 million based on an assumed exchange rate published by Reuters after the close of business on the Latest Practicable Date). Assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total number of Shares that Beibu Gulf Fund would subscribe for is 115,671,000 Shares, representing approximately 3.48% of our issued share capital immediately after the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

Beibu Gulf Fund is a state level large-scale industrial investment fund with total authorized fund size of RMB20.0 billion. Its establishment was initiated by The People's Government of Guangxi Zhuang Autonomous Region and officially approved by the NDRC. With the support of The People's Government of Guangxi Zhuang Autonomous Region, Beibu Gulf Fund's strategic vision is to promote the economic development of Beibu Gulf and West River Economic Belt, as well as other southwest provinces in China and ASEAN countries, and to upgrade and transform the relevant industries into sustainable growth drivers by leveraging domestic and international capital resources to undertake strategic investments in relevant industries. It envisages to serve as a bridge to connect the domestic and international capital markets with the local advantageous sectors and markets to achieve its strategic objectives. Beibu Gulf Fund's key focused areas of investment included environmental protection, renewable and clean energy, natural resources, modern services, agriculture and healthcare sectors. It has extensive investment experiences in environmental protection and renewable and clean energy sectors, with previous investment cases including CGN Power Co., Ltd (1816.HK), Canvest Environmental Protection Group Company Limited (1381.HK) and Yunnan Water Investment Co., Limited (6839.HK).

Sichuan Datong Gas Development Corporation Limited

Sichuan Datong Gas Development Corporation Limited ("**Sichuan Datong Gas**") is the beneficiary of a proposed asset management arrangement to be entered into with the QDII Manager in the capacity of a QDII as asset manager and nominee of Sichuan Datong Gas. Sichuan Datong Gas has agreed to cause the QDII Manager to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of US\$10 million (or approximately HK\$77.5 million based on an assumed exchange rate published by Reuters after the close of business on the

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Latest Practicable Date). Assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total number of Shares that Sichuan Datong Gas would subscribe for is 23,134,000 Shares, representing approximately 0.70% of our issued share capital immediately after the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the RSU Scheme).

Sichuan Datong Gas is headquartered in Chengdu, Sichuan and is principally engaged in a comprehensive business portfolio including urban gas pipeline and commercial retail. Its shares are listed on the Shenzhen Stock Exchange (stock code 000539). Its sales revenue and total assets for 2014 amounted to RMB440 million and RMB770 million, respectively. Sichuan Datong Gas' urban pipeline gas business is concentrated in Jiangxi Province and Liaoning Province. Its gas business caters to 130,000 gas users in Shangrao, Jiangxi Province, and Wafangdian, Dalian City, Liaoning Province. Currently, Sichuan Datong Gas expedites its business deployment for urban gas pipelines. As a result of the resolutions regarding the acquisition of controlling interest in both Deyang Jingneng Natural Gas Limited (德陽市旌能天然氣有限公司) and Luojiang Natural Gas Limited (羅江縣天然氣有限公司), passed at Sichuan Datong Gas' general meeting, Sichuan Datong Gas' coverage of urban gas pipelines in Sichuan, Hubei and other provinces will be expanded upon completion of the acquisition.

The QDII Manager is the parent company of China International Capital Corporation Hong Kong Securities Limited. The QDII Manager manages an investment fund in the capacity as a QDII for and on behalf of Sichuan Datong Gas in accordance with applicable PRC laws, regulations and regulatory documents. The above arrangement will be achieved by an allocation of Offer Shares to the QDII Manager in a structured pass-through transaction. The QDII Manager and Sichuan Datong Gas shall be treated in an equal manner as other cornerstone investors in the allocation process. The ultimate cornerstone investor is independent from the QDII Manager, the Joint Bookrunners and their respective associates. No financing has been provided by the QDII Manager and its affiliates or the QDII fund to the relevant cornerstone investor in connection with the cornerstone investment. The Joint Sponsors and the Joint Bookrunners confirm that material terms of the above cornerstone investment agreement are substantially the same as those entered into by other corporate investors taking part in the Global Offering. We have applied for and the Hong Kong Stock Exchange has granted its consent under paragraph 5(1) of Appendix 6 of the Listing Rules to allow Offer Shares to be placed to the QDII Fund as a "connected client" (as defined under paragraph 13 of Appendix 6 of the Listing Rules) of one of the Joint Bookrunners.

CONDITIONS PRECEDENT

The subscription of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived (to the extent it may be

OUR CORNERSTONE INVESTORS

waived) or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;

- (2) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated;
- (3) the Offer Price having been agreed upon between the Company and underwriters;
- (4) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of the dealings in the Shares on the Stock Exchange;
- (5) no Laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or in the respective cornerstone investment agreement of such Cornerstone Investor, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (6) the representations, warranties, acknowledgments, undertakings and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all respects and not misleading and that there is no breach of such cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, among other things, without the prior written consent of each of the Company, The Hongkong and Shanghai Banking Corporation Limited and China International Capital Corporation Hong Kong Securities Limited, it will not, whether directly or indirectly, at any time during the period of six months starting from and inclusive of the Listing Date, (i) dispose of any Shares subscribed for by it or any interest in any company or entity (directly or indirectly) holding any such Shares in any way pursuant to the terms of the relevant cornerstone investment agreement; (ii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction; (iii) publicly announce any intention to enter into any aforesaid transaction; and (iv) agree or contract to do any of the aforesaid transaction, other than in limited circumstances such as transfers to any wholly owned subsidiary of such Cornerstone Investor provided that such wholly owned subsidiary undertakes in writing to, and such Cornerstone Investor undertakes to procure such wholly owned subsidiary will, be bound by the obligations of such Cornerstone Investor under its cornerstone investment agreement, including without limitation the restrictions on disposals of Shares imposed on such Cornerstone Investor, as if such wholly owned subsidiary were itself subject to the same obligations and restrictions.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
The Hongkong and Shanghai Banking Corporation Limited
Credit Suisse (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong at the Offer Price on, and subject to, the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and our Shares to be offered pursuant to the Global Offering as mentioned herein and any options which may be granted under the Pre-IPO Share Option Scheme and any Shares underlying the RSUs which may be issued under the Post-IPO RSU Scheme and to certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between our Company, the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their sole discretion and upon giving notice in writing to our Company with immediate effect, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or any change or development involving a prospective change in existing law, or any change in the interpretation or application thereof by any court or other competent authority in or affecting the Cayman Islands, Hong Kong, PRC, the United Kingdom, the European Union as a whole, Japan, Singapore or the United States (each a “**Relevant Jurisdiction**”); or

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- (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, currency, credit, fiscal, regulatory or tax (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the inter-bank markets, credit markets), in, or affecting a Relevant Jurisdiction; or
- (iii) any event or series of events or circumstances in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, labour dispute, strike, lock-out, riot, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism, acts of God, outbreak of infectious diseases or epidemics, including, but not limited to, Severe Acute Respiratory Syndrome (SARS), H1N1 and H5N1, economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) in or affecting any Relevant Jurisdiction; or
- (iv) any withdrawal of the trade privileges in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (v) the imposition of any moratorium, suspension or unusual restriction in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (vi) the imposition of any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), the PRC, the Cayman Islands or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services in any of the Relevant Jurisdictions; or
- (vii) a contravention by any member of our Group of the Listing Rules or a material contravention by any member of our Group of the applicable Laws; or
- (viii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling the Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (ix) the chairman of our Company vacating his office or a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

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- (x) any litigation or claim of any third party or any Director being threatened or instigated against any member of our Group; or
- (xi) save as disclosed in this prospectus, any order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xii) any materialisation of any of the risks set out in the section headed “Risk Factors” of this prospectus; or
- (xiii) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity, which is legally enforceable;

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (A) has or will or may have a material adverse effect on the business, results of operations, position or condition, financial or otherwise, of the Group as a whole; or (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (C) makes or will make or is likely to make it inadvisable or impracticable for any material part of Hong Kong Underwriting Agreement or for any part of the Hong Kong Public Offering or the Global Offering or the delivery of the Offer Shares to be performed or implemented; or

- (b) there has come to the notice of the Joint Global Coordinators:
 - (i) any breach of, or any matter, or event rendering untrue, incorrect or misleading in any material respect, any of the representations, warranties and undertakings given by our Company in the Hong Kong Underwriting Agreement; or
 - (ii) any breach of any of the material obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iii) that any statement contained in any of this prospectus, the Application Forms, and/or in any notices, announcements, or advertisements or other documents issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or

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misleading in any material respect, or that any estimate/forecast, expression of opinion, intention or expectation contained in the above mentioned documents is not fair and honest and based on reasonable assumptions; or

- (iv) any matter that has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, result in a material misstatement in, or constitutes a material omission therefrom this prospectus, the Application Forms, and/or any notices, announcements, advertisements or other documents issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (v) any event, act or omission which gives rise to any material liability of the Indemnifying Party pursuant to the Hong Kong Underwriting Agreement; or
- (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, trading, properties, results of operations, position or condition, financial or otherwise, of the Group as a whole; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued or sold (including any Shares that may be sold and transferred pursuant to the exercise of the Over-Allotment Option) under the Global Offering and the Shares to be issued pursuant to the Capitalization Issue and the Pre-IPO Share Option Scheme is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the withdrawal of consent by any Joint Sponsor without a reason) prior to the issue of this prospectus; or
- (ix) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

UNDERWRITING

(b) Undertakings in respect of the Global Offering

Undertakings by our Company

To the Stock Exchange

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances.

Pursuant to Hong Kong Underwriting Agreement

Our Company has undertaken to each of the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters, and the Controlling Shareholders undertake to procure, that save for (i) the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), (ii) any Shares issued upon the conversion of a security of our Company outstanding on the date of the Hong Kong Underwriting Agreement and (iii) any shares of our Company to be issued or options to purchase Shares granted or to be granted pursuant to the Pre-IPO Share Option Scheme or the Post-IPO RSU Scheme referred to in this prospectus, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-Month Period**”), our Company will not, without the prior written consent of the Joint Bookrunners and unless in compliance with the requirements of the Listing Rules:

- (1) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such member of our Group, as applicable); or

UNDERWRITING

- (3) enter into any transaction with the same economic effect as any transaction described in paragraphs (1) or (2) above; or
- (4) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (1), (2) or (3) above,

in each case, whether any of the transactions specified in paragraphs (1), (2) or (3) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Six month Period expires (the “**Second Six Month Period**”), the Company enters into any of the transactions specified in paragraphs (1), (2) or (3) above or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

To the Stock Exchange

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering or any options which may be granted under the Pre-IPO Share Option Scheme as disclosed in this prospectus:

- (i) it/he will not, at any time during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and
- (ii) it/he will not, at any time during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that Rule 10.07 does not prevent a controlling shareholder from using our Shares owned by it/him as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

UNDERWRITING

Pursuant to Note 3 to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and our Company that it/he will, within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

- (i) when it/he pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by it/him in favor of any authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (ii) when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us of such indications.

Our Company, upon receiving such information from any of our Controlling Shareholders, will notify the Stock Exchange and make appropriate disclosures in relation to such information by way of an announcement.

Undertakings by Certain Existing Shareholders to the Underwriters

Chinastone Hong Kong Holdings Limited, Chengwei Evergreen Capital, L.P., Chengwei Partners, L.P., Chengwei Ventures Evergreen Advisors Fund, Evan Energy Investments, LC, and Craig L. Massey as Trustee of Grantor Retained Annuity Trust I of E. Morgan Massey (together, the “**Existing Shareholders**”) have entered into a lock-up undertaking in favor of ourselves and the Joint Bookrunners (“**Lock-up Undertaking**”) pursuant to which each Existing Shareholder undertakes to us, the Joint Sponsors and the Joint Global Coordinators that it will not (and will procure that no company controlled by it or any nominee or trustee holding in trust for it will not) at any time after the date of the Lock-up Undertaking up to and including the date falling six months from the first date on which the Offer Shares commence dealing on the Stock Exchange (the “**Lock-up Period**”),

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by such Existing Shareholder as at the the date on which trading of the Shares commences on the Hong Kong Stock Exchange or with respect to which such Existing Shareholder has beneficial ownership) (collectively, the “**Lock-up Shares**”);

UNDERWRITING

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Shares or any interest therein any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Lock-up Shares);
- (c) enter into any transaction with the same economic effect as any transaction specified in subsection (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in subsection (a), (b) or (c) above, in each case, whether any of the transactions specified in subsection (a), (b) or (c) above is to be settled by delivery of the Lock-up Shares, or in cash or otherwise (whether or not the issue of the Lock-up Shares or such other securities will be completed within the aforesaid period).

The above restrictions (a) to (d) shall not apply (A) where the above arrangements or transactions are entered into, undertaken or consummated pursuant to a requirement of a governmental authority, a court of law, an arbitral tribunal or a requirement of any applicable law; or (B) to any sale of any Shares acquired on-market by any of the Shareholders after the Listing Date.

None of the Existing Shareholders nor their respective subsidiaries (excluding listed companies and their respective subsidiaries) will apply for, either by itself or through a company controlled by it, any Offer Shares through the Global Offering either in its own name or through nominees unless permitted to do so under the Listing Rules or otherwise by the Hong Kong Stock Exchange, and if any such application has been made or it has indicated an interest to acquire such Offer Shares through the Global Offering, it shall forthwith notify the Joint Global Coordinators.

Each of the Existing Shareholders agrees and undertakes that it will not, and will not cause the Company to, effect any purchase of Shares, or agree to do so, which may result in a breach of the relevant provisions of Listing Rule 8.08 on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Joint Global Coordinators.

Each of the Existing Shareholders acknowledges that our Company, the Joint Sponsors and the Joint Global Coordinators are relying upon the Lock-up Undertaking in proceeding with the Global Offering. Each of the Existing Shareholders now has, and for the duration of the Lock-up Period will have, good and marketable title to its Lock-up Shares, free and clear of any Encumbrance. Each of the Existing Shareholders also agrees and consents to the entry of “stop transfer” instructions with the Company’s transfer agent and registrar against the transfer of its Lock-up Shares except in compliance with the foregoing restrictions.

UNDERWRITING

Notwithstanding the above restrictions, each of the Existing Shareholders may transfer the Lock-up Shares to any of its affiliates, whether directly or indirectly, provided that, such affiliates shall enter into an undertaking letter in the same form and substance as the Lock-up Undertaking for the Lock-up Period.

(c) Underwriting commission and expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3% (subject to adjustment) of the aggregate Offer Price payable for the Hong Kong Offer Shares offered under the Hong Kong Public Offering (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and Shares reallocated to the Hong Kong Public Offering, if any, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Bookrunners and the International Underwriters (but not the Hong Kong Underwriters). In addition, in our sole and absolute discretion, we may also pay an incentive fee of up to 1% of the aggregate Offer Price in respect of all the Offer Shares offered under the Global Offering (including any Shares sold and transferred pursuant to the exercise of the Over-allotment Option) to the Joint Global Coordinators.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy of 0.0027%, the Stock Exchange trading fee of 0.005%, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK\$87.7 million in total (assuming an Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range of HK\$3.00 to HK\$3.70 per Share).

(d) Indemnity

We and the Selling Shareholder have agreed to indemnify the International Underwriters and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or the Selling Shareholder of the Hong Kong Underwriting Agreement.

(e) Underwriters' interests in our Company

Save as disclosed in this prospectus and save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our Company or any of our subsidiaries.

(f) The Joint Sponsors' independence

China International Capital Corporation Hong Kong Securities Limited, being one of the Joint Sponsors, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

UNDERWRITING

HSBC Corporate Finance (Hong Kong) Limited, being the other Joint Sponsor, is not independent from our Company according to Rule 3A.07 of the Listing Rules. HSBC Corporate Finance (Hong Kong) Limited is an indirect wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”). HSBC currently has a term facility and may potentially increase the total lending exposure which will exceed 30% of the total assets of the Company as of December 31, 2014.

International Offering

International Underwriting Agreement

In connection with the International Offering, we, the Selling Shareholder and the Over-allotment Grantors expect to enter into the International Underwriting Agreement with the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally and not jointly agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Pursuant to the International Underwriting Agreement, our Company has agreed that, without the prior written consent of the International Underwriters, it will not, during the period commencing on the date of the International Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date, (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing; or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-clauses (i) or (ii) above; or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-clauses (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-clauses (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise provided, however, that the foregoing restrictions do not apply to (i) the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option); (ii) any Shares issued upon the conversion of a security outstanding on the date of the International Underwriting Agreement and (iii) any shares issued or options to purchase Shares granted or to be granted pursuant to the Pre-IPO Share Option Scheme and the Post-IPO RSU Share Scheme.

We, the Selling Shareholder and the Over-allotment Option Grantors, jointly and severally, will indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of initial 76,140,000 Shares (subject to adjustment as mentioned below) (representing 10% of the initial total number of Offer Shares) in Hong Kong as described in the paragraph headed “The Hong Kong Public Offering” of this section; and
- the International Offering of initial 685,260,000 Shares (subject to adjustment as mentioned below) (representing 90% of the initial total number of Offer Shares) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S, including to professional and institutional investors in Hong Kong.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in accordance with Regulation S or in the United States to QIBs in reliance on Rule 144A or another available exemption. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters), agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting” of this prospectus.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation and, in the case of the International Offering only, the Over-allotment Option as described below in the paragraph headed “Over-allotment and Stabilization” of this section.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Under the Hong Kong Public Offering, our Company is initially offering 76,140,000 Shares at the Offer Price for subscription by the public in Hong Kong, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.3% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "Conditions of the Hong Kong Public Offering" of this section.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares in the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares to be issued pursuant to the Global Offering (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option) and the exercise of any options that were granted under our Pre-IPO Share Option Scheme;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed on or around 5:00 p.m. on Friday, June 19, 2015 between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse immediately.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, June 23, 2015 provided that (i) the Global Offering has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for our Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 38,070,000 Hong Kong Offer Shares (being 50% of the 76,140,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached as further described below:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 228,420,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 304,560,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 380,700,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Listing of our Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.70 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “Pricing of the Global Offering” of this section below, is less than the maximum price of HK\$3.70 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Shares offered

Subject to reallocation as described above, the International Offering will consist of 685,260,000 Shares, assuming that the Over-allotment Option is not exercised, representing 90% of the total number of Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing of the Global Offering” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing of our Share on the Stock Exchange. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit, of our Company and our Shareholders as a whole.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the section headed “The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part described in the section entitled “Over-allotment Option”, and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Global Coordinators.

STRUCTURE OF THE GLOBAL OFFERING

Over-allotment Option

In connection with the Global Offering, the Over-allotment Option Grantors are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at their sole and absolute discretion on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the day on which trading of our Shares commences on the Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantors to sell and transfer up to an aggregate of 114,210,000 Over-allotment Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover, among other things, over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the Over-allotment Shares to be sold and transferred will represent approximately 3.4% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICING OF THE GLOBAL OFFERING

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, June 16, 2015, and in any event on or before 5:00 p.m. on Friday, June 19, 2015, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

Offer Price Range

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Joint Global Coordinators (on behalf of the Underwriters) and our Company.

The Offer Price will not be more than HK\$3.70 per Offer Share and is expected to be not less than HK\$3.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Reduction in Indicative Offer Price Range and/or Number of Offer Shares

The Joint Global Coordinators (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at www.hkexnews.hk, and on the Company's website at www.aagenergy.com notice of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Upon issue of a notice in the reduction of the Offer Price, the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range.

Applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application will be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees, brokerage, SFC transaction levy, Stock Exchange trading fees and estimated expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$2,369 million, assuming an Offer Price per Offer Share of HK\$3.70, or approximately HK\$1,919 million, assuming an Offer Price per Offer Share of HK\$3.00.

STRUCTURE OF THE GLOBAL OFFERING

Announcement of Offer Price and Basis of Allocations

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, June 22, 2015, in the manner set out in the paragraph “Publication of Results” of this prospectus.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

Following any over-allocation of Shares in connection with the Global Offering, the Joint Global Coordinators, their affiliates or any person acting for them may cover such over-allocation by, among other methods, using Shares purchased by the stabilizing manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares that may be over-allotted will not be greater than the number of Shares which may be made available upon exercise of the Over-allotment Option, being 114,210,000 Shares, which is 15% of our Offer Shares initially available under the Global Offering.

China International Capital Corporation Hong Kong Securities Limited has been appointed by us as the stabilizing manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, China International Capital Corporation Hong Kong Securities Limited, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allot or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilization Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilization Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The Stabilization Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of our Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate our Shares; or
 - (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of our Shares;
 - (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;
 - (C) sell or agree to sell any of our Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or
 - (D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilization Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilization Manager, its affiliates or any person acting for it, which may include a decline in the market price of our Shares.

Stabilization cannot be used to support the price of our Shares for longer than the stabilization period, which begins on the day on which trading of our Shares commences on the Stock Exchange and ends on the earlier of the thirtieth day after (i) the last day for lodging of applications under the Hong Kong Public Offering or (ii) the commencement of trading of our Shares. The stabilization period is expected to expire on Thursday, July 16, 2015, after which an announcement will be made pursuant to section 9 and schedule 3 of the Securities and Futures (Price Stabilizing) Rules made under the SFO. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore then market price, could fall.

Any stabilizing action taken by the Stabilization Manager, its affiliates or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, June 23, 2015, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, June 23, 2015. Our Shares will be traded in board lots of 1,000 Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO service** at *www.eipo.com.hk*; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

The Company, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider (where applicable) or their respective agents have full discretion to reject or accept any application, in full or in part, without giving any reason.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 11, 2015 until 12:00 noon on Tuesday, June 16, 2015 from:

- (i) any of the following offices of the Underwriters

<u>Hong Kong Underwriters</u>	<u>Address</u>
China International Capital Corporation Hong Kong Securities Limited	29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
The Hongkong and Shanghai Banking Corporation Limited	1 Queen's Road Central, Hong Kong
Credit Suisse (Hong Kong) Limited	Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

- (ii) any of the branches and sub-branches of the following receiving banks:

Standard Chartered Bank (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6–12 Nam Ning Street, Aberdeen
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66–70 Nathan Road, Tsimshatsui
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok

HOW TO APPLY FOR HONG KONG OFFER SHARES

	<u>Branch Name</u>	<u>Address</u>
New Territories	Metroplaza Branch	Shop No. 175–176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tai Po Branch	G/F Shop No. 2, 23–25 Kwong Fuk Road, Tai Po Market, Tai Po

Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Sub-Branch Name</u>	<u>Address</u>
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
	Kowloon	Cheung Sha Wan Plaza Sub-Branch Mongkok Sub-Branch
New Territories	Tseung Kwan O Sub-Branch	Shop 253–255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Sheung Shui Sub-Branch	Shops 1010–1014, G/F., Sheung Shui Centre Shopping Arcade, Sheung Shui

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 11, 2015 until 12:00 noon on Tuesday, June 16, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Horsford Nominees Limited — AAG Energy Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches and sub-branches of the receiving banks listed above, at the following times:

- Thursday, June 11, 2015 — 9:00 a.m. to 5:00 p.m.
- Friday, June 12, 2015 — 9:00 a.m. to 5:00 p.m.
- Saturday, June 13, 2015 — 9:00 a.m. to 1:00 p.m.
- Monday, June 15, 2015 — 9:00 a.m. to 5:00 p.m.
- Tuesday, June 16, 2015 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, June 16, 2015, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vi) agree that none of the Company, Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, the receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company, the Joint Global Coordinators and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

Supplemental information

If any supplement to this Prospectus is issued, applicant(s) who have already submitted a **WHITE** or **YELLOW** Application Form may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) has/have not been so notified, or if applicant(s) has/have been notified but has/have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE PROVIDER

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website,

HOW TO APPLY FOR HONG KONG OFFER SHARES

you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, June 11, 2015 until 11:30 a.m. on Tuesday, June 16, 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 16, 2015, or such later time under the “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per

HOW TO APPLY FOR HONG KONG OFFER SHARES

each “AAG Energy Holdings Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dong Jiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators, the Joint Bookrunners and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **Thursday, June 11, 2015:** 9:00 a.m. to 8:30 p.m.¹
- **Friday, June 12, 2015:** 8:00 a.m. to 8:30 p.m.¹
- **Saturday, June 13, 2015:** 8:00 a.m. to 1:00 p.m.¹
- **Monday, June 15, 2015:** 8:00 a.m. to 8:30 p.m.¹
- **Tuesday, June 16, 2015:** 8:00 a.m.¹ to 12:00 noon

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Note:

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, June 11, 2015 until 12:00 noon on Tuesday, June 16, 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, June 16, 2015, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead

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Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, June 16, 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

(a) You may make more than one application for the Hong Kong Offer Shares only if:

- you are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) lodging more than one **WHITE** or **YELLOW** Application Form in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

Otherwise, multiple or suspected multiple applications will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, and that you are duly authorised to sign the Application Form (where applicable) as that other person's agent.

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- (b) Save as referred to in sub-paragraph 8(a) above, all of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider;
 - apply both (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider;
 - apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, being 38,070,000 Shares;
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any International Offer Shares under the International Offering.
- (c) Save as referred to above, all of your applications for the Hong Kong Offer Shares will be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company,

then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- (i) control the composition of the board of directors of that company;

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- (ii) control more than half of the voting power of that company; or
 - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profit or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications will be rejected.

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

The maximum Offer Price is HK\$3.70 per Hong Kong Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy 0.0027% and the Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 Hong Kong Offer Shares you will pay HK\$3,737.29. The Application Forms contain tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for.

When you apply for Hong Kong Offer Shares, you must pay the maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee in full. You must pay the amount payable upon application for Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form) or this prospectus.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

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For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing of the Global Offering.”

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 16, 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, June 16, 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, June 22, 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.aagenergy.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.aagenergy.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Monday, June 22, 2015;
- from the Company’s designated results of allocations website at www.iporesults.com.hk with a “search by ID” on a 24-hour basis from 8:00 a.m. Monday, June 22, 2015 to 12:00 midnight Sunday, June 28, 2015;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, June 22, 2015 to Thursday, June 25, 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, June 22, 2015 to Wednesday, June 24, 2015 at all the receiving banks’ branches and sub-branches.

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$3.70 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Monday, June 22, 2015.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, June 22, 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, June 23, 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 22, 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, June 22, 2015 by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, June 22, 2015 by ordinary post and at your own risk.

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, June 22, 2015 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 pm on Monday, June 22, 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 22, 2015 or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, June 22, 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, June 22, 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "Publication of Results" above on Monday, June 22, 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Monday, June 22, 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, June 22, 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including

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brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, June 22, 2015.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

June 11, 2015

The Directors
AAG Energy Holdings Limited

China International Capital Corporation Hong Kong Securities Limited
HSBC Corporate Finance (Hong Kong) Limited

Dear Sirs,

We report on the financial information of AAG Energy Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), which comprises the Company's balance sheet as at December 31, 2014 and the consolidated balance sheets as at December 31, 2012, 2013 and 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2012, 2013 and 2014 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (the "**Financial Information**"). This Financial Information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated June 11, 2015 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on December 23, 2014 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in the name of AAG Energy Inc.. On January 15, 2015, the Company changed its name to AAG Energy Holdings Limited. Pursuant to a group reorganisation as described in Note 1.2(2) of Section II headed "Reorganisation" below, which was completed on December 31, 2014, the Company became the holding company of the subsidiaries now comprising the Group (the "**Reorganisation**").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, www.pwchk.com*

No audited financial statements have been prepared by the Company as it was newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. No statutory audited financial statements have been prepared by the other companies now comprising the Group during the Relevant Periods as there are no statutory audit requirements in their respective jurisdictions of incorporation.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) (the “**Underlying Financial Statements**”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “**HKSAs**”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at December 31, 2014 and of the state of affairs of the Group as at December 31, 2012, 2013 and 2014 and of the Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group prepared by the directors of the Company, presented on the basis set out in Note 1.3 of Section II below:

(a) Consolidated balance sheets

		As at December 31,		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>			
ASSETS				
Non-current assets				
Property, plant and equipment	6	1,220,931	1,830,362	2,129,261
Land use rights	7	13,300	13,111	12,829
Intangible assets	8	3,012	3,292	5,013
Deferred income tax assets	10	29,242	159	—
		<u>1,266,485</u>	<u>1,846,924</u>	<u>2,147,103</u>
Current assets				
Inventories		4,123	7,103	1,078
Trade and other receivables	11	47,687	132,326	247,018
Cash and cash equivalents	12	32,036	209,194	1,099,673
		<u>83,846</u>	<u>348,623</u>	<u>1,347,769</u>
Total assets		<u><u>1,350,331</u></u>	<u><u>2,195,547</u></u>	<u><u>3,494,872</u></u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	13	—	—	511
Capital surplus	14	192,257	193,160	2,856,420
Accumulated losses		<u>(288,486)</u>	<u>(248,918)</u>	<u>(53,930)</u>
Total equity		<u>(96,229)</u>	<u>(55,758)</u>	<u>2,803,001</u>

		As at December 31,		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>			
LIABILITIES				
Non-current liabilities				
Asset retirement obligations	15	4,717	5,707	6,363
Borrowings	16	153,775	357,798	362,280
Deferred tax liabilities	10	—	—	6,789
		<u>158,492</u>	<u>363,505</u>	<u>375,432</u>
Current liabilities				
Trade and other payables	17	222,290	287,134	243,327
Shareholder loans	28(c)(iii), 1.2(2)	1,065,778	1,600,666	—
Current income tax liabilities		—	—	73,112
		<u>1,288,068</u>	<u>1,887,800</u>	<u>316,439</u>
Total liabilities		<u>1,446,560</u>	<u>2,251,305</u>	<u>691,871</u>
Total equity and liabilities		<u>1,350,331</u>	<u>2,195,547</u>	<u>3,494,872</u>
Net current assets/(liabilities)		<u>(1,204,222)</u>	<u>(1,539,177)</u>	<u>1,031,330</u>
Total assets less current liabilities		<u>62,263</u>	<u>307,747</u>	<u>3,178,433</u>

(b) Balance sheet

	<i>Note</i>	As at December 31, 2014
		<u>RMB'000</u>
ASSETS		
Non-current assets		
Interests in subsidiaries	9	2,629,490
Current assets		
		<u>—</u>
Total assets		<u><u>2,629,490</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	13	511
Capital surplus	14	<u>2,628,979</u>
Total equity		2,629,490
LIABILITIES		
Total liabilities		<u>—</u>
Total equity and liabilities		<u><u>2,629,490</u></u>
Net current assets		<u><u>—</u></u>
Total assets less current liabilities		<u><u>2,629,490</u></u>

(c) Consolidated statements of comprehensive income

		Year ended December 31,		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Revenue	18	92,397	138,382	425,895
Other income	19	—	64,262	151,197
Other gains		161	246	111
Operating expenses				
Depreciation and amortisation		(58,416)	(71,349)	(107,772)
Employee benefit expenses	21	(52,221)	(57,594)	(102,168)
Materials, services and logistics		(45,815)	(33,831)	(56,656)
Others		(14,025)	(12,540)	(27,039)
Total operating expenses		(170,477)	(175,314)	(293,635)
Profit/(loss) from operations		(77,919)	27,576	283,568
Interest income	22	1,948	352	2,804
Finance costs	22	(3,714)	(1,813)	(6,872)
Exchange gains/(losses)	22	(626)	42,536	(4,452)
Finance income/(costs), net		(2,392)	41,075	(8,520)
Profit/(loss) before income tax	20	(80,311)	68,651	275,048
Income tax benefit/(expense)	23	8,620	(29,083)	(80,060)
Profit/(loss) for the year		(71,691)	39,568	194,988
Total profit/(loss) attributable to:				
Owners of the Company		(71,421)	39,568	194,988
Non-controlling interests		(270)	—	—
		(71,691)	39,568	194,988
Other comprehensive income/(loss):				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Currency translation differences		14,971	(4,182)	238
Total comprehensive income/(loss) for the year		(56,720)	35,386	195,226
Total comprehensive income/(loss) attributable to:				
Owners of the Company		(56,450)	35,386	195,226
Non-controlling interests		(270)	—	—
		(56,720)	35,386	195,226
Basic and diluted earnings/(losses) per share attributable to the owners of the Company (RMB)	24	(0.09)	0.05	0.23
Dividends	25	—	—	—

(d) Consolidated statements of changes in equity

	Note	Attributable to owners of the Company				Non-controlling interest	Total equity
		Share capital	Capital surplus	Accumulated losses	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2012		—	177,675	(217,065)	(39,390)	250	(39,140)
Comprehensive loss							
Loss for the year		—	—	(71,421)	(71,421)	(270)	(71,691)
Currency translation differences		—	14,971	—	14,971	—	14,971
Total comprehensive income/(loss)		—	14,971	(71,421)	(56,450)	(270)	(56,720)
Transactions with owners							
Distribution to the parent company	14	—	(389)	—	(389)	20	(369)
Total transactions with owners		—	(389)	—	(389)	20	(369)
As at December 31, 2012		—	192,257	(288,486)	(96,229)	—	(96,229)
Comprehensive income							
Profit for the year		—	—	39,568	39,568	—	39,568
Currency translation differences		—	(4,182)	—	(4,182)	—	(4,182)
Total comprehensive income		—	(4,182)	39,568	35,386	—	35,386
Transactions with owners							
Share-based compensation	21(b)	—	5,054	—	5,054	—	5,054
Contribution by owners		—	31	—	31	—	31
Total transactions with owners		—	5,085	—	5,085	—	5,085
As at December 31, 2013		—	193,160	(248,918)	(55,758)	—	(55,758)

	<i>Note</i>	<u>Attributable to owners of the Company</u>			<u>Total equity</u>
		<u>Share capital</u>	<u>Capital surplus</u>	<u>Accumulated losses</u>	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2014		—	193,160	(248,918)	(55,758)
Comprehensive income					
Profit for the year		—	—	194,988	194,988
Currency translation differences		—	238	—	238
Total comprehensive income		—	238	194,988	195,226
Transactions with owners					
Issue of share capital upon incorporation of the Company	1.2(2)	511	2,628,553	—	2,629,064
Share-based compensation	21(b)	—	34,469	—	34,469
Total transactions with owners		511	2,663,022	—	2,663,533
As at December 31, 2014		511	2,856,420	(53,930)	2,803,001

(e) Consolidated statements of cash flows

		Year ended December 31,		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
	Note			
Cash flows from operating activities				
Cash generated from/(used in) operations	26	(24,971)	9,887	320,152
Interest paid		(2,547)	(9,276)	(22,565)
Net cash generated from/(used in) operating activities		(27,518)	611	297,587
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(439,255)	(607,930)	(423,939)
Proceeds from disposal of property, plant and equipment		161	—	151
Interest received		1,890	355	2,834
Payment of consideration for acquisition in prior years		(3,945)	—	—
Net cash used in investing activities		(441,149)	(607,575)	(420,954)
Cash flows from financing activities				
Proceeds from shareholder loans	28(b)(iii)	311,790	698,884	1,025,242
Repayments of shareholder loans		—	(121,938)	—
Proceeds from bank borrowings		157,802	384,729	—
Repayments of bank borrowings		—	(155,133)	—
Distribution to the parent company	14	(230)	—	—
Finance costs paid		(7,848)	(18,876)	(11,203)
Net cash generated from financing activities		461,514	787,666	1,014,039
Net increase/(decrease) in cash and cash equivalents				
		(7,153)	180,702	890,672
Cash and cash equivalents, at beginning of the year	12	39,301	32,036	209,194
Exchange losses on cash and cash equivalents		(112)	(3,544)	(193)
Cash and cash equivalents at end of the year		<u>32,036</u>	<u>209,194</u>	<u>1,099,673</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

AAG Energy Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in exploration, development and production of coal bed methane (“**CBM**”), in the People’s Republic of China (the “**PRC**”). The Company is an exempted company incorporated in the Cayman Islands with limited liability on December 23, 2014. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

The Group conducts its business through two production sharing contracts (“**PSC**”) entered into with China United Coalbed Methane Corporation Ltd. (“**CUCBM**”) and PetroChina Company Limited respectively for the Panzhuang and Mabi concessions in Shanxi Province of the PRC (the “**Listing Business**”).

The Overall Development Plan (“**ODP**”) of the Panzhuang concession was approved by the National Development and Reform Commission on November 28, 2011, which allowed the Panzhuang concession to enter into the commercial development phase. As at December 31, 2014, Mabi concession was still in exploration phase.

1.2 Reorganisation and changes in group structure

Prior to the incorporation of the Company and the completion of the Reorganisation as described below (the “**Reorganisation**”), the Listing Business was carried out by Asian American Gas, Inc. (“**AAGI**”) and its subsidiary Sino-American Energy, Inc. (“**SAEI**”), and AAG Energy (China) Limited now comprising the Group. In the preparation of listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Listing**”), the Reorganisation was undertaken pursuant to which the group companies engaged in the Listing Business under common control were transferred to the Company.

The Reorganisation involved the followings:

- (1) On December 23, 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability, with AAG Energy Limited, the then parent company of AAGI and AAG Energy (China) Limited, as its sole shareholder.
- (2) On December 30, 2014, pursuant to a sale and purchase agreement entered into between AAG Energy Limited and the Company, the Company issued 835,069,049 ordinary shares to AAG Energy Limited, as the consideration for AAG Energy Limited to transfer its 100% equity interest in AAGI and its subsidiary SAEI and AAG Energy (China) Limited, together with all shareholder loans totalling RMB2,629,064,000 due from AAGI as of that date, to the Company. Upon completion of the transfer on December 31, 2014, AAGI and AAG Energy (China) Limited became direct wholly-owned subsidiaries of the Company and the shareholder loans were converted into equity.
- (3) On May 20, 2015, AAG Energy Limited entered into a conditional share repurchase agreement with all its existing shareholders, pursuant to which AAG Energy Limited agreed that, upon the Listing becoming unconditional, AAG Energy Limited will repurchase and cancel all but three of its issued and outstanding ordinary shares, and in consideration, transfer all the ordinary shares of the Company held by AAG Energy Limited to its shareholders in proportion to their respective shareholding percentage in AAG Energy Limited. The remaining three ordinary shares of AAG Energy Limited will be held by Mr. Stephen Xiangdong Zou, Baring Private Equity Asia IV Holding (4) Limited and WP China CBM Investment Holdings Limited, who are considered as the controlling shareholders of the Listing Business and will each hold one ordinary share in AAG Energy Limited.

Upon completion of the Reorganisation, the Company had direct or indirect interest in the following subsidiaries as at the date of this report:

Company name	Country/place and date of incorporation/ establishment	Issued/ paid-up capital	Attributable equity interest of the Group			Principal As at the date of this report	activities/ place of operation	Statutory auditor (Note)
			December 31, 2012	2013	2014			
<i>Directly owned:</i>								
AAGI	British Virgin Islands ("BVI") July 16, 2004	US\$50,000/ US\$50,000	100%	100%	100%	100%	CBM project development/ BVI	(a)
AAG Energy (China) Limited	BVI/ August 8, 2013	US\$5,000/ US\$5,000	N/A	100%	100%	100%	CBM project development/ BVI	(a)
<i>Indirectly owned:</i>								
SAEI	Samoa/ March 14, 2005	US\$7,000,000/ US\$7,000,000	100%	100%	100%	100%	CBM project development/ Samoa	(a)
Asian American Gas (HK) Limited	Hong Kong/ October 29, 2007	HK\$10,000/ HK\$10,000	N/A	N/A	N/A	N/A	Inactive	(b)
Sino-American Energy (HK) Limited	Hong Kong/ October 29, 2007	HK\$10,000/ HK\$10,000	N/A	N/A	N/A	N/A	Inactive	(b)
Shanxi Shengyang Minerals Co., Ltd. (山西盛陽礦業有限公司, "Shanxi Shengyang")	Taiyuan, Shanxi Province, the PRC/ July 3, 2008	RMB1,000,000/ RMB1,000,000	N/A	N/A	N/A	N/A	CBM exploration, the PRC	(c)
Xilingol Haitian Dibiao Minerals Co., Ltd. (錫林郭勒海天地標礦業有限公司, "Haitian Dibiao")	Xilingol, Inner Mongolia, the PRC/ April 24, 2006	RMB500,000/ RMB500,000	N/A	N/A	N/A	N/A	CBM exploration, the PRC	(c)
Inner Mongolia Qing Yu Minerals Co., Ltd. (內蒙古慶宇礦業有限公司, "Qing Yu")	Hohhot, Inner Mongolia, the PRC/ January 6, 2004	RMB500,000/ RMB500,000	N/A	N/A	N/A	N/A	CBM exploration, the PRC	(c)

Notes:

- (a) No statutory audited financial statements were issued for those companies as they are not subject to statutory audit requirements.
- (b) These entities were wholly-owned by AAGI and SAEI respectively and were deregistered on December 28, 2012.
- (c) (i) The English names of certain companies referred in this Financial Information represent management's best effort at translating the Chinese names of these companies as no English names have been registered.
- (ii) Interests in these entities were disposed of in June 2012 (Note 14).

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is mainly conducted through AAGI and its subsidiaries. Pursuant to the Reorganisation, AAGI and the Listing Business are transferred to the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the Financial Information of the companies now comprising the Group is presented using the carrying values of the Listing Business under AAGI and AAG Energy (China) Limited for all the years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

2.1.1 Change in accounting estimates

The cost of gas properties is amortised at the field level based on the unit of production method. Unit of production rates were previously based on proved developed producing gas reserves estimated to be recoverable from existing facilities based on the current terms of the respective PSC. From January 1, 2014, the Group has applied the unit of production rates based on proved and probable developed producing gas reserves estimated to be recoverable from existing facilities based on current terms of the respective PSC. The change in estimate is due to management's view that inclusion of probable developed producing reserve will be more reflective of the reserve base available to the Group from its investment in the gas properties. The change resulted in a decrease in depreciation and amortization by approximately RMB49 million and a consequent increase in net profit by approximately RMB37 million for the year ended December 31, 2014. It is impracticable to estimate the impact for future years.

2.1.2 Changes in accounting policy and disclosures

(a) *New standards, amendments to standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing this Financial Information.

(I) Changes effective for annual periods beginning on or after July 1, 2014

Amendment to HKAS19 regarding defined benefit plans

Annual improvements 2012

Annual improvements 2013

(II) Changes effective for annual periods beginning on or after January 1, 2016

HKFRS 14 “Regulatory Deferral Accounts”

Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operation

Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation

Annual improvements 2014

(III) Changes effective for annual periods beginning on or after January 1, 2017

HKFRS15 "Revenue from Contracts with Customers"

(IV) Changes effective for annual periods beginning on or after January 1, 2018

HKFRS 9 "Financial Instruments"

None of these is expected to have a significant effect on the Financial Information, except the following set out below:

- HKFRS 15 "Revenue from Contracts with Customers". In July 2014, HKICPA issued HKFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. HKFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The core principle of HKFRS 15 is that an entity recognises revenue to depict the transfer of control of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard can be either (i) applied retrospectively with certain practical expedients available or (ii) through cumulative adjustment in the opening balance of retained earnings at date of application with additional disclosures which include reporting numbers under the old standard in year of transition. The Group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of this Financial Information.
- HKFRS 9 (2014), "Financial instruments" replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. For financial liabilities, there are two classification categories: amortised cost and fair value through profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.
- HKFRS 8, "Operating segments" (effective for annual periods beginning after January 1, 2014). The standard is amended to require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported.
- Annual improvements 2012 (effective for annual periods beginning on or after July 1, 2014). The amendments include changes from the 2010–2012 cycle of the annual improvements project that affect seven standards: HKFRS 2 "Share-based Payment", HKFRS 3 "Business Combinations", HKFRS 8 "Operating Segments", the basis for conclusion on HKFRS 13 "Fair Value Measurement", HKAS 16 "Property, Plant and Equipment", HKAS 24 "Related Party Disclosures" and HKAS 38 "Intangible Assets".

- Annual improvements 2013 (effective for annual periods beginning on or after July 1, 2014). The amendments include changes from the 2011–2013 cycle of the annual improvements project that affect four standards: HKFRS 1 “First-time Adoption of International Financial Reporting Standards”, HKFRS 3 “Business Combinations” and HKFRS 13 “Fair Value Measurement”.

(b) *Standards, amendments to standards and interpretations prospectively adopted during 2012–2014*

The following standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2012:

- Currently HKAS 12, ‘Income taxes’, requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, ‘Income taxes- recovery of revalued non-depreciable assets’, would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is accordingly withdrawn.

All other standards, amendments and interpretations to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods.

2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Production sharing contract

The Group’s exploration, development and production activities are primarily conducted through PSCs which establish joint control over the exploration, development and production activities. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The Financial Information reflects:

- (i) The Group’s assets used in joint operations;
- (ii) Any liabilities that the Group has incurred;
- (iii) Any income from the sale or use the Group’s share of the output of the production, together with its share of any expenses incurred in the production; and
- (iv) Any expenses that the Group has incurred in respect of its interest in the production.

The Group’s PSCs comprise of three phases: the exploration phase, development phase and production phase. Costs incurred with respect to exploration activities within the PSC contract areas are solely borne by the Group. All costs incurred subsequent to the date of the approval of ODP are treated as development costs and provided by the

Group and the PSC partners in the proportion of their respective participating interests. Operating costs incurred for the production operation shall be borne by the Group and the PSC partners in proportion to their share of the output of the CBM productions in each concession.

Pursuant to the Panzhuang and Mabi PSCs, the annual gross production of CBM, after payment of value-added tax ("VAT") and surcharges, is allocated into Cost Recovery CBM and Remainder CBM.

(1) Cost Recovery CBM

Cost Recovery CBM is the CBM allocated to the Group and the PSC partners for recovery of the operating costs, as well as the exploration costs and development costs. 80% and 70% of annual gross production of CBM is deemed as Cost Recovery CBM under the Panzhang and Mabi PSC, respectively. Cost Recovery CBM is allocated until all costs incurred by each party have been fully recovered. Cost Recovery CBM is allocated as follows:

- (1.1) Prior to the production phase, Cost Recovery CBM is firstly applied to recover costs incurred during the exploration phase of the PSC and once such costs have been fully recovered, Cost Recovery CBM is allocated to recover costs incurred during the development phase.
- (1.2) After the PSC enters the production phase, Cost Recovery CBM is allocated according to the following mechanism:
 - Operating cost recovery: payment in kind for the operating costs actually incurred but not yet recovered by each party.
 - Exploration and development cost recovery: after operating costs have been fully recovered, the Cost Recovery CBM is allocated to the Group and the PSC partners for the recovery of exploration and development costs. Exploration costs, 100% of which are borne by the Group, are fully recovered before development costs can be recovered. Upon the full recovery of exploration costs, any remaining Cost Recovery CBM is allocated between the Group and the PSC partners for the recovery of development costs according to the respective participating interests in the CBM concessions.

For the purpose of recovery, exploration costs do not include any interest, while development costs include a deemed interest calculated at a fixed compound interest rate of 9% per annum.

(2) Remainder CBM

Remainder CBM represents the remainder annual gross CBM production after payment of VAT, royalties and allocation to Cost Recovery CBM.

The Remainder CBM is further divided into allocable remainder CBM and share CBM. The allocable remainder CBM equals to the total remainder CBM multiplied by a factor (X) and the share CBM equals the Remainder CBM minus the allocable remainder CBM. The factor (X) is determined in accordance with a set of successive incremental tiers on the basis of the annual gross CBM production as set out in the PSCs. The allocable remainder CBM is allocated between the Group and the PSC partner according to the respective participating interest in the PSC. Share CBM is allocated 100% to the PSC partner.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors and chief executives of the Company.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Financial Information of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is US\$, whereas the functional currency of the production sharing projects in the PRC is RMB. The Financial Information is presented in RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to shareholder loans and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "exchange gains/losses". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "other gains".

(c) *Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint operation that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to the consolidated statements of comprehensive income.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment, other than exploration and evaluation assets and construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial period in which they are incurred.

Other than gas properties, depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

	<u>Estimated useful lives</u>
Gas gathering station	Shorter of remaining PSC period or 20 years
Vehicles	5 years
Furniture, fittings and others	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents development costs occurred after the approval of ODP and the buildings, machinery and equipment for which the construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. Upon completion, the development costs recorded in construction in progress are transferred to gas properties. No depreciation is provided for construction in progress until they are completed and available for use.

Spare parts are accounted for as property, plant and equipment when (a) they can be used only in connection with an item of property, plant and equipment; or (b) the Group expects to use them during more than one year. Other spare parts are classified as inventory.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "other gains" in the consolidated statements of comprehensive income.

2.7 Exploration and evaluation assets

Exploration and evaluation expenditures mainly include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

During initial stage of a project, exploration and evaluation expenditures are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets. If a project does not prove viable, all irrecoverable expenditures associated with the project are expensed in the consolidated statements of comprehensive income.

Costs of exploratory wells are capitalised and evaluated for economic viability within one year after completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained.

Exploration and evaluation assets are measured at cost less impairment provisions. Exploration and evaluation assets are reclassified to gas properties when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and also tested for impairment immediately prior to reclassification to gas properties.

2.8 Gas properties

Gas properties include drilling costs, exploration and evaluation costs, development costs and other direct costs attributable to the gas production properties. Gas properties are depreciated based on the unit of production method. Unit of production rates are based on proved and probable developed producing gas reserves estimated to be recoverable from existing facilities based on the current terms of the respective PSC.

2.9 Land use rights

Land use rights represent upfront prepayments made for the land use rights and leasehold land and are expensed in the consolidated statements of comprehensive income on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated statements of comprehensive income.

2.10 Intangible assets

Intangible assets represent computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives ranging from 3 to 10 years.

2.11 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.12 Inventories

Inventories are mainly spare parts and consumables with low value and stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statements of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and term deposits with original maturities of three months or less.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has a contractual or an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2.19 Employee benefits

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised and allocated to related cost of assets and expenses based on different beneficiaries.

All Chinese employees of the Group participate in other employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and VAT.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of gas

The Group produces and sells gas. Sales of gas are recognised when the gas delivered to the customers. The amount of revenue to be received by the Group is allocated based on the terms of the PSCs (Note 2.3).

2.21 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.22 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions for their receipt and that the grant will be received.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the periods necessary to match them with the related costs that they are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred with no future related costs, such as refund of valued added tax paid and subsidies granted according to CBM production, are recognised in profit or loss in the period in which they become receivable.

Government grant relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.23 Share-based compensation**(a) Equity-settled share-based payment transactions**

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

(b) Share-based payment transactions among group entities

The grant by the parent company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent company entity accounts.

In the subsidiaries' financial statements, the award is treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award. An expense for the grant date fair value of the award is recognised over the vesting period, with a credit recognised in equity. The credit to equity is treated as a capital contribution, as the parent is compensating the subsidiaries' employees with no cost to the subsidiaries.

2.24 Interest income

Interest income is recognised using the effective interest method.

2.25 Provision

Provision for environmental restoration is recognised when: the Group has a present constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk and cash flow interest rate risk), liquidity risk and concentration risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Credit risk

As the majority of the cash at bank balances are placed with state-owned banks and financial institutions in the PRC and Hong Kong, and there has been no recent history of default in relation to these banks and financial institutions, the corresponding credit risk is relatively low. Therefore, the Group's credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The Group has concentration risk on trade receivables. Only limited for uncollectible receivables were made in the past as the Group's sales were only made to the allowance customers with good credit history. The utilisation of credit limits is regularly monitored.

(b) Market risk*(i) Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the entity's functional currency.

As at December 31, 2012, 2013 and 2014, if RMB had weakened/strengthened by 1% against the US\$ with all other variables held constant, profit before tax for the years would have been RMB10,611,000, RMB14,339,000, and RMB7,318,000 lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of US\$ denominated payables held by the Group entities with their functional currency as RMB.

(ii) Cash flow interest rate risk

The Group has no significant interest bearing assets. The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's floating-rate bank borrowings expose the Group to cash flow interest rate risk. A detailed analysis of the Group's bank borrowings, together with their respective interest rates and maturity dates are included in Note 16.

(c) Liquidity risk

The liquidity risk of the Group is mainly controlled by maintaining sufficient cash and cash equivalents through operations and funds from shareholders. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	1–2 years	2–5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at December 31, 2012			
Trade payables	22,754	—	—
Accrued drilling costs and other expenses	189,538	—	—
Shareholder loans	1,065,778	—	—
Other payables	1,552	—	—
Borrowings	9,938	167,076	—
	<u>1,289,560</u>	<u>167,076</u>	<u>—</u>
As at December 31, 2013			
Trade payables	36,330	—	—
Accrued drilling costs and other expenses	231,270	—	—
Shareholder loans	1,600,666	—	—
Other payables	7,214	—	—
Borrowings	20,790	20,790	440,379
	<u>1,896,270</u>	<u>20,790</u>	<u>440,379</u>
As at December 31, 2014			
Trade payables	14,285	—	—
Accrued drilling costs and other expenses	209,780	—	—
Other payables	6,822	—	—
Borrowings	20,841	20,841	421,059
	<u>251,728</u>	<u>20,841</u>	<u>421,059</u>

(d) Concentration risk

Revenue of the Group is principally derived from Panzhuang concession. Any disruption to the operation of the concession may have a material adverse impact to the result of operation and the financial position of the Group.

During the Relevant Periods, all the Group's revenue was derived from sales made to 4 to 7 customers. In the event that these customers terminate their business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and result of operations.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by using debt ratio analysis. This ratio is calculated as total liabilities divided by total assets as shown in the consolidated balance sheet. During the Relevant Periods, the strategy of the Group remained unchanged. The debt ratio of the Group as at December 31, 2012, 2013 and 2014 was 107.1%, 102.5%, 19.8%.

The high debt ratios as of December 31, 2012 and 2013 were due to majority of the funding of the Group's operation were provided by shareholder loans from AAG Energy Limited, which were converted into equity as a result of the Reorganisation (Note 1.2(2)).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation of proved and probable gas reserves and depreciation of gas properties

Proved gas reserves are those quantities of CBM that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward and under defined economic conditions, operating methods, and government regulations. Probable gas reserves are those additional reserves of CBM that analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves.

The Group's reserve estimates were prepared for each concession area and include only CBM that the Group believes can be reasonably produced within current economic and operating conditions. Reserves cannot be measured exactly. Reserve estimates are based on many factors that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved and probable reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. A reduction in proved and probable reserves will increase depreciation and amortisation charges (assuming constant production) and reduce net profit. Proved and probable reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including gas prices, contract terms or development plans.

In general, changes in the technical maturity of gas reserves resulting from new information becoming available from exploration, development and production activities and change in gas price have tended to be the most significant cause of annual revisions.

From January 1, 2014, the Group has changed the base of unit of production depreciation method from proved developed reserves to proved and probable developed reserves. The relevant details and its financial impact are set out in Note 2.1.1.

(b) Impairment of exploration and evaluation assets

Exploration and evaluation assets are capitalised on a field-by-field basis and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable amount. This assessment involves judgment as to (i) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; and (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; and (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and (iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. While conducting an impairment review of its assets, the Group makes certain judgments in making assumptions about the future gas prices, reserves and future development and production costs. Changes in these estimates could require a material change on the carrying amount of exploration and evaluation assets.

(c) Impairment of gas properties

Gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flow to be associated with the assets and discounted rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will be revised and this may have impacts on the Group's result of operation or financial position.

(d) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the adequacy of impairment provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be public information or easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained.

(e) Estimation of asset retirement obligation

Provisions are recognised for the future decommissioning and restoration of gas properties. The amounts of the provision recognised are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of gas properties. Changes in any of these estimates will impact the operating result and the financial position of the Group over the remaining economic lives of the gas properties.

(f) **Income taxes and deferred tax**

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on the income tax expenses.

5. SEGMENT INFORMATION

The CODM has been identified as the directors and chief executives of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group's operating segments are defined by PSCs, which is the basis by which the CODM makes decisions about resources to be allocated and assesses their performance. Financial Information of the two PSCs has been separated to present discrete segment information to be reviewed by the CODM.

The measurement of results and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the operating segments of the PSCs based on profit or loss before income tax, depreciation and amortisation, interest income, finance costs and exchange gains/(losses) ("**EBITDA**").

The segment information provided to the CODM for the reportable segments for the years ended December 31, 2012, 2013 and 2014 is as follows:

	Panzhuang concession	Mabi concession	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the year ended December 31, 2012			
Revenue from external customers	92,397	—	92,397
EBITDA	19,672	(19,583)	89
Operating expenses	(129,020)	(21,479)	(150,499)
Depreciation and amortisation	(56,171)	(1,858)	(58,029)
Interest income	159	1,783	1,942
Finance costs	—	—	—
Exchange losses	(213)	(422)	(635)
Income tax benefit	8,620	—	8,620
For the year ended December 31, 2013			
Revenue from external customers	138,382	—	138,382
EBITDA	154,295	(28,088)	126,207
Other income	64,262	—	64,262
Operating expenses	(115,282)	(32,589)	(147,871)
Depreciation and amortisation	(66,895)	(4,293)	(71,188)
Interest income	39	307	346
Finance costs	(215)	(21)	(236)
Exchange gains	24,094	17,761	41,855
Income tax expense	(29,083)	—	(29,083)
For the year ended December 31, 2014			
Revenue from external customers	425,895	—	425,895
EBITDA	489,510	(32,709)	456,801
Other income	151,197	—	151,197
Operating expenses	(186,080)	(39,991)	(226,071)
Depreciation and amortisation	(98,487)	(7,183)	(105,670)
Provision of bad debt allowance	(7,197)	—	(7,197)
Interest income	1,740	1,046	2,786
Finance costs	(242)	(48)	(290)
Exchange losses	(3,661)	(760)	(4,421)
Income tax expense	(80,060)	—	(80,060)
As at December 31, 2012			
Total assets	812,264	531,029	1,343,293
Additions to non-current assets (other than deferred tax assets)	199,647	281,219	480,866
As at December 31, 2013			
Total assets	1,160,979	946,201	2,107,180
Additions to non-current assets (other than deferred tax assets)	273,766	335,273	609,039
As at December 31, 2014			
Total assets	1,590,489	1,233,194	2,823,683
Additions to non-current assets (other than deferred tax assets)	(7,426)	307,914	300,488

A reconciliation of EBITDA to profit/(loss) before income tax is provided as follows:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total EBITDA for reportable segments	89	126,207	456,801
Headquarter overheads	(19,592)	(27,282)	(65,461)
Depreciation and amortisation	(58,416)	(71,349)	(107,772)
Interest income	1,948	352	2,804
Finance costs	(3,714)	(1,813)	(6,872)
Exchange gains/(losses)	(626)	42,536	(4,452)
Profit/(loss) before income tax	<u>(80,311)</u>	<u>68,651</u>	<u>275,048</u>

Reportable segment assets are reconciled to total assets as follows:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total segment assets	1,343,293	2,107,180	2,823,683
Unallocated			
Unallocated cash and cash equivalents	5,703	86,086	668,846
Others	1,335	2,281	2,343
Total assets per balance sheet	<u>1,350,331</u>	<u>2,195,547</u>	<u>3,494,872</u>

Client information

All sales during the years ended December 31, 2012, 2013 and 2014 were made to 4, 5 and 7 external customers, respectively.

During the Relevant Periods, external customers individually contributed more than 10% of the total revenue, all of which were attributable to Panzhuang concession segment, are as follow:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Client A	47,157	85,205	197,043
Client B	29,257	46,430	62,667
Client C	N/A	N/A	88,840

6. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Gas properties RMB'000	Exploration and evaluation assets RMB'000	Gas gathering stations RMB'000	Construction in progress RMB'000	Vehicles RMB'000	Furniture, fittings and others RMB'000	Total RMB'000
At January 1, 2012							
Cost	474,020	234,335	55,929	57,171	6,014	7,320	834,789
Accumulated depreciation	(65,551)	—	(4,154)	—	(4,232)	(3,703)	(77,640)
Net book value	408,469	234,335	51,775	57,171	1,782	3,617	757,149
Year ended December 31, 2012							
Opening net book value	408,469	234,335	51,775	57,171	1,782	3,617	757,149
Additions	3,493	271,957	—	236,398	2,299	9,464	523,611
Transferred in/(out)	19,870	—	58,326	(78,196)	—	—	—
Disposal — cost	—	—	—	—	(309)	(95)	(404)
— depreciation	—	—	—	—	309	95	404
Distribution to the parent company (Note 14)							
— cost	—	—	—	—	—	(99)	(99)
— depreciation	—	—	—	—	—	41	41
Depreciation charge	(49,326)	—	(4,900)	—	(1,347)	(3,351)	(58,924)
Currency translation differences	(197)	—	(2)	(630)	2	(20)	(847)
Closing net book value	382,309	506,292	105,199	214,743	2,736	9,652	1,220,931
At December 31, 2012							
Cost	497,207	506,292	114,256	214,743	8,004	16,557	1,357,059
Accumulated depreciation	(114,898)	—	(9,057)	—	(5,268)	(6,905)	(136,128)
Net book value	382,309	506,292	105,199	214,743	2,736	9,652	1,220,931
Year ended December 31, 2013							
Opening net book value	382,309	506,292	105,199	214,743	2,736	9,652	1,220,931
Additions	228	305,010	—	364,865	1,563	9,591	681,257
Transferred in/(out)	71,826	—	27,095	(98,921)	—	—	—
Depreciation charge	(57,401)	—	(7,575)	—	(387)	(5,709)	(71,072)
Currency translation differences	(522)	—	2	(210)	—	(24)	(754)
Closing net book value	396,440	811,302	124,721	480,477	3,912	13,510	1,830,362
At December 31, 2013							
Cost	568,189	811,302	141,353	480,477	9,567	24,226	2,035,114
Accumulated depreciation	(171,749)	—	(16,632)	—	(5,655)	(10,716)	(204,752)
Net book value	396,440	811,302	124,721	480,477	3,912	13,510	1,830,362
Year ended December 31, 2014							
Opening net book value	396,440	811,302	124,721	480,477	3,912	13,510	1,830,362
Additions	246	203,099	—	193,442	4,800	4,291	405,878
Transferred in/(out)	277,268	—	113,205	(390,473)	—	—	—
Disposal — cost	—	—	—	—	(435)	(675)	(1,110)
— depreciation	—	—	—	—	435	675	1,110
Depreciation charge	(86,187)	—	(11,513)	—	(1,525)	(7,505)	(106,730)
Currency translation differences	151	—	—	(400)	—	—	(249)
Closing net book value	587,918	1,014,401	226,413	283,046	7,187	10,296	2,129,261
At December 31, 2014							
Cost	845,861	1,014,401	254,557	283,046	13,932	27,842	2,439,639
Accumulated depreciation	(257,943)	—	(28,144)	—	(6,745)	(17,546)	(310,378)
Net book value	587,918	1,014,401	226,413	283,046	7,187	10,296	2,129,261

During the years ended December 31, 2012, 2013 and 2014, borrowing costs capitalised in property, plant and equipment amounted to RMB3,305,000, RMB14,238,000 and RMB25,466,000 (Note 22), respectively, at the weighted average rate of general borrowings of 6.95%, 6.82% and 6.89% per annum, respectively.

The additions of property, plant and equipment for the year ended December 31, 2012, 2013 and 2014 included RMB4,717,000, RMB754,000 and RMB366,000, respectively, relating to the asset retirement obligations recognised during the year (Note 15).

7. LAND USE RIGHTS — GROUP

	<i>RMB'000</i>
At January 1, 2012	
Cost	9,866
Accumulated amortisation	<u>(484)</u>
Net book value	<u>9,382</u>
Year ended December 31, 2012	
Opening net book value	9,382
Additions	4,141
Amortisation charge	<u>(223)</u>
Closing net book value	<u>13,300</u>
At December 31, 2012	
Cost	14,007
Accumulated amortisation	<u>(707)</u>
Net book value	<u>13,300</u>
Year ended December 31, 2013	
Opening net book value	13,300
Additions	92
Amortisation charge	<u>(281)</u>
Closing net book value	<u>13,111</u>
At December 31, 2013	
Cost	14,099
Accumulated amortisation	<u>(988)</u>
Net book value	<u>13,111</u>
Year ended December 31, 2014	
Opening net book value	13,111
Amortisation charge	<u>(282)</u>
Closing net book value	<u>12,829</u>
At December 31, 2014	
Cost	14,099
Accumulated amortisation	<u>(1,270)</u>
Net book value	<u>12,829</u>

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in the PRC with remaining lease period of 10 to 50 years.

8. INTANGIBLE ASSETS — GROUP

	Computer software
	<i>RMB'000</i>
At January 1, 2012	
Cost	3,978
Accumulated amortisation	<u>(1,066)</u>
Net book value	<u>2,912</u>
Year ended December 31, 2012	
Opening net book value	2,912
Additions	662
Amortisation charge	<u>(562)</u>
Closing net book value	<u>3,012</u>
At December 31, 2012	
Cost	4,640
Accumulated amortisation	<u>(1,628)</u>
Net book value	<u>3,012</u>
Year ended December 31, 2013	
Opening net book value	3,012
Additions	940
Currency translation differences	8
Amortisation charge	<u>(668)</u>
Closing net book value	<u>3,292</u>
At December 31, 2013	
Cost	5,574
Accumulated amortisation	<u>(2,282)</u>
Net book value	<u>3,292</u>
Year ended December 31, 2014	
Opening net book value	3,292
Additions	2,487
Amortisation charge	<u>(766)</u>
Closing net book value	<u>5,013</u>
At December 31, 2014	
Cost	8,061
Accumulated amortisation	<u>(3,048)</u>
Net book value	<u>5,013</u>

9. INTERESTS IN SUBSIDIARIES — COMPANY

	As at December 31, 2014
	<i>RMB'000</i>
Unlisted investments, at cost	—
Loans to a subsidiary	2,629,064
Share-based compensation	426
	<u>2,629,490</u>

Interests in subsidiaries include the investments in subsidiaries recorded at cost, which are the carrying value of the subsidiaries' equity as shown in their separate financial statements as of the date when the Company obtained the subsidiaries. The loans to a subsidiary are not expected to be settled or repayable in the foreseeable future and are therefore classified as interests in subsidiaries.

10. DEFERRED INCOME TAX — GROUP

The analysis of deferred income tax assets is as follows:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:			
— Deferred income tax assets to be recovered within 12 months	—	—	27,436
— Deferred income tax assets to be recovered after more than 12 months	32,304	47,208	6,357
	32,304	47,208	33,793
Deferred tax liabilities:			
— Deferred income tax liabilities to be recovered after more than 12 months	(3,062)	(47,049)	(40,582)
Net balance	<u>29,242</u>	<u>159</u>	<u>(6,789)</u>

The gross movement on the deferred income tax account is as follows:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	20,622	29,242	159
Credit/(charged) to consolidated statements of comprehensive income (Note 23)	8,620	(29,083)	(6,948)
At end of the year	<u>29,242</u>	<u>159</u>	<u>(6,789)</u>

The movement in deferred income tax account is as follows:

	Depreciation and amortisation	Profit not yet subject to tax	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2012	18,466	2,156	20,622
Credit/(charged) to consolidated statements of comprehensive income (Note 23)	<u>13,838</u>	<u>(5,218)</u>	<u>8,620</u>
At December 31, 2012	32,304	(3,062)	29,242
Credit/(charged) to consolidated statements of comprehensive income (Note 23)	<u>14,904</u>	<u>(43,987)</u>	<u>(29,083)</u>
At December 31, 2013	47,208	(47,049)	159
Credit/(charged) to consolidated statements of comprehensive income (Note 23)	<u>(20,423)</u>	<u>13,475</u>	<u>(6,948)</u>
At December 31, 2014	<u>26,785</u>	<u>(33,574)</u>	<u>(6,789)</u>

For the purpose of filing of PRC corporate income tax, development expenditures incurred prior to commercial production from tax perspective are tax deductible over a 8-year period starting from the commencement date of commercial production; exploration expenditures incurred prior to commercial production from tax perspective except for those qualified as production wells are tax deductible over a 3-year period starting from the commencement date of commercial production.

As at December 31, 2012, 2013 and 2014, the Group did not recognise deferred income tax assets of RMB41,029,000, RMB 44,426,000 and RMB54,168,000, respectively, in respect of the accumulated losses which are related to Mabi concession amounting to RMB164,116,000, RMB177,704,000 and RMB216,672,000, respectively. Such losses are tax deductible over a 3-year period starting from the commencement date of commercial production. Due to the Mabi concession is still under exploration stage, no deferred tax assets were recognised on these losses.

11. TRADE AND OTHER RECEIVABLES — GROUP

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
— due from external customers	23,271	11,531	46,947
— due from CUCBM (a) (Note(28)(c)(i))	11,961	24,425	36,930
Notes receivable (b)	—	—	29,500
Prepaid expenses	2,393	3,866	8,435
Staff advances	5,324	5,221	1,031
Rental and other deposits	3,053	3,779	3,771
Government grants receivables (c)	—	64,262	107,920
Due from CUCBM for cash calls (d) (Note (28)(c)(i))	873	16,715	14,566
Others	<u>812</u>	<u>2,527</u>	<u>5,115</u>
	47,687	132,326	254,215
Less: provision for impairment	<u>—</u>	<u>—</u>	<u>(7,197)</u>
	<u>47,687</u>	<u>132,326</u>	<u>247,018</u>

- (a) Trade receivables due from CUCBM represent the cash collected from external customers deposited into CUCBM's bank account, which is jointly managed by CUCBM and SAEI.
- (b) Notes receivable are all bank acceptance with maturity dates within six months.
- (c) This represents the VAT refund and government subsidies for CBM receivable through CUCBM. As at December 31, 2013 and 2014, RMB42,322,000 and RMB21,150,000 of respective receivable balance was received by CUCBM on behalf of the Group.
- (d) This represents CUCBM's share of the cash calls for the development costs of Panzhuang concession yet to be received from CUCBM.

(1) Ageing analysis

- (i) *Gross trade receivables — due from external customers*

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	16,265	4,334	39,750
6 months to 1 year	5,528	—	—
1 to 2 years	1,478	5,719	—
2 to 3 years	—	1,478	5,719
over 3 years	—	—	1,478
	<u>23,271</u>	<u>11,531</u>	<u>46,947</u>

The trade receivables are due upon billing.

- (ii) *Gross trade receivables — due from CUCBM:*

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	<u>11,961</u>	<u>24,425</u>	<u>36,930</u>

- (iii) *Ageing of past due but not impaired trade receivables due from external customers:*

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	16,265	4,334	39,750
6 months to 1 year	5,528	—	—
1 to 2 years	1,478	5,719	—
2 to 3 years	—	1,478	—
	<u>23,271</u>	<u>11,531</u>	<u>39,750</u>

(2) Movement of bad debt provision:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year	—	—	—
Addition	—	—	7,197
End of the year	—	—	7,197

(3) As of December 31, 2012, 2013 and 2014, the carrying amounts of trade and other receivables approximated their fair values.

(4) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	47,556	132,173	246,732
US\$	131	153	286
	47,687	132,326	247,018

12. CASH AND BANK — GROUP

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents			
— Cash on hand	266	120	2,454
— Cash at banks	31,770	209,074	1,097,219
	32,036	209,194	1,099,673

Cash and bank were denominated in the following currencies:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	26,094	37,856	368,109
US\$	5,942	171,338	731,564
	32,036	209,194	1,099,673

13. SHARE CAPITAL — GROUP AND COMPANY

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	<u>Equivalent nominal value of ordinary shares</u>
	<i>Thousands</i>	<i>US\$000</i>	<i>RMB'000</i>
<i>Authorised:</i>			
Ordinary shares of US\$0.0001 each	<u>2,500,000</u>	<u>250</u>	<u>1,530</u>
<i>Issued and fully paid:</i>			
Ordinary shares issued and allotted upon incorporation (i)	10	—	—
Ordinary shares issued and allotted relating to the Reorganisation	<u>835,069</u>	<u>84</u>	<u>511</u>
Balance at December 31, 2014	<u><u>835,079</u></u>	<u><u>84</u></u>	<u><u>511</u></u>

- (i) The Company was incorporated in the Cayman Islands on December 23, 2014 with an authorised capital of US\$250,000 divided into 2,500,000,000 shares of nominal value of US\$0.0001 each. Accordingly, there was no share capital as at December 31, 2012 and 2013.
- (ii) On December 30, 2014, 835,069,049 ordinary shares of nominal value of US\$0.0001 each were issued and allotted for total nominal value of approximately US\$84,000 (equivalent to approximately RMB511,000) (Note 1.2(2)).

14. CAPITAL SURPLUS — GROUP AND COMPANY

Group

The capital surplus consists of share premium, share-based compensation and currency translation differences.

On June 1, 2012, AAGI disposed of its interest in Shanxi Shengyang and its subsidiaries, including Haitian Dibiao and Qing Yu (together "**Shanxi Shengyang Group**") to Northern Gas Limited, a related party at no consideration. Consequently, Shanxi Shengyang, Haitian Dibiao and Qing Yu ceased to be subsidiaries of AAGI since then. And the net assets of Shanxi Shengyang Group at the date of disposal was treated as a distribution to the parent company.

The following table sets forth the consolidated assets, liabilities and net profit of Shanxi Shengyang Group as at/for the period ended June 1, 2012:

	<u>As at June 1, 2012/ for the period from January 1, 2012 to June 1, 2012</u>
	<i>RMB'000</i>
Cash and cash equivalents	230
Other assets	<u>1,193</u>
Total assets	1,423
Total liabilities	<u>(1,054)</u>
Total equity	<u><u>369</u></u>
Net profit for the period	<u><u>3,683</u></u>

Company

The capital surplus consists of (i) the share premium of RMB2,628.6 million, represented the difference between the consideration received by the Company and the nominal amount of the Company's share capital issued; and (ii) share-based compensation provided by AAG Energy Limited to the employees of Group companies, with amount of RMB426,000.

15. ASSET RETIREMENT OBLIGATIONS

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	—	4,717	5,707
Provision (<i>Note 6</i>)	4,717	754	366
Accretion expenses	—	236	290
At end of the year	<u>4,717</u>	<u>5,707</u>	<u>6,363</u>

16. BORROWINGS

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings wholly repayable within 5 years	153,775	357,798	362,280
Less: current portion	—	—	—
Non-current portion	<u>153,775</u>	<u>357,798</u>	<u>362,280</u>
Annual interest rate	LIBOR +6%	LIBOR +5.25%	LIBOR +5.25%
Annual effective interest rate	6.95%	6.82%	6.89%

(i) As at December 31, 2012, 2013 and 2014, all bank borrowings were drawn down by SAEI and guaranteed by AAGI.

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Denominated in US\$	<u>153,775</u>	<u>357,798</u>	<u>362,280</u>

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Repayable:			
Between 1 to 2 years	153,775	—	—
Between 2 to 5 years	—	357,798	362,280
	<u>153,775</u>	<u>357,798</u>	<u>362,280</u>

- (ii) The Group has the following undrawn borrowing facilities:

	As at December 31,		
	2012	2013	2014
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Expiring between 1 to 5 years	<u>30,000</u>	<u>38,000</u>	<u>38,000</u>

- (iii) As at December 31, 2012, 2013 and 2014, the fair value of borrowings were approximately RMB154 million, RMB358 million and RMB362 million, respectively. The fair value is within level 2 of the fair value hierarchy.

17. TRADE AND OTHER PAYABLES

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	22,754	36,330	14,285
Accrued drilling costs and other expenses	189,538	231,270	209,780
Social securities and other payables	<u>9,998</u>	<u>19,534</u>	<u>19,262</u>
	<u>222,290</u>	<u>287,134</u>	<u>243,327</u>

- (a) The ageing analysis of trade payables is as follows:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	20,944	35,046	13,374
6 months to 1 year	110	593	585
1 to 2 years	1,511	274	325
2 to 3 years	<u>189</u>	<u>417</u>	<u>1</u>
	<u>22,754</u>	<u>36,330</u>	<u>14,285</u>

- (b) As at December 31, 2012, 2013 and 2014, the carrying amounts of trade and other payables approximated their fair values.

- (c) The carrying amounts of the Group's trade and other payable were denominated in the following currencies:

	As at December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	220,876	282,430	242,526
US\$	<u>1,414</u>	<u>4,704</u>	<u>801</u>
	<u>222,290</u>	<u>287,134</u>	<u>243,327</u>

18. REVENUE

Substantially all the Group's revenue is derived through the sale of the Group's share of CBM sold to customers in the PRC.

19. OTHER INCOME

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
VAT refund (i)	—	—	95,117
Government subsidy (ii)	—	64,262	56,080
	—	64,262	151,197

- (i) The VAT refund is granted by the PRC government according to “The Notice on Tax Policy Issued by The Ministry of Finance and The State Administration of Taxation on Speeding Up The Drainage of Coal Bed Methane” (《財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知》). CUCBM applies for the VAT refund for Panzhuang concession. The Group has recognised its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.
- (ii) The subsidy is granted by the PRC government according to “The Implementation Opinions of Subsidies Granted by the Ministry of Finance on The Development and Utilisation of Coal Bed Methane” (《財政部關於煤層氣(瓦斯)開發利用補貼的實施意見》) at RMB0.2 per cubic meter of the CBM sold. CUCBM, applies for the subsidy for Panzhuang concession. The Group has recognised its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

20. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax was determined after charging the following:

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Auditors' remunerations — non-statutory audit services	200	400	400
Listing expenses	—	—	4,720
Operating lease expenses	2,873	3,677	5,449

21. EMPLOYEE BENEFITS

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Wages and salaries	42,475	42,158	54,119
Welfare and other benefits (a)	9,746	10,382	13,580
Share-based compensation (b)	—	5,054	34,469
	52,221	57,594	102,168

- (a) Welfare and other benefits mainly include the followings:

Housing benefits include the Group's contributions to government-sponsored housing funds, at rates ranging from 10% to 12% of the Chinese employees' salaries, subject to certain ceilings.

Contributions to pension plans are defined contribution pension plans organised by the municipal and provincial governments at a rate of 20% of the Chinese employees' salaries, subject to certain ceilings.

(b) Share-based compensation*(i) Pre-IPO Share Option Scheme*

In 2012, options to subscribe for 39,400,000 shares at an exercise price of US\$0.6 were conditionally granted by AAG Energy Limited to the Group's employees (the "Pre-IPO Share Option Scheme").

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	<u>Exercise price in US\$ per share</u>	<u>Number of share options (thousands)</u>
As at January 1, 2012	—	
Granted (June 15, 2012)	0.6	36,600
Granted (September 26, 2012)	0.6	2,000
Granted (October 20, 2012)	0.6	800
	<hr/>	<hr/>
As at December 31, 2012 and 2013	0.6	39,400
	<hr/>	<hr/>
Granted (January 16, 2014)	0.6	2,270
Granted (May 14, 2014)	0.6	600
Granted (October 21, 2014) (Note 21(b)(ii))	0.6	8,000
Granted (October 21, 2014)	0.6	6,400
Modified (October 21, 2014) (Note 21(b)(iii))	0.6	(56,670)
	<hr/>	<hr/>
As at December 31, 2014	—	—

Options granted to employees shall vest at the rate of one third of each such grant for each 12-month period commencing from the date when AAG Energy Limited is listed on the Stock Exchange of Hong Kong Limited, or shall have no further force and effect if (a) the listing of Company's shares on the Stock Exchange of Hong Kong Limited has not occurred by December 31, 2013; and (b) a new share option scheme has come into effect to replace the share option scheme.

The fair values of the options granted during the Relevant Periods were determined using the Black-Scholes Option Pricing Model and Binomial Option Pricing Model. The key assumptions and parameters used in the pricing model for options granted during the Relevant Periods are shown below:

	<u>Option granted during year 2012 to 2014</u>
Share price as of the valuation date (US\$)	0.46–0.701
Expected dividend yield	—
Maturity years	2.5–6.2
Risk free rate	0.34%–2.0%
Annualised volatility	52.04%–63.40%

The total share-based compensation expense recognised in the consolidated statements of comprehensive income for the year ended December 31, 2012 was nil because based on management's best estimation, listing of the Company's shares on the Stock Exchange of Hong Kong Limited would not occur by December 31, 2013, and there was no replacement of the Pre-IPO Share Option Scheme in place.

On February 21, 2013, the vesting condition of one fourth of the stock options granted under the Pre-IPO Share Option Scheme were modified, which was achieved on August 30, 2013.

The fair value of the options modified on February 21, 2013 is determined using the Binomial Option Pricing Model. The key assumptions and parameters used in the pricing model are shown below:

	<u>Option modified on February 21, 2013</u>
Share price as of the valuation date (US\$)	0.469
Maturity years	2.5
Risk free rate	0.3%
Volatility	46%

The remaining options granted under the Pre-IPO Share Option Scheme were modified on October 21, 2014 (Note 21(b)(iii)).

(ii) *Pre-IPO Special Share Option Scheme*

On January 16, 2014, options to subscribe for 5,000,000 shares of AAG Energy Limited at an exercise price of US\$ 0.6 were conditionally granted to the Group's employee (the "**Pre IPO Special Share Option Scheme**").

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	<u>Exercise price in US\$ per share</u>	<u>Number of share options (thousands)</u>
As at January 1, 2014	—	—
Granted (January 16, 2014)	0.6	5,000
Replaced (October 21, 2014) (Note 21(b)(i))	0.6	(5,000)
As at December 31, 2014	<u>—</u>	<u>—</u>

Options granted to the employee on January 16, 2014 shall vest at the rate of one fourth for each 12-month period commencing from the employment commencement date of the optionee.

The fair value of the option granted under the Pre-IPO Special Option Scheme is determined using the Binomial Option Pricing Model. The key assumptions and parameters used in the pricing model are shown below:

	<u>Option granted on January 16, 2014</u>
Share price as of the valuation date (US\$)	0.621
Maturity years	3.8–6.8
Risk free rate	1.1%–2.2%
Volatility	47%–58%

The unvested options granted under the Pre-IPO Special Share Option Scheme were replaced into the Pre-IPO Share Option Scheme on October 21, 2014 (Note 21(b)(i)).

(iii) *Modification on the Pre-IPO Share Option Scheme*

On October 21, 2014, the vesting conditions of the unvested options under the Pre-IPO Share Option Scheme were revised as (a) 50% shall vest at the rate of one third for each 12-month period commencing from the earlier of employment commencement date of the optionee or January 1, 2014, and (b) 50% shall vest upon achievement of KPI-linked non-market conditions and are divided into three equal instalments with each vested at the rate of one third of each 12-month period commencing from the earlier of employment commencement date of the optionee or January 1, 2014.

The fair value of the options modified on October 21, 2014 is determined using the Binomial Option Pricing Model. The key assumptions and parameters used in the pricing model are shown below:

	Option modified on October 21, 2014
Share price as of the valuation date (US\$)	0.770
Maturity years	3.2–5.2
Risk free rate	0.7%–1.2%
Volatility	43%–46%

Movements in the number of share options outstanding and their related weight average exercise prices are as follows:

	Exercise price in US\$ per share	Number of share options (thousands)
Modified Pre-IPO Share Option Scheme (October 21, 2014) (Note 21(b)(i))	0.6	56,670
Forfeited	—	(5,100)
As at December 31, 2014	0.6	51,570

(iv) Share options outstanding at the end of the track record period have the following expiry dates and exercise prices:

Expected expiry date	Exercise price in US\$ per share	Number of share options (thousands) As at December 31, 2014
August 30, 2015	0.6	8,575
January 1, 2015	0.6	12,465
January 1, 2016	0.6	12,465
January 1, 2017	0.6	12,465
June 13, 2015	0.6	333
June 13, 2016	0.6	333
June 13, 2017	0.6	334
August 19, 2015	0.6	1,333
August 19, 2016	0.6	1,333
August 19, 2017	0.6	1,334
September 24, 2015	0.6	200
September 24, 2016	0.6	200
September 24, 2017	0.6	200

As at December 31, 2014, out of the 51,570,000 outstanding options, 8,575,000 options were exercisable.

- (v) The total share-based compensation recognised in the consolidated statements of comprehensive income for the year ended December 31, 2012, 2013 and 2014 amounted to nil, RMB5,054,000, RMB34,469,000, respectively, with a corresponding amount credited in capital surplus.

(c) **Directors' and chief executive's emoluments**

Directors' emoluments for the years ended December 31, 2012, 2013 and 2014 are set out as follows:

	<u>Fees</u>	<u>Salaries and allowances</u>	<u>Discretionary bonuses</u>	<u>Share-based compensation</u>	<u>Other benefits including pension</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended December 31, 2012						
Executive Directors						
Mr. Stephen Xiangdong Zou	1,679	1,790	—	—	732	4,201
Non-executive Directors						
Mr. Gordon Sunkan Shaw	—	—	—	—	—	—
Mr. Zhen Wei	—	—	—	—	—	—
Mr. Peter Randall Kagan	—	—	—	—	—	—
Mr. Zhijie Zeng	—	—	—	—	—	—
Mr. Craig Lewis Massey	—	—	—	—	—	—
Mr. Jean Eric Salata	—	—	—	—	—	—
Year ended December 31, 2013						
Executive Directors						
Mr. Stephen Xiangdong Zou	1,709	1,978	—	—	1,039	4,726
Non-executive Directors						
Mr. Gordon Sunkan Shaw	—	—	—	—	—	—
Mr. Zhen Wei	—	—	—	—	—	—
Mr. Peter Randall Kagan	—	—	—	—	—	—
Mr. Zhijie Zeng	—	—	—	—	—	—
Mr. Lei Jin	—	—	—	—	—	—
Mr. Craig Lewis Massey	—	—	—	—	—	—
Year ended December 31, 2014						
Executive Directors						
Mr. Stephen Xiangdong Zou	1,710	1,423	—	3,622	948	7,703
Non-executive Directors						
Mr. Gordon Sunkan Shaw	—	—	—	—	—	—
Mr. Zhen Wei	—	—	—	—	—	—
Mr. Peter Randall Kagan	—	—	—	—	—	—
Mr. Zhijie Zeng	—	—	—	—	—	—
Mr. Lei Jin	—	—	—	—	—	—
Mr. Guiyong Cui	—	—	—	—	—	—
Mr. Bo Bai	—	—	—	—	—	—

Mr. Stephen Xiangdong Zou is also the chief executive officer of the Company during the Relevant Periods.

On February 6, 2012, Mr. Zhijie Zeng was appointed as the director of AAGI.

On June 15, 2012, Mr. Jean Eric Salata resigned from AAGI.

On June 4, 2013, Mr. Lei Jin was appointed as the director of AAGI.

On June 19, 2013, Mr. Craig Lewis Massey resigned from AAGI.

On July 21, 2014, Mr. Guiyong Cui was appointed as the director of AAGI.

On October 22, 2014, Mr. Bo Bai was appointed as the director of AAGI.

In addition to the directors' emoluments disclosed above, certain directors of the Company receive emoluments from other companies they are employed to. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the other companies.

(d) Five highest paid individuals

For the years ended December 31, 2012, 2013 and 2014, the five individuals whose emoluments were the highest in the Group include one director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals were as follows:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	5,312	6,576	6,288
Discretionary bonuses	586	381	294
Share-based compensation	—	3,283	17,693
Other benefits including pension	821	1,367	2,180
	<u>6,719</u>	<u>11,607</u>	<u>26,455</u>

The emoluments fell within the following bands:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Emolument bands			
HK\$1,000,000 and below	—	—	—
HK\$1,000,001–HK\$1,500,000	—	—	—
HK\$1,500,001–HK\$2,000,000	1	—	—
HK\$2,000,001–HK\$2,500,000	2	—	—
HK\$2,500,001–HK\$3,000,000	1	—	—
HK\$3,000,001–HK\$3,500,000	—	2	—
HK\$3,500,001–HK\$4,000,000	—	1	—
HK\$4,000,001–HK\$4,500,000	—	1	—
HK\$4,500,001–HK\$5,000,000	—	—	1
HK\$5,500,001–HK\$6,000,000	—	—	1
HK\$8,000,001–HK\$8,500,000	—	—	1
HK\$14,000,001–HK\$14,500,000	—	—	1
	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

22. FINANCE INCOME/(COSTS), NET

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest expenses of bank borrowings			
— Wholly repayable within 5 years	(3,305)	(14,238)	(25,466)
Bank loan commitment fee	(3,714)	(1,577)	(6,582)
Accretion expenses of asset retirement obligations (Note 15)	—	(236)	(290)
Finance costs	(7,019)	(16,051)	(32,338)
Less: amounts capitalised on qualifying assets (Note 6)	3,305	14,238	25,466
Total finance costs	(3,714)	(1,813)	(6,872)
Interest income	1,948	352	2,804
Exchange gains/(losses)	(626)	42,536	(4,452)
Finance income/(costs), net	(2,392)	41,075	(8,520)

23. INCOME TAX BENEFIT/(EXPENSE)

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Current income tax	—	—	(73,112)
Deferred income tax (Note 10)	8,620	(29,083)	(6,948)
	8,620	(29,083)	(80,060)

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

No provision for Hong Kong profits tax has been provided as the Group did not derive any assessable profits in Hong Kong during the Relevant Periods.

AAGI and AAG Energy (China) Limited, incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands, are exempted from payment of local income tax.

SAEI, incorporated in Samoa under the International Business Companies Acts of the Samoa, is exempted from payment of local income tax.

Corporate income tax in the PRC is calculated based on the statutory profit or loss of branches established in the PRC, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC branches is 25%.

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before income tax	(80,311)	68,651	275,048
Tax benefit/(expense) calculated at applicable statutory tax rate	15,466	(23,128)	(92,921)
Tax losses with no deferred income tax assets recognised	(4,902)	(3,397)	(9,742)
Expenses not deductible for taxation purposes	(2,862)	(2,558)	(1,176)
Utilisation of previously unrecognised tax losses	918	—	—
Income not subject to tax	—	—	23,779
	<u>8,620</u>	<u>(29,083)</u>	<u>(80,060)</u>

24. EARNINGS/(LOSSES) PER SHARE

The basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares, the 10,000 shares issued upon incorporation and 835,069,049 shares issued on December 30, 2014 for the Reorganisation less the Company repurchased one share from AAG Energy Limited on April 23, 2015 were treated as if have been in issue since January 1, 2012.

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) attributable to the owners of the Company (<i>RMB'000</i>)	(71,421)	39,568	194,988
Weighted average number of ordinary shares in issue (<i>Thousands</i>)	<u>835,079</u>	<u>835,079</u>	<u>835,079</u>
Basic earnings/(losses) per share (<i>RMB</i>) (<i>note</i>)	<u>(0.09)</u>	<u>0.05</u>	<u>0.23</u>

Notes:

The earnings/(losses) per share as presented above is calculated using the weighted average number of ordinary shares of 835,079,048 shares for each of the years ended December 2012, 2013 and 2014. It has not taken into account the proposed capitalisation issue of 1,823,128,952 shares as the proposed capitalisation issue has not become effective as at the date of this report.

There was no dilutive effect on earnings/(losses) per share since the Company had no dilutive potential ordinary shares during the Relevant Periods.

25. DIVIDENDS

No dividend has been paid or proposed by the companies now comprising the Group during the Relevant Periods.

26. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of profit/(loss) before income tax to net cash flow used in operations:

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	(80,311)	68,651	275,048
Adjustments for:			
Depreciation	57,631	70,400	106,724
Amortisation (Note 7 and 8)	785	949	1,048
Gains on disposals of property, plant and equipment	(161)	—	(151)
Interest income (Note 22)	(1,948)	(352)	(2,804)
Finance costs	3,714	1,813	6,872
Exchange (gains)/losses	(3,452)	(49,470)	4,452
Bad debt provision (Note 11(2))	—	—	7,197
Share-based compensation (Note 21(b)(v))	—	5,054	34,469
Changes in working capital:			
(Increase)/decrease in inventories	(2,242)	(2,980)	6,025
Decrease/(increase) in trade and other receivables	5,225	(84,528)	(121,889)
(Decrease)/increase in trade and other payables	(4,212)	350	3,161
Cash generated from/(used in) operations	<u>(24,971)</u>	<u>9,887</u>	<u>320,152</u>

27. COMMITMENTS

(a) Capital commitments

	As at December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted but not provided for:			
— Property, plant and equipment	<u>318,880</u>	<u>234,130</u>	<u>354,787</u>

(b) Operating lease commitments

The Group leases office premises from non-related parties under non-cancellable operating lease agreements. The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	As at December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 1 year	7,491	5,434	3,884
Between 1 and 5 years	1,196	1,753	866
	<u>8,687</u>	<u>7,187</u>	<u>4,750</u>

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

- (a) The following companies are related parties of the Group during the years ended December 31, 2012, 2013 and 2014:

Names of the related parties	Nature of relationship
AAG Energy Limited	Parent company
CUCBM	PSC partner of Panzhuang concession
PetroChina Company Limited	PSC partner of Mabi concession
Haitian Dibiao	Under common control of the major shareholders of AAG Energy Limited
Qing Yu	Under common control of the major shareholders of AAG Energy Limited
Shanxi Meiya CBM Technology Consultancy Co., Ltd. ("Meiya")	Under common control of the major shareholders of AAG Energy Limited

(b) Significant transactions with related parties

- (i) Services received

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
CUCBM	1,962	2,999	4,351
PetroChina Company Limited	3,094	3,201	2,149
Haitian Dibiao	—	—	7,500
Qing Yu	—	—	3,250
Meiya	—	—	680
	<u>5,056</u>	<u>6,200</u>	<u>17,930</u>

- (ii) Charges for exploration right

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
CUCBM	76	76	76
PetroChina Company Limited	451	454	449
	<u>527</u>	<u>530</u>	<u>525</u>

- (iii) Proceeds from shareholder loan

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Shareholder loan from AAG Energy Limited	<u>311,790</u>	<u>698,884</u>	<u>1,025,242</u>

(iv) *Services provided*

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
AAG Energy Limited	5,472	—	—

(c) **Balances with related parties**(i) *Receivable from and prepayment to related parties*

	As at December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
CUCBM (Note11)			
— Trade receivable	11,961	24,425	36,930
— Other receivable	—	42,322	21,150
— Cash call	873	16,715	14,566
	<u>12,834</u>	<u>83,462</u>	<u>72,646</u>

(ii) *Payable and accrued expenses due to related parties*

	As at December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
CUCBM	2,011	4,149	3,755
PetroChina Company Limited	7,639	8,237	8,324
Meiya	—	—	80
	<u>9,650</u>	<u>12,386</u>	<u>12,159</u>

(iii) *Shareholder loans*

	As at December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
AAG Energy Limited	1,065,778	1,600,666	—

(d) **Key management compensation**

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	8,884	11,360	11,218
Discretionary bonuses	586	892	837
Share-based compensation	—	3,576	24,627
Other benefits including pension	1,603	2,569	3,394
	<u>11,073</u>	<u>18,397</u>	<u>40,076</u>

29. SUBSEQUENT EVENTS

- (1) Pursuant to the shareholder's resolution passed on March 31, 2015, the authorised share capital of the Company was increased from US\$250,000 divided into 2,500,000,000 shares to US\$600,000 divided into 6,000,000,000 shares by the creation of an additional 3,500,000,000 shares.
- (2) Pursuant to the Board resolution of Company dated March 31, 2015, the Company adopted a new Pre-IPO share option scheme to replace the existing Pre-IPO Share Option Schemes undertaken by AAG Energy Limited with the Group's employees as the beneficiaries. The impact of this new Pre-IPO share option scheme is reflected prospectively since the adoption.
- (3) Pursuant to the written resolution passed by the shareholders of the Company on June 5, 2015, the directors of the Company are authorised to allot and issue a total of 1,496,483,718 shares as a result of the global offering to its shareholders (such shares being credited as fully paid at par value by way of capitalisation of US\$149,648.37 out of the share premium of the Company).

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2014 and up to the date of this report.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2014 and based on the consolidated net tangible assets attributable to the owners of the Company as at December 31, 2014 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

This unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at December 31, 2014 or at any future date.

	Audited consolidated net tangible assets attributable to the owners of the Company as at December 31, 2014 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per share	
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB⁽³⁾</u>	<u>HK\$⁽⁵⁾</u>
Based on the Offer Price of:					
— HK\$3.00 per Share	2,797,988	1,511,936	4,309,924	1.30	1.65
— HK\$3.70 per Share	2,797,988	1,868,745	4,666,733	1.40	1.77

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at December 31, 2014 is extracted from the Accountant's Report set forth in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to the owners of the Company as at December 31, 2014 of RMB2,803.0 million with an adjustment for the intangible assets as at December 31, 2014 of RMB5.0 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$3.00 and HK\$3.70 per Share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Group, as adjusted by the amount of about RMB4.7 million which was incurred in 2014, and do not take into account of any Shares that may be sold and transferred pursuant to the Over-Allotment Option.

- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 3,324,368,920 Shares are in issue assuming the Global Offering had been completed on December 31, 2014 but takes no account of any shares which may fall to be sold and transferred upon the exercise of the Over-Allotment Option.
- (4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2014.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.7889. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT
ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A PROSPECTUS****TO THE DIRECTORS OF AAG ENERGY HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AAG Energy Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at December 31, 2014, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated June 11, 2015, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at December 31, 2014 as if the proposed initial public offering had taken place on December 31, 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended December 31, 2014, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, www.pwchk.com*

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at December 31, 2014 would have been as presented.

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

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

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

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

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

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, June 11, 2015

ESTIMATES
of
**RESERVES AND FUTURE REVENUE
AND UNRISKED CONTINGENT AND
PROSPECTIVE RESOURCES**
to the
AAG ENERGY HOLDINGS LIMITED INTEREST
in
CERTAIN COALBED METHANE PROPERTIES
located in
**PANZHUANG AND MABI BLOCKS
SHANXI PROVINCE
THE PEOPLE'S REPUBLIC OF CHINA**
as of
DECEMBER 31, 2014

BASED ON ESCALATED PRICE AND COST PARAMETERS
specified by
AAG ENERGY HOLDINGS LIMITED

Prepared in accordance with the
**RULES GOVERNING THE LISTING OF SECURITIES
ON THE STOCK EXCHANGE OF HONG KONG LIMITED**



CHAIRMAN & CEO C.H. (SCOTT) REES III	EXECUTIVE COMMITTEE P. SCOTT FROST
PRESIDENT & COO DANNY D. SIMMONS	J. CARTER HENSON, JR. DAN PAUL SMITH
EXECUTIVE VP G. LANCE BINDER	JOSEPH J. SPELLMAN

March 25, 2015

Mr. Steve Zou
AAG Energy Holdings Limited
1701, 17/F, Tower A, Landmark Office Building
8 North Dongsanhuan Road
Chaoyang District, Beijing 100004
P. R. China

Dear Mr. Zou:

In accordance with your request, we have estimated the proved, probable, and possible gas reserves and future revenue, as of December 31, 2014, to the AAG Energy Holdings Limited (AAG) interest in certain coalbed methane (CBM) properties located in Panzhuang and Mabi Blocks, Shanxi Province, The People's Republic of China. Also as requested, we have estimated the unrisked contingent and prospective gas resources, as of December 31, 2014, to the AAG interest in these CBM properties. We completed our evaluation on or about the date of this letter.

This report has been prepared using escalated price and cost parameters specified by AAG, as discussed in subsequent paragraphs of this letter. Exploration, appraisal, and development economic analyses have been performed to estimate the cost recovery, royalty, and production allocations between AAG and its Chinese government partners as described in the production sharing contract (PSC) for each block. AAG's Chinese government partner is PetroChina Company Limited (PetroChina) for Mabi Block and China United Coalbed Methane Corporation, Ltd. (CUCBM) for Panzhuang Block. A qualitative risk assessment of reserves and contingent and prospective resources was performed for these blocks.

This report has been prepared in accordance with the relevant rules and regulations in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (SEHK Rules), including but not limited to Chapter 18 and Appendix 25. In accordance with the SEHK Rules, this report does not include the results of our economic analysis for contingent resources or prospective resources; however, the economic viability of these resources was tested with the respective PSC models to determine the gross and net contingent and prospective resources.

The estimates in this report have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE). As presented in the 2007 PRMS, petroleum accumulations can be classified, in decreasing order of likelihood of commerciality, as reserves, contingent resources, or prospective resources. Different classifications of petroleum accumulations have varying degrees of technical and commercial risk that are difficult to quantify; thus reserves, contingent resources, and prospective resources should not be aggregated without extensive consideration of these factors. In accordance with Appendix 25, the reserves and resources shown in this report have been substantiated by evidence that is supported by analysis and takes account of information supplied by AAG to Netherland, Sewell & Associates, Inc. (NSAI). Definitions are presented immediately following this letter. Following the definitions are certificates of qualification and a list of abbreviations used in this report.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by application of development projects from a given date forward under defined conditions. Reserves must be discovered, recoverable, commercial, and remaining as of the evaluation date based on the planned development projects to be applied. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially



recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves.

We estimate the proved and probable gas reserves and future net revenue to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:

Block/Category	Gas Reserves (BCF)		Future Net Revenue (MM\$)			
	Gross (100%)	Net	Before Income Tax		After Income Tax	
			Total	Net Present Value at 10%	Total	Net Present Value at 10%
Panzhuang						
Proved Developed Producing	62.1	47.5	487.3	358.8	409.6	306.8
Proved Undeveloped	45.8	34.8	218.6	89.9	191.9	76.8
Proved (1P)	107.9	82.3	705.8	448.6	601.5	383.7
Probable	109.3	82.6	923.8	475.9	723.0	369.9
Proved + Probable (2P)	217.3	164.9	1,629.6	924.5	1,324.5	753.5
Mabi						
Proved Developed Producing	0.0	0.0	0.0	0.0	0.0	0.0
Proved Undeveloped	0.0	0.0	0.0	0.0	0.0	0.0
Proved (1P)	0.0	0.0	0.0	0.0	0.0	0.0
Probable	690.1	459.8	4,700.4	1,221.1	3,802.8	967.5
Proved + Probable (2P)	690.1	459.8	4,700.4	1,221.1	3,802.8	967.5
Total						
Proved Developed Producing	62.1	47.5	487.3	358.8	409.6	306.8
Proved Undeveloped	45.8	34.8	218.6	89.9	191.9	76.8
Proved (1P)	107.9	82.3	705.8	448.6	601.5	383.7
Probable	799.4	542.4	5,624.2	1,697.0	4,525.8	1,337.4
Proved + Probable (2P)	907.4	624.7	6,330.0	2,145.6	5,127.3	1,721.0

Totals may not add because of rounding.

Gas volumes are expressed in billions of cubic feet (BCF) at standard temperature and pressure bases. Gross gas reserves are 100 percent of the reserves attributable to each PSC before adjustments for fuel and shrinkage. Net gas reserves are AAG's share according to the terms of each PSC and after adjustments for fuel and shrinkage. For the purposes of this report, volumes and cash flow attributable to AAG are referred to as net volumes and net revenue; in the PSCs, the net volumes and net revenue are referred to as the company take. Monetary values shown in this report are expressed in United States dollars (\$), thousands of United States dollars (M\$), or millions of United States dollars (MM\$).

The estimates of reserves shown in this report are for proved developed producing, proved undeveloped, probable, and possible reserves. Our study indicates that there are no proved developed non-producing reserves for these properties at this time. Although gas production has been established in Mabi Block, AAG has not yet initiated significant gas sales; therefore, no proved reserves have been estimated for Mabi Block. Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. The estimates of reserves and future revenue included herein have not been adjusted for risk.



According to the SEHK Rules, possible reserves must be stated separately and not combined with information on any other reserves. For the purposes of this report, possible reserves are calculated as the difference between proved plus probable plus possible (3P) and 2P reserves because the PSC terms apply only to aggregate-level calculations of net reserves and future net revenue. We estimate the possible gas reserves to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:

Block	Possible Gas Reserves (BCF)	
	Gross (100%)	Net
Panzhuang	134.5	100.3
Mabi	1,544.3	928.7
Total	1,678.8	1,028.9

Totals may not add because of rounding.

Company gross revenue for the reserves shown in this report is AAG's share of the gross (100 percent) revenue from the properties after deductions for royalties. Future net revenue is revenue as received under the PSCs; this revenue is after additions for cost recovery and deductions for value added taxes (VAT), capital costs, and operating expenses. A VAT rebate was issued in 2007 by the Ministry of Finance of The People's Republic of China (MOFC) for revenues realized from CBM production; this rebate has been treated as a VAT exemption in the economic model. The future net revenue is presented before and after deduction of income taxes. The estimates of income taxes were prepared based on the expected taxation methods for Panzhuang and Mabi Blocks as provided by the People's Republic of China tax authorities. The future net revenue has been discounted at an annual rate of 10 percent to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

CONTINGENT RESOURCES

Contingent resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but for which the applied project or projects are not yet considered mature enough for commercial development because of one or more contingencies. The contingent resources shown in this report for thin coal seams are contingent upon development of completion techniques that achieve producing rates and volumes sufficient to sustain economic viability from these discontinuous intervals. All contingent resources shown in this report are contingent upon acquisition of additional data that demonstrate producing rates and volumes sufficient to sustain economic viability. If these contingencies are successfully addressed, some portion of the contingent resources estimated in this report may be reclassified as reserves; our estimates have not been risked to account for the possibility that these contingencies are not successfully addressed. This report does not include an economic analysis of the contingent resources; however, an economic analysis was performed to determine volumes in accordance with each PSC.

We estimate the unrisks contingent gas resources to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:

Block/Category	Unrisks Contingent Gas Resources (BCF)	
	Gross (100%)	Net
Panzhuang		
Low Estimate (1C)	5.0	3.8
Best Estimate (2C)	11.4	8.6
High Estimate (3C)	16.3	12.4



Block/Category	Unrisked Contingent Gas Resources (BCF)	
	Gross (100%)	Net
Mabi		
Low Estimate (1C)	190.2	127.5
Best Estimate (2C)	393.9	261.5
High Estimate (3C)	625.7	410.7
Total		
Low Estimate (1C)	195.2	131.3
Best Estimate (2C)	405.2	270.1
High Estimate (3C)	642.0	423.1

Totals may not add because of rounding.

Gross contingent gas resources are 100 percent of the contingent resources attributable to each PSC before adjustments for fuel and shrinkage. Net contingent gas resources are AAG's share according to the terms of each PSC and after adjustments for fuel and shrinkage.

The contingent resources shown in this report have been estimated using deterministic methods. Once the contingencies have been successfully addressed, the approximate probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is generally inferred to be 90 percent for the low estimate, 50 percent for the best estimate, and 10 percent for the high estimate.

The estimates of contingent resources included herein have not been adjusted for development risk. The development risks associated with these contingent resources include (1) the inability to develop an efficient completion practice to enable commercial development of the coals associated with these contingent resources and (2) the risk that commercial quantities of gas will not be achieved because of the inability of these coals to dewater in a reasonable time period. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revision with further data acquisition or interpretation.

PROSPECTIVE RESOURCES

Prospective resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. All of the prospective resources shown in this report are located in Mabi Block. It should be understood that potentially significant quantities of coal are known to be present in the project area; however, the portions of the project area where we lack sufficient data concerning gas content and coal permeability are considered undiscovered CBM opportunities and the corresponding gas volumes are therefore classified as prospective resources rather than contingent resources. This report does not include an economic analysis of the prospective resources; however, the commerciality of the prospective resources was tested with the Mabi PSC model to determine the gross and net prospective resources.

We estimate the unrisked prospective gas resources to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Category	Unrisked Prospective Gas Resources (BCF)	
	Gross (100%)	Net
Low Estimate	21.5	14.4
Best Estimate	78.3	52.2
High Estimate	122.4	81.4

Gross prospective gas resources are 100 percent of the prospective resources attributable to the Mabi PSC before adjustments for fuel and shrinkage. Net prospective gas resources are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage.



The prospective resources shown in this report have been estimated using deterministic methods and are dependent on a CBM discovery being made. If a discovery is made and development is undertaken, the approximate probability that the recoverable volumes will equal or exceed the unrisks estimated amounts is generally inferred to be 90 percent for the low estimate, 50 percent for the best estimate, and 10 percent for the high estimate.

Unrisks prospective resources for CBM prospects are estimated ranges of recoverable gas volumes assuming their discovery and development and are based on estimated ranges of in-place volumes. Geologic risking of prospective resources addresses the probability of success for the discovery of a significant quantity of potentially moveable petroleum; this risk analysis is conducted independent of estimations of petroleum volumes. For CBM prospects, principal geologic risk elements include coal quantity, gas content, and coal permeability. Development risking of prospective resources for CBM prospects should include consideration of whether the entire area addressed by the assessment can and will be developed; this component is generally unique to CBM accumulations because of the greater areal extent and the wide variability in thickness, rock properties, gas content, and production characteristics across that areal extent. For CBM prospects, principal development risk elements are reservoir quality across the evaluated acreage, development and application of technology needed to commercially produce the acreage, the ability to depressure the reservoir over a reasonable period of time, project commercial conditions (financial, marketing, legal, social, and governmental factors), and a reasonable expectation of a commitment to develop the acreage. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revision with further data acquisition or interpretation.

It should be understood that the prospective resources discussed and shown herein are those highly speculative resources estimated beyond reserves or contingent resources where geological and geophysical data suggest the potential for discovery of producible CBM but where the level of proof is insufficient for classification as reserves or contingent resources. The unrisks prospective gas resources shown in this report are the range of volumes that could reasonably be expected to be recovered in the event of the discovery and development of these prospects.

ECONOMIC PARAMETERS

As requested, this report has been prepared using gas price parameters specified by AAG that result in significant real price growth through 2017. These prices are consistent with other price forecasts for the region and consider a mix of marketing arrangements with delivery to liquefied natural gas plants, compressed natural gas stations, and pipelines. Included in the price forecast is the subsidy of 0.20 renminbi (RMB) per cubic meter (m³) of gas granted by the MOFC on April 20, 2007. For the purposes of this report, this subsidy has been converted to \$0.912 per thousand cubic feet (MCF) of gas using the December 31, 2014, exchange rate of 6.207 RMB per \$. Before consideration of the MOFC subsidy, AAG's average received prices for 2013 and 2014 were \$6.80 and \$7.98 per MCF, respectively. The gas prices and escalation parameters used in this report are shown in the following table:

Period Ending	Gas Price (\$/MCF)					
	Panzhuang Block			Mabi Block		
	Before Subsidy	Subsidy	Received Price	Before Subsidy	Subsidy	Received Price
12-31-2015	8.302	0.912	9.215	7.800	0.912	8.713
12-31-2016	8.485	0.912	9.397	7.983	0.912	8.895
12-31-2017	9.401	0.912	10.313	9.401	0.912	10.313
12-31-2018	10.416	0.912	11.329	10.416	0.912	11.329
12-31-2019	11.541	0.912	12.454	11.541	0.912	12.454
12-31-2020	12.788	0.912	13.700	12.788	0.912	13.700
12-31-2021	13.248	0.912	14.160	13.248	0.912	14.160
12-31-2022	13.725	0.912	14.637	13.725	0.912	14.637
12-31-2023	14.219	0.912	15.131	14.219	0.912	15.131

Thereafter, escalated 3.6 percent on January 1 of each year.



Operating costs used in this report are based on operating expense records of AAG and are consistent with our knowledge of similar CBM operations. These costs include well- and block-level costs and corporate overhead costs. Well-level operating costs have been divided into per-well costs and per-unit-of-production costs. AAG's estimated block-level expenses, overhead, and general administrative costs are included based on AAG's internal plans for additional block and gathering facilities; these costs include AAG's estimated increases for corporate growth and have been modeled separately from well-level costs so they do not impact individual-well economics. Block-level costs are held constant until the block-level gas production rate peaks, then reduced over time as a function of the declining production rate. All operating costs are held constant through December 31, 2015, and then escalated 3.6 percent on January 1 of each year through the remaining term of each PSC.

Capital costs used in this report were provided by AAG and are based on current drilling contracts and AAG's internal estimates for future facilities expansion. Capital costs are included as required for new development wells, production equipment, gas compression, administrative facilities, and gas gathering facilities. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. We anticipate AAG's 2015 and 2016 work program will allow better cost control for capital costs than for operating costs; therefore, capital costs are held constant through December 31, 2016, and then escalated 3.6 percent on January 1 of each year to the date of expenditure.

In accordance with each PSC, the operator will, after completion of various CBM operations and to the extent reasonable and practicable, level or restore or reclaim the land of the operating sites to the conditions existing at the commencement of the PSC in accordance with relevant rules and regulations. Should AAG abandon production from either block, the Chinese government partner will have the choice to either share abandonment costs with AAG in proportion to the participating interests or continue production as the operator and indemnify AAG of any future abandonment costs. Under the economic assumptions used when preparing this report, the blocks continue to produce economically beyond each PSC term; therefore, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

GENERAL INFORMATION

As shown in the Table of Contents, this report includes summary projections of reserves and revenue by reserves category. The general overview section of this report includes a technical discussion of general information for Panzhuang and Mabi Blocks along with location maps and a stratigraphic column. Each block section of this report includes a discussion of the block along with pertinent maps, graphs, tables, and summary projections of reserves and revenue by reserves category. Also included is an appendix with comparisons of historical reserves, net present value, and contingent resources.

This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated. NSAI's technical staff visited AAG's Panzhuang Block in 2008 and 2011 and AAG's Mabi Block in 2013. For the purposes of this report, we did not find it necessary to perform an additional field inspection of the properties, nor did we re-examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

The reserves, contingent resources, and prospective resources shown in this report are estimates only and should not be construed as exact quantities. Estimates may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. Our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the volumes, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of



governmental policies and uncertainties of supply and demand, the sales rates, prices received, and costs incurred may vary from assumptions made while preparing this report.

For the purposes of this report, we used technical and economic data including, but not limited to, coal properties, gas content and composition data, well logs, geologic maps, core data, production data, historical price and cost information, and the PSCs. The reserves, contingent resources, and prospective resources in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with generally accepted petroleum engineering and evaluation principles set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the SPE (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, and analogy, that we considered to be appropriate and necessary to classify, categorize, and estimate volumes in accordance with the 2007 PRMS definitions and guidelines. The contingent and prospective resources and a portion of the reserves shown in this report are for undeveloped locations; such volumes are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from AAG, public data sources, and the nonconfidential files of NSAI and were accepted as accurate. Supporting work data are on file in our office. The contractual rights to the properties have not been independently confirmed. Although certain information used in the preparation of this report has been provided by AAG, this report is an independent opinion. Based on information provided by AAG, including a copy of the PSC for each block, the competent persons responsible for this report are in a position to attest to the rights of AAG to explore, mine, or explore and mine the relevant volumes.

In connection with our engagement by AAG to perform consulting petroleum engineering, geological, geophysical, petrophysical, or property evaluation work, AAG indemnifies and holds harmless NSAI, each person who controls it, and each employee of it and each consultant or contractor engaged by it from and against any and all losses, claims, damages, expenses, or liabilities, joint or several, to which they or any of them may become subject in connection with the performance of such consulting work or the preparation of such evaluations or the reliance thereon by AAG or any other party. AAG does not indemnify NSAI with respect to losses, claims, damages, expenses, or liability arising from the gross negligence or willful misconduct of NSAI.

QUALIFICATIONS

NSAI performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. We provide a complete range of geological, geophysical, petrophysical, and engineering services, and we have the technical expertise and ability to perform these services in any oil and gas producing area in the world. The staff is familiar with recognized industry reserves and resources definitions, specifically those promulgated by the U.S. Securities and Exchange Commission, Alberta Securities Commission, SPE, Society of Petroleum Evaluation Engineers, World Petroleum Council, and American Association of Petroleum Geologists.

The technical persons responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards and the requirements listed in the SEHK Rules. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis. We are not officers or proposed officers of any group, holding, or associated company of AAG. Furthermore, none of our staff or associates own shares or equity in AAG, CUCBM, or PetroChina.

NSAI has prepared thousands of independent technical reports for clients including small privately owned oil and gas companies, major and independent oil and gas companies, national oil and gas companies, financial institutions, and investors. The firm has performed field characterization and reserves assessments for properties that range from exploration and early appraisal drilling areas to fully developed fields. The staff has extensive



worldwide experience in the geology and petrophysics of complex structural and stratigraphic fields and unconventional reservoirs such as fractured basement, tight gas, and CBM.

Our reservoir engineering experience includes reserves determination, reservoir simulation, material balance, production analysis, well test analysis, wellbore inflow/outflow modeling, probabilistic modeling, fluid analysis, and economic evaluation. We also have staff engineers who specialize in field operations, facilities planning and design, and drilling. NSAI uses its in-house proprietary economics software along with other industry-standard software to estimate future producing rates, future net revenue, and the net present value of such future net revenue in accordance with industry standards and other applicable regulatory provisions.

This evaluation has been led by Mr. Nathan C. Shahan and Mr. John G. Hattner. Mr. Shahan is a Vice President in the firm's Dallas office at 2100 Ross Avenue, Suite 2200, Dallas, Texas 75201. He has in excess of 12 years of experience in the petroleum industry with over 7 years at NSAI, is a registered Professional Engineer in the State of Texas (Texas Registration No. 102389), and is a member of the SPE. Mr. Shahan has over 8 years of CBM experience in Canada, China, Indonesia, the United Kingdom, and the United States, with additional experience in tight gas and enhanced oil recovery in Canada, China, Indonesia, and the United States.

Mr. Hattner is a Senior Vice President of NSAI and a team leader in the firm's Dallas office at 2100 Ross Avenue, Suite 2200, Dallas, Texas 75201. He has over 34 years of experience in the petroleum industry, with over 22 years at NSAI. He is a registered Professional Geophysicist in the State of Texas (Texas Registration No. 559), a certified petroleum geologist and geophysicist with the American Association of Petroleum Geologists, and a member of the Society of Exploration Geophysicists. Mr. Hattner has over 20 years of extensive experience in CBM evaluations, having evaluated numerous CBM properties located in Australia, Botswana, Canada, China, India, Indonesia, Israel, Mexico, Poland, Switzerland, the United Kingdom, and the United States.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.
Texas Registered Engineering Firm F-2699

/s/ C.H. (Scott) Rees III

By:

C.H. (Scott) Rees III, P.E.
Chairman and Chief Executive Officer

/s/ Nathan C. Shahan

By:

Nathan C. Shahan, P.E. 102389
Vice President

/s/ John G. Hattner

By:

John G. Hattner, P.G. 559
Senior Vice President

Date Signed: March 25, 2015

Date Signed: March 25, 2015

NCS:JDH

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PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

This document contains information excerpted from definitions and guidelines prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that this document will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

1.1 Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term "resources" as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "conventional" or "unconventional."

Figure 1-1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

The "Range of Uncertainty" reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the "Chance of

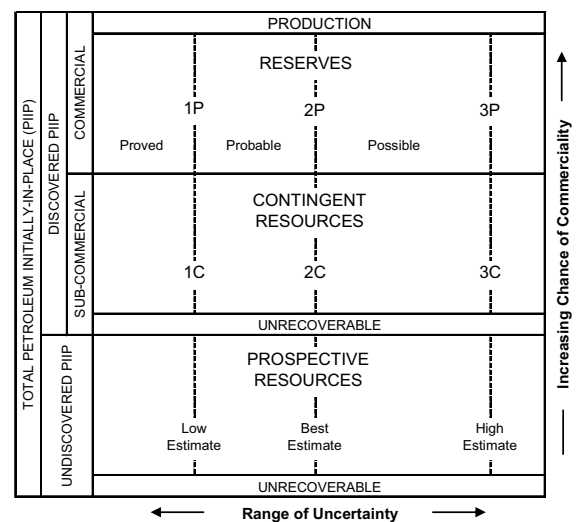


Figure 1-1: Resources Classification Framework.



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Commerciality", that is, the chance that the project that will be developed and reach commercial producing status. The following definitions apply to the major subdivisions within the resources classification:

TOTAL PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

DISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

PRODUCTION is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage (see Production Measurement, section 3.2).

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

CONTINGENT RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

PROSPECTIVE RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

UNRECOVERABLE is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Estimated Ultimate Recovery (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).



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1.2 Project-Based Resources Evaluations

The resources evaluation process consists of identifying a recovery project, or projects, associated with a petroleum accumulation(s), estimating the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project, and classifying the project(s) based on its maturity status or chance of commerciality.

This concept of a project-based classification system is further clarified by examining the primary data sources contributing to an evaluation of net recoverable resources (see Figure 1-2) that may be described as follows:

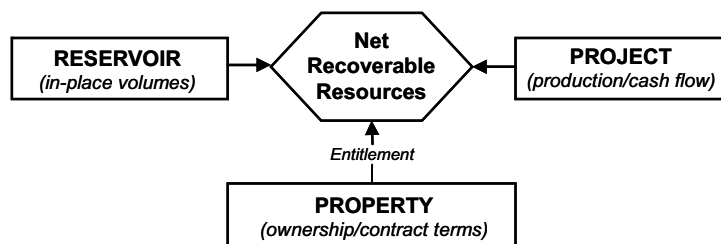


Figure 1-2: Resources Evaluation Data Sources.

- The Reservoir (accumulation): Key attributes include the types and quantities of Petroleum Initially-in-Place and the fluid and rock properties that affect petroleum recovery.
- The Project: Each project applied to a specific reservoir development generates a unique production and cash flow schedule. The time integration of these schedules taken to the project's technical, economic, or contractual limit defines the estimated recoverable resources and associated future net cash flow projections for each project. The ratio of EUR to Total Initially-in-Place quantities defines the ultimate recovery efficiency for the development project(s). A project may be defined at various levels and stages of maturity; it may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir.
- The Property (lease or license area): Each property may have unique associated contractual rights and obligations including the fiscal terms. Such information allows definition of each participant's share of produced quantities (entitlement) and share of investments, expenses, and revenues for each recovery project and the reservoir to which it is applied. One property may encompass many reservoirs, or one reservoir may span several different properties. A property may contain both discovered and undiscovered accumulations.

In context of this data relationship, "project" is the primary element considered in this resources classification, and net recoverable resources are the incremental quantities derived from each project. Project represents the link between the petroleum accumulation and the decision-making process. A project may, for example, constitute the development of a single reservoir or field, or an incremental development for a producing field, or the integrated development of several fields and associated facilities with a common ownership. In general, an individual project will represent the level at which a decision is made whether or not to proceed (i.e., spend more money) and there should be an associated range of estimated recoverable quantities for that project.

An accumulation or potential accumulation of petroleum may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.

In order to assign recoverable resources of any class, a development plan needs to be defined consisting of one or more projects. Even for Prospective Resources, the estimates of recoverable quantities must be stated in terms of the sales products derived from a development program assuming successful discovery and commercial development. Given the major uncertainties involved at this early stage, the development program will not be of the detail expected in later stages of maturity. In most cases, recovery efficiency may be largely based on analogous projects. In-place quantities for which a feasible project cannot be defined using current, or reasonably forecast improvements in, technology are classified as Unrecoverable.

Not all technically feasible development plans will be commercial. The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project's activities (see



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Commercial Evaluations, section 3.1). "Conditions" include technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms, and taxes.

The resource quantities being estimated are those volumes producible from a project as measured according to delivery specifications at the point of sale or custody transfer (see Reference Point, section 3.2.1). The cumulative production from the evaluation date forward to cessation of production is the remaining recoverable quantity. The sum of the associated annual net cash flows yields the estimated future net revenue. When the cash flows are discounted according to a defined discount rate and time period, the summation of the discounted cash flows is termed net present value (NPV) of the project (see Evaluation and Reporting Guidelines, section 3.0).

The supporting data, analytical processes, and assumptions used in an evaluation should be documented in sufficient detail to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of recoverable quantities and their classification.

2.0 Classification and Categorization Guidelines

2.1 Resources Classification

The basic classification requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial and sub-commercial projects in known accumulations (and hence between Reserves and Contingent Resources).

2.1.1 Determination of Discovery Status

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons.

In this context, "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves. Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes; a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

2.1.2 Determination of Commerciality

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

- Evidence to support a reasonable timetable for development.
- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available.
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.



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To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

2.2 Resources Categorization

The horizontal axis in the Resources Classification (Figure 1.1) defines the range of uncertainty in estimates of the quantities of recoverable, or potentially recoverable, petroleum associated with a project. These estimates include both technical and commercial uncertainty components as follows:

- The total petroleum remaining within the accumulation (in-place resources).
- That portion of the in-place petroleum that can be recovered by applying a defined development project or projects.
- Variations in the commercial conditions that may impact the quantities recovered and sold (e.g., market availability, contractual changes).

Where commercial uncertainties are such that there is significant risk that the complete project (as initially defined) will not proceed, it is advised to create a separate project classified as Contingent Resources with an appropriate chance of commerciality.

2.2.1 Range of Uncertainty

The range of uncertainty of the recoverable and/or potentially recoverable volumes may be represented by either deterministic scenarios or by a probability distribution (see Deterministic and Probabilistic Methods, section 4.2).

When the range of uncertainty is represented by a probability distribution, a low, best, and high estimate shall be provided such that:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

When using the deterministic scenario method, typically there should also be low, best, and high estimates, where such estimates are based on qualitative assessments of relative uncertainty using consistent interpretation guidelines. Under the deterministic incremental (risk-based) approach, quantities at each level of uncertainty are estimated discretely and separately (see Category Definitions and Guidelines, section 2.2.2).

These same approaches to describing uncertainty may be applied to Reserves, Contingent Resources, and Prospective Resources. While there may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable quantities independently of such a risk or consideration of the resource class to which the quantities will be assigned.

2.2.2 Category Definitions and Guidelines

Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods (see "2001 Supplemental Guidelines," Chapter 2.5). In many cases, a combination of approaches is used.

Use of consistent terminology (Figure 1.1) promotes clarity in communication of evaluation results. For Reserves, the general cumulative terms low/best/high estimates are denoted as 1P/2P/3P, respectively. The associated incremental quantities are termed Proved, Probable and Possible. Reserves are a subset of, and must be viewed within context of, the complete resources classification system. While the categorization criteria are proposed specifically for Reserves, in most cases, they can be equally applied to Contingent and Prospective Resources conditional upon their satisfying the criteria for discovery and/or development.



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For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within Contingent and Prospective Resources.

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves. All evaluations require application of a consistent set of forecast conditions, including assumed future costs and prices, for both classification of projects and categorization of estimated quantities recovered by each project (see Commercial Evaluations, section 3.1).

Based on additional data and updated interpretations that indicate increased certainty, portions of Possible and Probable Reserves may be re-categorized as Probable and Proved Reserves.

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the "best estimate" is considered the most realistic assessment of recoverable quantities. It is generally considered to represent the sum of Proved and Probable estimates (2P) when using the deterministic scenario or the probabilistic assessment methods. It should be noted that under the deterministic incremental (risk-based) approach, discrete estimates are made for each category, and they should not be aggregated without due consideration of their associated risk (see "2001 Supplemental Guidelines," Chapter 2.5).

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	<p>Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.</p> <p>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.</p> <p>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.</p> <p>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.</p>
On Production	The development project is currently producing and selling petroleum to market.	<p>The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%.</p> <p>The project "decision gate" is the decision to initiate commercial production from the project.</p>



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Class/Sub-Class	Definition	Guidelines
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	<p>At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget.</p> <p>The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.</p>
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	<p>In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).</p> <p>The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.</p>
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	<p>The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status.</p> <p>The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.</p>
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	<p>The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status.</p> <p>The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.</p>



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Class/Sub-Class	Definition	Guidelines
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Table 2: Reserves Status Definitions and Guidelines

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

Status	Definition	Guidelines
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	(1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Table 3: Reserves Category Definitions and Guidelines

Category	Definition	Guidelines
Proved Reserves	Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.	<p>If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.</p> <p>The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.</p> <p>In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8).</p> <p>Reserves in undeveloped locations may be classified as Proved provided that:</p> <ul style="list-style-type: none"> • The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. • Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. <p>For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.</p>
Probable Reserves	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.	<p>It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.</p> <p>Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria.</p> <p>Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.</p>



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by
the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

Category	Definition	Guidelines
Possible Reserves	Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.	<p>The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.</p> <p>Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project.</p> <p>Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.</p>
Probable and Possible Reserves	(See above for separate criteria for Probable Reserves and Possible Reserves.)	<p>The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects.</p> <p>In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area.</p> <p>Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources.</p> <p>In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.</p>

The 2007 Petroleum Resources Management System can be viewed in its entirety at
<http://www.spe.org/spe-app/spe/industry/reserves/prms.htm>.



CERTIFICATE OF QUALIFICATION

I, Nathan C. Shahan, Licensed Professional Engineer in the state of Texas (Texas License No. 102389), 2100 Ross Avenue, Suite 2200, Dallas, Texas 75201, hereby certify:

I am an employee of Netherland, Sewell & Associates, Inc., which prepared a detailed analysis of certain coalbed methane properties of AAG Energy Holdings Limited. The effective date of this evaluation is December 31, 2014.

I do not have, nor do I expect to receive, any direct or indirect interest in the securities of AAG Energy Limited or its affiliated companies. I am independent of AAG Energy Limited, its directors, its senior management, and its advisors in compliance with Rule 18.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

I attended Texas A&M University, I graduated in 2007 with a Master of Engineering Degree in Petroleum Engineering, and I graduated in 2002 with a Bachelor of Science Degree in Petroleum Engineering. I am a Licensed Professional Engineer in the State of Texas, United States of America, and I have in excess of 12 years of experience in petroleum engineering studies and evaluations.

/s/ Nathan C. Shahan

By: _____

Nathan C. Shahan, P.E.
Vice President
Texas License No. 102389

March 25, 2015
Dallas, Texas

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CERTIFICATE OF QUALIFICATION

I, John G. Hattner, Licensed Professional Geophysicist in the state of Texas (Texas License No. 559), 2100 Ross Avenue, Suite 2200, Dallas, Texas 75201, hereby certify:

I am an employee of Netherland, Sewell & Associates, Inc., which prepared a detailed analysis of certain coalbed methane properties of AAG Energy Holdings Limited. The effective date of this evaluation is December 31, 2014.

I do not have, nor do I expect to receive, any direct or indirect interest in the securities of AAG Energy Limited or its affiliated companies. I am independent of AAG Energy Limited, its directors, its senior management, and its advisors in compliance with Rule 18.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

I attended Saint Mary's College of California, and I graduated in 1989 with a Master of Business Administration Degree. I attended Florida State University, and I graduated in 1980 with a Master of Science Degree in Geological Oceanography. I attended the University of Miami, and I graduated in 1976 with a Bachelor of Science Degree in Geology. I am a Licensed Professional Geophysicist in the State of Texas, United States of America, and I have in excess of 34 years of experience in geological and geophysical studies and evaluations.

/s/ John G. Hattner

By: _____
John G. Hattner, P.G.
Senior Vice President
Texas License No. 559

March 25, 2015
Dallas, Texas

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ABBREVIATIONS

\$	United States dollars
1C	low estimate scenario of contingent resources
2C	best estimate scenario of contingent resources
3C	high estimate scenario of contingent resources
1P	proved
2P	proved plus probable
3P	proved plus probable plus possible
A	drainage area per well
AAG	AAG Energy Holdings Limited
AIT	after income tax
BCF	billions of cubic feet
BIT	before income tax
CBM	coalbed methane
cc/g	cubic centimeters per gram
CNG	compressed natural gas
CUCBM	China United Coalbed Methane Corporation, Ltd.
D	density of coal
EUR	estimated ultimate recovery
g/cc	grams per cubic centimeter
G _c	gas content
h	net thickness of coal
ha	hectares
ha-m	hectare meter
km	kilometers
km ²	square kilometers
m	meters
m ³	cubic meters
M\$	thousands of United States dollars
MM\$	millions of United States dollars
MCF	thousands of cubic feet
MCFD	thousands of cubic feet per day
MLD	multilateral directional
MMCF	millions of cubic feet
MMCFD	millions of cubic feet per day
MOFC	Ministry of Finance of The People's Republic of China
MPa	megapascals



ABBREVIATIONS

NDRC	National Development and Reform Commission
NPV	net present value
NSAI	Netherlands, Sewell & Associates, Inc.
ODP	Overall Development Program
OGIP	original gas-in-place
P	reservoir pressure
P_L	Langmuir pressure
PDW	pad-drilled well
PetroChina	PetroChina Company Limited
PRMS	Petroleum Resources Management System
PSC	production sharing contract
psi	pounds per square inch
RMB	renminbi
SEHK Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
SLH	single-lateral horizontal
SPE	Society of Petroleum Engineers
SPE Standards	Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the SPE
U.S.	United States
V_L	Langmuir volume
VAT	value added tax



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SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014											
MABI AND PANZHUANG BLOCKS SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA											
PROVED DEVELOPED PRODUCING RESERVES											
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MMS)	ROYALTY (MMS)	VALUE ADDED TAX (MMS)	NET INVESTMENT (MMS)	NET OPERATING EXPENSE (MMS)	FUTURE NET REVENUE ⁽²⁾ (MMS)			
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)		
								CUM NPV AT 10%	CUM NPV AT 10%		
12-31-2015	15.0	11.6	106.9	0.0	0.0	0.0	4.4	102.5	97.7	80.3	76.5
12-31-2016	12.4	9.4	88.6	0.0	0.0	0.0	4.3	84.2	170.8	71.5	139.1
12-31-2017	9.2	7.0	72.3	0.0	0.0	0.0	3.9	68.4	224.7	57.3	184.7
12-31-2018	6.9	5.2	59.1	0.0	0.0	0.0	3.5	55.6	264.5	49.1	223.4
12-31-2019	5.1	3.9	48.3	0.0	0.0	0.0	3.2	45.1	293.9	40.1	251.2
12-31-2020	3.8	2.9	39.6	0.0	0.0	0.0	3.0	36.6	315.6	32.0	270.6
12-31-2021	2.8	2.2	30.5	0.0	0.0	0.0	2.8	27.7	330.5	24.9	284.7
12-31-2022	2.1	1.6	23.6	0.0	0.0	0.0	2.7	20.8	340.7	19.3	295.0
12-31-2023	1.6	1.2	18.2	0.0	0.0	0.0	2.7	15.5	347.6	12.6	300.1
12-31-2024	1.2	0.9	14.0	0.0	0.0	0.0	2.5	11.5	352.2	9.0	303.4
12-31-2025	0.9	0.7	10.7	0.0	0.0	0.0	2.3	8.4	355.3	6.3	305.3
12-31-2026	0.6	0.5	8.2	0.0	0.0	0.0	2.2	6.0	357.3	4.4	306.5
12-31-2027	0.5	0.4	6.4	0.0	0.0	0.0	2.2	4.1	358.6	3.0	307.2
12-31-2028	0.1	0.1	1.2	0.0	0.0	0.0	0.5	0.7	358.8	-0.2	306.8
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8
TOTAL	62.1	47.5	527.5	0.0	0.0	0.0	40.3	487.3	358.8	409.6	306.8
CUM PROD	32.6										
ULTIMATE	94.7										
								DISCOUNT RATE (%)	NET PRESENT VALUE (MMS)		
								8	BIT	AIT	
								15	378.7	323.8	
								20	317.5	271.5	
								25	285.3	243.7	
								30	259.5	221.3	
									238.5	203.0	

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Table I

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014											
MABI AND PANZHUANG BLOCKS SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA											
PROVED UNDEVELOPED RESERVES											
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)			
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)		
								CUM NPV AT 10%	CUM NPV AT 10%		
12-31-2015	0.3	0.2	1.9	0.0	0.0	43.4	9.7	(51.1)	(48.7)	(40.0)	(38.2)
12-31-2016	1.4	1.1	10.3	0.0	0.0	32.2	10.6	(32.6)	(77.0)	(27.7)	(62.7)
12-31-2017	5.0	3.8	38.9	0.0	0.0	38.8	11.4	(11.3)	(85.9)	(9.5)	(70.6)
12-31-2018	8.2	6.3	70.8	0.0	0.0	0.0	13.2	57.7	(44.6)	50.9	(37.6)
12-31-2019	7.8	5.9	73.8	0.0	0.0	0.0	14.2	59.6	(5.8)	52.9	(4.9)
12-31-2020	6.1	4.7	63.9	0.0	0.0	0.0	12.8	51.1	24.5	44.6	21.0
12-31-2021	4.7	3.6	50.3	0.0	0.0	0.0	10.8	39.5	45.8	35.5	39.4
12-31-2022	3.6	2.7	39.6	0.0	0.0	0.0	9.0	30.6	60.7	28.4	52.6
12-31-2023	2.7	2.1	31.3	0.0	0.0	0.0	7.7	23.6	71.2	19.1	61.5
12-31-2024	2.1	1.6	24.8	0.0	0.0	0.0	6.7	18.1	78.5	14.3	67.6
12-31-2025	1.6	1.2	19.8	0.0	0.0	0.0	5.9	13.9	83.6	10.5	71.9
12-31-2026	1.2	0.9	15.7	0.0	0.0	0.0	5.2	10.4	87.1	7.6	74.7
12-31-2027	0.9	0.7	12.3	0.0	0.0	0.0	4.6	7.7	89.5	5.6	76.6
12-31-2028	0.2	0.1	2.4	0.0	0.0	0.0	1.0	1.4	89.9	(0.4)	76.8
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
TOTAL	45.8	34.8	455.7	0.0	0.0	114.3	122.8	218.6	89.9	191.9	76.8
CUM PROD	0.0										
ULTIMATE	45.8										
DISCOUNT RATE (%)										8	92.5
NET PRESENT VALUE (MM\$)										108.2	46.4
BIT										15	24.9
AIT										20	9.5
BIT										25	(2.1)
AIT										30	(1.8)

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014												
MABI AND PANZHUANG BLOCKS SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA												
PROVED (1P) RESERVES												
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MMS)	ROYALTY (MMS)	VALUE ADDED TAX (MMS)	NET INVESTMENT (MMS)	NET OPERATING EXPENSE (MMS)	TOTAL	BEFORE INCOME TAX (BIT) CUM NPV AT 10%	FUTURE NET REVENUE ⁽²⁾ AFTER INCOME TAX (AIT) CUM NPV AT 10%	TOTAL	CUM NPV AT 10%
12-31-2015	15.2	11.8	108.9	0.0	0.0	43.4	14.1	51.4	49.0	40.2	38.4	38.4
12-31-2016	13.8	10.5	98.8	0.0	0.0	32.2	15.0	51.7	93.8	43.9	76.4	76.4
12-31-2017	14.2	10.8	111.2	0.0	0.0	38.8	15.3	57.1	138.8	47.8	114.1	114.1
12-31-2018	15.1	11.5	129.9	0.0	0.0	0.0	16.6	113.3	219.9	100.0	185.7	185.7
12-31-2019	12.9	9.8	122.1	0.0	0.0	0.0	17.4	104.7	288.1	93.0	246.3	246.3
12-31-2020	9.9	7.6	103.5	0.0	0.0	0.0	15.8	87.8	340.1	76.6	291.6	291.6
12-31-2021	7.5	5.7	80.8	0.0	0.0	0.0	13.6	67.2	376.3	60.4	324.2	324.2
12-31-2022	5.7	4.3	63.2	0.0	0.0	0.0	11.8	51.4	401.4	47.7	347.5	347.5
12-31-2023	4.3	3.3	49.5	0.0	0.0	0.0	10.4	39.1	418.8	31.7	361.6	361.6
12-31-2024	3.3	2.5	38.8	0.0	0.0	0.0	9.2	29.6	430.8	23.3	371.0	371.0
12-31-2025	2.5	1.9	30.5	0.0	0.0	0.0	8.2	22.2	439.0	16.8	377.2	377.2
12-31-2026	1.9	1.4	23.9	0.0	0.0	0.0	7.5	16.4	444.4	12.0	381.2	381.2
12-31-2027	1.4	1.1	18.6	0.0	0.0	0.0	6.8	11.8	448.0	8.7	383.9	383.9
12-31-2028	0.3	0.2	3.6	0.0	0.0	0.0	1.6	2.1	448.6	-0.7	383.7	383.7
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7	383.7
TOTAL	107.9	82.3	983.3	0.0	0.0	114.3	163.1	705.8	448.6	601.5	383.7	383.7
CUM PROD	32.6											
ULTIMATE	140.5											
											DISCOUNT RATE (%)	8
											NET PRESENT VALUE (MMS)	416.3
											BIT	486.8
											AIT	416.3
											BIT	371.8
											AIT	317.9
											BIT	314.4
											AIT	268.6
											BIT	270.7
											AIT	230.8
											BIT	236.5
											AIT	201.2

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SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014												
MABI AND PANZHUANG BLOCKS SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA												
PROBABLE RESERVES												
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MMS)	ROYALTY (MMS)	VALUE ADDED TAX (MMS)	NET INVESTMENT (MMS)	NET OPERATING EXPENSE (MMS)	BEFORE INCOME TAX (BIT) TOTAL	FUTURE NET REVENUE ⁽²⁾ AFTER INCOME TAX (AIT) TOTAL	CUM NPV AT 10%	DISCOUNT RATE (%)	NET PRESENT VALUE (MMS) BIT
												AIT
12-31-2015	5.1	4.4	38.8	0.0	0.0	79.9	15.0	(56.1)	(53.5)	(56.4)	8	2,124.6
12-31-2016	9.0	7.5	68.5	0.0	0.0	54.9	17.1	(3.5)	(56.5)	(6.8)	15	994.3
12-31-2017	13.8	11.1	114.8	0.0	0.0	80.2	16.1	18.6	(41.8)	8.6	20	602.0
12-31-2018	20.9	16.6	188.4	0.0	0.0	130.8	20.4	37.2	(15.2)	17.3	25	373.8
12-31-2019	26.4	21.3	265.3	0.0	0.0	172.9	25.0	67.4	28.7	41.6	30	236.0
12-31-2020	30.2	22.4	306.3	0.0	0.0	219.3	33.4	53.6	60.5	28.6		
12-31-2021	35.8	24.9	352.9	0.0	0.0	328.0	44.0	(19.0)	50.2	(40.7)		
12-31-2022	47.4	32.3	473.0	0.0	0.0	319.6	62.7	90.6	94.6	51.4		
12-31-2023	60.7	40.5	613.4	2.2	0.0	343.3	83.7	186.4	177.5	125.4		
12-31-2024	76.5	50.2	786.3	4.8	0.0	50.9	106.1	629.3	431.9	541.7		
12-31-2025	80.2	52.3	849.3	5.8	0.0	0.0	113.8	735.5	702.3	635.1		
12-31-2026	71.9	47.0	791.4	4.8	0.0	0.0	115.8	675.7	928.1	572.0		
12-31-2027	64.3	42.2	735.2	3.9	0.0	0.0	117.1	618.2	1,115.9	529.2		
12-31-2028	55.1	36.0	650.5	2.9	0.0	0.0	113.2	537.2	1,264.4	453.2		
12-31-2029	48.4	31.8	594.2	2.0	0.0	0.0	112.9	481.3	1,385.2	403.0		
12-31-2030	42.6	28.1	543.9	1.0	0.0	0.0	113.4	430.5	1,483.5	352.0		
12-31-2031	37.2	24.6	493.9	0.0	0.0	0.0	113.3	380.6	1,562.5	303.2		
12-31-2032	32.5	21.5	447.6	0.0	0.0	0.0	113.1	334.5	1,625.6	261.4		
12-31-2033	27.7	18.4	396.2	0.0	0.0	0.0	112.2	284.0	1,674.3	221.5		
12-31-2034	13.9	9.2	206.0	0.0	0.0	0.0	63.8	142.2	1,697.0	84.6		
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,697.0	0.0		
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,697.0	0.0		
TOTAL	799.4	542.4	8,916.1	27.5	0.0	1,779.8	1,512.1	5,624.2	1,697.0	4,525.8		1,337.4
CUM PROD	1.6											
ULTIMATE	801.1											1,684.4

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SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014												
MABI AND PANZHUANG BLOCKS SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA												
PROVED + PROBABLE (2P) RESERVES												
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	BEFORE INCOME TAX (BIT)		AFTER INCOME TAX (AIT)		
								TOTAL	AT 10%	TOTAL	AT 10%	
12-31-2015	20.3	16.2	147.7	0.0	0.0	123.3	29.1	(4.7)	(4.4)	(16.2)	(15.4)	
12-31-2016	22.8	18.1	167.3	0.0	0.0	87.1	32.1	48.2	37.3	37.0	16.7	
12-31-2017	28.0	21.9	226.0	0.0	0.0	119.0	31.3	75.7	97.0	56.5	61.2	
12-31-2018	36.0	28.1	318.3	0.0	0.0	130.8	37.0	150.4	204.8	117.2	145.2	
12-31-2019	39.3	31.1	387.4	0.0	0.0	172.9	42.4	172.1	316.8	134.7	232.8	
12-31-2020	40.1	29.9	409.8	0.0	0.0	219.3	49.2	141.4	400.5	105.2	295.1	
12-31-2021	43.3	30.6	433.7	0.0	0.0	328.0	57.6	48.2	426.5	19.8	305.7	
12-31-2022	53.1	36.6	536.2	0.0	0.0	319.6	74.5	142.0	496.0	99.2	354.3	
12-31-2023	65.0	43.8	662.8	2.2	0.0	343.3	94.1	225.5	596.3	157.0	424.1	
12-31-2024	79.7	52.6	825.1	4.8	0.0	50.9	115.3	658.9	862.7	565.0	652.6	
12-31-2025	82.7	54.2	879.8	5.8	0.0	0.0	122.0	757.8	1,141.3	651.9	892.2	
12-31-2026	73.7	48.5	815.3	4.8	0.0	0.0	123.2	692.1	1,372.5	584.0	1,087.4	
12-31-2027	65.7	43.3	753.9	3.9	0.0	0.0	123.9	630.0	1,563.9	537.9	1,250.8	
12-31-2028	55.3	36.2	654.1	2.9	0.0	0.0	114.8	539.3	1,713.0	452.5	1,375.8	
12-31-2029	48.4	31.8	594.2	2.0	0.0	0.0	112.9	481.3	1,833.8	403.0	1,477.0	
12-31-2030	42.6	28.1	543.9	1.0	0.0	0.0	113.4	430.5	1,932.1	352.0	1,557.3	
12-31-2031	37.2	24.6	493.9	0.0	0.0	0.0	113.3	380.6	2,011.1	303.2	1,620.2	
12-31-2032	32.5	21.5	447.6	0.0	0.0	0.0	113.1	334.5	2,074.2	261.4	1,669.5	
12-31-2033	27.7	18.4	396.2	0.0	0.0	0.0	112.2	284.0	2,122.9	221.5	1,707.5	
12-31-2034	13.9	9.2	206.0	0.0	0.0	0.0	63.8	142.2	2,145.6	84.6	1,721.0	
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,145.6	0.0	1,721.0	
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,145.6	0.0	1,721.0	
TOTAL	907.4	624.7	9,899.3	27.5	0.0	1,894.1	1,675.2	6,330.0	2,145.6	5,127.3	1,721.0	
CUM PROD	34.2											
ULTIMATE	941.6											

DISCOUNT RATE (%)	NET PRESENT VALUE (MM\$)	
	BIT	AIT
8	2,611.4	2,100.7
15	1,366.0	1,086.0
20	916.5	720.5
25	644.5	500.2
30	472.5	361.5

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All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



TECHNICAL DISCUSSION
GENERAL OVERVIEW
PANZHUANG AND MABI BLOCKS, SHANXI PROVINCE
THE PEOPLE'S REPUBLIC OF CHINA
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

OVERVIEW

The principal activities of AAG Energy Holdings Limited (AAG) are exploration, development, and production of coalbed methane (CBM) in The People's Republic of China. AAG owns interests in CBM production sharing contracts (PSCs) for Panzhuang and Mabi Blocks in Shanxi Province; these blocks are shown on location maps in Figures 1-1 and 1-2. AAG operates each block. AAG obtained the rights to Mabi Block from Asian American Coal, Inc. in September 2005. AAG obtained the rights to Panzhuang Block through its acquisition of Sino-American Energy, Inc. in June 2006.

As shown in the stratigraphic column in Figure 1-3, the primary coal seams for CBM development in Panzhuang and Mabi Blocks are Coal Seams 3 and 15. Secondary coals evaluated for contingent or prospective resources potential are Coal Seam 2, thin seams located above Coal Seam 3 (exclusive of Coal Seam 2), and thin seams between Coal Seams 3 and 15. There are active Coal Seam 3 mining operations in both Panzhuang and Mabi Blocks. AAG does not own an interest in the coal mining operations, and this report does not include any reserves or value attributable to these operations. Our evaluation does not include areas where coal mining operations have eliminated potential CBM development or areas of the blocks that have been relinquished.

ASSETS

AAG's Panzhuang Block operations originally covered approximately 151 square kilometers (km²) of Qinshui Basin in Shanxi Province. This acreage has been reduced as a result of mining activity along the southern boundary of the block and by area relinquishment. By the end of 2013, AAG had relinquished all but 68 km² of Panzhuang Block but increased its participating interest from 50 percent to 80 percent in the retained acreage.

Panzhuang Block is the most developed of AAG's blocks. When commercial CBM sales commenced in early 2008, all gas was produced to a compressed natural gas (CNG) facility within the block and transported to market using CNG trucks. In late 2008, AAG began delivering gas to a liquefied natural gas facility that provided a second marketing option for gas production. As a third marketing option, AAG has been selling gas through a local pipeline since 2012.

Mabi Block is located roughly 20 kilometers (km) northwest of Panzhuang Block in Qinshui Basin in Shanxi Province and covers an area of 897 km². The PSC area has been reduced from the original PSC area of 1,371 km² as a result of mining activity and by relinquishment of the northeastern portion of the block where coal depth increases toward the basin axis.

AAG has drilled 107 vertical wells and 3 multilateral directional (MLD) wells in Mabi Block. Some of the vertical wells are parameter wells and others are pad-drilled production wells that are deviated from a common surface location but are oriented vertically through the coal seam interval using AAG's drilling design for full field development. AAG's parameter wells are primarily used during the Exploration and early Development Phases to gather data such as coal seam depth, thickness, gas content, and permeability. The parameter wells are designed to allow for water and gas production to provide data for the analysis of CBM commerciality. AAG plans



to use pad-drilled wells (PDWs) to deliver early Development Phase production, but once full development activity has commenced AAG also plans to deliver production from those parameter wells that can be converted to PDWs. AAG does not intend to drill additional MLD wells in Mabi Block. Gas production has been established, but AAG has not yet initiated significant gas sales; therefore, no proved reserves have been estimated for Mabi Block.

GEOLOGY

There are five requirements that must be satisfied to classify volumes as reserves for a CBM project. Evidence must demonstrate that:

1. Sufficient quantities of coal exist.
2. Sufficient volumes of methane exist at economic saturation levels.
3. Sufficient permeability exists to recover gas at economic rates.
4. The coal can be completed and will produce at economic rates.
5. A market exists and the project is economic.

Geology is principally involved in the first three stages of determining if reserves exist. To do this, geologists try to obtain all available data including well logs, core data, mine data, laboratory data, maps, geological studies and reports, and information on water tables. The information is analyzed to determine net coal thicknesses, coal continuity, and coal density in order to calculate the quantity of coal to potentially be developed. Gas content and composition information obtained from cores is generally coupled with coal depth and pressure information to calculate the gas volume in the coal. Permeability measurements are used to indicate the rate at which gas could flow out of the coal; in general, permeability decreases with depth.

In each of AAG's primary development areas, the presence of continuous coals or packages of coal seams is good and fairly predictable. In the primary development areas, commerciality hinges on sufficient coal permeability, gas content, and gas saturation. In areas of sparse or areally-restricted data with limited drilling, thickness variations of the coals may become the determining factor for commerciality.

EVALUATION METHODOLOGY

To estimate reserves and resources for these blocks, we relied on basic geologic data including log data, core data, and gas content data supplied by AAG. Our work included mapping individual net coal and overburden thicknesses for Coal Seams 2, 3, and 15, and certain additional thin coals, and then calculating coal volume and original gas-in-place (OGIP) for each block. Thin coal seams with thicknesses in excess of 0.5 meters (m) occurring between Coal Seams 3 and 15 were summed and mapped as one package. Thin coal seams with thicknesses in excess of 0.5 m occurring above Coal Seams 3 were also summed and mapped as another single package. Overburden thickness maps were prepared by mapping the top of Coal Seams 2, 3, and 15. A midpoint depth grid was utilized for the coal seams occurring between Coal Seams 3 and 15.

Sufficient gas content data were available on Coal Seams 3 and 15 for both blocks, and we derived gas content-pressure relationships for each block. Potentiometric surfaces were estimated for Coal Seams 3 and 15 based on initial reservoir pressure measurements, and these surfaces were used to estimate initial reservoir pressure in all coals across each block.



Lab-measured density estimates were provided by AAG in summary form for use in our volumetric calculations. These density estimates were taken from the PZWC wells in Panzhuang Block and the MB wells in Mabi Block. We used a maximum density cut-off of 1.75 grams per cubic centimeter (g/cc) for well log analysis to determine net coal thickness. Apparent density estimates used in our volumetric evaluation ranged from 1.45 to 1.49 g/cc.

ORIGINAL GAS-IN-PLACE AND ULTIMATE RECOVERY _____

OGIP and ultimate recovery have been estimated using the following formulas. The isotherm curve is defined using Langmuir constants V_L and P_L , as determined with laboratory adsorption tests.

$$\text{OGIP} = 353,164 * D * h * A * G_c$$

$$G_c = V_L * P / (P_L + P)$$

$$\text{Ultimate Recovery} = \text{OGIP} * \text{Recovery Factor}$$

Item	Description	Units
OGIP	original gas-in-place	standard cubic feet
353,164	conversion factor	cubic feet/ha-m
D	density of coal	g/cc
h	net thickness of coal	m
A	drainage area per well	ha
G_c	gas content	cc/g
V_L	Langmuir volume	cc/g
P_L	Langmuir pressure	MPa
P	reservoir pressure	MPa

Recovery factors were determined by estimating the volume of CBM gas remaining in the coal at abandonment conditions. Based on the high initial saturation levels of the Panzhuang and Mabi coals, we expect the coals to have high recovery factors. We have estimated a range of abandonment pressures from 0.27 to 0.89 MPa. When these pressure estimates are applied with the Langmuir parameters, the resulting recovery factors for Panzhuang Block range from 50 percent to 80 percent for Coal Seams 3 and 15 and 25 percent to 70 percent for the secondary coals. For Mabi Block, the resulting recovery factors range from 33 percent to 74 percent for Coal Seams 3 and 15 and 35 percent to 78 percent for the secondary coals.

In all other CBM-producing regions, including Australia and the United States, very few coals can be found with rank, maturity, and permeability similar to Qinshui Basin coals. Australia's Bowen Basin contains low-permeability coals under early development that are likely to require fracture stimulation to achieve commercial production rates. Typical recovery factors for the Bowen Basin are expected to be around 60 percent, with the recovery factors for the best areas anticipated to be as high as 80 percent. The Surat Basin in Australia contains high-permeability coals, with some fields expected to produce up to 70 percent of their OGIP. Coals targeted for CBM development in the United States (U.S.) are less mature than Qinshui Basin coals, with generally higher permeability than Qinshui Basin coals. However, as a comparison, recovery factors in the U.S. Powder River Basin coals are estimated to be as high as 80 percent, and recovery factors for the Fruitland Coal fairway of the U.S. San Juan Basin are estimated to be as high as 60 percent.

GAS MARKETING _____

As requested, this report has been prepared using gas price parameters specified by AAG that result in significant real price growth through 2017. These prices are consistent with other price forecasts for the region and consider a mix of marketing arrangements with delivery to liquefied natural gas plants, compressed natural gas stations,



and pipelines. Included in the price forecast is the subsidy of 0.20 renminbi (RMB) per cubic meter (m³) of gas granted by the Ministry of Finance of The People's Republic of China (MOFC) on April 20, 2007. For the purposes of this report, this subsidy has been converted to 0.912 U.S. dollars (\$) per thousand cubic feet (MCF) of gas using the December 31, 2014, exchange rate of 6.207 RMB per \$. Before consideration of the MOFC subsidy, AAG's average received prices for 2013 and 2014 were \$6.80 and \$7.98 per MCF, respectively. For the month of December 2014, the average received price was \$8.25 per MCF before the MOFC subsidy. AAG's sales contracts include prices as high as \$8.67 per MCF (1.9 RMB per m³) before increases for the MOFC subsidy. The gas prices and escalation parameters used in this report are shown in the following table:

Period Ending	Gas Price (\$/MCF)					
	Panzhuang Block			Mabi Block		
	Before Subsidy	Subsidy	Received Price	Before Subsidy	Subsidy	Received Price
12-31-2015	8.302	0.912	9.215	7.800	0.912	8.713
12-31-2016	8.485	0.912	9.397	7.983	0.912	8.895
12-31-2017	9.401	0.912	10.313	9.401	0.912	10.313
12-31-2018	10.416	0.912	11.329	10.416	0.912	11.329
12-31-2019	11.541	0.912	12.454	11.541	0.912	12.454
12-31-2020	12.788	0.912	13.700	12.788	0.912	13.700
12-31-2021	13.248	0.912	14.160	13.248	0.912	14.160
12-31-2022	13.725	0.912	14.637	13.725	0.912	14.637
12-31-2023	14.219	0.912	15.131	14.219	0.912	15.131

Thereafter, escalated 3.6 percent on January 1 of each year.

OPERATING AND CAPITAL COSTS

Operating costs used in this report are based on operating expense records of AAG and are consistent with our knowledge of similar CBM operations. These costs include well- and block-level costs and corporate overhead costs. Well-level operating costs have been divided into per-well costs and per-unit-of-production costs. AAG's estimated block-level expenses, overhead, and general administrative costs are included based on AAG's internal plans for additional block and gathering facilities; these costs include AAG's estimated increases for corporate growth and have been modeled separately from well-level costs so they do not impact individual-well economics. Block-level costs are held constant until the block-level gas production rate peaks, then reduced over time as a function of the declining production rate. All operating costs are held constant through December 31, 2015, and then escalated 3.6 percent on January 1 of each year through the remaining term of each PSC.

Capital costs used in this report were provided by AAG and are based on current drilling contracts and AAG's internal estimates for future facilities expansion. Capital costs are included as required for new development wells, production equipment, gas compression, administrative facilities, and gas gathering facilities. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. We anticipate AAG's 2015 and 2016 work program will allow better cost control for capital costs than for operating costs; therefore, capital costs are held constant through December 31, 2016, and then escalated 3.6 percent on January 1 of each year to the date of expenditure.

In accordance with each PSC, the operator will, after completion of various CBM operations and to the extent reasonable and practicable, level or restore or reclaim the land of the operating sites to the conditions existing at the commencement of the PSC in accordance with relevant rules and regulations. Should AAG abandon production from either block, the Chinese government partner will have the choice to either share abandonment costs with AAG in proportion to the participating interests or continue production as the operator and indemnify



AAG of any future abandonment costs. Under the economic assumptions used when preparing this report, the blocks continue to produce economically beyond each PSC term; therefore, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

Netherlands, Sewell & Associates, Inc. (NSAI) technical staff visited AAG's Panzhuang Block in 2008 and 2011 and AAG's Mabi Block in 2013. For the purposes of this report, we did not find it necessary to perform an additional field inspection of the properties, nor did we re-examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

PETROLEUM CLASSIFICATION

Petroleum exists in the Earth's crust in accumulations of naturally occurring mixtures of gaseous, liquid, or solid hydrocarbons in a reservoir. Petroleum may also contain nonhydrocarbons such as carbon dioxide, nitrogen, hydrogen sulfide, or sulfur. A key term used to classify accumulations is the term "known", which is interchangeable with the term "discovered"; known petroleum accumulations are those potentially moveable hydrocarbons that have been discovered through penetration by a well that has established the existence of a significant quantity of recoverable hydrocarbons through testing, sampling, or logging. In this context, the term "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by existing wells and for evaluating the potential for economic recovery.

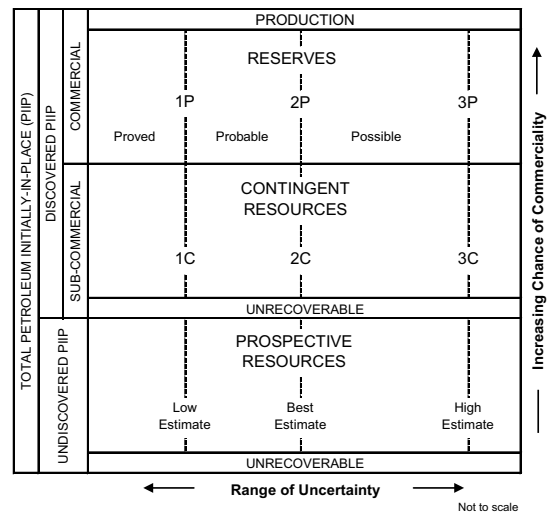


Figure 1-1: Resources Classification Framework.

As shown in the accompanying figure from the 2007 Petroleum Resources Management System, petroleum accumulations can be classified, in decreasing order of likelihood of commerciality, as reserves, contingent resources, or prospective resources. Different classifications of petroleum accumulations have varying degrees of technical and commercial risk that are difficult to quantify; thus reserves, contingent resources, and prospective resources should not be aggregated without extensive consideration of these factors. Additional details regarding petroleum classification are presented in the definitions immediately following the letter at the front of this report.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by application of development projects from a given date forward under defined conditions. Reserves must be discovered, recoverable, commercial, and remaining as of the evaluation date based on the planned development projects to be applied. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves.

We estimate the proved and probable gas reserves and future net revenue to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:



Block/Category	Gas Reserves (BCF)		Future Net Revenue (MM\$)			
	Gross (100%)	Net	Before Income Tax		After Income Tax	
			Total	Net Present Value at 10%	Total	Net Present Value at 10%
Panzhuang						
Proved Developed Producing	62.1	47.5	487.3	358.8	409.6	306.8
Proved Undeveloped	45.8	34.8	218.6	89.9	191.9	76.8
Proved (1P)	107.9	82.3	705.8	448.6	601.5	383.7
Probable	109.3	82.6	923.8	475.9	723.0	369.9
Proved + Probable (2P)	217.3	164.9	1,629.6	924.5	1,324.5	753.5
Mabi						
Proved Developed Producing	0.0	0.0	0.0	0.0	0.0	0.0
Proved Undeveloped	0.0	0.0	0.0	0.0	0.0	0.0
Proved (1P)	0.0	0.0	0.0	0.0	0.0	0.0
Probable	690.1	459.8	4,700.4	1,221.1	3,802.8	967.5
Proved + Probable (2P)	690.1	459.8	4,700.4	1,221.1	3,802.8	967.5
Total						
Proved Developed Producing	62.1	47.5	487.3	358.8	409.6	306.8
Proved Undeveloped	45.8	34.8	218.6	89.9	191.9	76.8
Proved (1P)	107.9	82.3	705.8	448.6	601.5	383.7
Probable	799.4	542.4	5,624.2	1,697.0	4,525.8	1,337.4
Proved + Probable (2P)	907.4	624.7	6,330.0	2,145.6	5,127.3	1,721.0

Totals may not add because of rounding.

Gas volumes are expressed in billions of cubic feet (BCF) at standard temperature and pressure bases. Gross gas reserves are 100 percent of the reserves attributable to each PSC before adjustments for fuel and shrinkage. Net gas reserves are AAG's share according to the terms of each PSC and after adjustments for fuel and shrinkage. For the purposes of this report, volumes and cash flow attributable to AAG are referred to as net volumes and net revenue; in the PSCs, the net volumes and net revenue are referred to as the company take. Monetary values shown in this report are expressed in United States dollars (\$), thousands of United States dollars (M\$), or millions of United States dollars (MM\$).

The estimates of reserves shown in this report are for proved developed producing, proved undeveloped, probable, and possible reserves. Our study indicates that there are no proved developed non-producing reserves for these properties at this time. Although gas production has been established in Mabi Block, AAG has not yet initiated significant gas sales; therefore, no proved reserves have been estimated for Mabi Block. Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and



production status. The estimates of reserves and future revenue included herein have been estimated using deterministic methods and have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated.

According to Chapter 18, rules 18.18 through 18.33, of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (SEHK Rules), possible reserves must be stated separately and not combined with information on any other reserves. For the purposes of this report, possible reserves are calculated as the difference between proved plus probable plus possible (3P) and 2P reserves because the PSC terms apply only to aggregate-level calculations of net reserves and future net revenue.

We estimate the possible gas reserves to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:

Block	Possible Gas Reserves (BCF)	
	Gross (100%)	Net
Panzhuang	134.5	100.3
Mabi	1,544.3	928.7
Total	1,678.8	1,028.9

Totals may not add because of rounding.

Company gross revenue for the reserves shown in this report is AAG's share of the gross (100 percent) revenue from the properties after deductions for royalties. Future net revenue is revenue as received under the PSCs; this revenue is after additions for cost recovery and deductions for value added taxes (VAT), capital costs, and operating expenses. A VAT rebate was issued in 2007 by the MOFC for revenues realized from CBM production; this rebate has been treated as a VAT exemption in the economic model. The future net revenue is presented before and after deduction of income taxes. The estimates of income taxes were prepared based on the expected taxation methods for Panzhuang and Mabi Blocks as provided by the People's Republic of China tax authorities. The future net revenue has been discounted at an annual rate of 10 percent to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

CONTINGENT RESOURCES

Contingent resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but for which the applied project or projects are not yet considered mature enough for commercial development because of one or more contingencies. The contingent resources shown in this report for thin coal seams are contingent upon development of completion techniques that achieve producing rates and volumes sufficient to sustain economic viability from these discontinuous intervals. All contingent resources shown in this report are contingent upon acquisition of additional data that demonstrate producing rates and volumes sufficient to sustain economic viability. If these contingencies are successfully addressed, some portion of the contingent resources estimated in this report may be reclassified as reserves; our estimates have not been risked to account for the possibility that these contingencies are not successfully addressed. This report does not include an economic analysis of the contingent resources; however, the commerciality of the contingent resources was tested with the appropriate PSC model to determine volumes in accordance with each PSC.



We estimate the unrisks contingent gas resources to the AAG interest in Panzhuang and Mabi Blocks, as of December 31, 2014, to be:

Block/Category	Unrisks Contingent Gas Resources (BCF)	
	Gross (100%)	Net
Panzhuang		
Low Estimate (1C)	5.0	3.8
Best Estimate (2C)	11.4	8.6
High Estimate (3C)	16.3	12.4
Mabi		
Low Estimate (1C)	190.2	127.5
Best Estimate (2C)	393.9	261.5
High Estimate (3C)	625.7	410.7
Total		
Low Estimate (1C)	195.2	131.3
Best Estimate (2C)	405.2	270.1
High Estimate (3C)	642.0	423.1

Totals may not add because of rounding.

Gross contingent gas resources are 100 percent of the contingent resources attributable to each PSC before adjustments for fuel and shrinkage. Net contingent gas resources are AAG's share according to the terms of each PSC and after adjustments for fuel and shrinkage.

The contingent resources shown in this report have been estimated using deterministic methods. Once the contingencies have been successfully addressed, the approximate probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is generally inferred to be 90 percent for the low estimate, 50 percent for the best estimate, and 10 percent for the high estimate.

The estimates of contingent resources included herein have not been adjusted for development risk. The development risks associated with these contingent resources include (1) the inability to develop an efficient completion practice to enable commercial development of the coals associated with these contingent resources and (2) the risk that commercial quantities of gas will not be achieved because of the inability of these coals to dewater in a reasonable time period. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and subject to revision with further data acquisition or interpretation.

PROSPECTIVE RESOURCES

Prospective resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. All of the prospective resources shown in this report are located in Mabi Block. It should be understood that potentially significant quantities of coal are known to be present in the project area; however, the portions of the project area where we lack sufficient data concerning gas content and coal permeability are considered undiscovered CBM opportunities and the corresponding gas volumes are therefore classified as prospective resources rather than contingent resources. This report does not include an economic analysis of the prospective resources; however, the commerciality of the prospective resources was tested with the Mabi PSC model to determine the gross and net prospective resources.



We estimate the unrisked prospective gas resources to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Category	Unrisked Prospective Gas Resources (BCF)	
	Gross (100%)	Net
Low Estimate	21.5	14.4
Best Estimate	78.3	52.2
High Estimate	122.4	81.4

Gross prospective gas resources are 100 percent of the prospective resources attributable to the Mabi PSC before adjustments for fuel and shrinkage. Net prospective gas resources are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage.

The prospective resources shown in this report have been estimated using deterministic methods and are dependent on a CBM discovery being made. If a discovery is made and development is undertaken, the approximate probability that the recoverable volumes will equal or exceed the unrisked estimated amounts is generally inferred to be 90 percent for the low estimate, 50 percent for the best estimate, and 10 percent for the high estimate.

Unrisked prospective resources for CBM prospects are estimated ranges of recoverable gas volumes assuming their discovery and development and are based on estimated ranges of in-place volumes. Geologic risking of prospective resources addresses the probability of success for the discovery of a significant quantity of potentially moveable petroleum; this risk analysis is conducted independent of estimations of petroleum volumes. For CBM prospects, principal geologic risk elements include coal quantity, gas content, and coal permeability. Development risking of prospective resources for CBM prospects should include consideration of whether the entire area addressed by the assessment can and will be developed; this component is generally unique to CBM accumulations because of the greater areal extent and the wide variability in thickness, rock properties, gas content, and production characteristics across that areal extent. For CBM prospects, principal development risk elements are reservoir quality across the evaluated acreage, development and application of technology needed to commercially produce the acreage, the ability to depressure the reservoir over a reasonable period of time, project commercial conditions (financial, marketing, legal, social, and governmental factors), and a reasonable expectation of a commitment to develop the acreage. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revision with further data acquisition or interpretation.

It should be understood that the prospective resources discussed and shown herein are those highly speculative resources estimated beyond reserves or contingent resources where geological and geophysical data suggest the potential for discovery of producible CBM but where the level of proof is insufficient for classification as reserves or contingent resources. The unrisked prospective gas resources shown in this report are the range of volumes that could reasonably be expected to be recovered in the event of the discovery and development of these prospects.

FIGURES

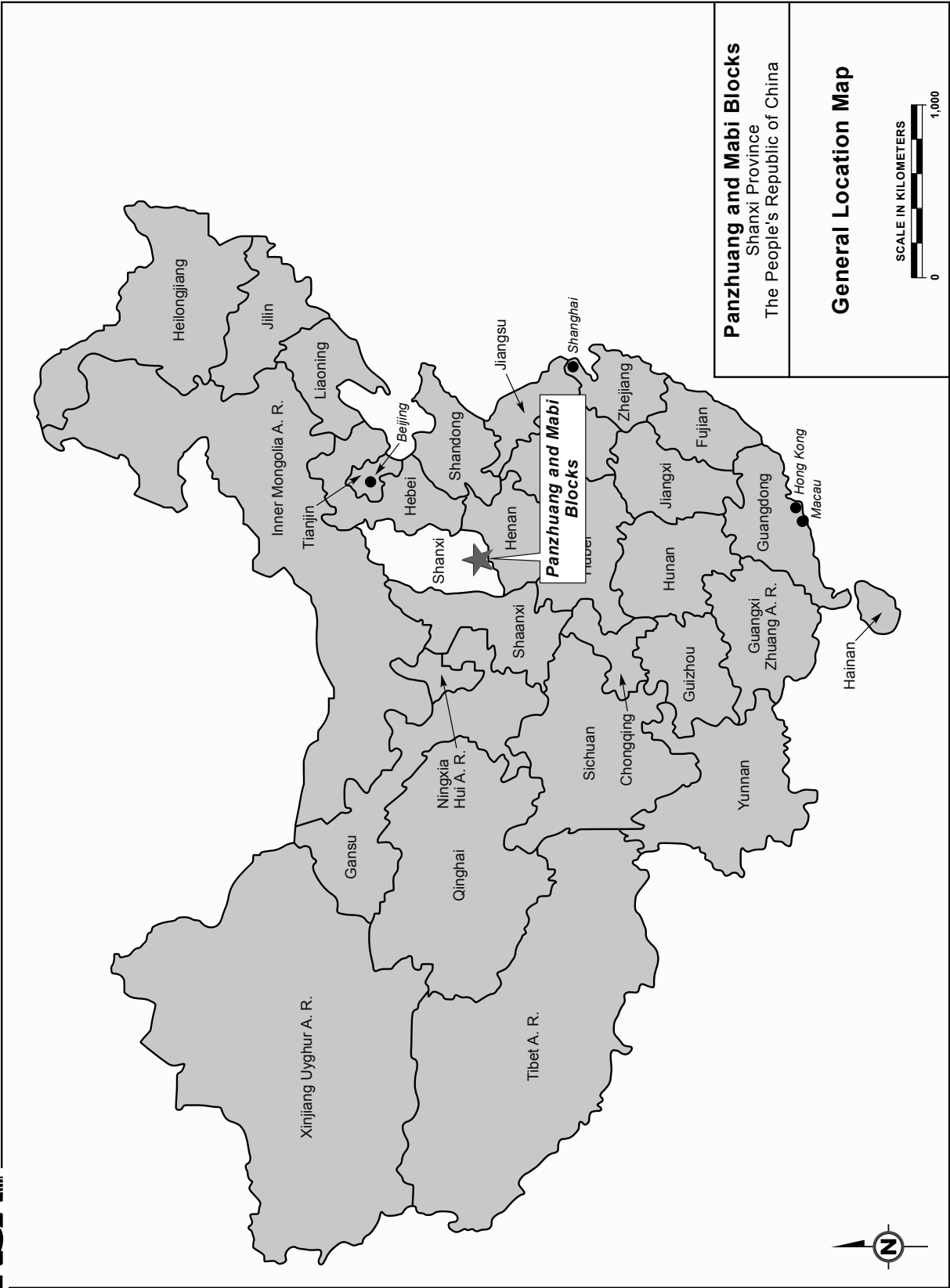
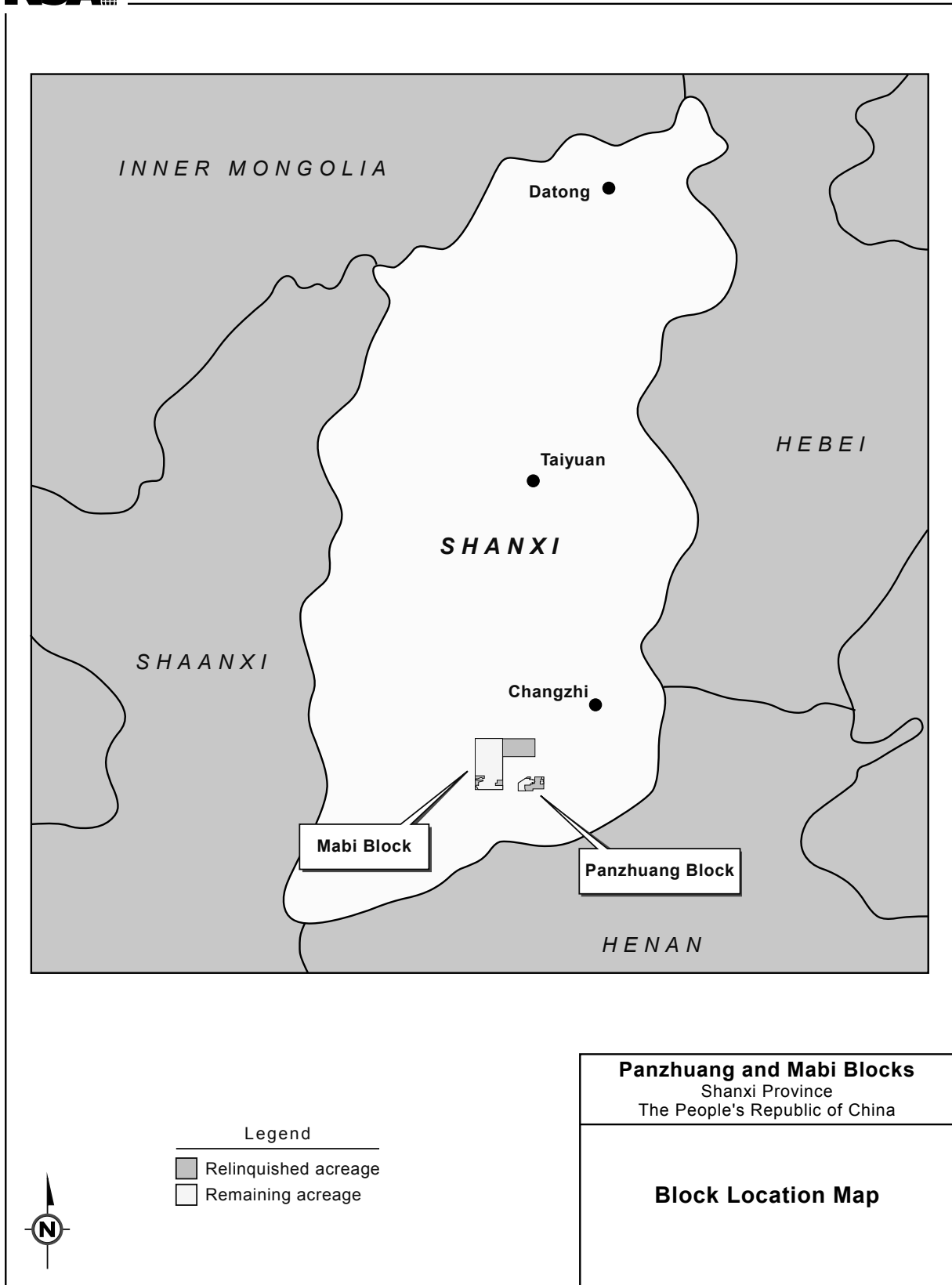


Figure 1-1

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

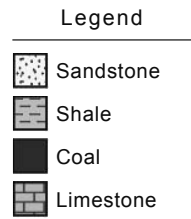
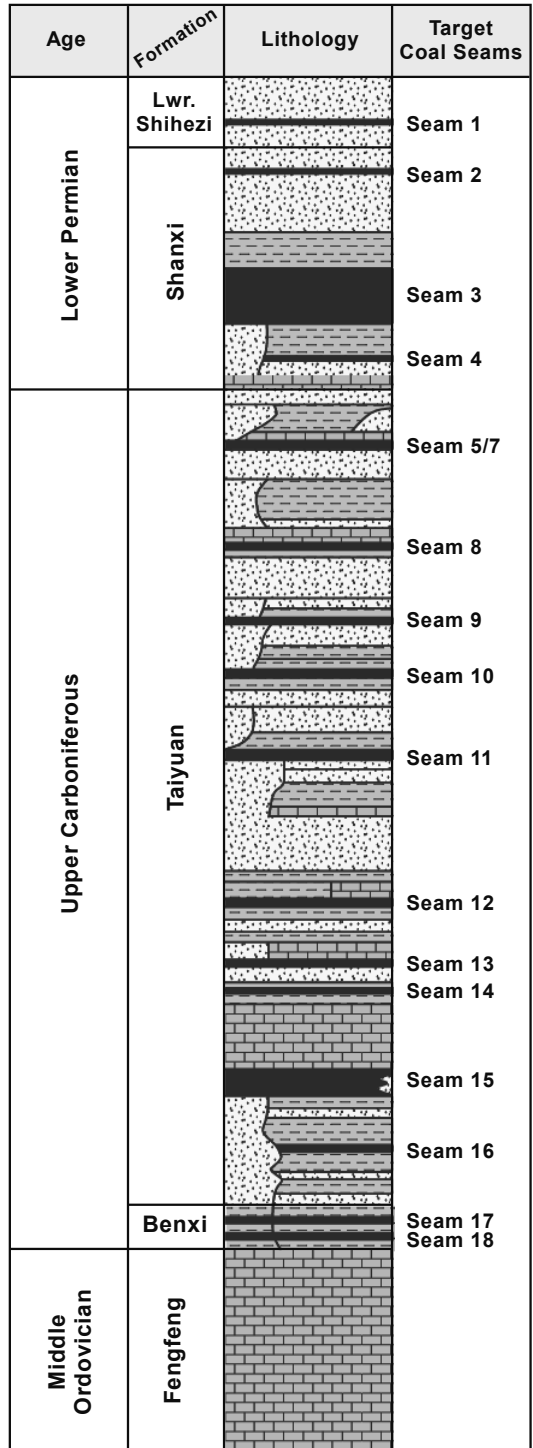


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 1-2



Stratigraphic Column
Qinshui Basin
The People's Republic of China



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 1-3



TECHNICAL DISCUSSION
PANZHUANG BLOCK
SHANXI PROVINCE
THE PEOPLE'S REPUBLIC OF CHINA
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

OVERVIEW

AAG's operated area of Panzhuang Block originally covered approximately 151 km² of Qinshui Basin in Shanxi Province. This acreage has been reduced as a result of mining activity along the southern boundary of the block and by area relinquishment. By the end of 2013, AAG had relinquished all but 68 km² of Panzhuang Block but increased its participating interest from 50 percent to 80 percent in the retained acreage. China United Coalbed Methane Corporation, Ltd. (CUCBM) owns the remaining 20 percent interest in the AAG acreage and operates the remainder of the block where AAG does not own an interest. The Panzhuang PSC will expire on March 31, 2028, as set forth in Article 26.4.4 of the PSC.

GEOLOGY AND RESERVOIR CHARACTERIZATION

Qinshui Basin is an asymmetric basin with gentle dips in the east and steep dips in the west. There are two major, laterally continuous coal seams, referred to as Coal Seams 3 and 15, present throughout Qinshui Basin. In Panzhuang Block, these coal seams generally dip to the northwest where the north-south-striking basin axis is located and outcrop east of the block boundary. Certain thin coal seams lying above Coal Seam 3 and between Coal Seams 3 and 15 are secondary development targets for AAG. Net coal thickness varies slightly within each coal seam across the block. Reservoir properties for Panzhuang Block are listed in the following table and are consistent with other commercial CBM development projects in Qinshui Basin.

Coal Seam	Geologic Age	Average Depth (m)	Average Thickness (m)	Average Gas Content ⁽¹⁾ (cc/g)
3	Lower Permian	472	5.7	18.0
Thin	Lower Permian/Carboniferous	508	1.3	13.7
15	Carboniferous	568	2.7	20.9

⁽¹⁾ Air-dried gas content is expressed in cubic centimeters per gram (cc/g) and has not been adjusted for ash.

RESERVOIR PROPERTIES

AAG supplied well location, thickness, proximate analysis, gas content, coal density, and log data for Panzhuang Block. Overburden thickness values were obtained from well log data and forced to a zero value at the outcrop. Overburden, net coal thickness, and depth structure maps were built and then sampled on a grid spacing of approximately 800 m to provide input parameters for the calculation of volumetric OGIP. A base map, net coal isopach maps, depth structure maps, and overburden thickness maps for Panzhuang Block are shown on Figures 2-1 through 2-7. The grid spacing of approximately 800 m was used to model a drainage area of 65 hectares (ha) for each MLD well. This spacing is consistent with AAG's general plans for future development and is based on MLD well patterns with laterals spaced approximately 200 m apart.



GAS CONTENT

From the proximate analysis and desorption test reports available, gas content correlations were developed for Coal Seams 3 and 15 based on each coal seam's elevation relative to sea level. Initial reservoir pressures taken from well test data suggest an underpressured condition across Panzhuang Block. Based on these measurements, a pressure gradient of 0.737 megapascals (MPa) per 100 m with an original potentiometric surface at 607 m above sea level was used for estimating initial reservoir pressure in both Coal Seams 3 and 15. The pressure gradient and potentiometric surface estimates are supported by the elevation-versus-pressure graph shown on Figure 2-8. The gas content data for Coal Seam 3 indicate a high saturation, and development wells typically have very short dewatering periods; therefore, we have assumed 100 percent saturation for estimating gas content in our volumetric calculations for Coal Seams 3 and 15. Gas content versus pressure correlations for Coal Seams 3 and 15 are shown on Figures 2-9 and 2-10, and average desorption gas content data for Panzhuang Block are shown in the following table:

Well	Coal Seam 3		Coal Seam 15	
	Zone Depth (m)	Average Desorption Gas Content ⁽¹⁾ (cc/g)	Zone Depth (m)	Average Desorption Gas Content ⁽¹⁾ (cc/g)
PZWC01	373	17.5	472	22.5
PZWC02	247	19.2	341	21.4
PZWC03	540	19.2	637	28.5
PZWC04	488	18.5	574	18.1
PZWC05	627	20.0	714	24.4
PZWC06	692	24.4	774	27.3

⁽¹⁾ Air-dried gas content has not been adjusted for ash.

COAL DENSITY

AAG supplied density measurements for Coal Seams 3 and 15 from several wells in Panzhuang. These measurements were taken from lab data on uncrushed, air-dried core samples. The sample volumes include fracture volume such that true density measurement approximates in-situ density. The average apparent density of 1.47 g/cc has been used for calculating volumetric OGIP across the entire block for both Coal Seams 3 and 15. The following table shows the supplied lab density data.

Well	Coal Seam	Core Point	Apparent Density (g/cc)	Well	Coal Seam	Core Point	Apparent Density (g/cc)
PZWC01	3	2	1.48	PZWC05	3	5	1.48
PZWC01	3	4	1.45	PZWC06	3	2	1.45
PZWC01	3	6	1.48	PZWC06	3	5	1.46
PZWC02	3	2	1.44	PZWC01	15	2	1.48
PZWC02	3	4	1.46	PZWC01	15	4	1.46
PZWC02	3	6	1.42	PZWC02	15	2	1.54
PZWC03	3	2	1.48	PZWC03	15	1	1.44
PZWC03	3	4	1.50	PZWC03	15	2	1.51
PZWC03	3	6	1.50	PZWC04	15	1	1.59
PZWC04	3	2	1.44	PZWC05	15	1	1.45
PZWC04	3	5	1.42	PZWC05	15	3	1.62
PZWC05	3	1	1.46	PZWC06	15	1	1.44
PZWC05	3	3	1.46	PZWC06	15	3	1.46



PRODUCTION PROFILES

Based on discussions with AAG management regarding future development plans, both single-lateral horizontal (SLH) and MLD wells were modeled for Panzhuang Block. MLD wells were modeled using average spacing of 65 ha, and SLH wells were modeled based on AAG's anticipated drilling locations with a 100-m drainage area extending from the lateral section. No performance data are available from SLH wells, but historical production data from MLD wells in Panzhuang Block typically show a dewatering time of 1 month with water rates for existing Coal Seam 3 MLD wells typically less than 20 barrels per day. These wells reach a peak production rate around 6 months from first gas production, and that rate can be maintained for periods exceeding 5.5 years. Decline rates are steeper for MLD wells than for vertical wells because of interference between the tightly spaced laterals. For the purposes of this report, SLH wells have been forecasted using the same profile used for MLD wells. Our economic model uses a 1-month dewatering period, then 6 months to reach peak gas production, followed by an 18-month flat production period. For MLD wells we have estimated exponential decline rates of 25 percent per year for 1P and 20 percent per year for 2P and 3P projections.

AAG has drilled 11 PDWs in the central area of Panzhuang Block to investigate the performance of an alternate well design in this deeper area. Six wells were drilled from the PZC44S surface location and five wells from the PZC13S surface location. The PZC44S-04 well has been converted from a parameter well to a production well, and the remaining 10 wells will be fracture stimulated and put on production in 2015. No additional PDWs are planned for the Panzhuang Block at this time. For PDWs, our economic model uses a 3-month dewatering period, then 3 months to reach peak gas production, followed by a 6-month flat production period and a final exponential decline rate of 10 percent.

The peak production rates have been determined from our decline curve parameters and our volumetric estimated ultimate recovery (EUR) for each grid cell. Recovery factors vary based on estimated reservoir abandonment pressure. A fuel and shrinkage factor of 5 percent has been applied to reduce gas volumes for compression and pipeline losses. Summary graphs of net projected reserves and net projected contingent resources for Panzhuang Block are shown in Figures 2-11 and 2-12, and representative production profiles for AAG-drilled MLD, SLH, and PDW locations are included in Figures 2-13 through 2-18.

FISCAL TERMS

The Panzhuang PSC is divided into three chronological phases: Exploration, Development, and Production, with the Exploration Phase beginning on the contract execution date. The Development Phase begins on the approval date of the Overall Development Program (ODP), and the Production Phase begins on the Date of Commencement of Commercial Production in accordance with Section 1.14 of the Panzhuang PSC. The PSC is currently in the Development Phase, following the National Development and Reform Commission (NDRC) approval of AAG's ODP on November 28, 2011. For the purposes of this report, the Production Phase is assumed to begin on January 1, 2015. The term of the contract is 25 years from the contract execution date; the contract will expire in March 2028.

In accordance with the PSC, AAG paid 100 percent of the costs until the Development Phase began, and subsequent costs are shared between AAG and CUCBM in proportion to their participating interests. AAG's exploration costs incurred prior to the ODP approval date are eligible for cost recovery during the Development and Production Phases. AAG's total cost recovery balance as of December 31, 2014, is \$184.5 million, consisting of \$11.1 million of Exploration Phase costs and \$173.4 million of Development Phase costs.

Cost recovery and production allocation between AAG and CUCBM are described in detail in the PSC and are summarized by the flowchart included as Figure 2-19. For the purposes of this report, volumes and cash flow attributable to AAG are referred to as net volumes and net revenue; in the PSC the net volumes and net revenue



are referred to as the company take. A VAT rebate was issued in 2007 by the MOFC for revenues realized from CBM production; this rebate has been treated as a VAT exemption in the economic model.

OPERATING COSTS

Operating costs used in this report are based on operating expense records of AAG and are consistent with our knowledge of similar CBM operations. These costs include well- and block-level costs and corporate overhead costs. The direct well-level operating costs for Panzhuang Block have been divided into costs of \$4,037 per well per month and \$0.213 per MCF of gas produced. The initial block-level operating cost of \$952,000 per month is based on a 12-month average of historical block-level costs; this cost is held constant in the economic model until the block-level gas production rate peaks and then reduced over time as a function of the declining production rate. The block-level costs include overhead; general administrative; engineering; logistics; environmental, health, and safety; and PSC expenses. These costs have been modeled at the block level so that these expenses do not impact the economics of individual wells. All operating costs are held constant through December 31, 2015, and then escalated 3.6 percent on January 1 of each year through the remaining term of the PSC.

The forecasted annual development timing, net operating costs, and gross gas production for Panzhuang Block reserves are shown in the following table:

Year	Active SLH, MLD, and PDW Wells			Net Operating Costs (MM\$)			Gross Gas Production (BCF)		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
2015	61	76	76	14.1	14.8	14.9	15.2	16.0	16.5
2016	76	105	112	15.0	16.8	17.5	13.8	17.6	20.0
2017	91	134	147	15.3	19.6	21.4	14.2	22.7	29.7
2018	100	161	176	16.6	22.7	25.1	15.1	29.4	38.8
2019	99	168	204	17.4	23.7	27.5	12.9	29.1	40.3
2020	98	166	223	15.8	23.4	29.0	9.9	24.2	38.3
2021	97	164	240	13.6	21.3	29.7	7.5	19.5	35.6
2022	96	164	248	11.8	19.3	29.9	5.7	15.6	33.1
2023	95	163	247	10.4	17.7	29.0	4.3	12.5	28.2
2024	92	163	247	9.2	16.4	27.3	3.3	10.0	23.0
2025	88	162	246	8.2	15.3	25.5	2.5	8.0	18.6
2026	84	158	246	7.5	14.3	24.1	1.9	6.4	15.0
2027	80	157	246	6.8	13.7	23.0	1.4	5.2	12.2
2028	76	149	246	1.6	3.1	5.5	0.3	1.0	2.4
Total				163.1	242.1	329.4	107.9	217.3	351.8

CAPITAL COSTS AND DEVELOPMENT TIMING

AAG supplied estimates of Panzhuang development timing based on its internal plans for capital deployment. Coal Seam 3 is scheduled to be fully developed by the end of 2017, with Coal Seam 15 development concluding by the end of 2021. Capital costs used in this report for drilling, completion, and production equipment are based on AAG's current contract cost of \$1.40 million per SLH well. AAG plans to drill 32 SLH wells in 2015 and then resume MLD drilling in 2016, with an estimated capital cost of \$1.8 million per MLD well. AAG's gas gathering capacity is 105 million cubic feet per day (MMCFD), and its current contract sales capacity is 62.1 MMCFD. Capital costs for additional facilities projects are forecasted at the 1P, 2P, and 3P levels based on annual pro rata well counts and AAG's internal capital expenditure plan through 2020, then modeled as 15 percent of the drilling and completion capital expenditures through the remaining term of the PSC. In our economic model, capital costs



are held constant through December 31, 2016, and then escalated 3.6 percent on January 1 of each year to the date of expenditure.

We estimate that a total of 32 additional SLH wells and 153 additional MLD wells will be required to develop the 3P reserves in Panzhuang Block. Field development has been modeled based on AAG's corporate development plan. The resulting forecasted annual development timing, net investments, and net gas production are shown in the following table:

Year	SLH and MLD Wells Drilled			Net Investments ⁽¹⁾ (MM\$)			Net Gas Production (BCF)		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
2015	6	32	32	43.4	81.0	81.0	11.8	12.4	12.8
2016	14	27	40	32.2	55.5	75.3	10.5	13.4	15.2
2017	17	30	30	38.8	64.7	66.6	10.8	17.2	22.4
2018	0	13	30	0.0	29.9	57.2	11.5	22.1	29.1
2019	0	0	19	0.0	0.0	41.4	9.8	21.9	30.1
2020	0	0	19	0.0	0.0	42.7	7.6	18.3	28.6
2021	0	0	15	0.0	0.0	29.7	5.7	14.8	26.7
2022	0	0	0	0.0	0.0	0.0	4.3	11.9	24.9
2023	0	0	0	0.0	0.0	0.0	3.3	9.5	21.3
2024	0	0	0	0.0	0.0	0.0	2.5	7.6	17.4
2025	0	0	0	0.0	0.0	0.0	1.9	6.1	14.1
2026	0	0	0	0.0	0.0	0.0	1.4	4.9	11.4
2027	0	0	0	0.0	0.0	0.0	1.1	3.9	9.3
2028	0	0	0	0.0	0.0	0.0	0.2	0.8	1.8
Total	37	102	185	114.3	231.1	393.9	82.3	164.9	265.1

Note: PDW counts are not included in the SLH and MLD well counts shown; however, investments and production for PDWs are included.

⁽¹⁾ Net investments include well and facilities costs.

PETROLEUM CLASSIFICATION

NSAI technical staff visited AAG's Panzhuang Block in 2008 and 2011 and observed drilling and production operations and ongoing development activity in the area. In 2008, several wells inside the PSC boundary were producing from Coal Seam 3 at economic gas rates, and coal continuity, gas content, and permeability suitable for CBM development were quantified in several producing wells. In 2011, more wells were producing and most of the producing wells had achieved commercial rates with gas sales through CNG and liquefied natural gas markets.

As of December 31, 2014, 49 MLD wells were producing at commercial gas rates in three separate core areas of Panzhuang Block. We have estimated proved reserves for Coal Seam 3 for locations immediately offsetting these wells. Additionally, proved reserves have been estimated for Coal Seam 3 in locations immediately offsetting the commercially productive PZWC04 and PZWC06 parameter wells in the interior of the block. Coal Seam 3 proved developed producing reserves cover 31 km² in Panzhuang Block. Proved undeveloped reserves cover an additional 15 km² planned for development with MLD wells, 1 km² planned for development with the 11 existing PDWs, and 1.38 km² planned for development with 6 new SLH wells.

Since economic production from Coal Seam 3 has been clearly demonstrated from three separate producing areas across the block, we have categorized all remaining locations in the block as probable for Coal Seam 3. Incremental probable reserves have also been estimated for all proved locations to capture additional recovery



potential. Similarly, incremental possible reserves have been estimated for all proved and probable Coal Seam 3 locations and wells.

Coal Seam 15 is present on logs, and its gas content and permeability appear favorable. Two of AAG's 3 wells in Coal Seam 15 have failed to reach commercial rates, most likely because of completion problems; however, the PZWC03 and PZEC08 wells reached commercial rates in 2010 and 2011, respectively, and PZWC10 and PZWC25 reached commercial rates in 2014. We have estimated Coal Seam 15 proved reserves for 4 MLD well locations and probable reserves for 15 additional MLD well locations offsetting these wells. Additionally, 26 Coal Seam 15 SLH locations have been categorized as probable. All other undeveloped locations in Coal Seam 15 have been categorized as possible.

Volumes in the upper and lower thin coals have been classified as contingent resources. As secondary development targets, the upper and lower thin coals will require unique completion techniques to be commingled with the thicker primary coal targets. The upper and lower thin coal contingent resources are contingent upon (1) development of completion techniques that achieve producing rates and volumes sufficient to sustain economic viability from these discontinuous intervals and (2) acquisition of technical data demonstrating these rates and volumes. If the contingencies for the upper and lower thin coals are successfully addressed, some portion of the contingent resources estimated in this report may be reclassified as reserves; our estimates have not been risked to account for the possibility that these contingencies are not successfully addressed.

ESTIMATED ULTIMATE RECOVERY

The current pressure gradient is 0.737 MPa per 100 m. The estimated recovery factors and the average abandonment reservoir pressures required to achieve these recoveries are shown by reserves category in the following table:

Category	Recovery Factor (%)	Average Reservoir Abandonment Pressure (MPa)	
		Coal Seam 3	Coal Seam 15
1P	50	0.79	0.89
2P	65	0.51	0.57
3P	80	0.27	0.30

The average gas EUR per well, expressed in millions of cubic feet (MMCF), for undeveloped MLD and SLH locations and the number of undeveloped MLD and SLH locations by reserves category are shown in the following table:

Coal Seam/ Category	MLD Wells		SLH Wells	
	Average EUR per Location (MMCF)	Number of Locations	Average EUR per Location (MMCF)	Number of Locations
Coal Seam 3				
1P	1,318	27	539	6
2P	2,073	52	727	6
3P	2,538	52	916	6
Coal Seam 15				
1P	732	4	0	0
2P	1,111	18	483	26
3P	1,223	101	621	26



The average gas EUR per well for the 11 undeveloped PDW locations and the coal seams included for each reserves category are shown in the following table:

Category	Average EUR (MMCF)	Coal Seam
1P	461	3
2P	586	3
3P	710	3/15

RESERVES

As presented in the accompanying summary projections, Figures 2-20 through 2-24, we estimate the proved and probable gas reserves and future net revenue to the AAG interest in Panzhuang Block, as of December 31, 2014, to be:

Category	Gas Reserves (BCF)		Future Net Revenue (MM\$)			
	Gross (100%)	Net	Before Income Tax		After Income Tax	
			Total	Net Present Value at 10%	Total	Net Present Value at 10%
Proved Developed Producing	62.1	47.5	487.3	358.8	409.6	306.8
Proved Undeveloped	45.8	34.8	218.6	89.9	191.9	76.8
Proved (1P)	107.9	82.3	705.8	448.6	601.5	383.7
Probable	109.3	82.6	923.8	475.9	723.0	369.9
Proved + Probable (2P)	217.3	164.9	1,629.6	924.5	1,324.5	753.5

According to the SEHK Rules, possible reserves must be stated separately and not combined with information on any other reserves. For the purposes of this report, possible reserves are calculated as the difference between 3P and 2P reserves because the PSC terms apply only to field-level calculations of net reserves and future net revenue. As presented in the accompanying summary projection on Figure 2-25, we estimate the possible gas reserves to the AAG interest in Panzhuang Block, as of December 31, 2014, to be:

Possible Gas Reserves (BCF)	
Gross (100%)	Net
134.5	100.3

Gross gas reserves are 100 percent of the reserves attributable to the Panzhuang PSC before adjustments for fuel and shrinkage. Net gas reserves are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage. The estimates of reserves and future revenue included herein have been estimated using deterministic methods and have not been adjusted for risk.

CONTINGENT RESOURCES

We estimate the unrisksed contingent gas resources to the AAG interest in Panzhuang Block, as of December 31, 2014, to be:



Category	Unrisked Contingent Gas Resources (BCF)	
	Gross (100%)	Net
Low Estimate (1C)	5.0	3.8
Best Estimate (2C)	11.4	8.6
High Estimate (3C)	16.3	12.4

Gross contingent gas resources are 100 percent of the contingent resources attributable to the Panzhuang PSC before adjustments for fuel and shrinkage. Net contingent gas resources are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage. The estimates of contingent resources included herein have been estimated using deterministic methods and have not been adjusted for risk.

PROSPECTIVE RESOURCES

All volumes for the coal seams included in AAG's development plan for Panzhuang Block have been classified as reserves or contingent resources. AAG has not requested an evaluation of any additional coal seams where prospective resources may exist.

PROJECT RISK ANALYSIS

There are commercial and environmental risks associated with CBM exploration and development. Commercial risk generally decreases as additional data become available, but environmental risk tends to be more constant throughout the Development and Production Phases. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revision with further data acquisition or interpretation. Our qualitative risk assessments for Panzhuang Block are summarized on Figures 2-26 and 2-27.

FIGURES

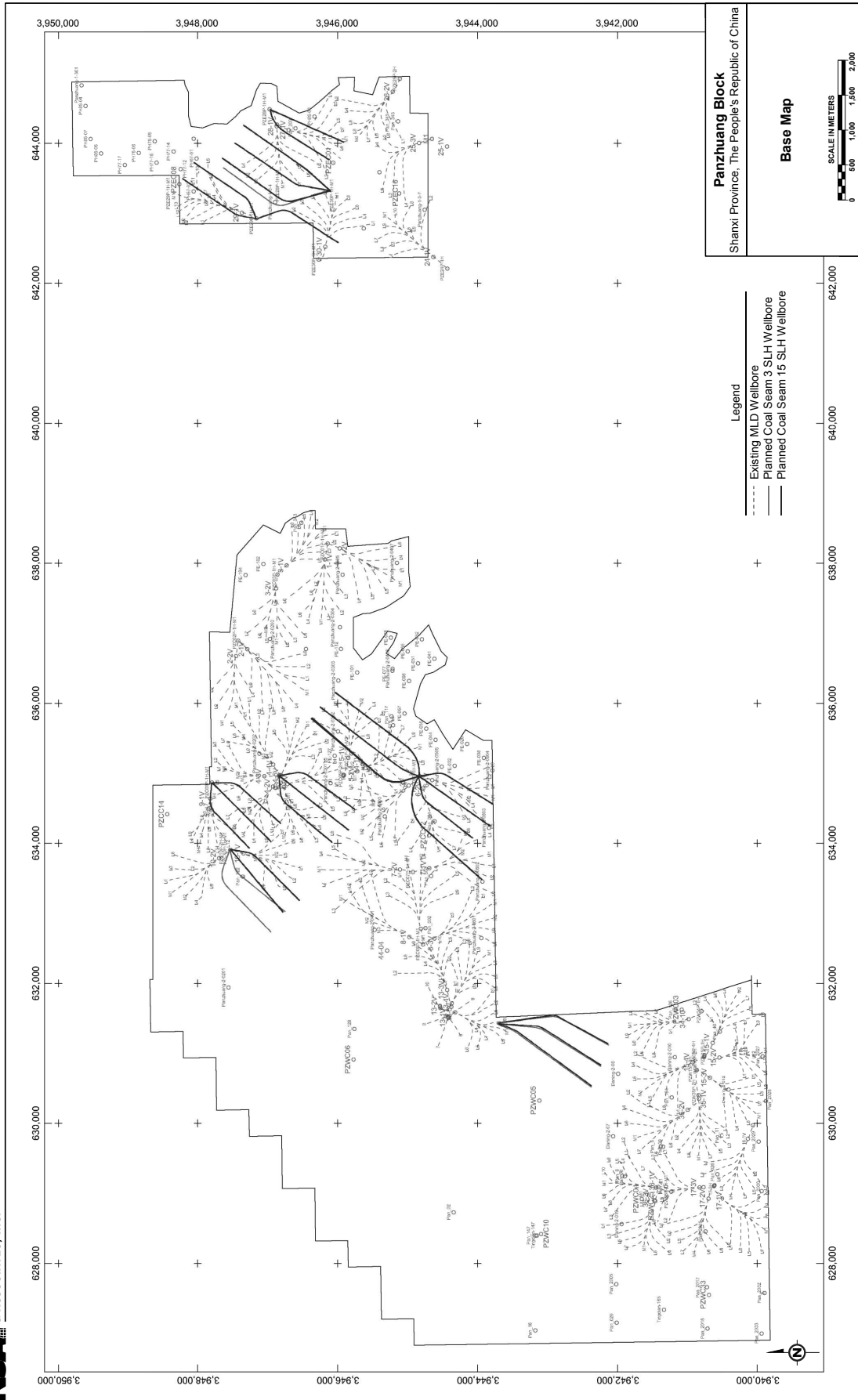
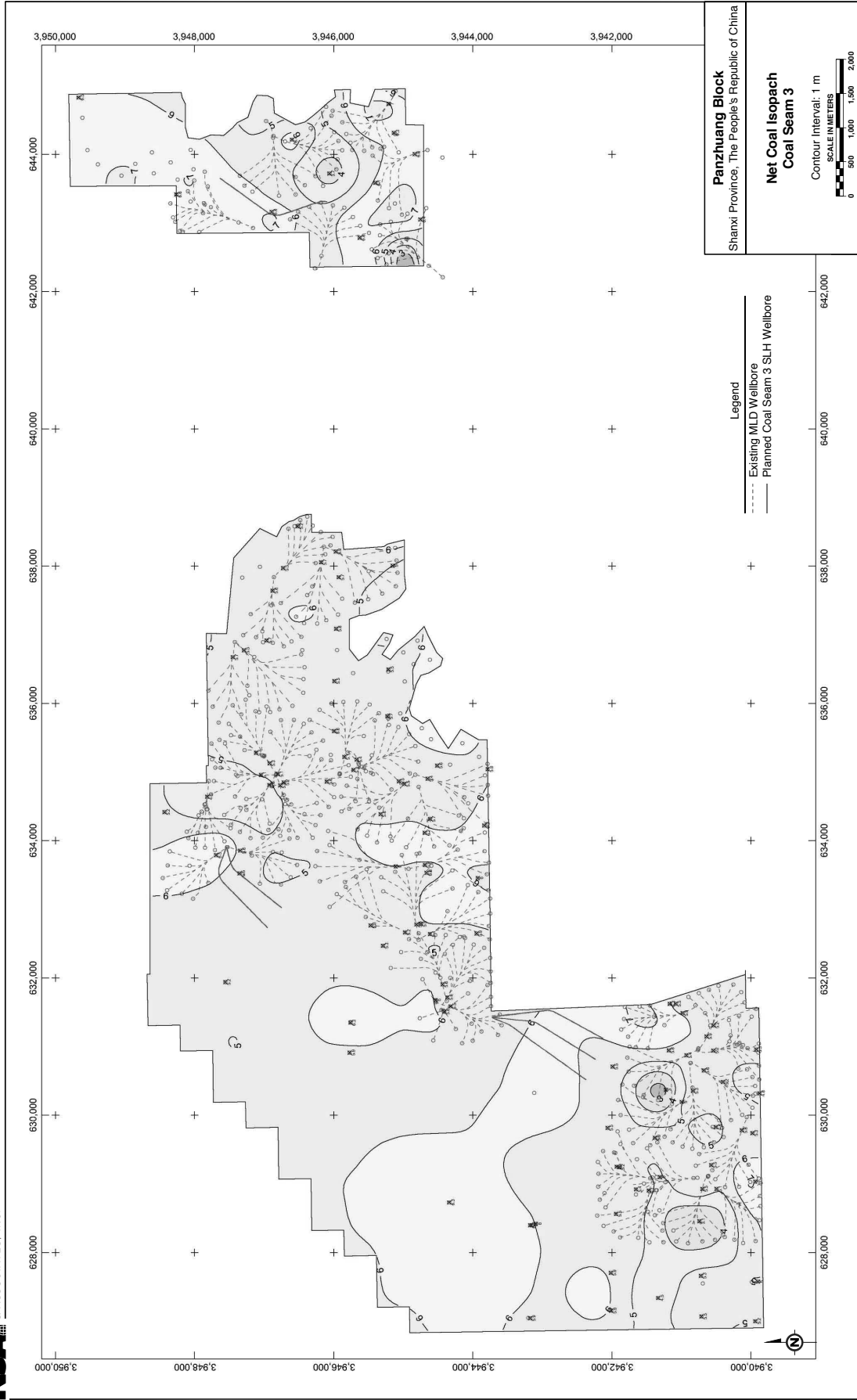
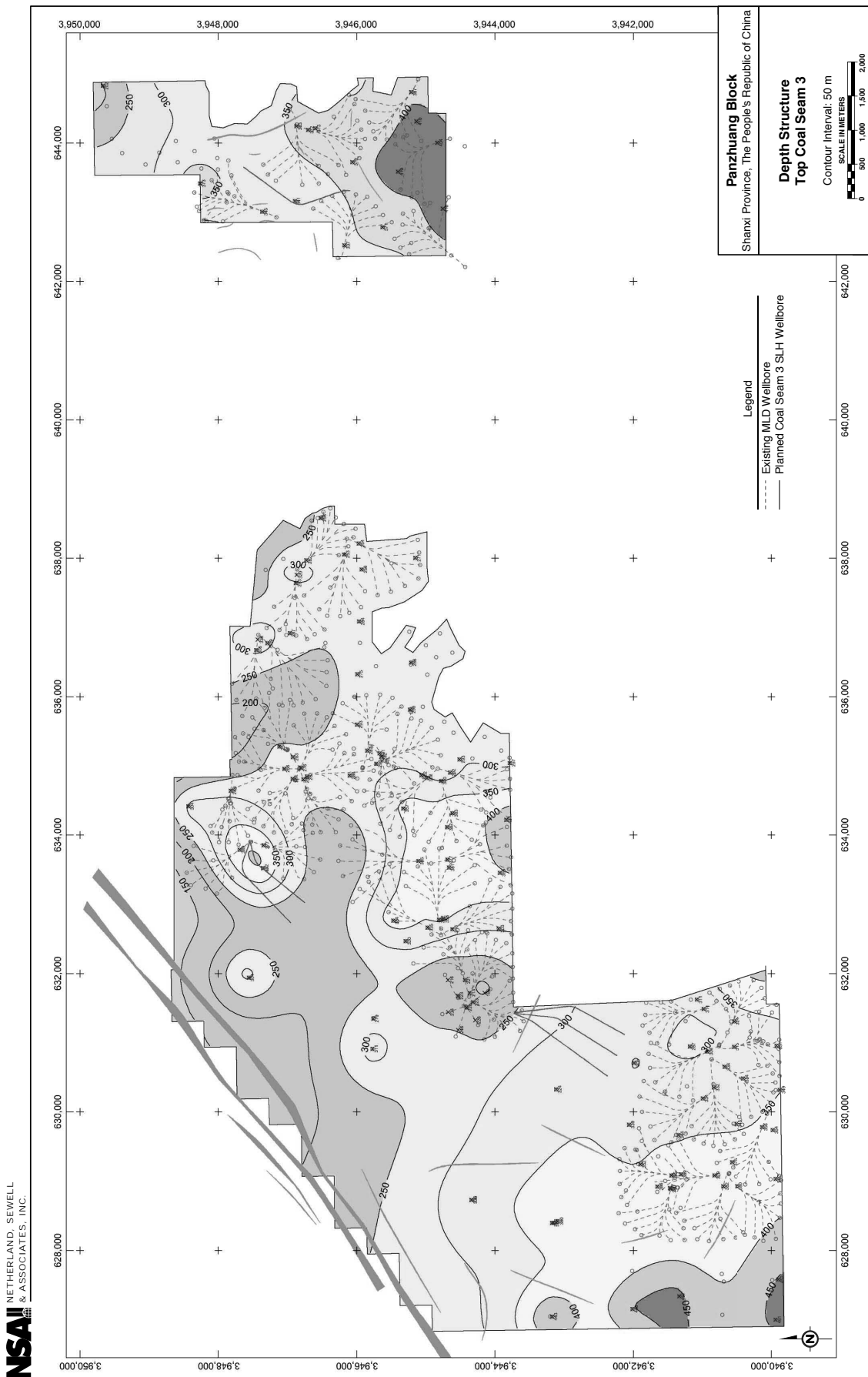


Figure 2-1

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

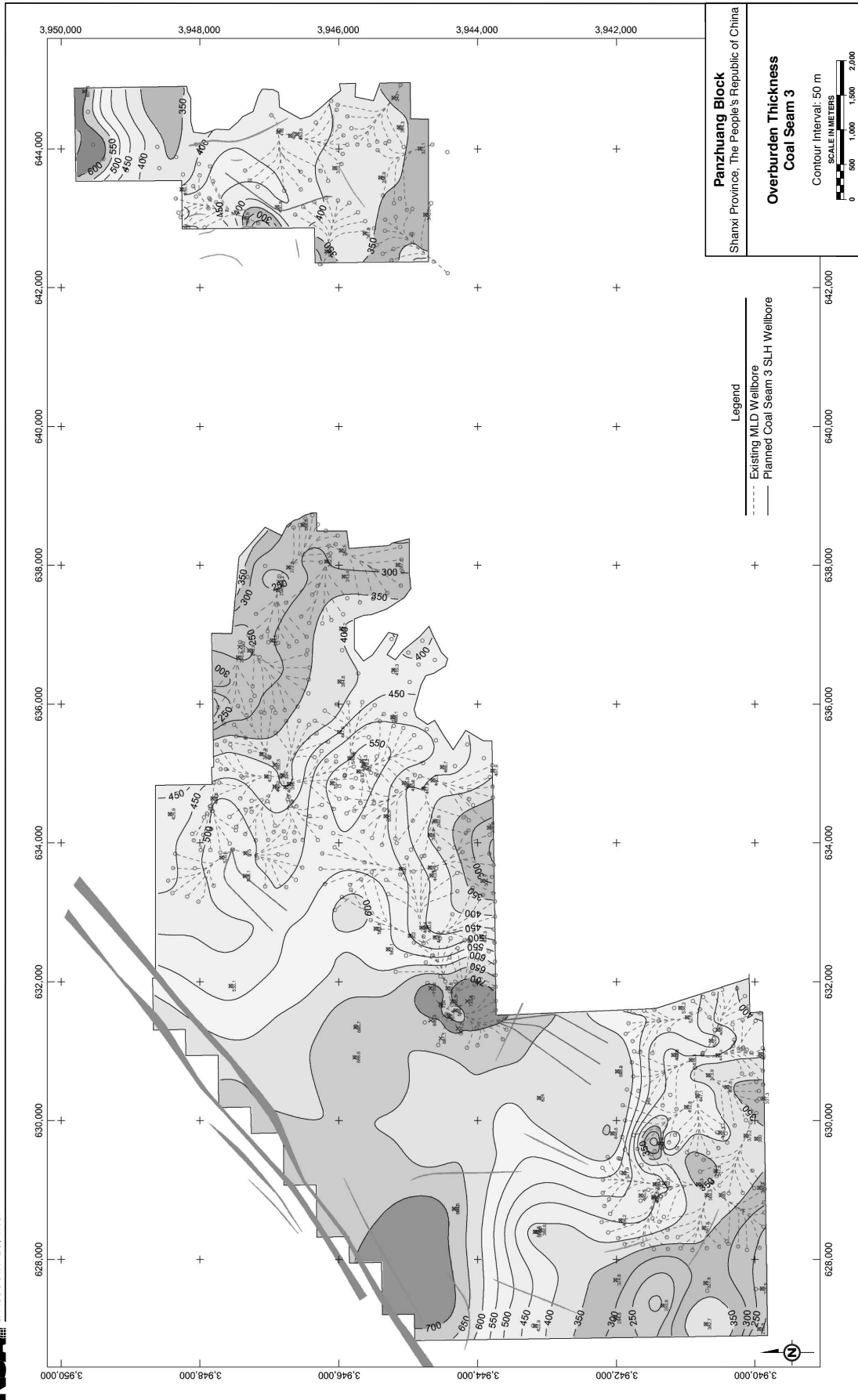


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

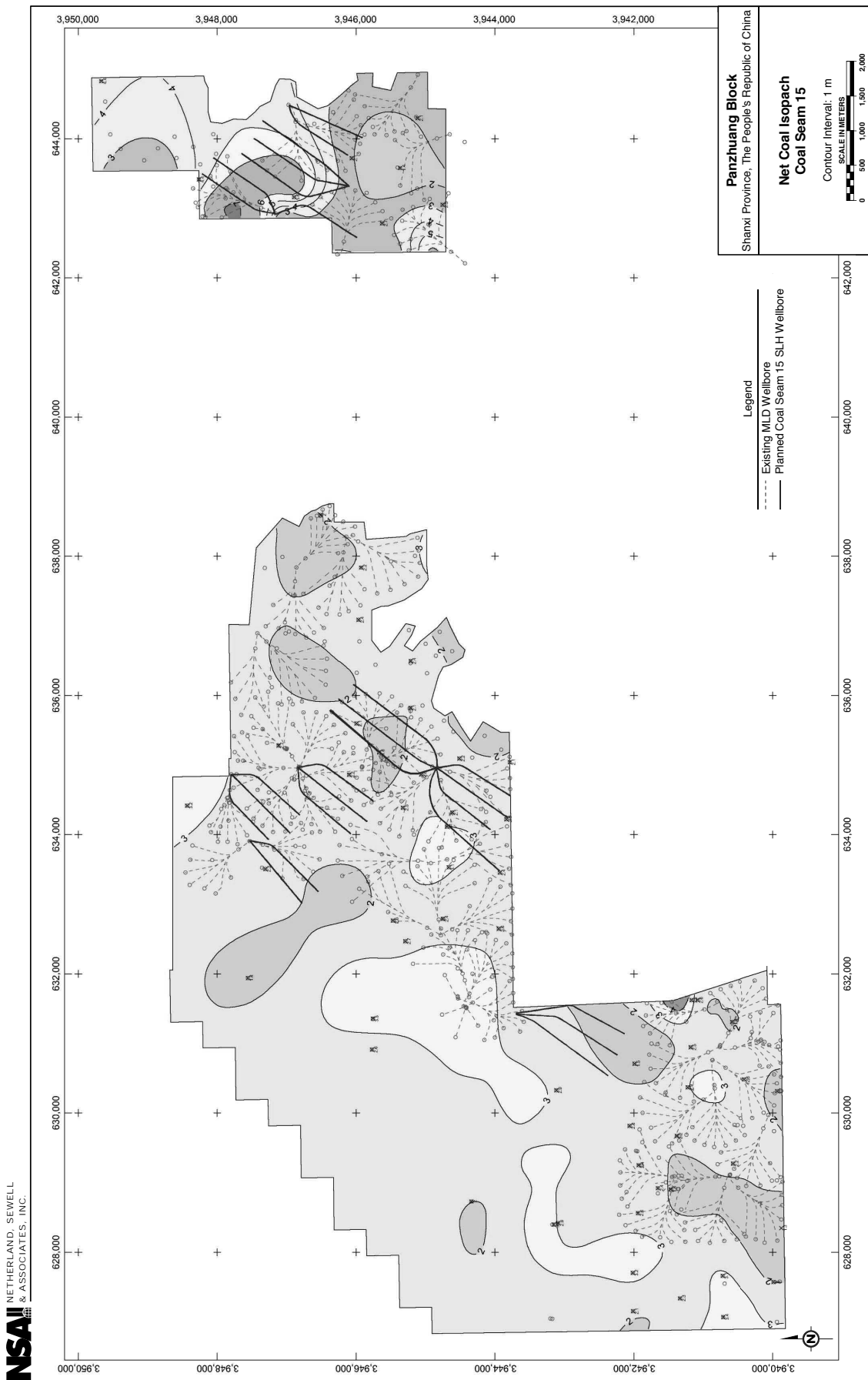


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

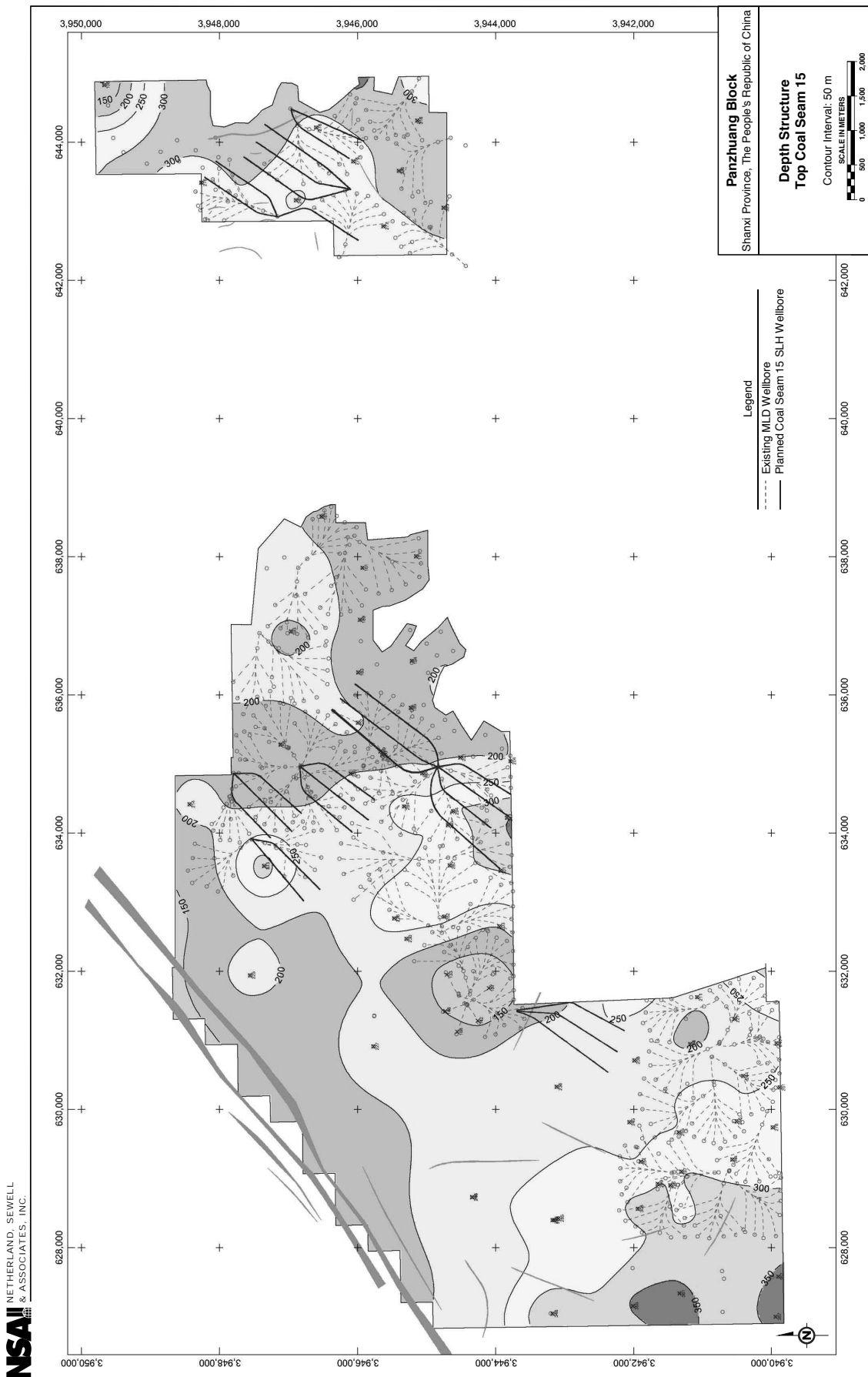
NSAI NETHERLAND, SEWELL & ASSOCIATES, INC.



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



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NSAI NETHERLAND, SEWELL & ASSOCIATES, INC.

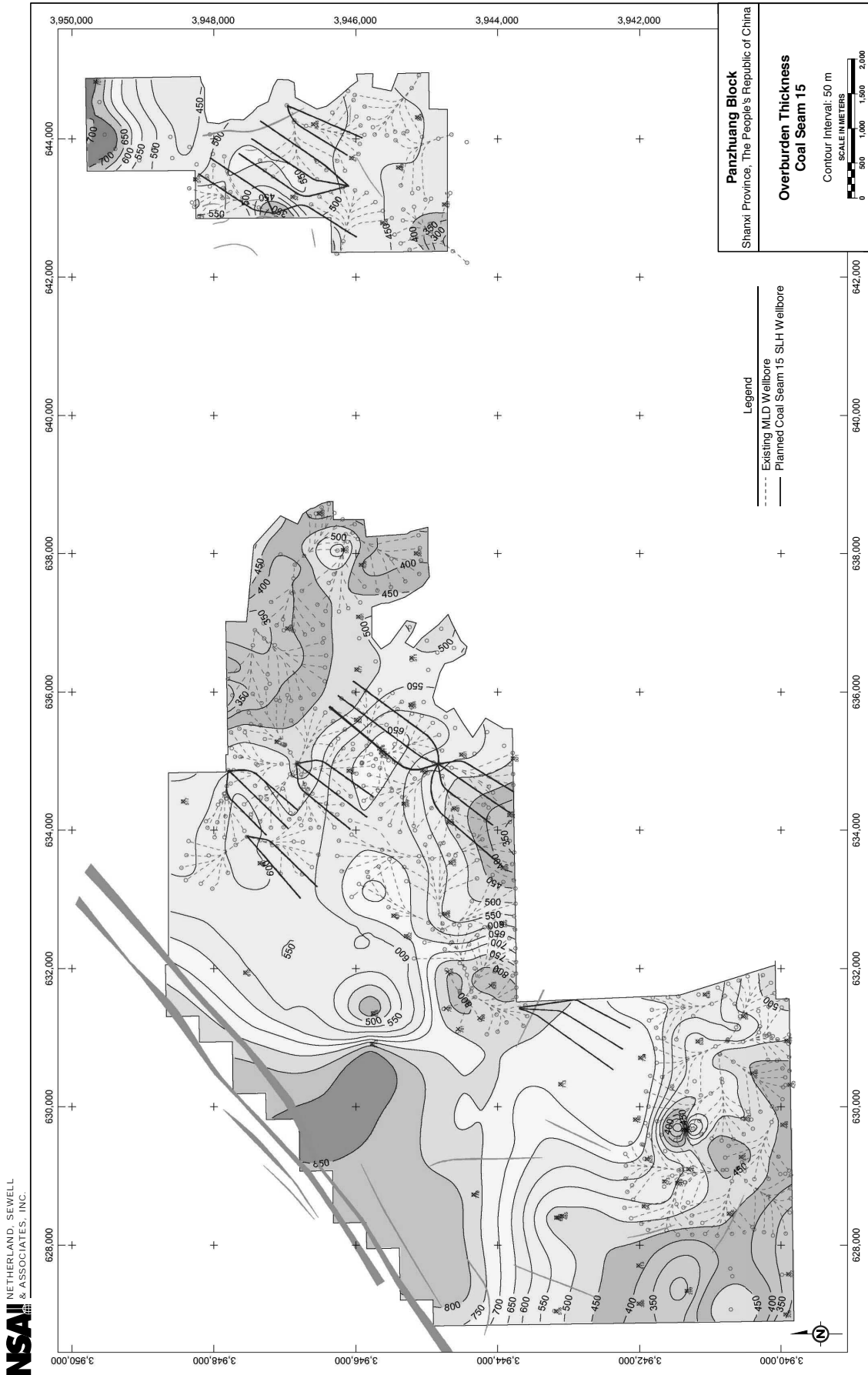
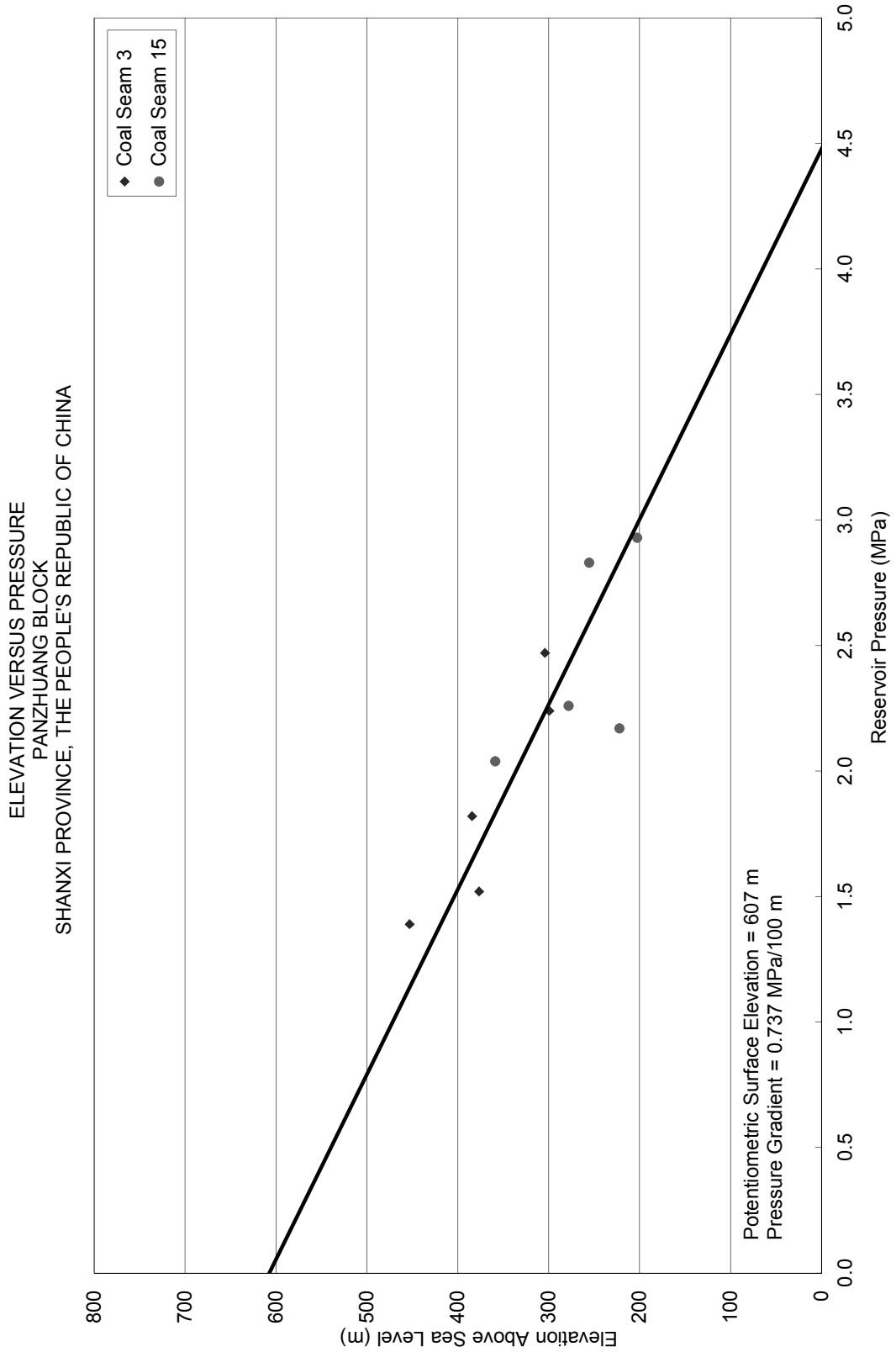


Figure 2-7

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-8

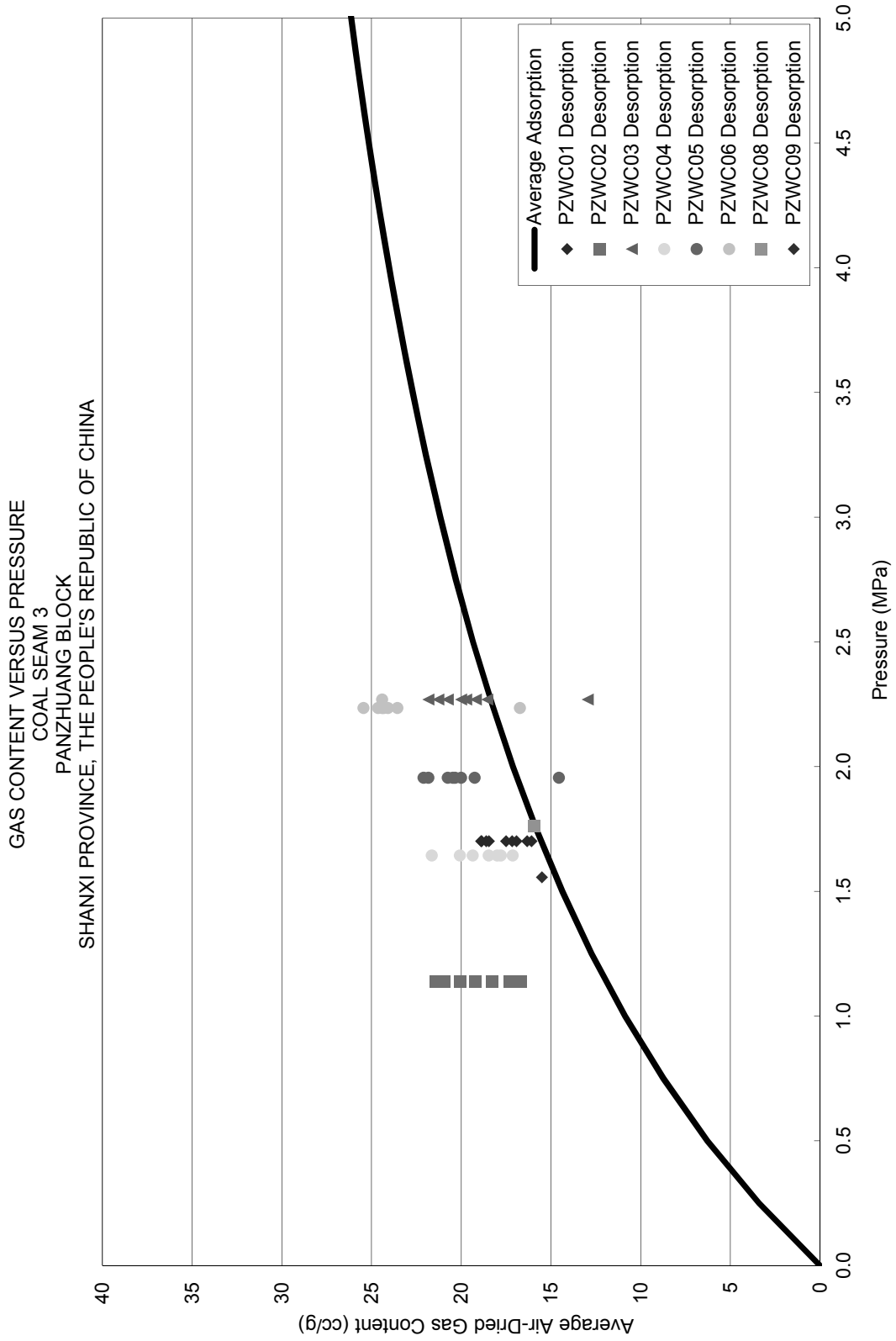
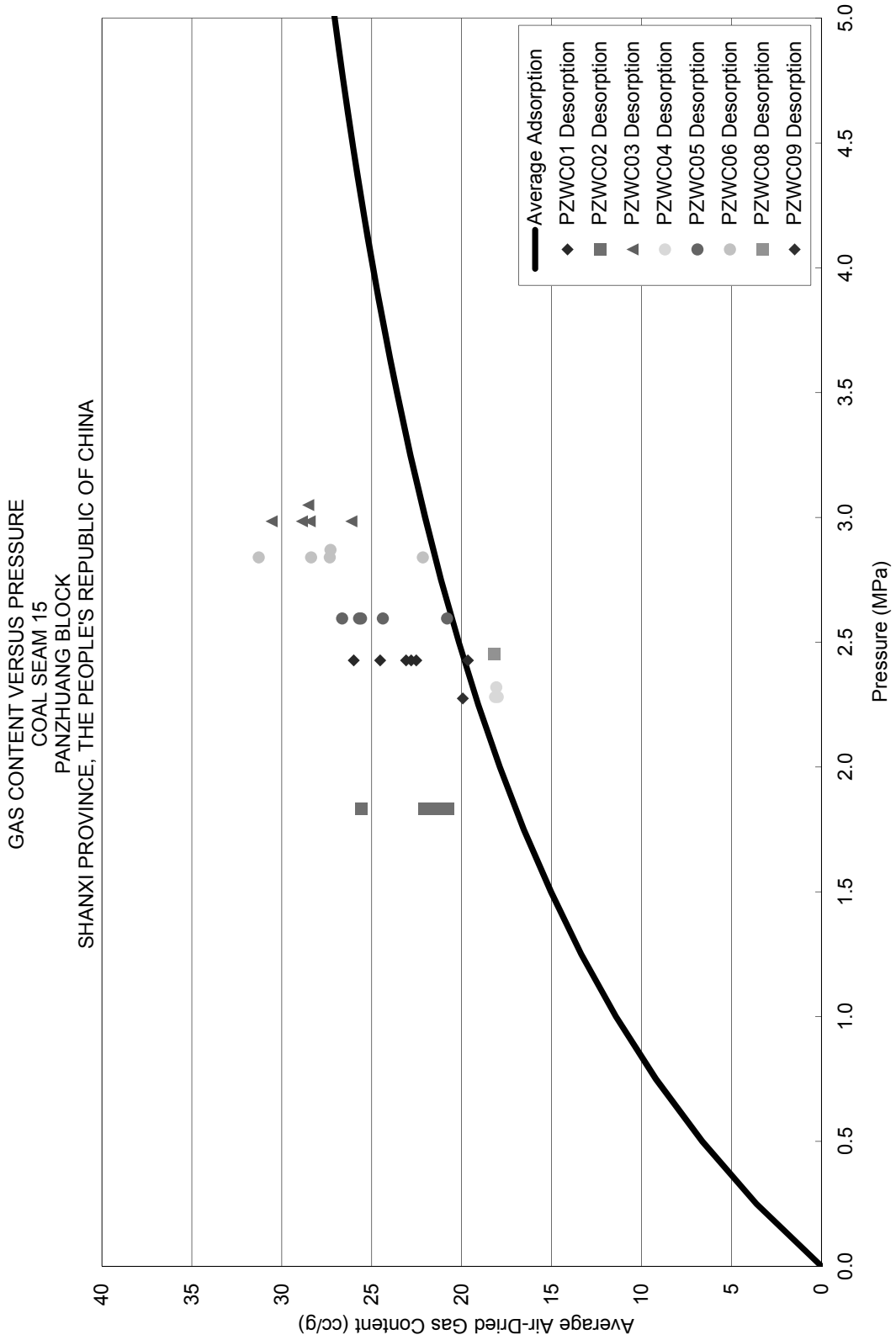


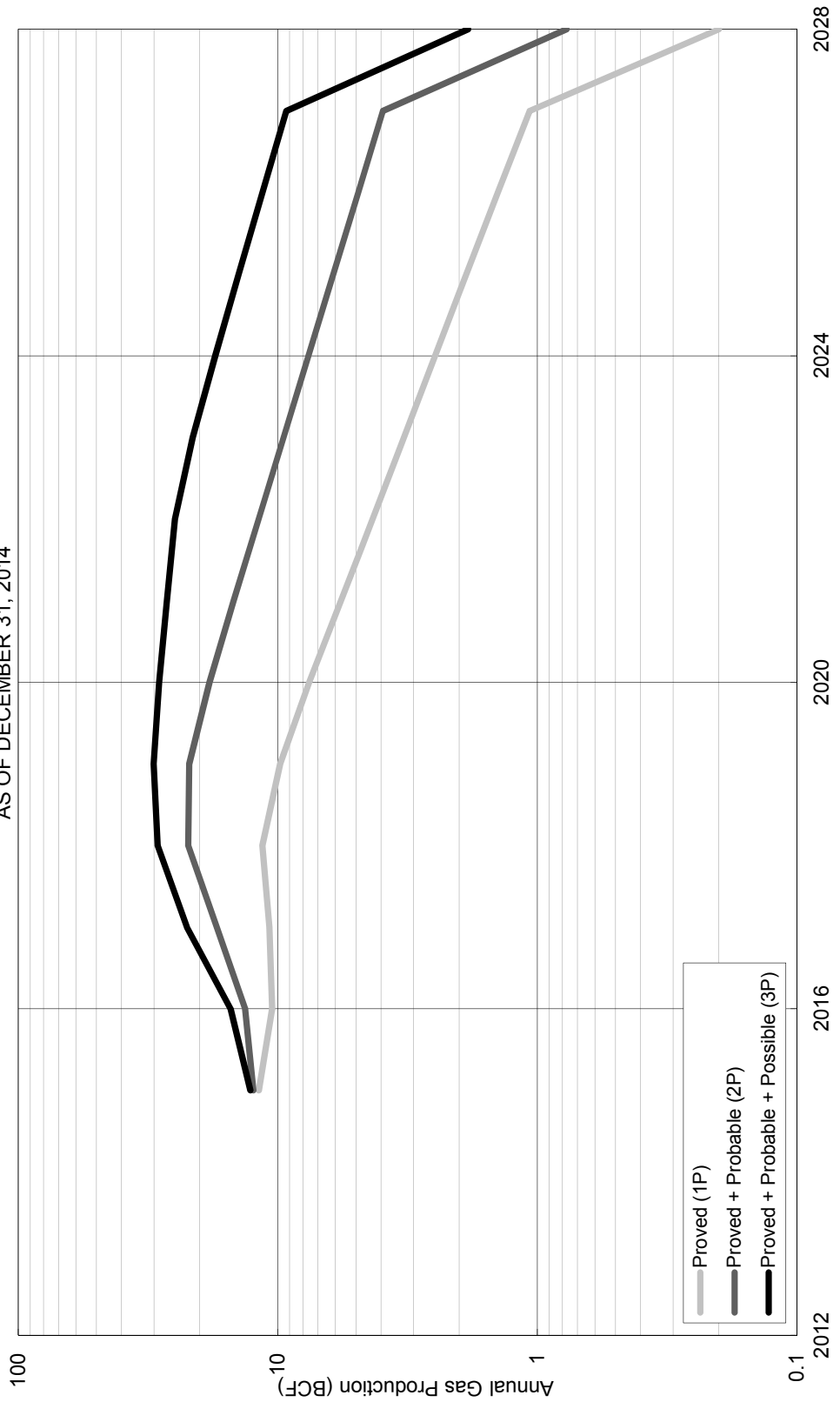
Figure 2-9 All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-10

SUMMARY GRAPH OF NET GAS RESERVES
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AAG ENERGY HOLDINGS LIMITED INTEREST
 AS OF DECEMBER 31, 2014

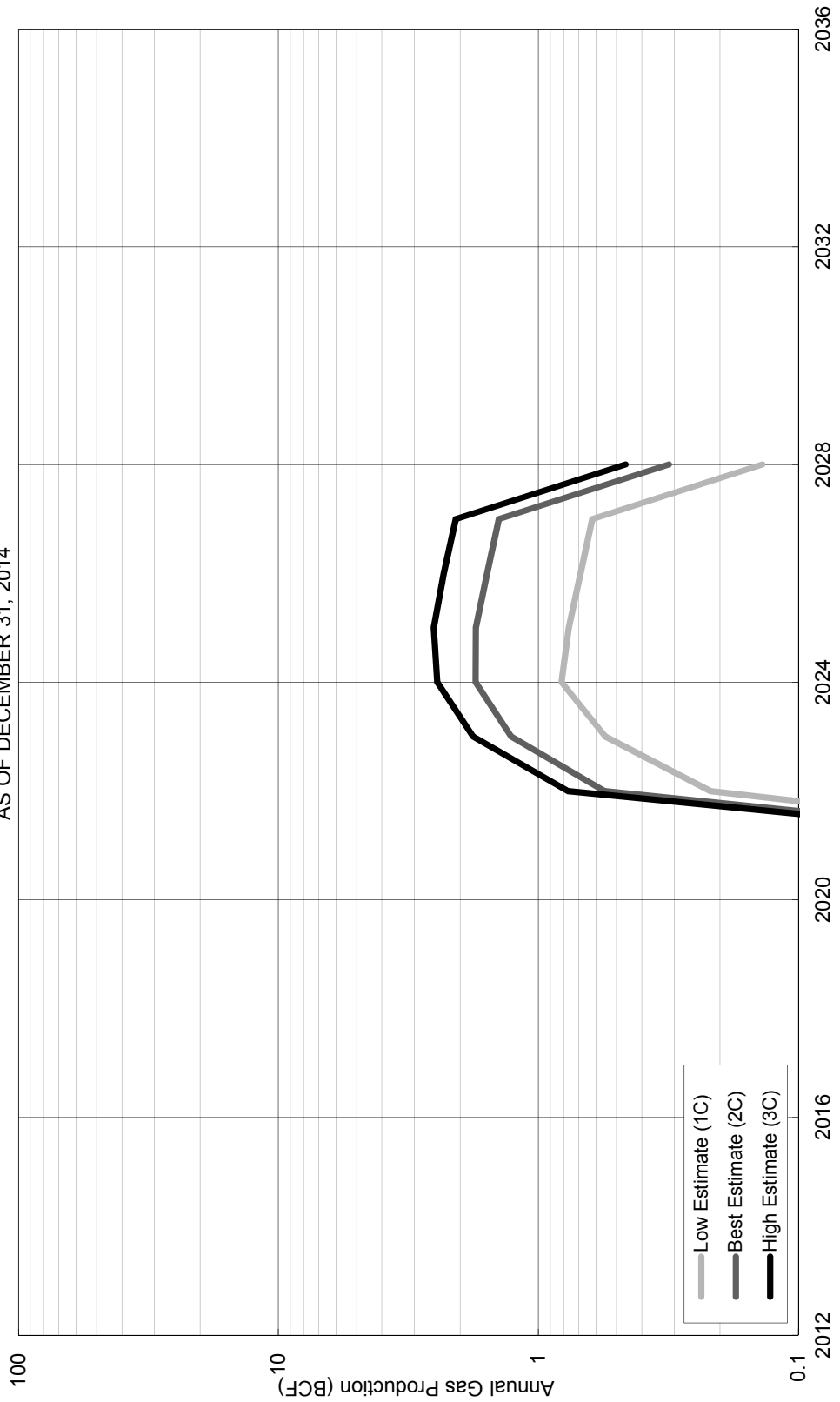


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-11



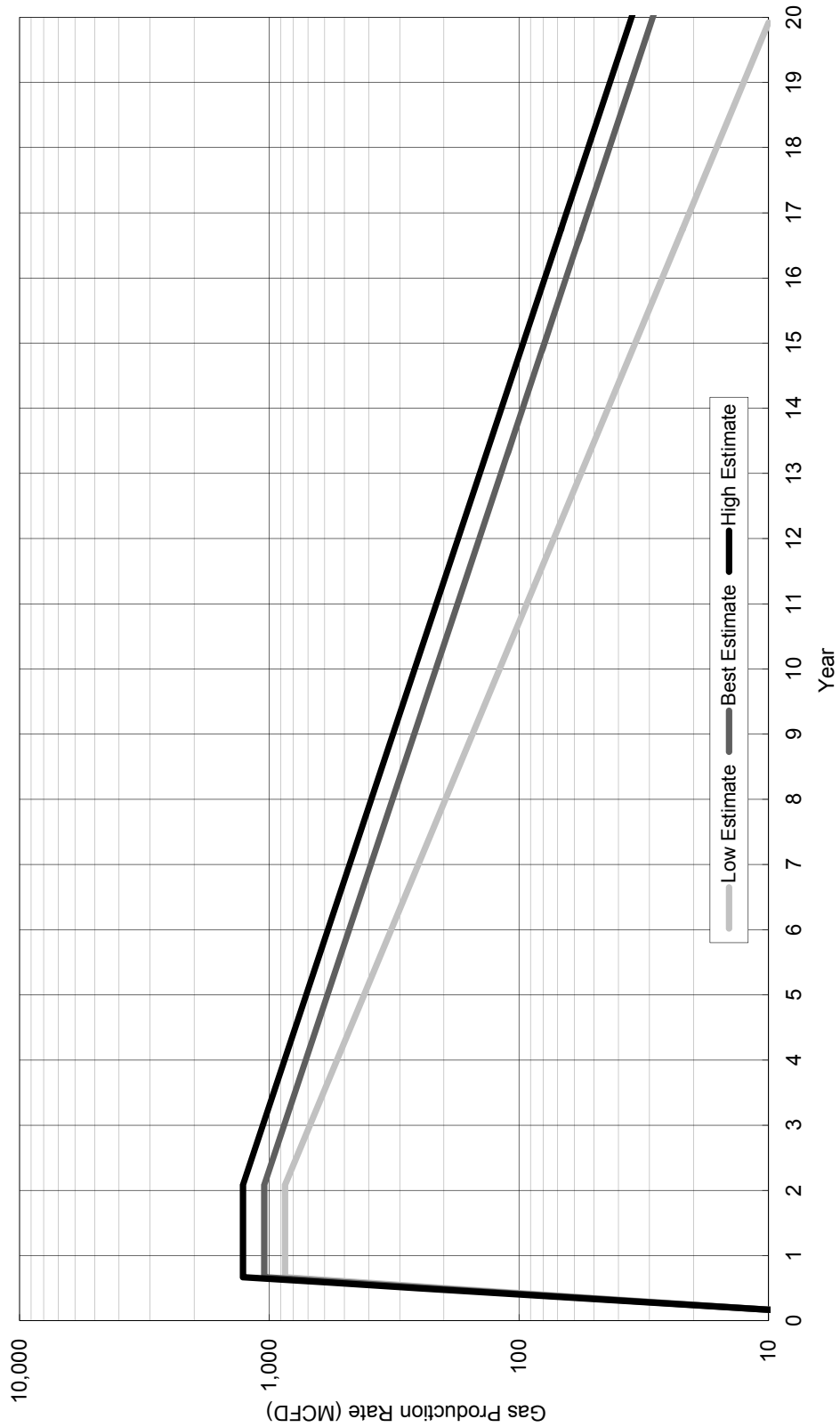
SUMMARY GRAPH OF NET CONTINGENT GAS RESOURCES
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AAG ENERGY HOLDINGS LIMITED INTEREST
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-12

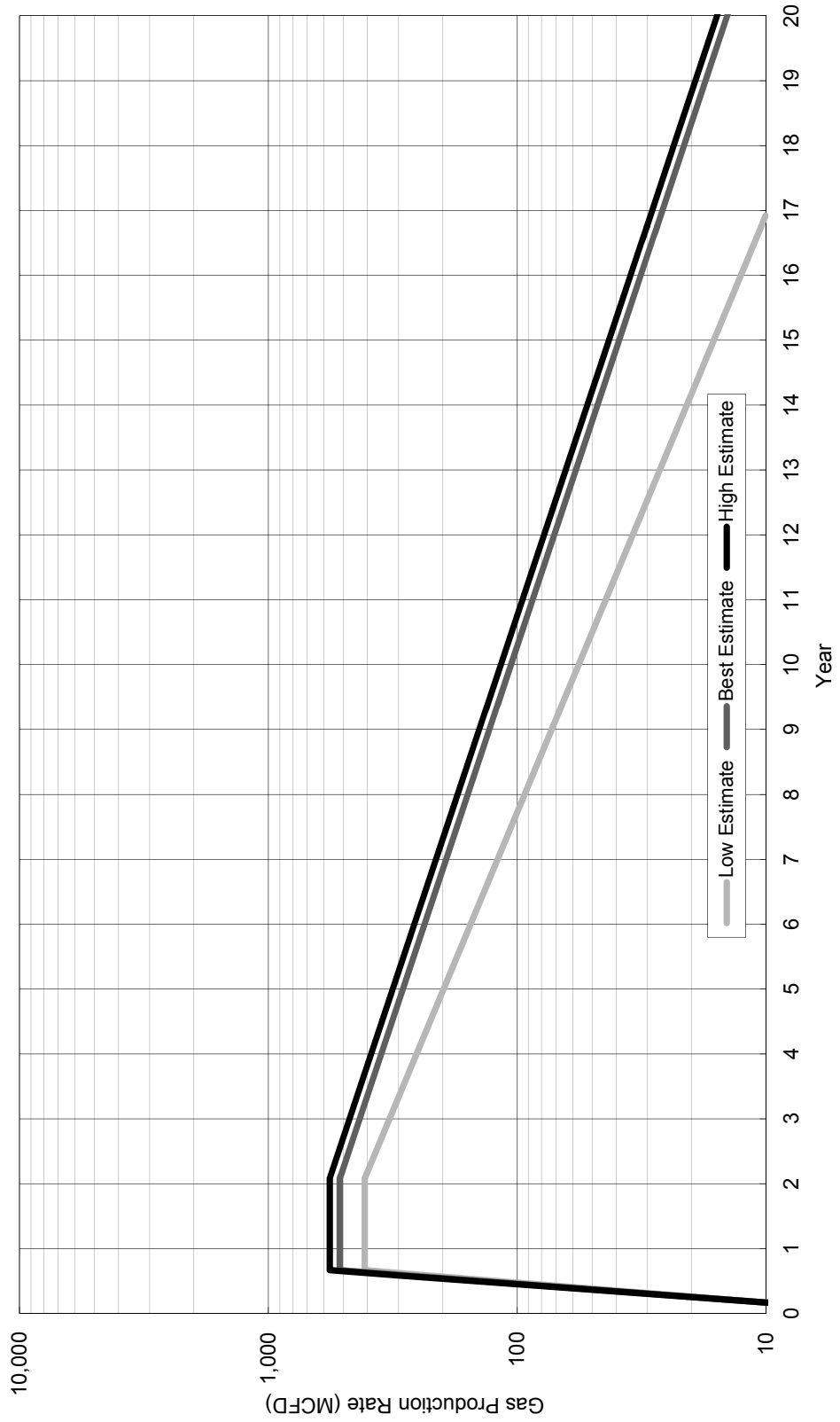
REPRESENTATIVE PRODUCTION PROFILE
 MULTILATERAL DIRECTIONAL WELL - COAL SEAM 3
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-13

REPRESENTATIVE PRODUCTION PROFILE
MULTILATERAL DIRECTIONAL WELL - COAL SEAM 15
PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
AS OF DECEMBER 31, 2014

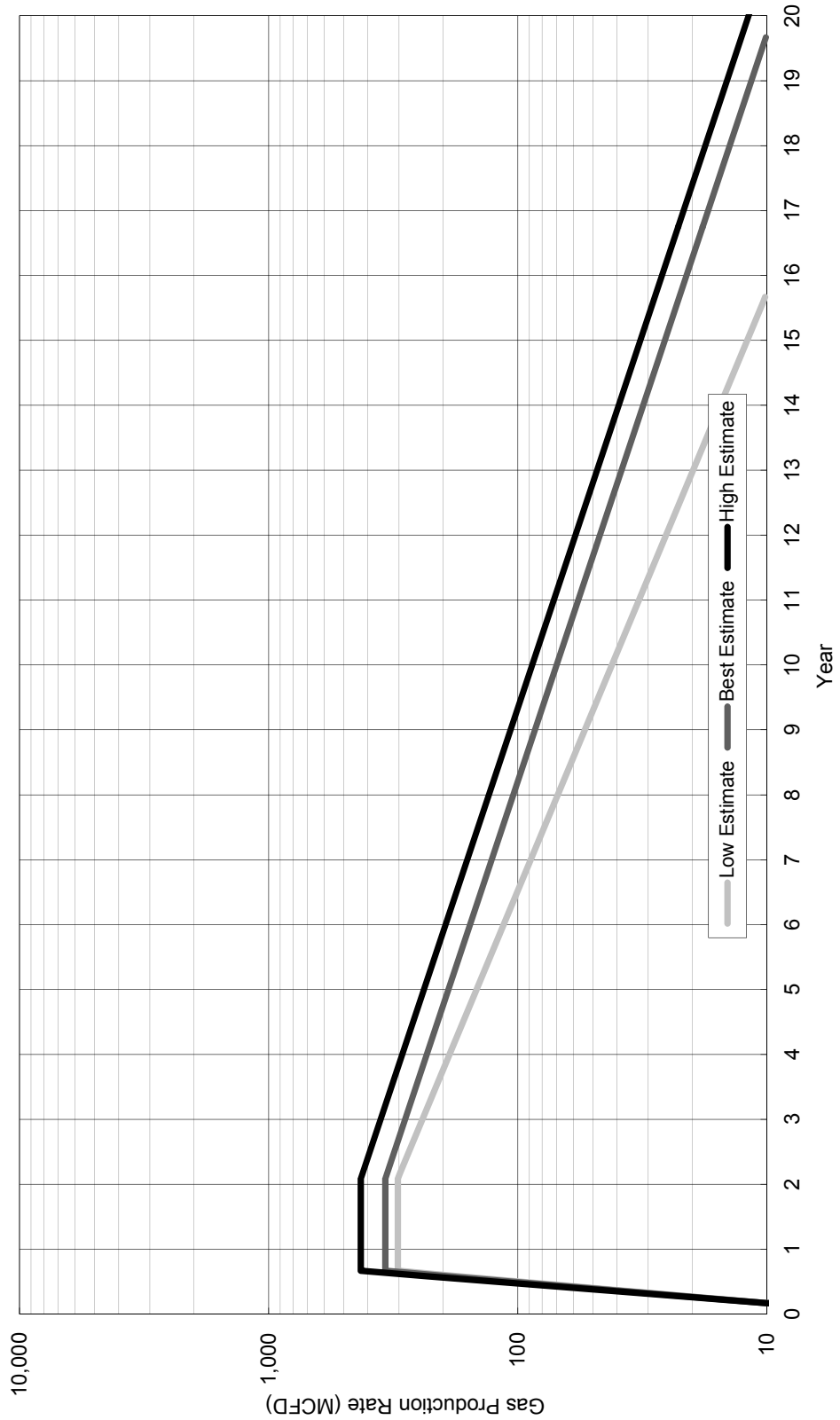


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-14



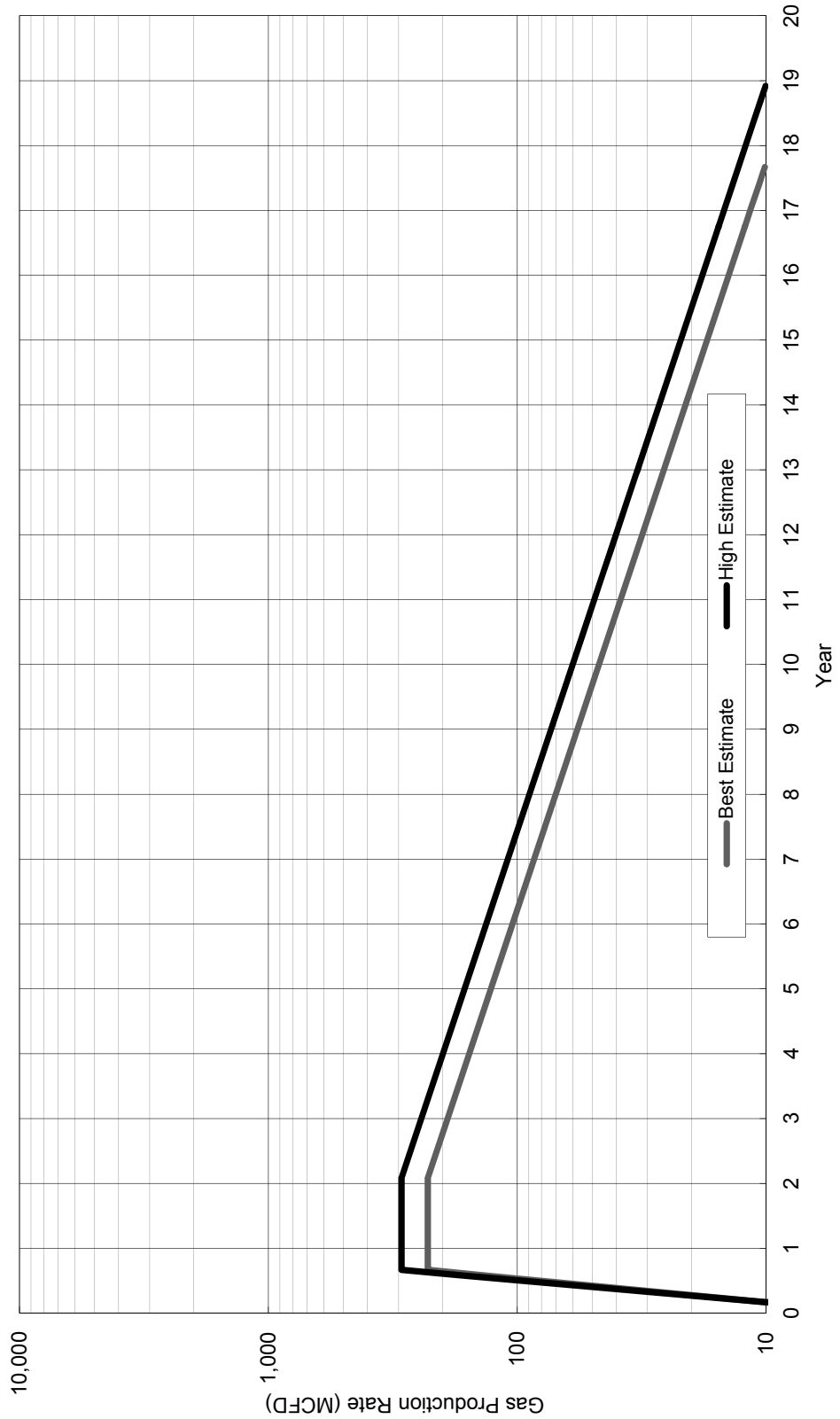
REPRESENTATIVE PRODUCTION PROFILE
 SINGLE-LATERAL HORIZONTAL WELL - COAL SEAM 3
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-15

REPRESENTATIVE PRODUCTION PROFILE
SINGLE-LATERAL HORIZONTAL WELL - COAL SEAM 15
PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
AS OF DECEMBER 31, 2014

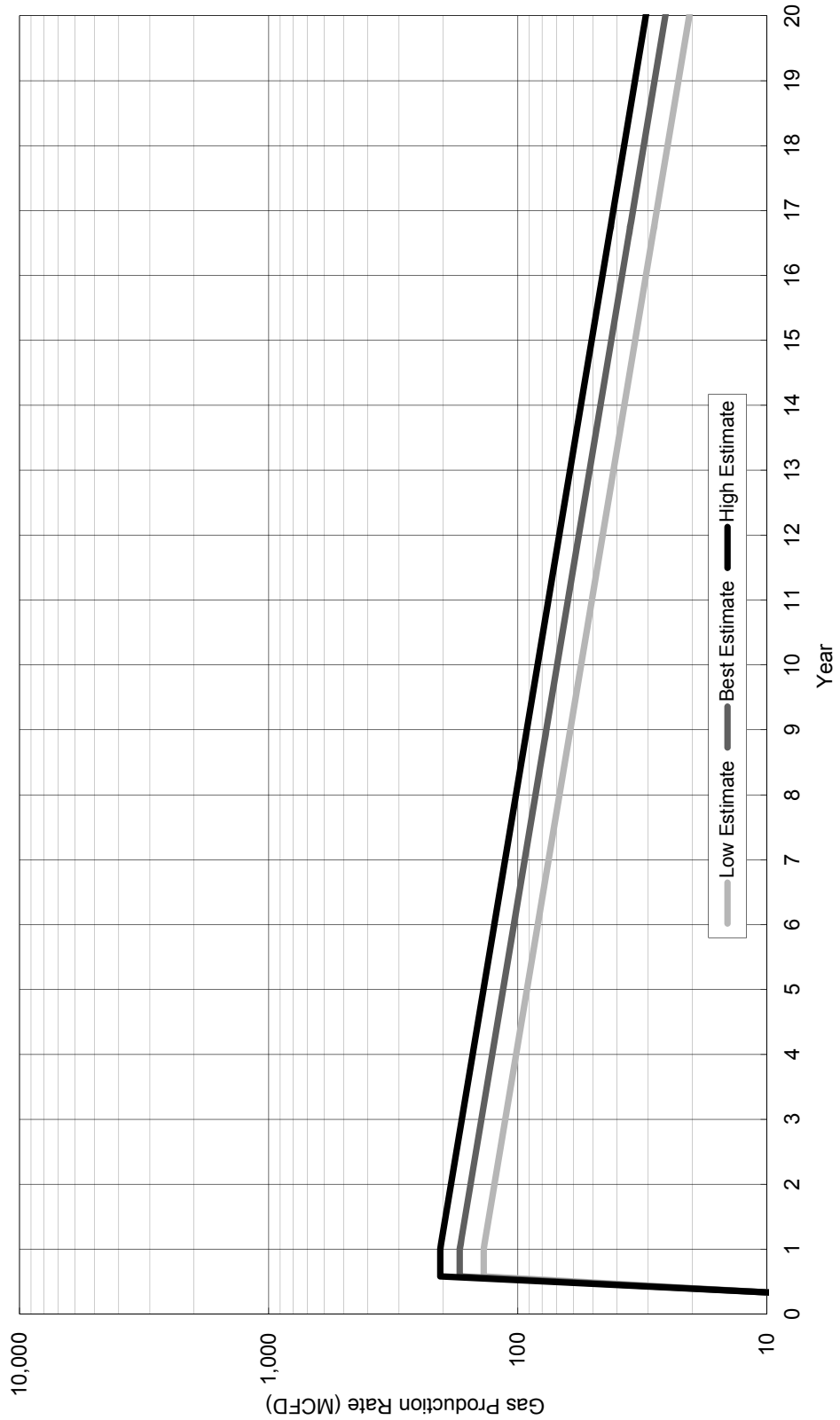


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-16



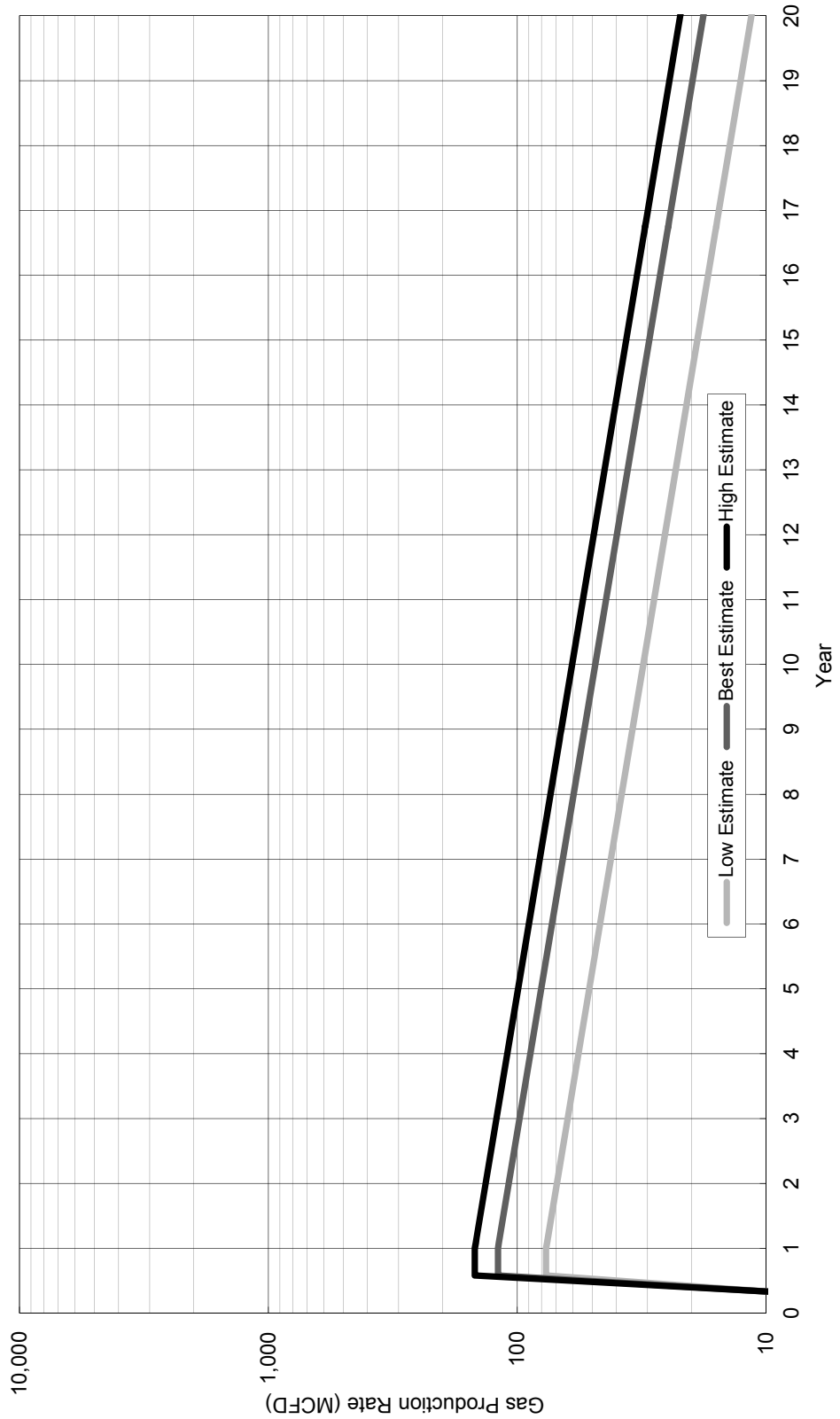
REPRESENTATIVE PRODUCTION PROFILE
 PAD-DRILLED WELL - COAL SEAMS 3 AND 15
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-17

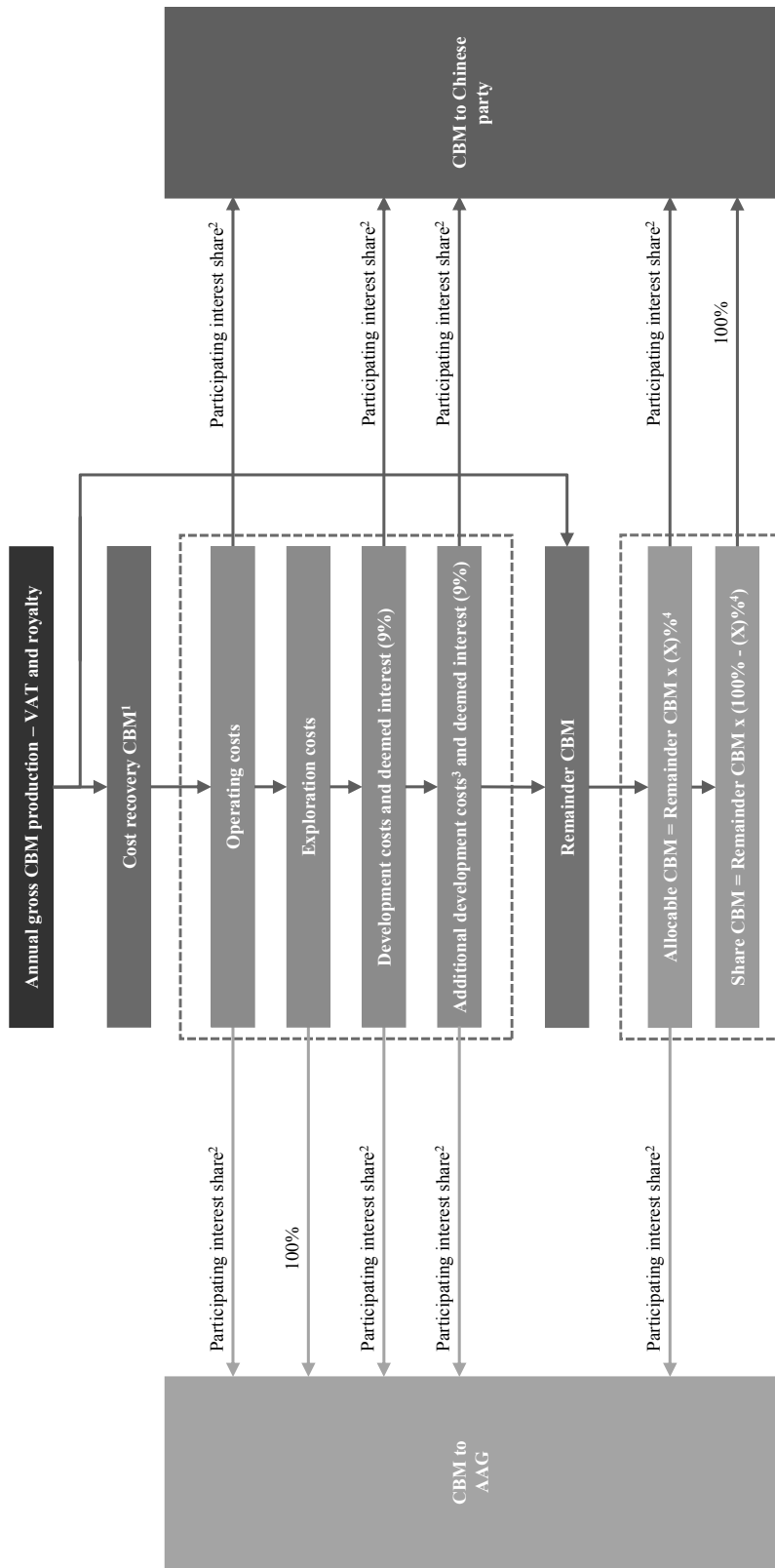
REPRESENTATIVE PRODUCTION PROFILE
 PAD-DRILLED WELL - THIN COAL SEAMS
 PANZHUANG BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-18

**COST RECOVERY AND PRODUCTION ALLOCATION FLOWCHART
PANZHUANG BLOCK PRODUCTION SHARING CONTRACT
AAG ENERGY HOLDINGS LIMITED**



1. CBM production available for cost recovery is set at 70 percent under the Panzhuang production sharing contract.
2. Allocation is based on the parties' respective participating interests in the CBM concession under the production sharing contracts. Under the Panzhuang contract, CUCBM's and AAG's respective participating interests are 20 percent and 80 percent.
3. Additional projects refer to projects that are designed either to improve the producing capability of the reservoir or to substantially increase the recoverable reserves therein through additional investments. As of the date of this report, there have been no additional development project costs.
4. Factor (X) is determined in accordance with a set of successive incremental tiers on the basis of the annual gross CBM production.

Adapted from a figure provided by AAG Energy Limited

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-19

AAG ENERGY HOLDINGS LIMITED INTEREST		SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014										PANZHUANG BLOCK SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA	
		PROVED DEVELOPED PRODUCING RESERVES											
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)		FUTURE NET REVENUE ⁽²⁾ (MM\$)			
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)	CUM NPV AT 10%	TOTAL	CUM NPV AT 10%	TOTAL
12-31-2015	15.0	11.6	106.9	0.0	0.0	0.0	4.4	102.5	97.7	80.3	76.5		
12-31-2016	12.4	9.4	88.6	0.0	0.0	0.0	4.3	84.2	170.8	71.5	139.1		
12-31-2017	9.2	7.0	72.3	0.0	0.0	0.0	3.9	68.4	224.7	57.3	184.7		
12-31-2018	6.9	5.2	59.1	0.0	0.0	0.0	3.5	55.6	264.5	49.1	223.4		
12-31-2019	5.1	3.9	48.3	0.0	0.0	0.0	3.2	45.1	293.9	40.1	251.2		
12-31-2020	3.8	2.9	39.6	0.0	0.0	0.0	3.0	36.6	315.6	32.0	270.6		
12-31-2021	2.8	2.2	30.5	0.0	0.0	0.0	2.8	27.7	330.5	24.9	284.7		
12-31-2022	2.1	1.6	23.6	0.0	0.0	0.0	2.7	20.8	340.7	19.3	295.0		
12-31-2023	1.6	1.2	18.2	0.0	0.0	0.0	2.7	15.5	347.6	12.6	300.1		
12-31-2024	1.2	0.9	14.0	0.0	0.0	0.0	2.5	11.5	352.2	9.0	303.4		
12-31-2025	0.9	0.7	10.7	0.0	0.0	0.0	2.3	8.4	355.3	6.3	305.3		
12-31-2026	0.6	0.5	8.2	0.0	0.0	0.0	2.2	6.0	357.3	4.4	306.5		
12-31-2027	0.5	0.4	6.4	0.0	0.0	0.0	2.2	4.1	358.6	3.0	307.2		
12-31-2028	0.1	0.1	1.2	0.0	0.0	0.0	0.5	0.7	358.8	(0.2)	306.8		
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	358.8	0.0	306.8		
TOTAL	62.1	47.5	527.5	0.0	0.0	0.0	40.3	487.3	358.8	409.6	306.8		
CUM PROD	32.6												
ULTIMATE	94.7												

DISCOUNT RATE (%)	NET PRESENT VALUE (MM\$)	
	BIT	AIT
8	378.7	323.8
15	317.5	271.5
20	285.3	243.7
25	259.5	221.3
30	238.5	203.0

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-20



SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014											
AAG ENERGY HOLDINGS LIMITED INTEREST					PROVED UNDEVELOPED RESERVES						
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)			
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)		
								CUM NPV AT 10%	CUM NPV AT 10%		
12-31-2015	0.3	0.2	1.9	0.0	0.0	43.4	9.7	(51.1)	(48.7)	(40.0)	(38.2)
12-31-2016	1.4	1.1	10.3	0.0	0.0	32.2	10.6	(32.6)	(77.0)	(27.7)	(62.7)
12-31-2017	5.0	3.8	38.9	0.0	0.0	38.8	11.4	(11.3)	(85.9)	(9.5)	(70.6)
12-31-2018	8.2	6.3	70.8	0.0	0.0	0.0	13.2	57.7	(44.6)	50.9	(37.6)
12-31-2019	7.8	5.9	73.8	0.0	0.0	0.0	14.2	59.6	(5.8)	52.9	(4.9)
12-31-2020	6.1	4.7	63.9	0.0	0.0	0.0	12.8	51.1	24.5	44.6	21.0
12-31-2021	4.7	3.6	50.3	0.0	0.0	0.0	10.8	39.5	45.8	35.5	39.4
12-31-2022	3.6	2.7	39.6	0.0	0.0	0.0	9.0	30.6	60.7	28.4	52.6
12-31-2023	2.7	2.1	31.3	0.0	0.0	0.0	7.7	23.6	71.2	19.1	61.5
12-31-2024	2.1	1.6	24.8	0.0	0.0	0.0	6.7	18.1	78.5	14.3	67.6
12-31-2025	1.6	1.2	19.8	0.0	0.0	0.0	5.9	13.9	83.6	10.5	71.9
12-31-2026	1.2	0.9	15.7	0.0	0.0	0.0	5.2	10.4	87.1	7.6	74.7
12-31-2027	0.9	0.7	12.3	0.0	0.0	0.0	4.6	7.7	89.5	5.6	76.6
12-31-2028	0.2	0.1	2.4	0.0	0.0	0.0	1.0	1.4	89.9	(0.4)	76.8
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.9	0.0	76.8
TOTAL	45.8	34.8	455.7	0.0	0.0	114.3	122.8	218.6	89.9	191.9	76.8
CUM PROD	0.0										
ULTIMATE	45.8										

DISCOUNT RATE (%)	NET PRESENT VALUE (MM\$)	
	BIT	AIT
8	108.2	92.5
15	54.3	46.4
20	29.2	24.9
25	11.1	9.5
30	(2.1)	(1.8)

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-21

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014											
SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA											
PANZHUANG BLOCK											
AAG ENERGY HOLDINGS LIMITED INTEREST											
PROVED (1P) RESERVES											
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	BEFORE INCOME TAX (BIT)		AFTER INCOME TAX (AIT)	
								CUM NPV AT 10%	TOTAL	CUM NPV AT 10%	TOTAL
12-31-2015	15.2	11.8	108.9	0.0	0.0	43.4	14.1	51.4	49.0	40.2	38.4
12-31-2016	13.8	10.5	98.8	0.0	0.0	32.2	15.0	51.7	93.8	43.9	76.4
12-31-2017	14.2	10.8	111.2	0.0	0.0	38.8	15.3	57.1	138.8	47.8	114.1
12-31-2018	15.1	11.5	129.9	0.0	0.0	0.0	16.6	113.3	219.9	100.0	185.7
12-31-2019	12.9	9.8	122.1	0.0	0.0	0.0	17.4	104.7	288.1	93.0	246.3
12-31-2020	9.9	7.6	103.5	0.0	0.0	0.0	15.8	87.8	340.1	76.6	291.6
12-31-2021	7.5	5.7	80.8	0.0	0.0	0.0	13.6	67.2	376.3	60.4	324.2
12-31-2022	5.7	4.3	63.2	0.0	0.0	0.0	11.8	51.4	401.4	47.7	347.5
12-31-2023	4.3	3.3	49.5	0.0	0.0	0.0	10.4	39.1	418.8	31.7	361.6
12-31-2024	3.3	2.5	38.8	0.0	0.0	0.0	9.2	29.6	430.8	23.3	371.0
12-31-2025	2.5	1.9	30.5	0.0	0.0	0.0	8.2	22.2	439.0	16.8	377.2
12-31-2026	1.9	1.4	23.9	0.0	0.0	0.0	7.5	16.4	444.4	12.0	381.2
12-31-2027	1.4	1.1	18.6	0.0	0.0	0.0	6.8	11.8	448.0	8.7	383.9
12-31-2028	0.3	0.2	3.6	0.0	0.0	0.0	1.6	2.1	448.6	-0.7	383.7
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	448.6	0.0	383.7
TOTAL	107.9	82.3	983.3	0.0	0.0	114.3	163.1	705.8	448.6	601.5	383.7
CUM PROD	32.6										
ULTIMATE	140.5										
								DISCOUNT RATE (%)	NET PRESENT VALUE (MM\$)		
								8	486.8	BIT	416.3
								15	371.8	AIT	317.9
								20	314.4		268.6
								25	270.7		230.8
								30	236.5		201.2

(1) THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

(2) THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

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Figure 2-22

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014												
PROBABLE RESERVES												
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)		PANZHUANG BLOCK SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA		
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)	CUM NPV AT 10%	TOTAL	CUM NPV AT 10%
12-31-2015	0.8	0.6	5.7	0.0	0.0	37.6	0.7	(32.6)	(31.1)	(33.0)	(31.5)	
12-31-2016	3.8	2.9	26.8	0.0	0.0	234	1.8	1.6	(29.7)	(1.7)	(33.0)	
12-31-2017	8.5	6.4	66.2	0.0	0.0	259	4.3	36.0	(1.4)	26.0	(12.5)	
12-31-2018	14.3	10.7	121.0	0.0	0.0	29.9	6.0	85.0	59.5	65.1	34.2	
12-31-2019	16.2	12.1	151.2	0.0	0.0	0.0	6.4	144.9	153.9	119.1	111.7	
12-31-2020	14.3	10.8	147.5	0.0	0.0	0.0	7.6	139.9	236.7	114.9	179.7	
12-31-2021	12.0	9.1	128.5	0.0	0.0	0.0	7.7	120.8	301.7	99.1	233.1	
12-31-2022	9.9	7.5	110.3	0.0	0.0	0.0	7.5	102.8	352.0	84.0	274.1	
12-31-2023	8.2	6.2	94.3	0.0	0.0	0.0	7.3	87.0	390.7	69.8	305.2	
12-31-2024	6.8	5.1	80.6	0.0	0.0	0.0	7.2	73.4	420.4	57.8	328.6	
12-31-2025	5.6	4.2	68.8	0.0	0.0	0.0	7.1	61.7	443.1	48.0	346.2	
12-31-2026	4.6	3.5	58.5	0.0	0.0	0.0	6.9	51.6	460.3	39.6	359.4	
12-31-2027	3.8	2.9	49.9	0.0	0.0	0.0	6.9	43.0	473.4	32.6	369.3	
12-31-2028	0.8	0.6	10.4	0.0	0.0	0.0	1.6	8.8	475.9	1.9	369.9	
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	475.9	0.0	369.9	
TOTAL	109.3	82.6	1,119.7	0.0	0.0	116.8	79.0	923.8	475.9	723.0	369.9	
CUM PROD	0.0											
ULTIMATE	109.3											
								DISCOUNT RATE (%)	8	NET PRESENT VALUE (MM\$)	BIT	AIT
									15	538.7	419.5	
									20	354.7	273.8	
									25	269.5	206.2	
									30	208.0	157.4	
										162.7	121.4	

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

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Figure 2-23

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014														
AAG ENERGY HOLDINGS LIMITED INTEREST														
PROVED + PROBABLE (2P) RESERVES														
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)		PANZHUANG BLOCK SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA				
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)	CUM NPV AT 10%	TOTAL	CUM NPV AT 10%	TOTAL	
12-31-2015	16.0	12.4	114.5	0.0	0.0	81.0	14.8	18.8	17.9	7.2	6.9			
12-31-2016	17.6	13.4	125.6	0.0	0.0	55.5	16.8	53.3	64.1	42.1	43.4			
12-31-2017	22.7	17.2	177.3	0.0	0.0	64.7	19.6	93.1	137.4	73.8	101.6			
12-31-2018	29.4	22.1	250.9	0.0	0.0	29.9	22.7	198.3	279.5	165.1	219.9			
12-31-2019	29.1	21.9	273.3	0.0	0.0	0.0	23.7	249.6	442.0	212.1	358.0			
12-31-2020	24.2	18.3	251.1	0.0	0.0	0.0	23.4	227.7	576.8	191.5	471.4			
12-31-2021	19.5	14.8	209.3	0.0	0.0	0.0	21.3	188.0	678.0	159.6	557.2			
12-31-2022	15.6	11.9	173.5	0.0	0.0	0.0	19.3	154.2	753.4	131.7	621.7			
12-31-2023	12.5	9.5	143.7	0.0	0.0	0.0	17.7	126.1	809.5	101.4	666.8			
12-31-2024	10.0	7.6	119.4	0.0	0.0	0.0	16.4	103.0	851.2	81.1	699.6			
12-31-2025	8.0	6.1	99.3	0.0	0.0	0.0	15.3	83.9	882.0	64.8	723.4			
12-31-2026	6.4	4.9	82.4	0.0	0.0	0.0	14.3	68.0	904.8	51.6	740.6			
12-31-2027	5.2	3.9	68.6	0.0	0.0	0.0	13.7	54.8	921.4	41.3	753.2			
12-31-2028	1.0	0.8	14.0	0.0	0.0	0.0	3.1	10.9	924.5	1.2	753.5			
12-31-2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2032	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2033	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2034	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	924.5	0.0	753.5			
TOTAL	217.3	164.9	2,102.9	0.0	0.0	231.1	242.1	1,629.6	924.5	1,324.5	753.5			
CUM PROD	32.6													
ULTIMATE	249.9													
										DISCOUNT RATE (%)	8	NET PRESENT VALUE (MM\$)	BIT	AIT
											8		1,025.5	835.8
											15		726.4	591.6
											20		583.9	474.8
											25		478.7	388.2
											30		398.2	322.6

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

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Figure 2-24



SUMMARY OF POSSIBLE RESERVES PROJECTIONS
 PANZHUANG BLOCK
 SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AAG ENERGY HOLDINGS LIMITED INTEREST
 AS OF DECEMBER 31, 2014

Period Ending	Gross Gas (BCF)	Net Gas (BCF)	Company Gross Revenue (MM\$)	Royalty (MM\$)	Value Added Tax (MM\$)	Net Investment (MM\$)	Net Operating Expense (MM\$)
12-31-2015	0.4	0.3	3.1	0.0	0.0	0.0	0.1
12-31-2016	2.5	1.8	17.3	0.0	0.0	19.8	0.7
12-31-2017	7.0	5.2	53.5	0.0	0.0	1.9	1.8
12-31-2018	9.5	6.9	78.2	0.2	0.0	27.2	2.4
12-31-2019	11.2	8.2	101.6	0.4	0.0	41.4	3.8
12-31-2020	14.0	10.3	141.2	0.1	0.0	42.7	5.6
12-31-2021	16.2	12.0	169.2	0.0	0.0	29.7	8.5
12-31-2022	17.5	13.0	190.8	0.0	0.0	0.0	10.6
12-31-2023	15.7	11.8	178.3	0.0	0.0	0.0	11.4
12-31-2024	13.0	9.8	153.5	0.0	0.0	0.0	11.0
12-31-2025	10.5	8.0	130.2	0.0	0.0	0.0	10.2
12-31-2026	8.6	6.5	109.9	0.0	0.0	0.0	9.7
12-31-2027	7.0	5.3	92.8	0.0	0.0	0.0	9.2
12-31-2028	1.4	1.1	19.6	0.0	0.0	0.0	2.3

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-25



RISK ASSESSMENT
PANZHUANG BLOCK RESERVES
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

Category/Issue	Likelihood	Consequence	Overall Risk
Coal Quantity			
Lack of Coal	Unlikely	Major	Low
Poor Coal Quality (Rank, Maceral Composition)	Unlikely	Moderate	Low
Poor Seam Distribution (Multiseam vs. Single Seam)	Unlikely	Moderate	Low
Gas Content			
Insufficient Quantity	Unlikely	Major	Low
Insufficient Pressure (Underpressured)	Unlikely	Moderate	Low
Low Saturation Levels	Unlikely	Major	Low
Unfavorable Gas Composition	Unlikely	Moderate	Low
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Unlikely	Major	Low
Insufficient Cleat Development	Unlikely	Moderate	Low
Detrimental Stress Orientation	Unlikely	Minor	Low
Detrimental Overburden Stress (Depth)	Unlikely	Moderate	Low
Gas Producibility			
Inability to Depressure Coal	Unlikely	Major	Low
Inefficient Completion Practice	Unlikely	Major	Low
Excessive Aquifer Recharge	Unlikely	Moderate	Low
Insufficient Peak Gas Rates	Unlikely	Major	Low
Insufficient EUR per Spacing Unit	Unlikely	Major	Low
Economic Development			
Insufficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Unlikely	Major	Low
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Possible	Moderate	Medium
Geological and Environmental Disasters	Unlikely	Moderate	Low

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-26



RISK ASSESSMENT
PANZHUANG BLOCK CONTINGENT RESOURCES
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

Category/Issue	Likelihood	Consequence	Overall Risk
Coal Quantity			
Lack of Coal	Possible	Major	Medium
Poor Coal Quality (Rank, Maceral Composition)	Possible	Moderate	Medium
Poor Seam Distribution (Multiseam vs. Single Seam)	Likely	Moderate	High
Gas Content			
Insufficient Quantity	Unlikely	Major	Low
Insufficient Pressure (Underpressured)	Unlikely	Moderate	Low
Low Saturation Levels	Unlikely	Major	Medium
Unfavorable Gas Composition	Unlikely	Moderate	Low
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Possible	Major	Medium
Insufficient Cleat Development	Unlikely	Moderate	Low
Detrimental Stress Orientation	Unlikely	Minor	Low
Detrimental Overburden Stress (Depth)	Unlikely	Moderate	Low
Gas Producibility			
Inability to Depressure Coal	Possible	Major	Medium
Inefficient Completion Practice	Possible	Major	Medium
Excessive Aquifer Recharge	Unlikely	Moderate	Low
Insufficient Peak Gas Rates	Possible	Major	Medium
Insufficient EUR per Spacing Unit	Possible	Major	Medium
Economic Development			
Insufficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Unlikely	Major	Low
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Possible	Moderate	Medium
Geological and Environmental Disasters	Unlikely	Moderate	Low

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2-27



TECHNICAL DISCUSSION
MABI BLOCK
SHANXI PROVINCE
THE PEOPLE'S REPUBLIC OF CHINA
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

OVERVIEW

The Mabi PSC, executed on July 16, 2004, covers the entire Mabi Block located in Shanxi Province. Mabi Block is located northwest of Panzhuang Block and originally encompassed an area of 1,371 km²; however, the area has been reduced to 897 km² as a result of mining activity and relinquishment of the northeastern portion of the block where coal depth increases toward the basin axis. AAG is the operator and owns a 70 percent participating interest in the block with PetroChina Company Limited (PetroChina) owning the remaining 30 percent interest. The Mabi PSC will expire on July 31, 2034, as set forth in Article 26.4.5 of the PSC.

GEOLOGY AND RESERVOIR CHARACTERIZATION

Mabi Block lies near the southern and southwestern edge of Qinshui Basin, an asymmetric basin with gentle dips in the east and steep dips in the west. There are two major, laterally continuous coal seams, referred to as Coal Seams 3 and 15, present throughout Qinshui Basin. These coal seams continue from Panzhuang Block west into Mabi Block and to the outcrop edge located south and southwest of Mabi Block. Coal Seam 3 thins from east to west across Mabi Block and becomes less than 1 m thick across the western half of the block. Coal Seam 2, other thin seams above Coal Seam 3 (Upper Thin Coal Seams), and thin seams between Coal Seams 3 and 15 (Lower Thin Coal Seams) are also present in Mabi Block. Although these seams are not as continuous as the regional Coal Seams 3 and 15, they can be correlated locally and can have thicknesses in excess of 0.5 m. A base map, net coal isopach maps, depth structure maps, and overburden thickness maps for Mabi Block are shown in Figures 3-1 through 3-10.

Gas content correlations were developed for Coal Seams 3 and 15 based on reservoir pressure, proximate analysis, and desorption data available from wells within Mabi Block. Based on reservoir pressure data taken from wells in the original pilot area, a pressure gradient of 0.989 MPa per 100 m with a potentiometric surface of 787 m above sea level was used for estimating initial reservoir pressure in Coal Seams 3 and 15 in this area. Data provided on wells located northwest of the original pilot area indicate a lower potentiometric surface of 700 m for this updip area of the block. The lower pressure here could be influenced by the nearby outcrop in the northwest quadrant of the block. A freshwater pressure gradient of 0.989 MPa per 100 m is also observed in the northwest quadrant well data. To estimate reservoir pressure for our evaluation, we used the original pilot area data for the east half of Mabi Block and the northwest quadrant well data for the west half of the block. The pressure gradient and potentiometric surface estimates are shown in the elevation-versus-pressure graphs presented in Figures 3-11 and 3-12.

Similar to the differences in reservoir pressure data, differences in gas content trends are observed in data outside the original pilot area. Data in the original pilot area show an average Langmuir volume of 33.0 cc/g and average Langmuir pressure of 1.20 MPa. Our analysis of the desorption data from this area results in low, best, and high saturation estimates of 75 percent, 85 percent, and 95 percent, respectively. Data from wells in the northwest quadrant of the block indicate that a lower Langmuir volume of 32.3 cc/g and a higher Langmuir pressure of 1.82 MPa may be expected. Furthermore, desorption data in this area suggest significantly lower saturation levels when compared to the original pilot area. We estimate the low, best, and high saturation levels



in this area to be 45, 55, and 65 percent, respectively. The northeast quadrant of Mabi Block is expected to have gas content values between those of the original pilot area and northwest quadrant. In the northeast quadrant we have used the Langmuir parameters from the original pilot area but reduced the low, best, and high saturation estimates to 65, 75, and 85 percent, respectively. Gas content correlations for Coal Seams 3 and 15 are shown in Figures 3-13 through 3-17.

Coal thickness, overburden, and depth structure maps have been sampled on a grid spacing of 1,000 m for calculating OGIP. The 1,000-m square grids resulted in spacing units of 100 ha for economics and production modeling. The actual number of directional wells assumed for each 100 ha spacing unit is based on AAG's internal development plan utilizing pad drilling to minimize surface disturbance. Drainage areas for directional wells are estimated to be 6.25 ha per well. Reservoir properties for Mabi Block are consistent with those observed in Panzhuang Block and are listed in the following table:

Coal Seam	Geologic Age	Average Depth ⁽²⁾ (m)	Average Thickness (m)	Average Gas Content ⁽¹⁾ (cc/g)		
				Low Estimate	Best Estimate	High Estimate
2	Lower Permian	732	0.5	9.4	11.5	13.6
Upper Thin	Lower Permian	713	0.5	9.1	11.2	13.2
3	Lower Permian	712	3.2	10.1	11.8	13.5
Lower Thin	Carboniferous	792	1.2	10.6	12.5	14.4
15	Carboniferous	803	3.4	10.8	12.2	13.7

⁽¹⁾ Air-dried gas content has not been adjusted for ash.

⁽²⁾ These averages exclude depths where no coal is present.

COAL DENSITY

Apparent density measurements from 131 Coal Seam 3 core samples and 101 Coal Seam 15 core samples were used to calculate OGIP across the block. The average apparent densities were 1.46 g/cc and 1.49 g/cc for Coal Seams 3 and 15, respectively. A density estimate of 1.45 g/cc was used to calculate OGIP for seams other than Coal Seams 3 and 15.

PRODUCTION PROFILES

Based on discussions with AAG management regarding future development plans, only PDWs were modeled for Mabi Block. Our economic model assumes a 3-month dewatering period, then 3 months to reach peak gas production, followed by a 6-month flat production period, and then a 10 percent exponential decline rate. Peak production rates for our economic model were determined from decline curve parameters along with our volumetric estimates of EURs for each drilling location. Recovery factors vary based on estimated reservoir abandonment pressure. A fuel and shrinkage factor of 5 percent has been applied to the gas volumes to reduce the volumes for compression and pipeline losses. Summary graphs of net projected reserves and net projected contingent resources for Mabi Block are shown in Figures 3-18 and 3-19, and representative production profiles for PDWs are included in Figures 3-20 through 3-23.

FISCAL TERMS

The Mabi PSC is divided into three chronological phases: Exploration, Development, and Production, with the Exploration Phase beginning on October 1, 2004. The Development Phase begins on the date of approval of the



ODP, and the Production Phase begins on the Date of Commencement of Commercial Production in accordance with Section 1.15 of the Mabi PSC. The Mabi PSC is currently in the Exploration Phase. For the purposes of this report, the Development Phase is assumed to begin on January 1, 2017, and the Production Phase is assumed to begin on January 1, 2020. The term of the contract is 30 years from the contract execution date; the contract will expire in July 2034.

AAG pays 100 percent of the costs until the Development Phase. AAG will be able to recover the exploration costs during the Development and Production Phases when costs are shared between AAG and PetroChina in proportion to their participating interests. AAG's cost recovery balance, as of December 31, 2014, is \$200.3 million.

Cost recovery and production allocation between AAG and PetroChina are described in detail in the PSC and are summarized by the flowchart included as Figure 3-24. For the purposes of this report, volumes and cash flow attributable to AAG are referred to as net volumes and net revenue; in the PSC the net volumes and net revenue are referred to as the company take. A VAT rebate was issued in 2007 by the MOFC for revenues realized from CBM production. This rebate has been treated as a VAT exemption in the economic model.

OPERATING COSTS

Operating costs used in this report are based on operating expense records of AAG and are consistent with our knowledge of similar CBM operations. These costs include well- and block-level costs and corporate overhead costs. The direct well-level operating costs for Mabi Block have been divided into costs of \$1,874 per well per month and \$0.213 per MCF of gas produced. The initial block-level operating cost of \$857,000 per month is based on a 12-month average of historical block-level costs; this cost is held constant in the economic model until the block-level gas production rate peaks and then reduced over time as a function of the declining production rate. The block-level costs include overhead; general administrative; engineering; logistics; environmental, health, and safety; and PSC expenses. These costs have been modeled at the block level so that these expenses do not impact the economics of individual wells. All operating costs are held constant through December 31, 2015, and then escalated 3.6 percent on January 1 of each year through the remaining term of the PSC.

Operating costs associated with AAG's Mabi exploration activities have been excluded from this evaluation since these efforts are not associated with the CBM reserves, contingent resources, or prospective resources in this evaluation. AAG's average monthly exploration operating cost for January through December of 2014 was \$357,000.

The forecasted annual development timing, net operating costs, and gross gas production for Mabi Block reserves are shown in the following table:

Year	Active PDWs		Net Operating Costs (MM\$)		Gross Gas Production (BCF)	
	2P	3P	2P	3P	2P	3P
2015	137	137	14.3	14.5	4.3	5.4
2016	149	149	15.3	15.6	5.3	6.8
2017	190	190	11.8	12.1	5.3	7.2
2018	299	305	14.3	14.9	6.6	9.5
2019	475	502	18.7	20.0	10.2	15.0
2020	765	793	25.8	27.5	15.9	22.9
2021	1,180	1,208	36.3	38.5	23.9	33.3
2022	1,926	1,969	55.2	58.8	37.5	51.9
2023	2,705	2,781	76.5	83.9	52.5	82.3
2024	3,451	3,586	98.9	111.2	69.7	115.6



Year	Active PDWs		Net Operating Costs (MM\$)		Gross Gas Production (BCF)	
	2P	3P	2P	3P	2P	3P
2025	3,593	4,445	106.7	139.1	74.7	137.5
2026	3,593	5,618	108.9	176.2	67.3	159.6
2027	3,593	6,838	110.2	218.5	60.5	188.3
2028	3,593	8,047	111.6	261.0	54.3	207.3
2029	3,582	9,208	112.9	302.5	48.4	216.3
2030	3,540	10,412	113.4	346.6	42.6	220.2
2031	3,475	11,521	113.3	390.7	37.2	223.6
2032	3,407	12,374	113.1	428.4	32.5	220.2
2033	3,313	12,414	112.2	440.6	27.7	205.7
2034	3,177	12,316	63.8	258.5	13.9	106.1
Total			1,433.0	3,359.4	690.1	2,234.4

CAPITAL COSTS AND DEVELOPMENT TIMING

We have included AAG's development plan in our economic model for Mabi Block, with up to 16 directional wells for each 100-ha pattern, along with AAG's estimated costs for surface facilities and land acquisition and preparation. In 2015 AAG plans to fracture stimulate 29 existing wells and drill 6 additional Mabi wells. Capital costs for drilling, completion, and production equipment are based on a combination of AAG's actual costs and vendor quotes for future well costs. Capital costs for additional facilities projects are forecasted at the 2P and 3P levels based on annual pro rata well counts and AAG's internal capital expenditure plan through 2020, then modeled as 20 percent of the drilling and completion capital expenditures through the remaining term of the PSC. Mabi Block fracture stimulation costs are expected to drop in 2016 as activity levels increase and economies of scale are realized. Estimated capital costs for these items, before inflation, are shown in the following table:

Year	Capital Costs Per Well (M\$)			
	Cased-Hole Drilling	Major Seam Fracture Stimulation ⁽¹⁾	Minor Seam Fracture Stimulation	Surface Facilities
2015	191	131 or 262	95	102
Thereafter	172	82 or 164	91	92

⁽¹⁾ Each well may have up to 2 major seam fracture stimulations.

Starting in 2017, capital costs are escalated 3.6 percent on January 1 of each year through the remaining term of the PSC.

The annual development timing, net investments, and net gas production for the 2P and 3P reserves and 1C, 2C, and 3C contingent resources are shown in the following tables:

Year	PDWs Drilled		Net Investment ⁽¹⁾ (MM\$)		Net Gas Production (BCF)	
	2P	3P	2P	3P	2P	3P
2015	6	6	42.3	43.1	3.8	4.8
2016	35	35	31.5	33.4	4.7	6.1
2017	103	103	54.3	57.0	4.7	6.4
2018	174	202	100.9	112.8	5.9	8.5
2019	282	282	172.9	181.4	9.2	12.1
2020	362	362	219.3	224.7	11.6	15.2



Year	PDWs Drilled		Net Investment ⁽¹⁾ (MM\$)		Net Gas Production (BCF)	
	2P	3P	2P	3P	2P	3P
2021	806	806	328.0	345.7	15.8	22.0
2022	763	811	319.6	360.4	24.8	33.9
2023	807	807	343.3	371.5	34.3	52.7
2024	116	812	50.9	387.3	45.0	72.7
2025	0	1,204	0.0	594.9	48.1	85.6
2026	0	1,198	0.0	613.2	43.6	98.7
2027	0	1,194	0.0	633.2	39.3	115.7
2028	0	1,196	0.0	635.8	35.4	126.7
2029	0	1,200	0.0	657.2	31.8	131.9
2030	0	1,200	0.0	700.0	28.1	134.1
2031	0	963	0.0	588.3	24.6	136.1
2032	0	0	0.0	0.0	21.5	134.2
2033	0	0	0.0	0.0	18.4	125.8
2034	0	0	0.0	0.0	9.2	65.3
Total	3,454	12,381	1,663.0	6,539.8	459.8	1,388.5

⁽¹⁾ Net investments include well and facilities costs.

Year	PDWs Drilled			Net Investment ⁽¹⁾ (MM\$)			Net Gas Production (BCF)		
	1C	2C	3C	1C	2C	3C	1C	2C	3C
2015	6	6	6	6.7	9.5	9.9	1.1	1.5	1.7
2016	35	35	35	8.6	8.6	8.6	1.3	1.7	2.0
2017	71	103	103	12.6	18.3	18.3	1.1	1.4	1.8
2018	176	202	202	32.4	37.2	37.2	1.4	2.1	2.6
2019	243	282	282	46.4	53.8	53.8	2.5	3.8	4.7
2020	238	302	318	47.1	59.7	62.9	4.1	6.2	7.9
2021	524	738	766	95.4	134.4	139.5	5.8	8.6	11.0
2022	590	795	811	99.5	141.0	145.5	8.2	12.7	16.4
2023	605	794	794	107.6	141.7	145.8	11.5	19.3	25.3
2024	93	132	234	17.2	26.7	45.1	14.3	24.7	32.9
2025	528	672	944	110.8	141.0	196.4	13.9	24.9	34.3
2026	224	560	893	40.0	111.3	164.6	14.4	25.6	36.0
2027	0	252	758	0.0	43.4	122.7	13.6	26.7	39.3
2028	0	96	752	0.0	11.2	87.7	11.5	25.5	40.2
2029	0	96	464	0.0	11.6	56.1	8.3	21.8	37.6
2030	0	64	544	0.0	8.0	68.1	6.2	17.6	33.8
2031	0	4	77	0.0	0.5	10.0	4.2	14.2	30.0
2032	0	0	0	0.0	0.0	0.0	2.4	11.3	24.7
2033	0	0	0	0.0	0.0	0.0	1.4	8.4	19.6
2034	0	0	0	0.0	0.0	0.0	0.4	3.6	8.9
Total	3,333	5,133	7,983	624.4	958.1	1,372.4	127.5	261.5	410.7

⁽¹⁾ Net investments include well and facilities costs.

PETROLEUM CLASSIFICATION

Since gas sales for significant volumes of gas have not yet commenced in Mabi Block, there are no proved reserves for this block. We have categorized the volumes in the block as probable reserves for Coal Seams 3



and 15 in locations within 1.5 km of wells producing at commercial rates. Additional volumes have been categorized as probable reserves in areas beyond 1.5 km by including areas where probable reserves boundaries are in close proximity to each other. The remaining Mabi Coal Seam 3 and Coal Seam 15 volumes have been categorized as possible reserves based on significant well data coverage in the north and lateral continuity across the block.

Coal Seam 2 volumes have been classified as contingent resources in Mabi Block. This seam has been delineated by numerous AAG wells completed in deeper seams. Coal Seam 2 is present on logs, and gas content and permeability suitable for CBM development are very likely to exist based on the available data from Coal Seam 2 and analogous Coal Seams 3 and 15. The Coal Seam 2 contingent resources are contingent upon acquisition of additional technical data that demonstrate producing rates and volumes sufficient to sustain economic viability.

Volumes in the Upper Thin Coal Seams and Lower Thin Coal Seams have been classified as contingent resources in the eastern area of the Mabi Block where higher reservoir pressure and gas content have been observed. As secondary development targets, the Upper and Lower Thin Coal Seams will require unique completion techniques to be commingled with the thicker primary coal targets. These contingent resources are contingent upon (1) development of completion techniques that achieve producing rates and volumes sufficient to sustain economic viability from these discontinuous intervals and (2) acquisition of technical data demonstrating these rates and volumes.

If the contingencies for Coal Seam 2 or the upper and lower thin coals are successfully addressed, some portion of the contingent resources estimated in this report may be reclassified as reserves; our estimates have not been risked to account for the possibility that these contingencies are not successfully addressed.

Undiscovered volumes that may exist in the upper and lower thin coals in the western area of Mabi Block have been classified as prospective resources.

ESTIMATED ULTIMATE RECOVERY

To achieve the projected gas EURs, average reservoir pressure gradients will have to be reduced from the current 0.989 MPa per 100 m. The estimated recovery factors for each coal seam and the estimated average abandonment reservoir pressure gradients required to achieve these recoveries are shown in the following table:

Coal Seam/Category	Recovery Factor (%)	Average Reservoir Pressure Gradient (MPa/100 m)
Coal Seam 2		
1C Contingent Resources	38	0.15
2C Contingent Resources	57	0.11
3C Contingent Resources	74	0.07
Upper Thin Coal Seams		
1C Contingent Resources	44	0.15
2C Contingent Resources	63	0.11
3C Contingent Resources	79	0.07
Low Estimate Prospective Resources	33	0.15
Best Estimate Prospective Resources	53	0.11
High Estimate Prospective Resources	69	0.07



Coal Seam/Category	Recovery Factor (%)	Average Reservoir Pressure Gradient (MPa/100 m)
Coal Seam 3		
2P Reserves	58	0.11
3P Reserves	74	0.07
High Estimate Prospective Resources	69	0.07
Lower Thin Coal Seams		
1C Contingent Resources	38	0.15
2C Contingent Resources	58	0.11
3C Contingent Resources	75	0.07
Low Estimate Prospective Resources	30	0.15
Best Estimate Prospective Resources	48	0.11
High Estimate Prospective Resources	66	0.07
Coal Seam 15		
2P Reserves	50	0.11
3P Reserves	68	0.07

Field development has been modeled beginning in the southeast quadrant of the block based on AAG's development plan for each 100-ha drilling unit. The average gas EUR for each pad and the number of undeveloped pads are shown in the following table:

Coal Seam/Category	Average EUR per Pad (MMCF)	Number of Pads ⁽¹⁾
Coal Seam 2		
1C Contingent Resources	242.9	205
2C Contingent Resources	335.5	319
3C Contingent Resources	404.9	506
Coal Seam 3		
2P Reserves	2,250.7	219
3P Reserves	1,965.2	833
Upper and Lower Thin Coal Seams		
1C Contingent Resources	601.5	226
2C Contingent Resources	905.5	325
3C Contingent Resources	1,243.8	377
Low Estimate Prospective Resources	455.7	65
Best Estimate Prospective Resources	599.0	192
High Estimate Prospective Resources	848.4	241
Coal Seam 15		
2P Reserves	1,405.8	172
3P Reserves	1,724.5	841

⁽¹⁾ Under AAG's current development plan, each AAG pad will contain up to 16 PDWs.



RESERVES

As presented in the accompanying summary projection, Figure 3-25, we estimate the proved plus probable gas reserves and future net revenue to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Category	Gas Reserves (BCF)		Future Net Revenue (MM\$)			
	Gross (100%)	Net	Before Income Tax		After Income Tax	
			Total	Net Present Value at 10%	Total	Net Present Value at 10%
Proved + Probable (2P)	690.1	459.8	4,700.4	1,221.1	3,802.8	967.5

The estimates of Mabi Block 2P reserves shown in this report are for probable reserves only. Our study indicates that there are no proved reserves for these properties at this time.

According to the SEHK rules, possible reserves must be stated separately and not combined with information on any other reserves. For the purposes of this report, possible reserves are calculated as the difference between 3P and 2P reserves because the PSC terms apply only to field-level calculations of net reserves and future net revenue. As presented in the accompanying summary projection on Figure 3-26, we estimate the possible gas reserves to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Possible Gas Reserves (BCF)	
Gross (100%)	Net
1,544.3	928.7

Gross gas reserves are 100 percent of the reserves attributable to the Mabi PSC before adjustments for fuel and shrinkage. Net gas reserves are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage. The estimates of reserves and future revenue included herein have been estimated using deterministic methods and have not been adjusted for risk.

CONTINGENT RESOURCES

We estimate the unrisksed contingent gas resources to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Category	Unrisksed Contingent Gas Resources (BCF)	
	Gross (100%)	Net
Low Estimate (1C)	190.2	127.5
Best Estimate (2C)	393.9	261.5
High Estimate (3C)	625.7	410.7

Gross contingent gas resources are 100 percent of the contingent resources attributable to the Mabi PSC before adjustments for fuel and shrinkage. Net contingent gas resources are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage. The estimates of contingent resources included herein have been estimated using deterministic methods and have not been adjusted for risk.



PROSPECTIVE RESOURCES

We estimate the unrisks prospective gas resources to the AAG interest in Mabi Block, as of December 31, 2014, to be:

Category	Unrisks Prospective Gas Resources (BCF)	
	Gross (100%)	Net
Low Estimate	21.5	14.4
Best Estimate	78.3	52.2
High Estimate	122.4	81.4

Gross prospective gas resources are 100 percent of the prospective resources attributable to the Mabi PSC before adjustments for fuel and shrinkage. Net prospective gas resources are AAG's share according to the terms of the PSC and after adjustments for fuel and shrinkage. The estimates of prospective resources included herein have been estimated using deterministic methods and have not been adjusted for risk.

PROJECT RISK ANALYSIS

There are commercial and environmental risks associated with CBM exploration and development. Commercial risk generally decreases as additional data become available, but environmental risk tends to be more constant throughout the Development and Production Phases. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revision with further data acquisition or interpretation. Our qualitative risk assessments for Mabi Block are summarized on Figures 3-27 to 3-29.

FIGURES

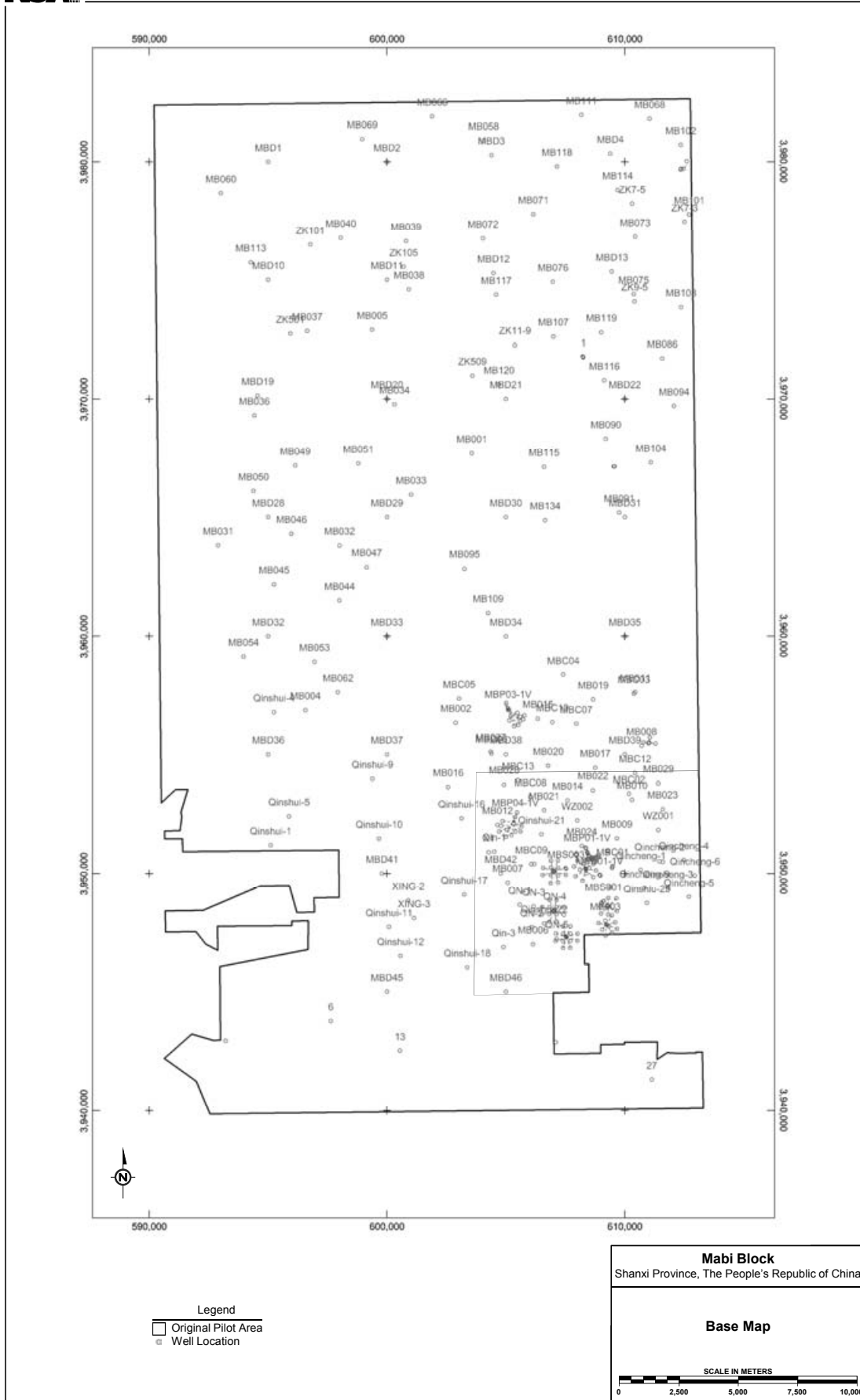


Figure 3-1

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



Figure 3-2

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

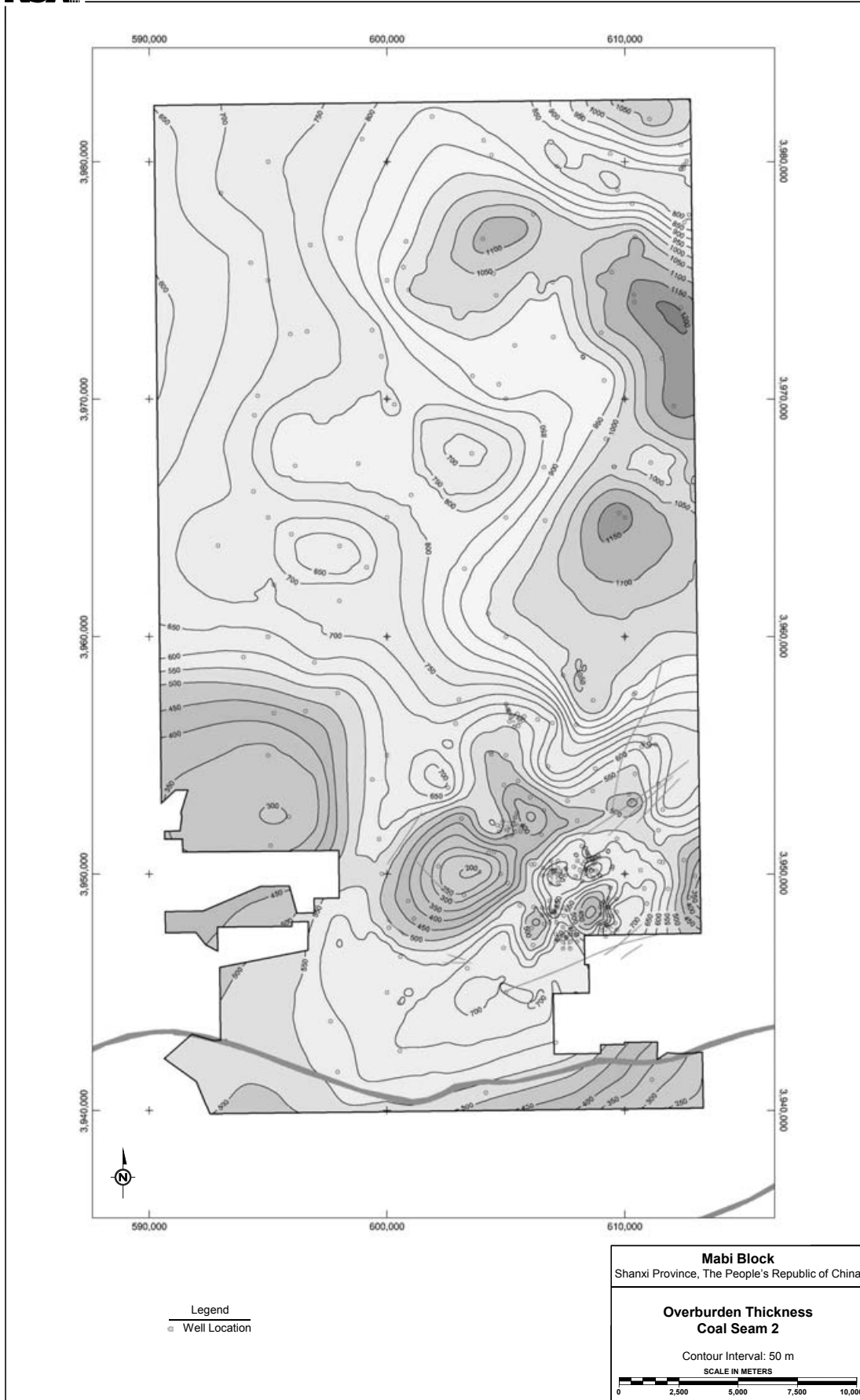


Figure 3-3

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

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Figure 3-4

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

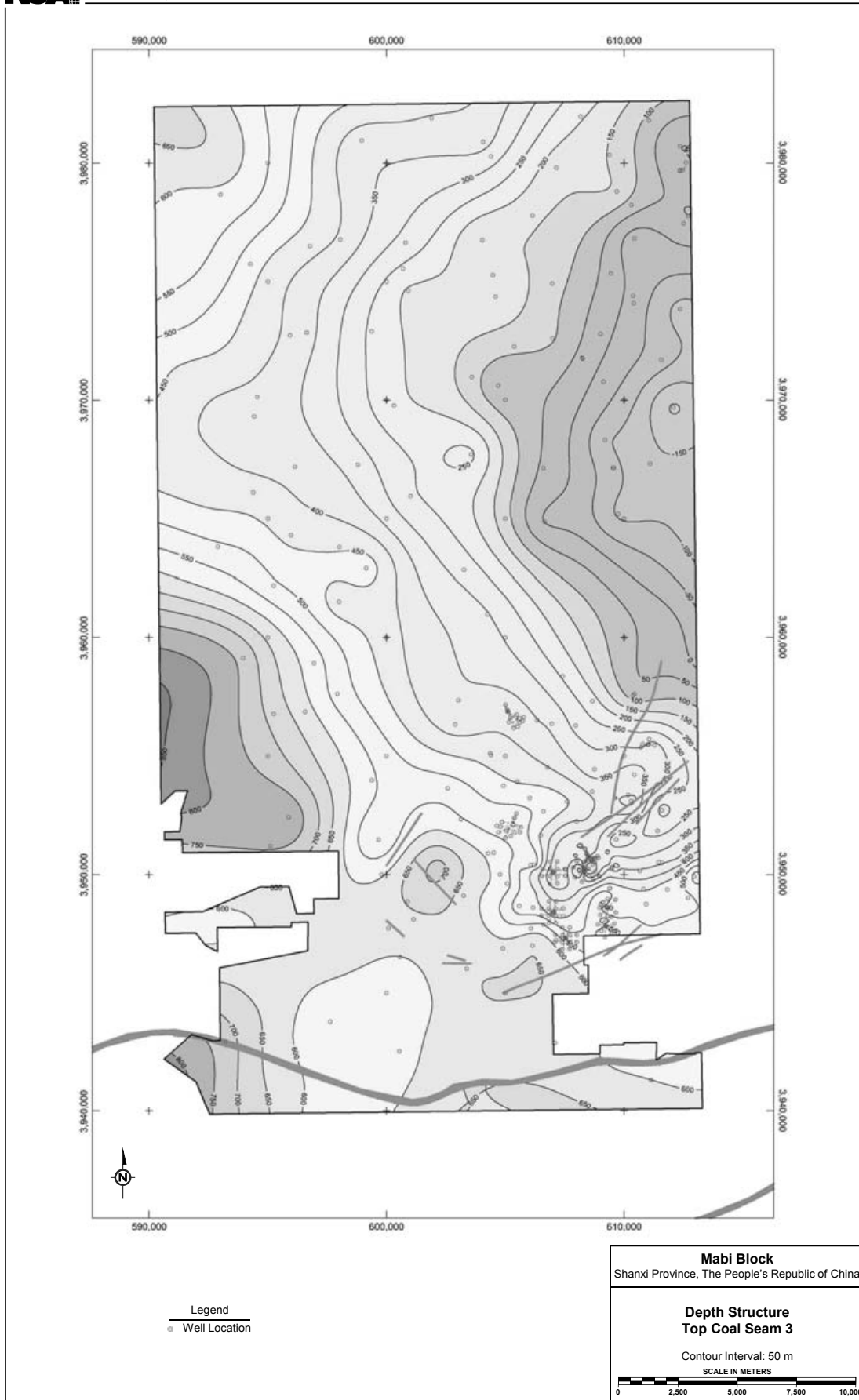


Figure 3-5

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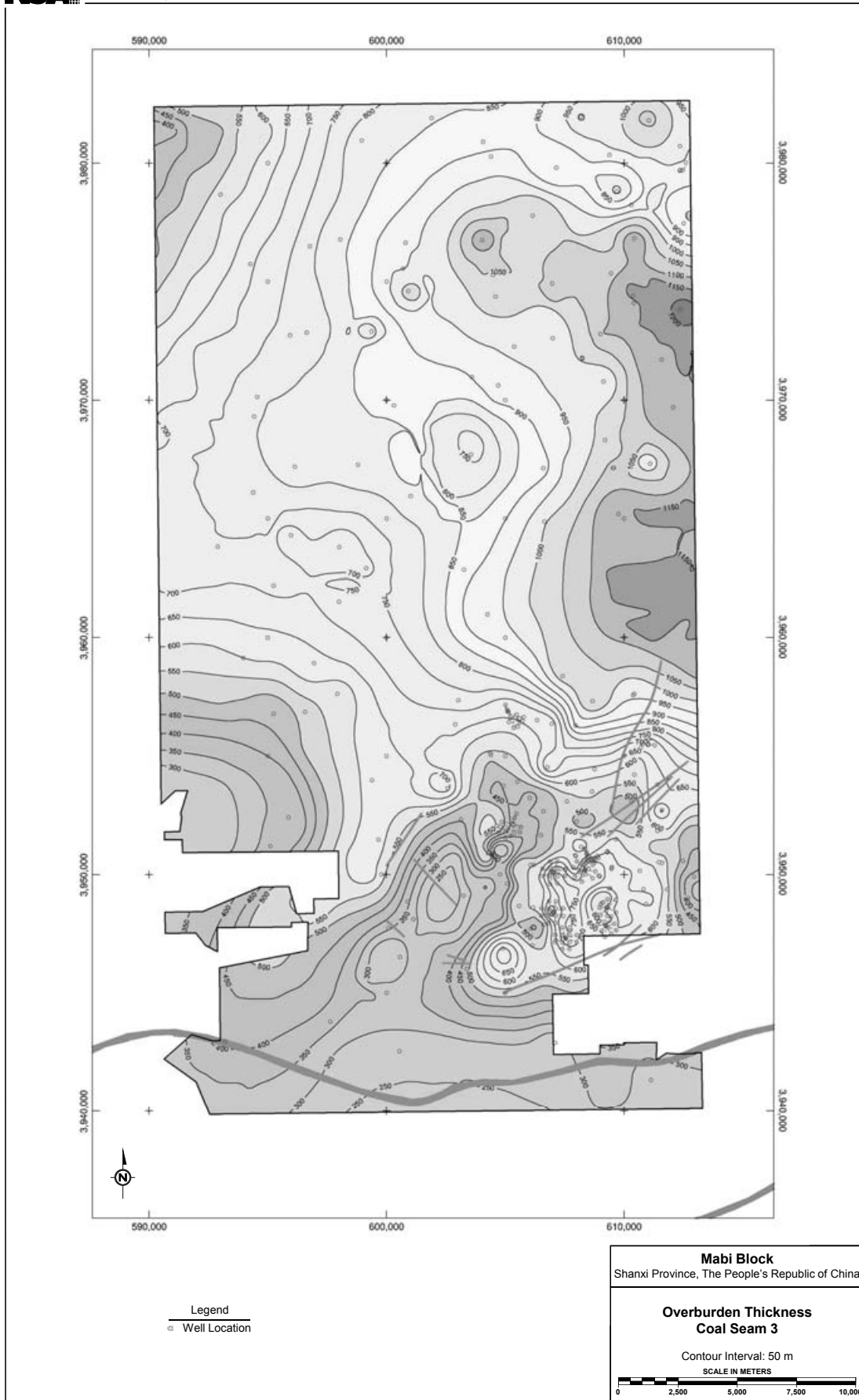


Figure 3-6

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

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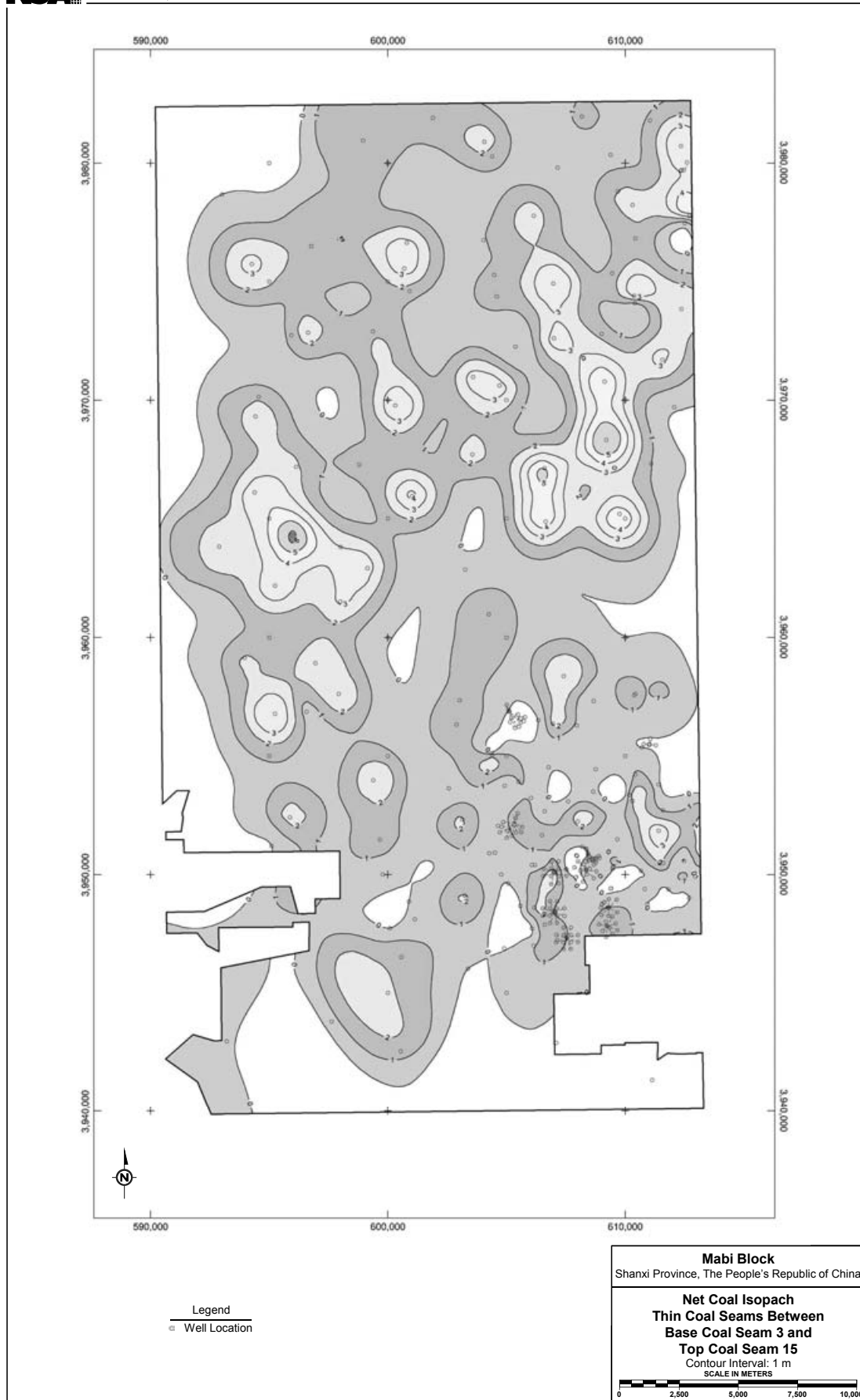


Figure 3-7

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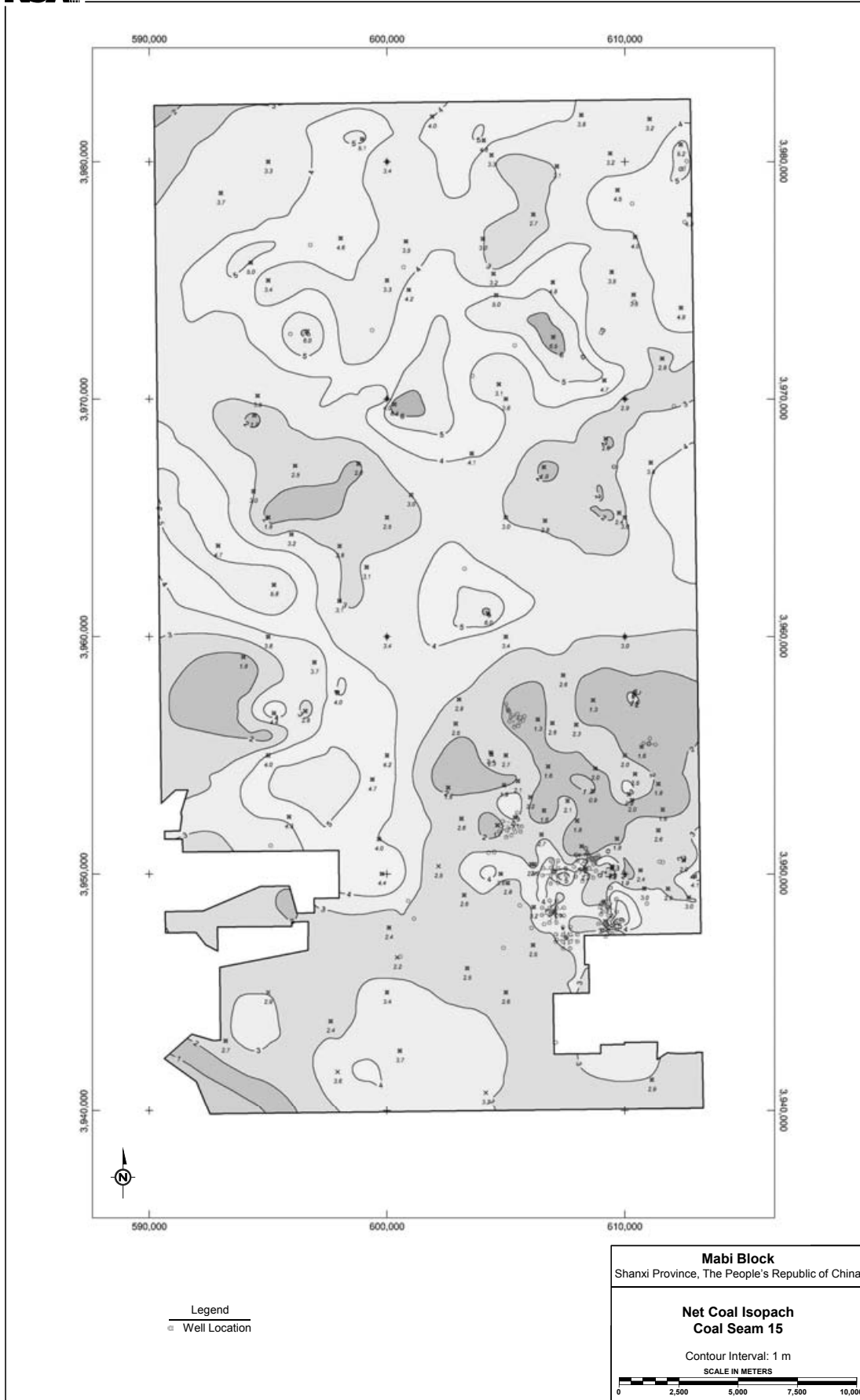


Figure 3-8

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

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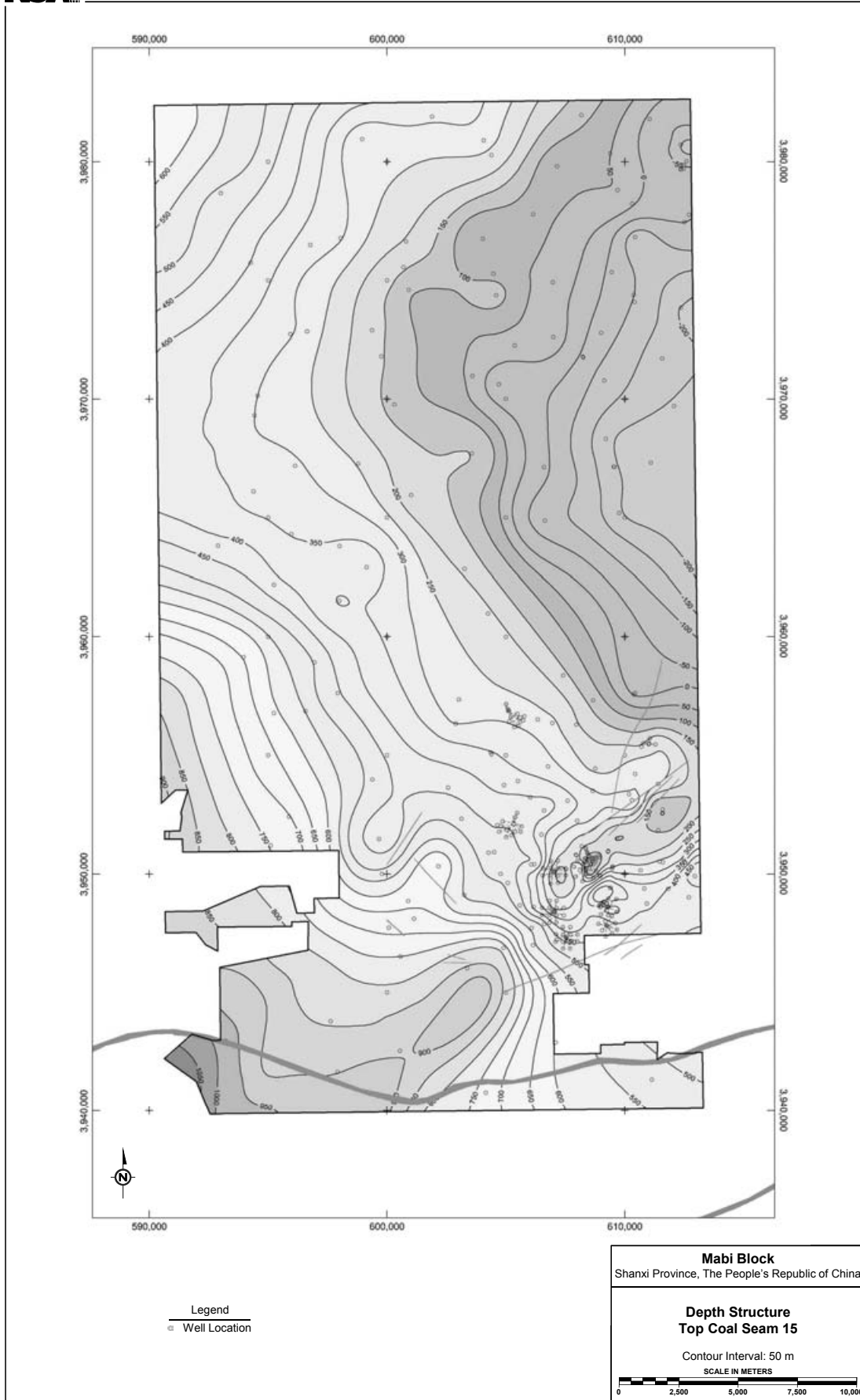


Figure 3-9

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

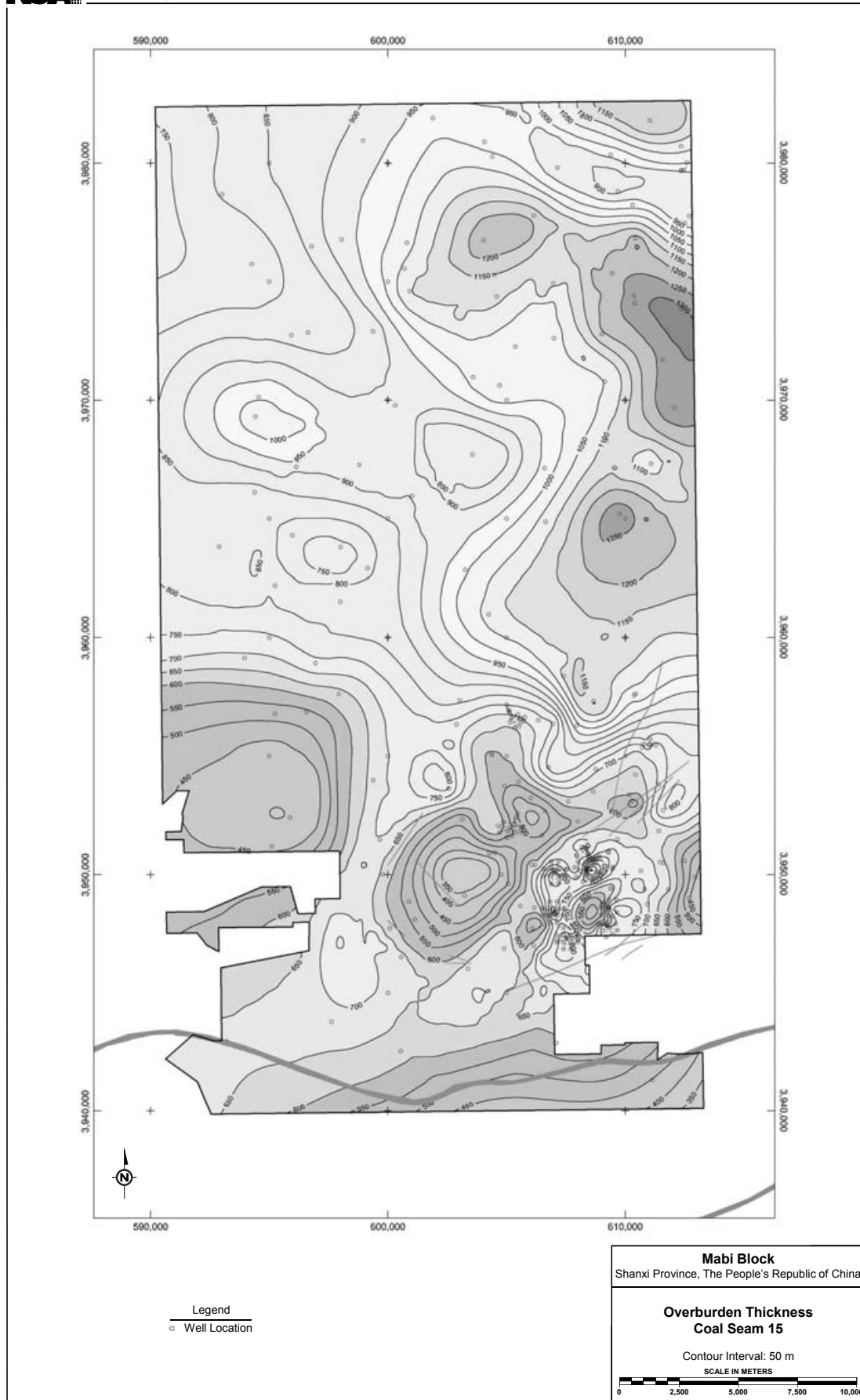
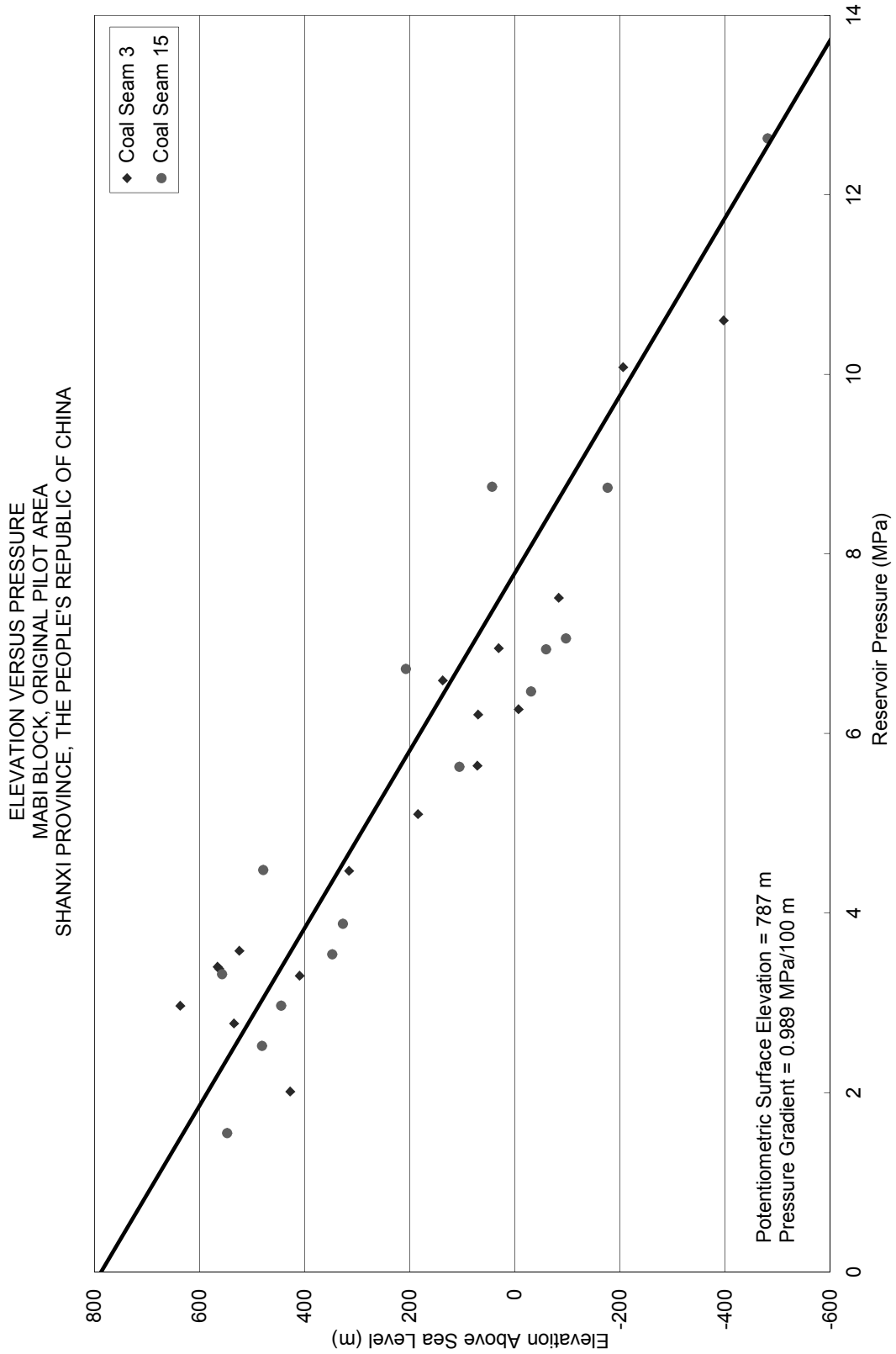


Figure 3-10

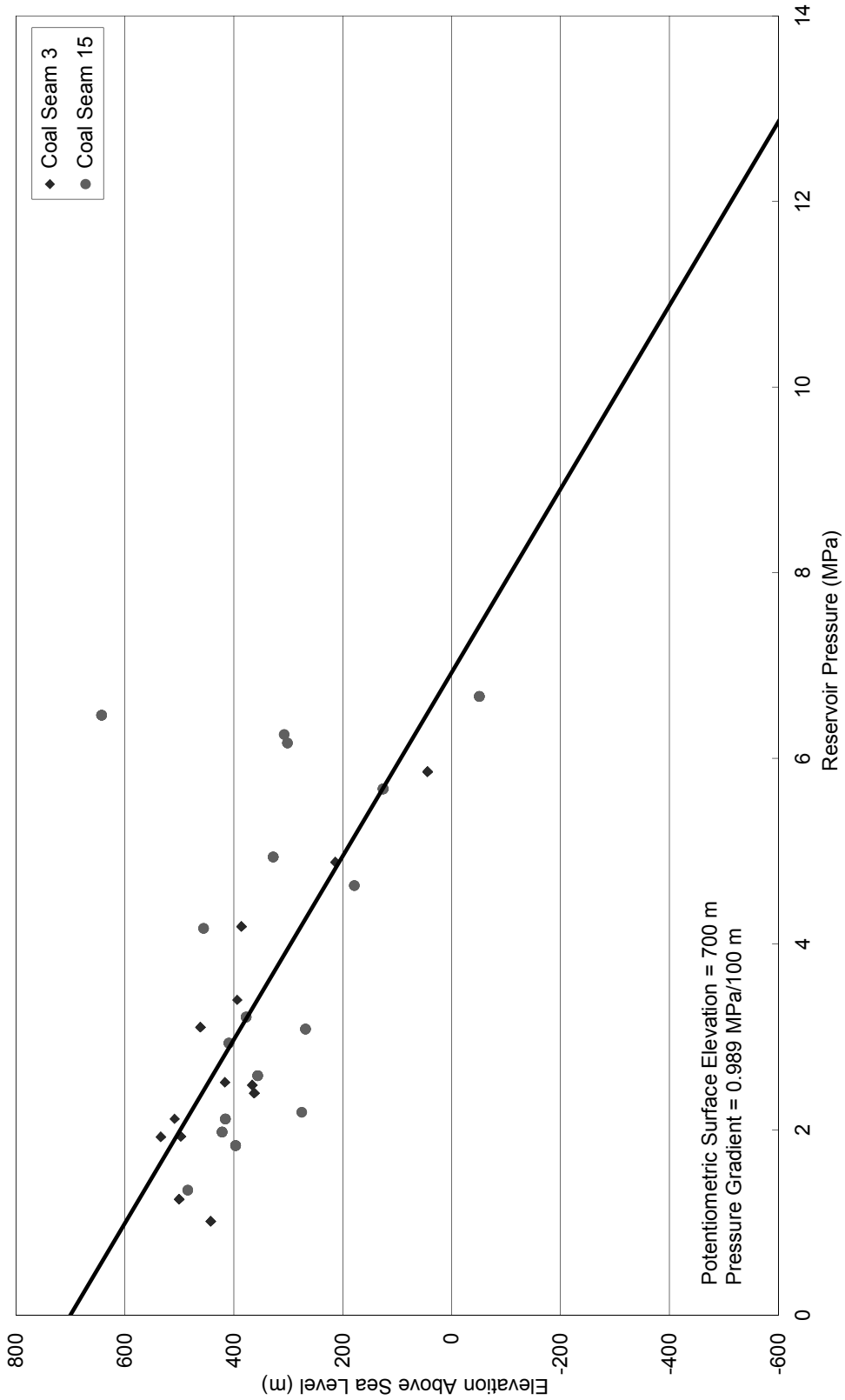
All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-11

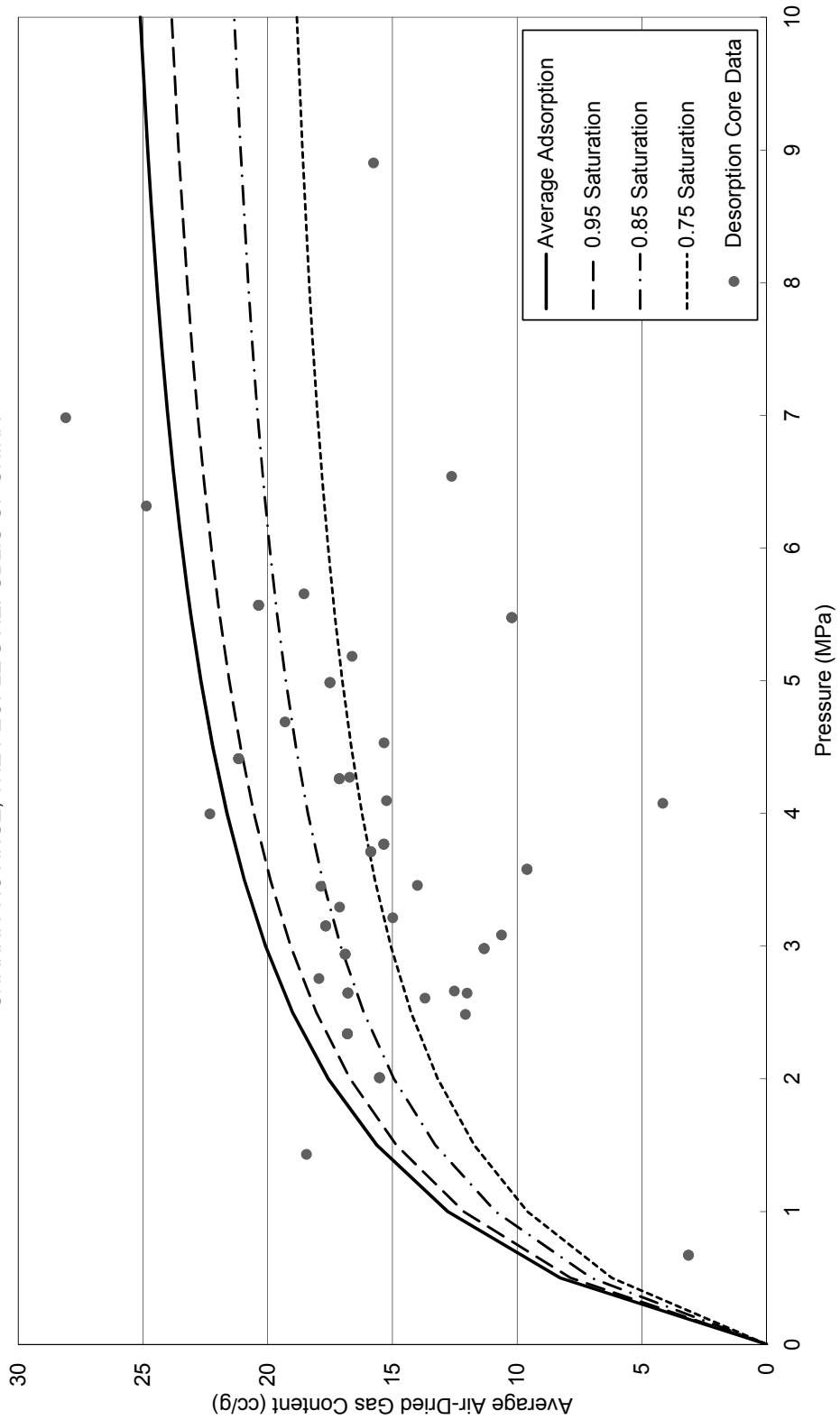
ELEVATION VERSUS PRESSURE
MABI BLOCK, NORTHWEST QUADRANT
SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-12

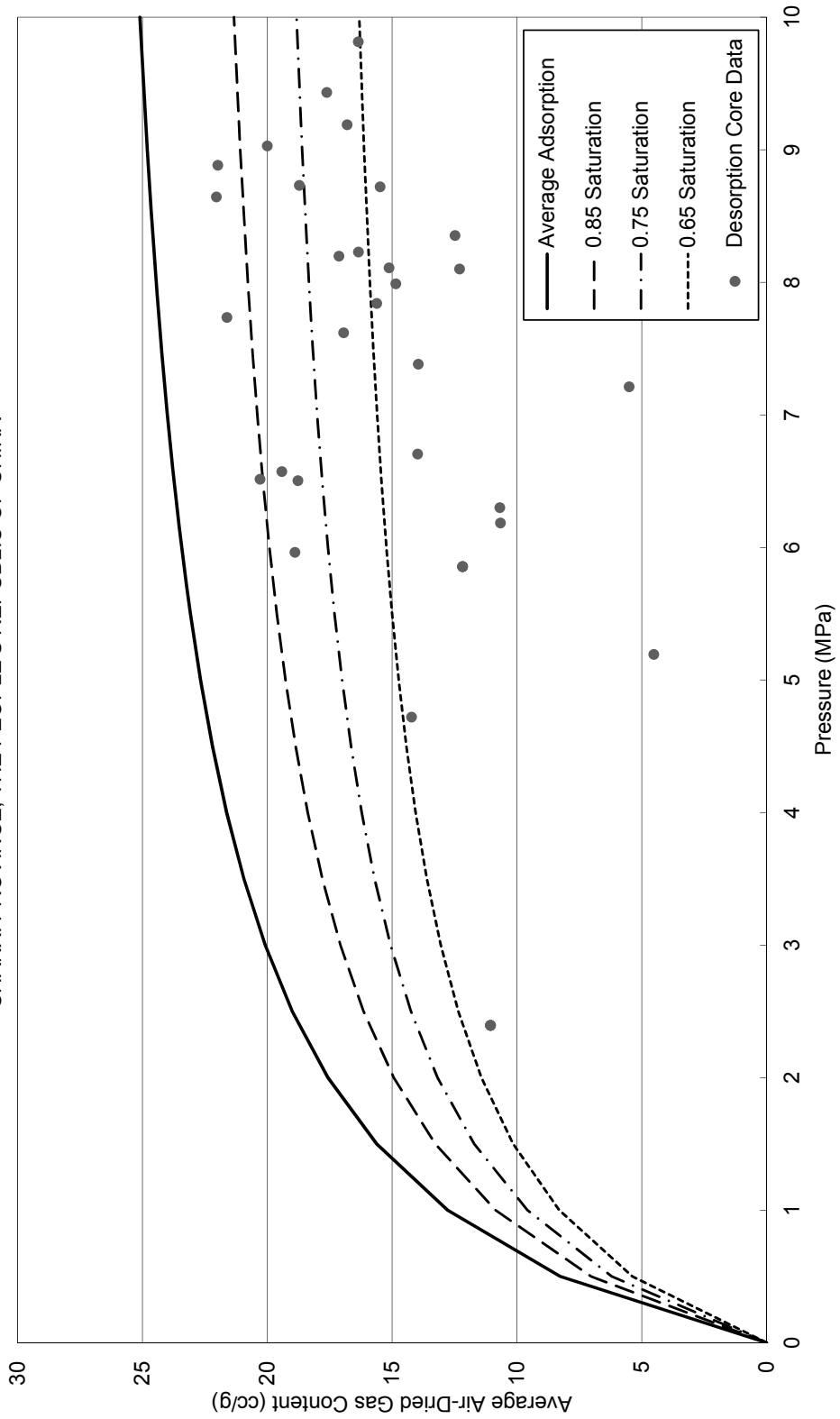
GAS CONTENT VERSUS PRESSURE
COAL SEAM 3
MABI BLOCK, SOUTHEAST QUADRANT
SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

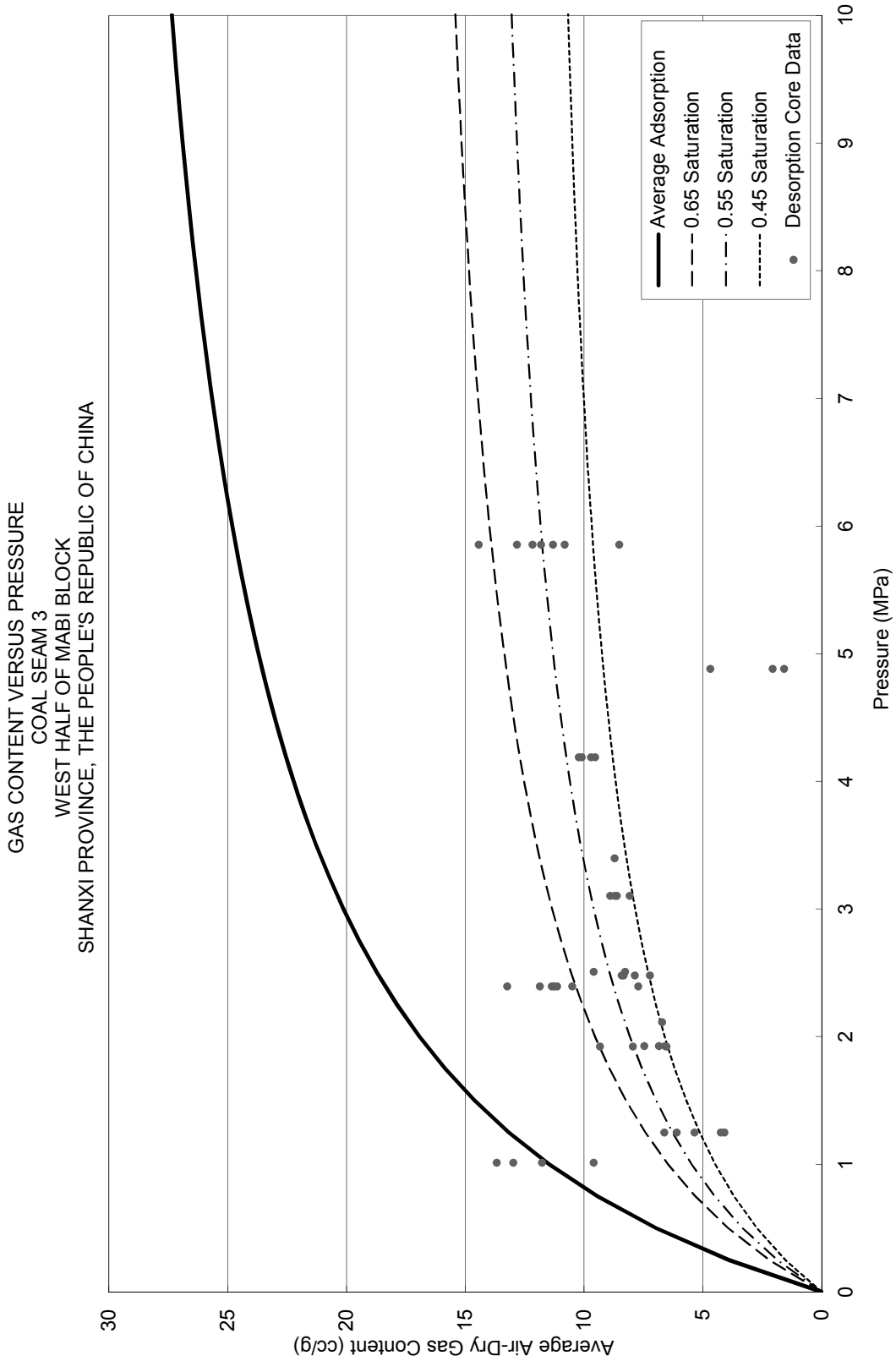
Figure 3-13

GAS CONTENT VERSUS PRESSURE
 COAL SEAM 3
 MABI BLOCK, NORTHEAST QUADRANT
 SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

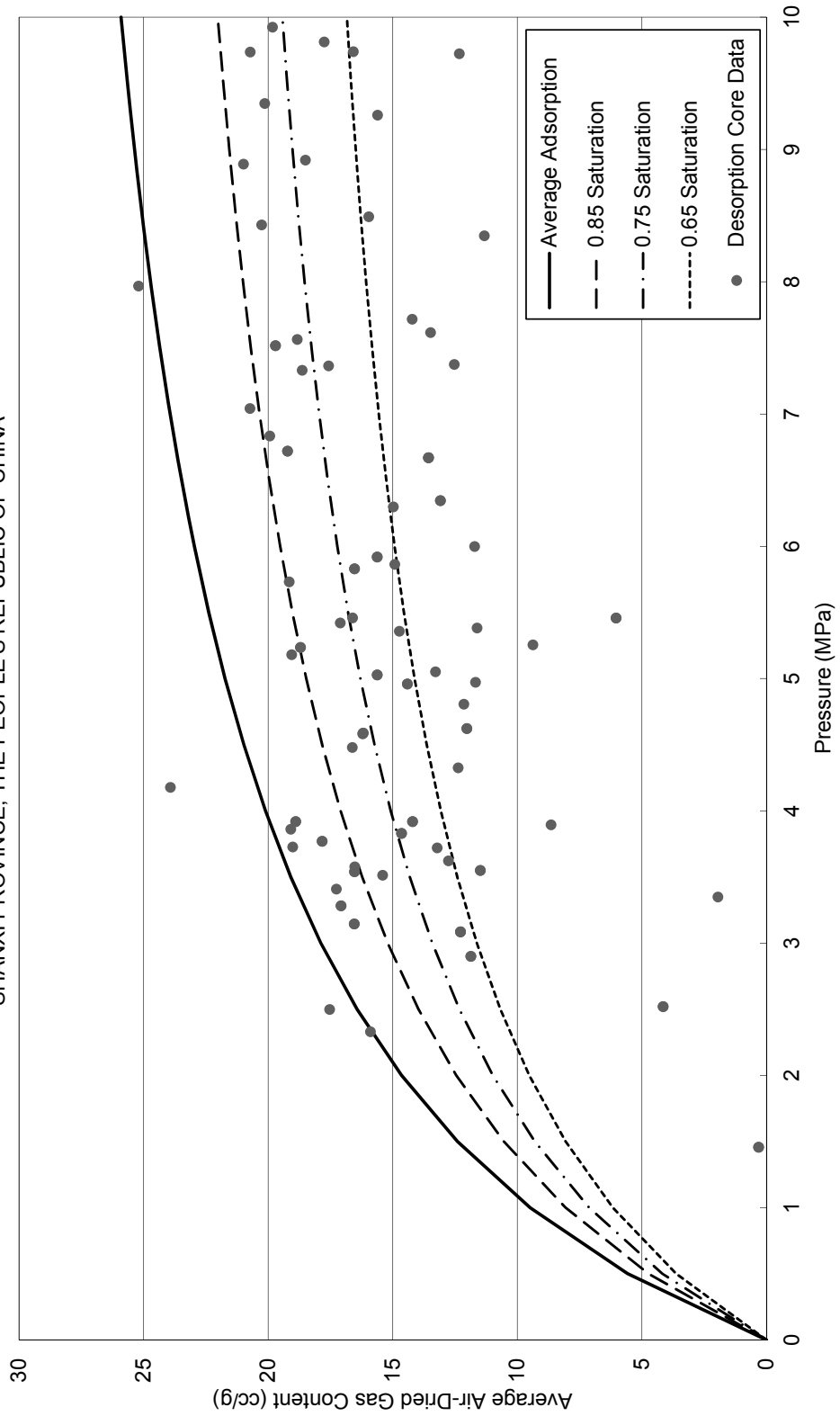
Figure 3-14



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-15

GAS CONTENT VERSUS PRESSURE
COAL SEAM 15
EAST HALF OF MABI BLOCK
SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-16

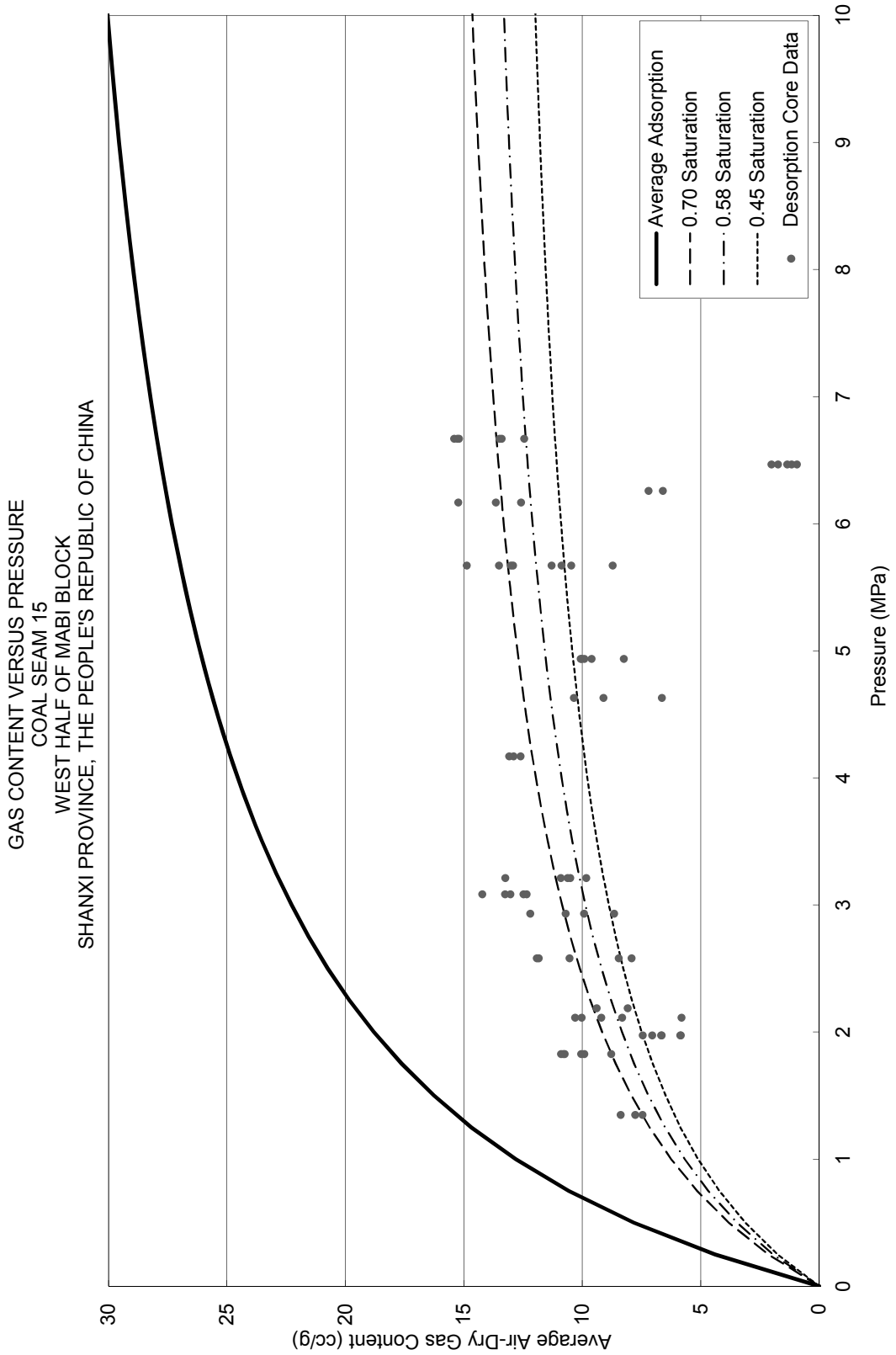
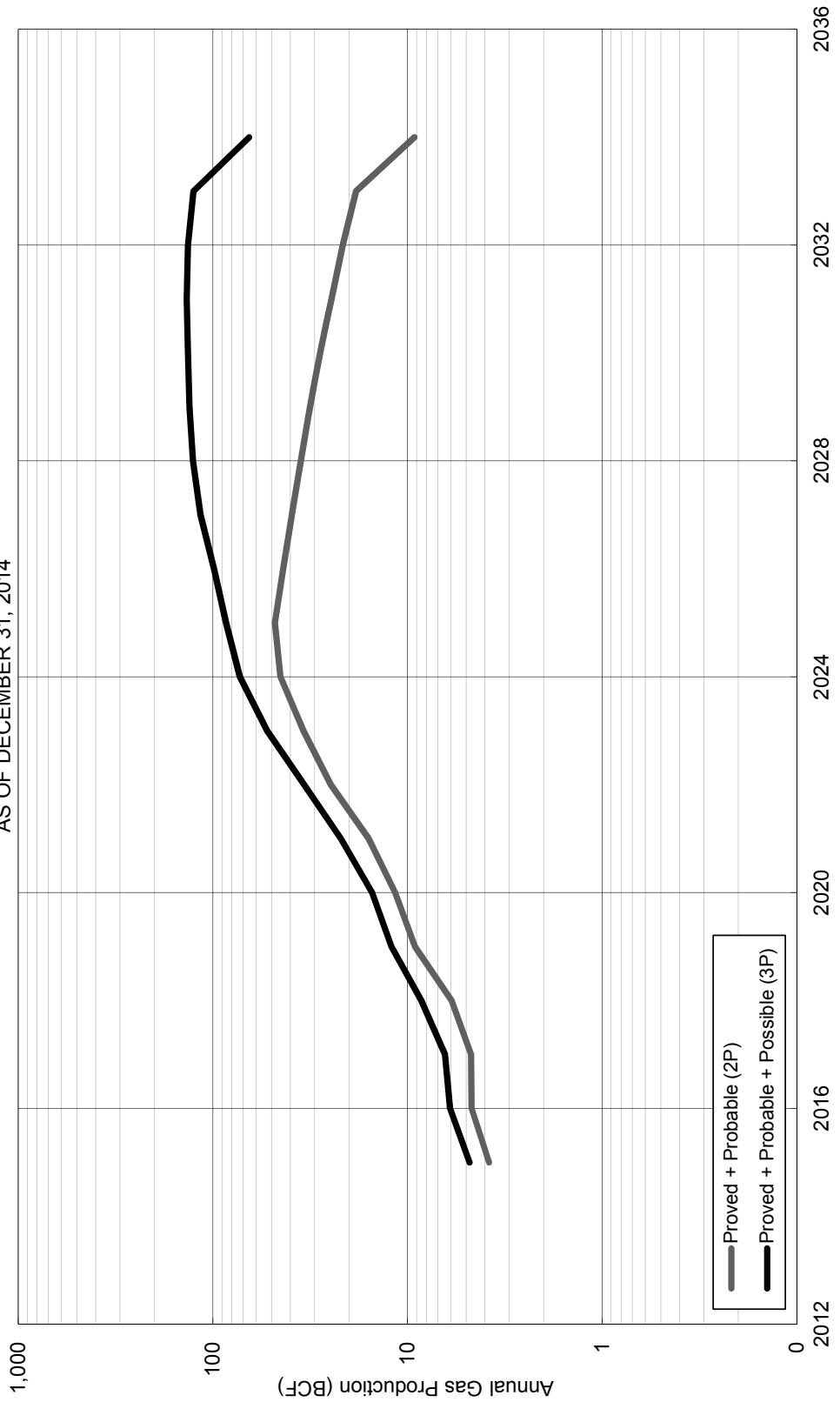


Figure 3-17

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



SUMMARY GRAPH OF NET GAS RESERVES
 MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AAG ENERGY HOLDINGS LIMITED INTEREST
 AS OF DECEMBER 31, 2014

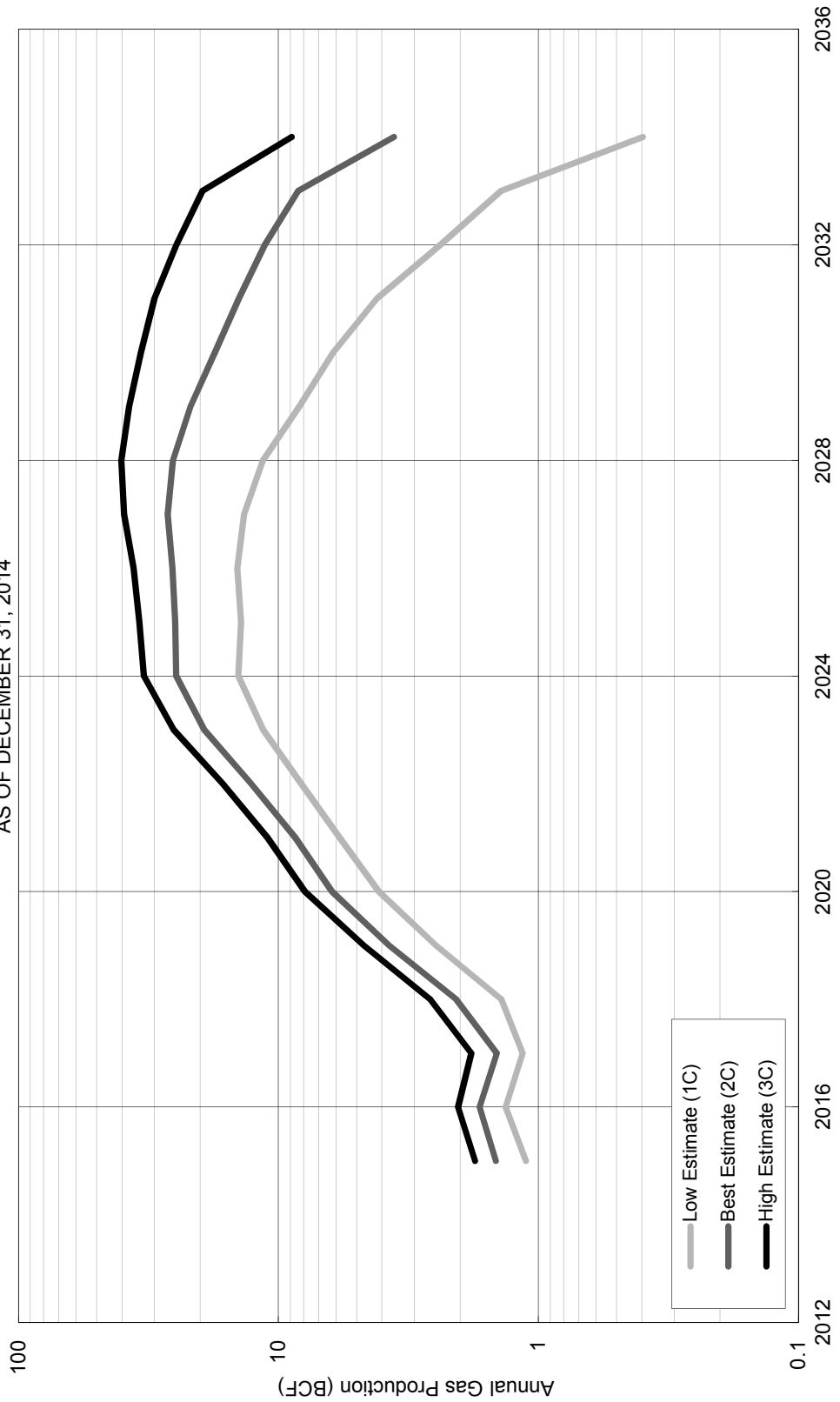


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-18



SUMMARY GRAPH OF NET CONTINGENT GAS RESOURCES
 MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AAG ENERGY HOLDINGS LIMITED INTEREST
 AS OF DECEMBER 31, 2014

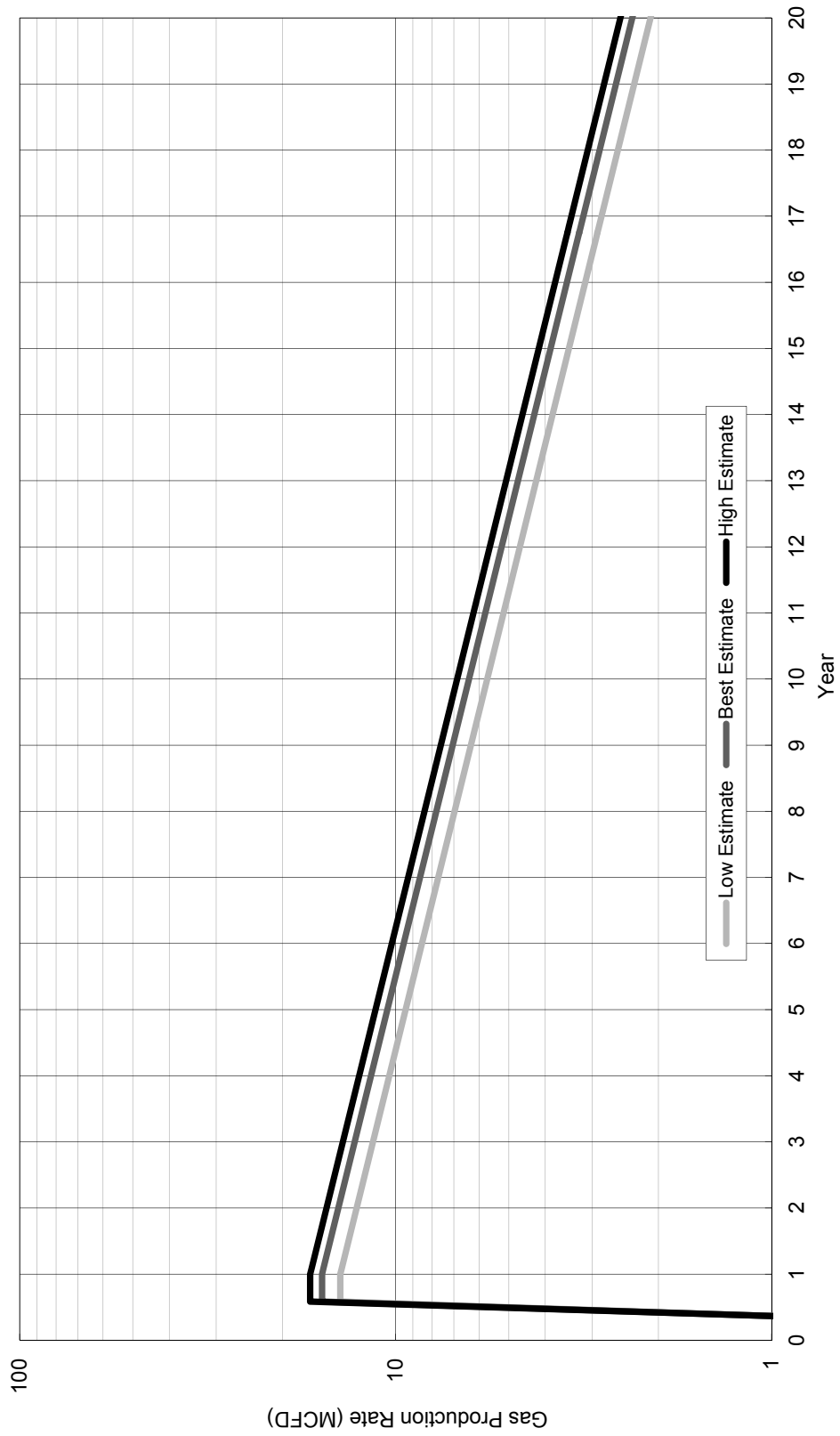


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-19



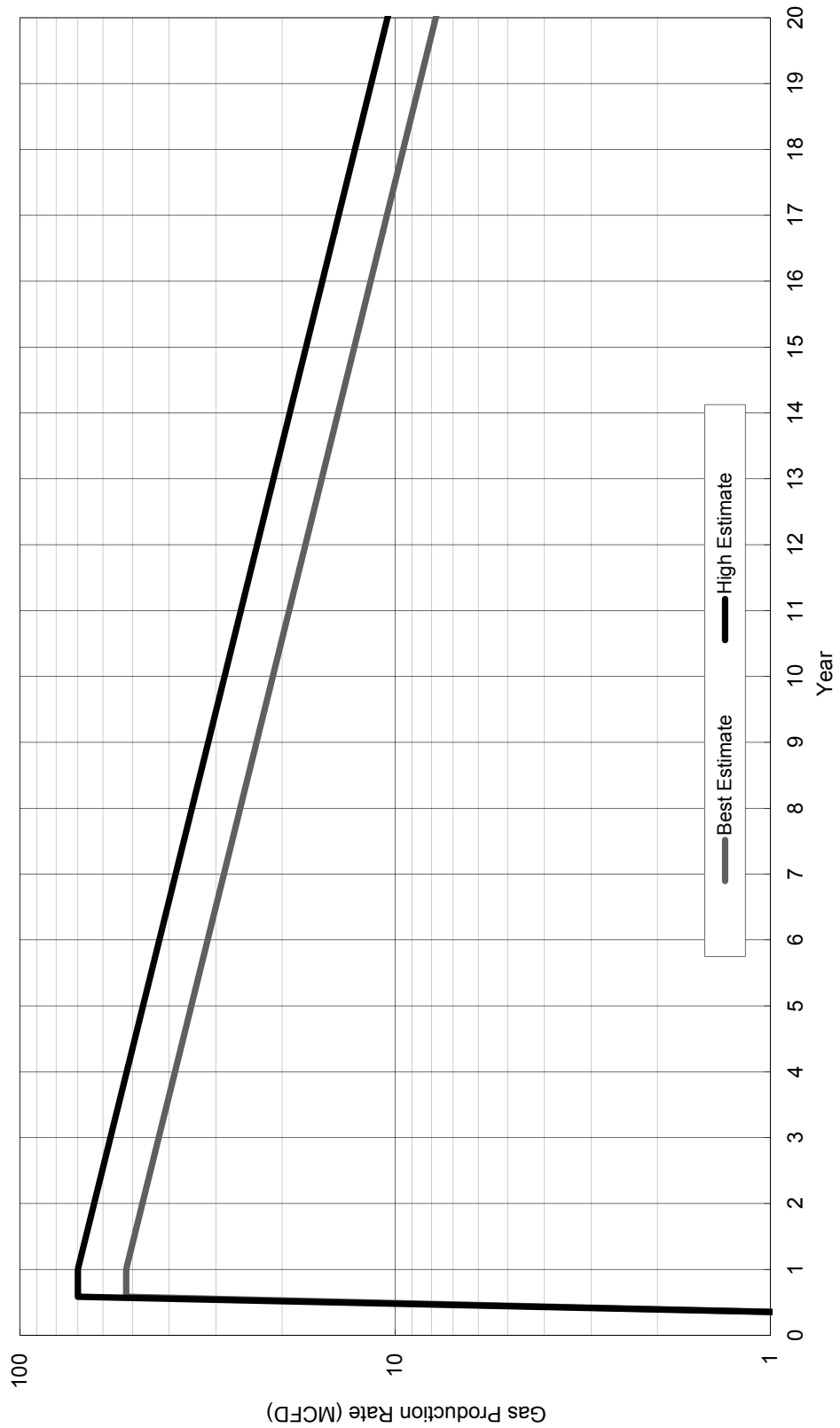
REPRESENTATIVE PRODUCTION PROFILE
PAD-DRILLED WELL - COAL SEAM 2
MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-20

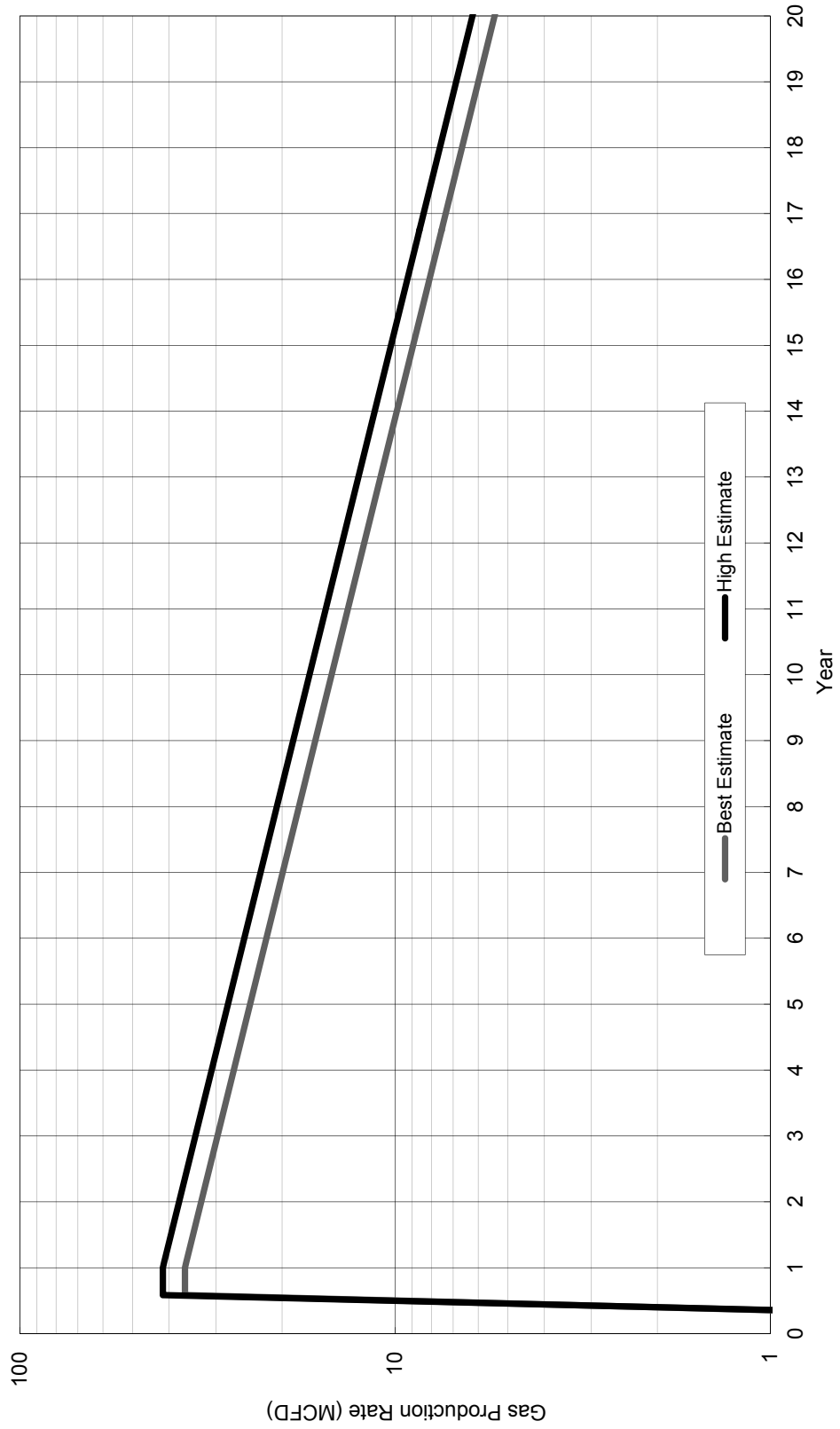
REPRESENTATIVE PRODUCTION PROFILE
PAD-DRILLED WELL - COAL SEAM 3
MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-21

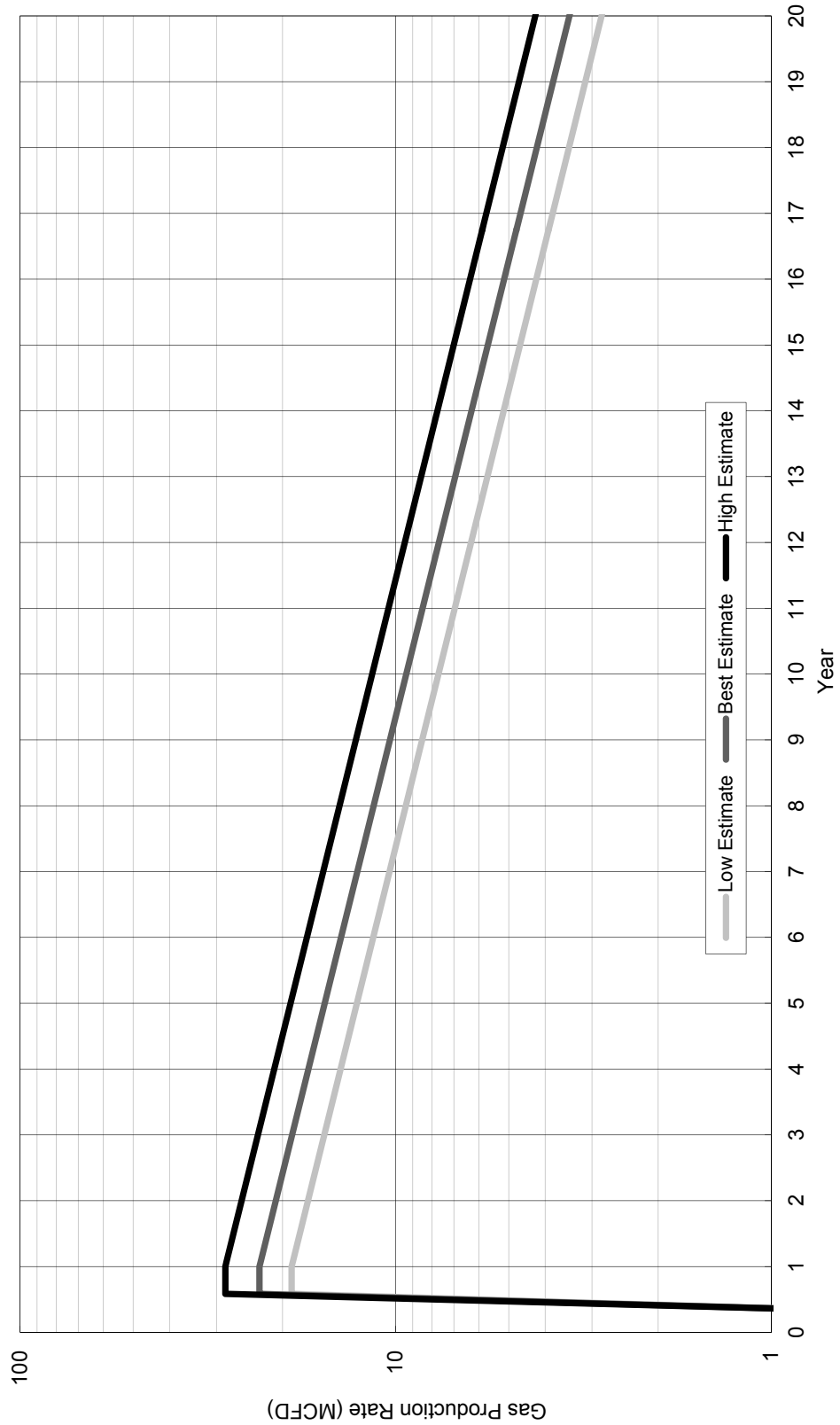
REPRESENTATIVE PRODUCTION PROFILE
 PAD-DRILLED WELL - COAL SEAM 15
 MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-22

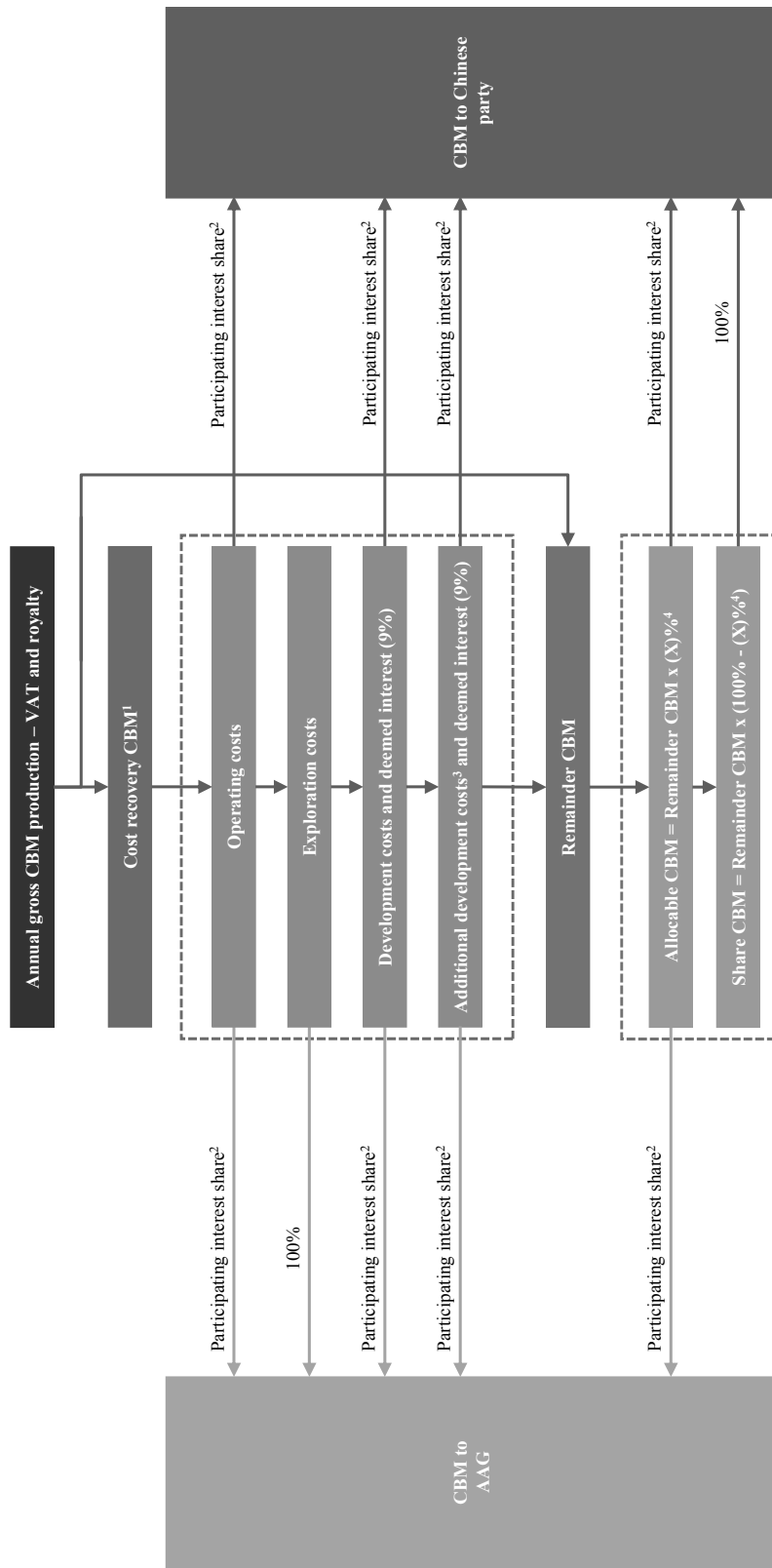
REPRESENTATIVE PRODUCTION PROFILE
 PAD-DRILLED WELL - THIN COAL SEAMS
 MABI BLOCK, SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
 AS OF DECEMBER 31, 2014



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-23

COST RECOVERY AND PRODUCTION ALLOCATION FLOWCHART
MABI BLOCK PRODUCTION SHARING CONTRACT
AAG ENERGY HOLDINGS LIMITED



1. CBM production available for cost recovery is set at 80 percent under the Mabi production sharing contract.
2. Allocation is based on the parties' respective participating interests in the CBM concession under the production sharing contracts. Under the Mabi contract, PetroChina's and AAG's respective participating interests are 30 percent and 70 percent.
3. Additional projects refer to projects that are designed either to improve the producing capability of the reservoir or to substantially increase the recoverable reserves therein through additional investments. As of the date of this report, there have been no additional development project costs.
4. Factor (X) is determined in accordance with a set of successive incremental tiers on the basis of the annual gross CBM production.

Adapted from a figure provided by AAG Energy Limited

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-24

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF DECEMBER 31, 2014											
PROVED + PROBABLE (2P) RESERVES											
PERIOD ENDING	GROSS GAS (BCF)	NET GAS (BCF)	COMPANY GROSS REVENUE ⁽¹⁾ (MM\$)	ROYALTY (MM\$)	VALUE ADDED TAX (MM\$)	NET INVESTMENT (MM\$)	NET OPERATING EXPENSE (MM\$)	FUTURE NET REVENUE ⁽²⁾ (MM\$)			
								BEFORE INCOME TAX (BIT)	AFTER INCOME TAX (AIT)		
								CUM NPV AT 10%	CUM NPV AT 10%		
12-31-2015	4.3	3.8	33.2	0.0	0.0	42.3	14.3	(23.4)	(22.3)	(23.4)	(22.3)
12-31-2016	5.3	4.7	41.7	0.0	0.0	31.5	15.3	(5.1)	(26.7)	(5.1)	(26.7)
12-31-2017	5.3	4.7	48.7	0.0	0.0	54.3	11.8	(17.4)	(40.4)	(17.4)	(40.4)
12-31-2018	6.6	5.9	67.4	0.0	0.0	100.9	14.3	(47.9)	(74.7)	(47.9)	(74.7)
12-31-2019	10.2	9.2	114.1	0.0	0.0	172.9	18.7	(77.5)	(125.2)	(77.5)	(125.2)
12-31-2020	15.9	11.6	158.8	0.0	0.0	219.3	25.8	(86.3)	(176.2)	(86.3)	(176.2)
12-31-2021	23.9	15.8	224.4	0.0	0.0	328.0	36.3	(139.8)	(251.5)	(139.8)	(251.5)
12-31-2022	37.5	24.8	362.7	0.0	0.0	319.6	55.2	(12.2)	(257.5)	(32.5)	(267.4)
12-31-2023	52.5	34.3	519.1	2.2	0.0	343.3	76.5	99.4	(213.2)	55.6	(242.7)
12-31-2024	69.7	45.0	705.7	4.8	0.0	50.9	98.9	555.9	11.5	483.9	(47.0)
12-31-2025	74.7	48.1	780.5	5.8	0.0	0.0	106.7	673.9	259.2	587.1	168.8
12-31-2026	67.3	43.6	732.9	4.8	0.0	0.0	108.9	624.0	467.8	532.4	346.7
12-31-2027	60.5	39.3	685.3	3.9	0.0	0.0	110.2	575.2	642.5	496.6	497.6
12-31-2028	54.3	35.4	640.1	2.9	0.0	0.0	111.6	528.4	788.5	451.3	622.2
12-31-2029	48.4	31.8	594.2	2.0	0.0	0.0	112.9	481.3	909.3	403.0	723.4
12-31-2030	42.6	28.1	543.9	1.0	0.0	0.0	113.4	430.5	1,007.6	352.0	803.8
12-31-2031	37.2	24.6	493.9	0.0	0.0	0.0	113.3	380.6	1,086.6	303.2	866.7
12-31-2032	32.5	21.5	447.6	0.0	0.0	0.0	113.1	334.5	1,149.6	261.4	916.0
12-31-2033	27.7	18.4	396.2	0.0	0.0	0.0	112.2	284.0	1,198.4	221.5	954.0
12-31-2034	13.9	9.2	206.0	0.0	0.0	0.0	63.8	142.2	1,221.1	84.6	967.5
12-31-2035	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,221.1	0.0	967.5
12-31-2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,221.1	0.0	967.5
TOTAL	690.1	459.8	7,796.4	27.5	0.0	1,663.0	1,433.0	4,700.4	1,221.1	3,802.8	967.5
CUM PROD	1.6										
ULTIMATE	691.7								DISCOUNT RATE (%)	NET PRESENT VALUE (MM\$)	
									8	1,585.9	1,264.9
									15	639.6	494.3
									20	332.6	245.8
									25	165.8	112.0
									30	73.3	38.9

⁽¹⁾ THE COMPANY GROSS REVENUE SHOWN IS AFTER DEDUCTIONS FOR ROYALTIES.

⁽²⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE PROPERTIES. BASED ON AAG PRICE AND COST PARAMETERS

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-25



SUMMARY OF POSSIBLE RESERVES PROJECTIONS
MABI BLOCK
SHANXI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA
AAG ENERGY HOLDINGS LIMITED INTEREST
AS OF DECEMBER 31, 2014

Period Ending	Gross Gas (BCF)	Net Gas (BCF)	Company Gross Revenue (MM\$)	Royalty (MM\$)	Value Added Tax (MM\$)	Net Investment (MM\$)	Net Operating Expense (MM\$)
12-31-2015	1.1	1.0	8.7	0.0	0.0	0.8	0.2
12-31-2016	1.5	1.4	12.2	0.0	0.0	1.9	0.3
12-31-2017	1.9	1.7	17.4	0.0	0.0	2.7	0.3
12-31-2018	2.9	2.6	28.9	0.0	0.0	11.9	0.6
12-31-2019	4.7	2.9	36.7	0.0	0.0	8.5	1.3
12-31-2020	7.0	3.6	49.5	0.0	0.0	5.4	1.8
12-31-2021	9.4	6.2	87.4	0.0	0.0	17.7	2.3
12-31-2022	14.4	9.2	134.2	2.0	0.0	40.7	3.6
12-31-2023	29.8	18.4	278.4	4.3	0.0	28.2	7.5
12-31-2024	45.9	27.6	433.2	10.2	0.0	336.3	12.3
12-31-2025	62.8	37.6	609.9	16.6	0.0	594.9	32.5
12-31-2026	92.3	55.2	928.1	25.4	0.0	613.2	67.3
12-31-2027	127.8	76.4	1,330.9	37.4	0.0	633.2	108.3
12-31-2028	153.0	91.2	1,647.4	49.5	0.0	635.8	149.3
12-31-2029	167.8	100.1	1,872.8	57.1	0.0	657.2	189.6
12-31-2030	177.6	106.1	2,055.7	62.4	0.0	700.0	233.2
12-31-2031	186.4	111.5	2,239.7	67.7	0.0	588.3	277.5
12-31-2032	187.7	112.7	2,343.5	68.1	0.0	0.0	315.2
12-31-2033	178.0	107.4	2,314.7	61.7	0.0	0.0	328.4
12-31-2034	92.2	56.1	1,253.7	29.0	0.0	0.0	194.7

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-26



RISK ASSESSMENT
MABI BLOCK RESERVES
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

Category/Issue	Likelihood	Consequence	Overall Risk
Coal Quantity			
Lack of Coal	Unlikely	Major	Low
Poor Coal Quality (Rank, Maceral Composition)	Unlikely	Moderate	Low
Poor Seam Distribution (Multiseam vs. Single Seam)	Unlikely	Moderate	Low
Gas Content			
Insufficient Quantity	Unlikely	Major	Low
Insufficient Pressure (Underpressured)	Unlikely	Moderate	Low
Low Saturation Levels	Possible	Major	Low
Unfavorable Gas Composition	Unlikely	Moderate	Low
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Unlikely	Major	Low
Insufficient Cleat Development	Possible	Moderate	Low
Detrimental Stress Orientation	Unlikely	Minor	Low
Detrimental Overburden Stress (Depth)	Unlikely	Moderate	Low
Gas Producibility			
Inability to Depressure Coal	Unlikely	Major	Low
Inefficient Completion Practice	Unlikely	Major	Low
Excessive Aquifer Recharge	Unlikely	Moderate	Low
Insufficient Peak Gas Rates	Possible	Major	Medium
Insufficient EUR per Spacing Unit	Unlikely	Major	Low
Economic Development			
Insufficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Unlikely	Major	Low
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Possible	Moderate	Medium
Geological and Environmental Disasters	Unlikely	Moderate	Low

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-27



RISK ASSESSMENT
MABI BLOCK CONTINGENT RESOURCES
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

Category/Issue	Likelihood	Consequence	Overall Risk
Coal Quantity			
Lack of Coal	Unlikely	Major	Low
Poor Coal Quality (Rank, Maceral Composition)	Unlikely	Moderate	Low
Poor Seam Distribution (Multiseam vs. Single Seam)	Unlikely	Moderate	Low
Gas Content			
Insufficient Quantity	Unlikely	Major	Low
Insufficient Pressure (Underpressured)	Unlikely	Moderate	Low
Low Saturation Levels	Possible	Major	Medium
Unfavorable Gas Composition	Unlikely	Moderate	Low
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Unlikely	Major	Low
Insufficient Cleat Development	Unlikely	Moderate	Low
Detrimental Stress Orientation	Unlikely	Minor	Low
Detrimental Overburden Stress (Depth)	Unlikely	Moderate	Low
Gas Producibility			
Inability to Depressure Coal	Unlikely	Major	Low
Inefficient Completion Practice	Possible	Major	Medium
Excessive Aquifer Recharge	Unlikely	Moderate	Low
Insufficient Peak Gas Rates	Possible	Major	Medium
Insufficient EUR per Spacing Unit	Possible	Major	Medium
Economic Development			
Insufficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Unlikely	Major	Low
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Possible	Moderate	Medium
Geological and Environmental Disasters	Unlikely	Moderate	Low

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-28



RISK ASSESSMENT
MABI BLOCK PROSPECTIVE RESOURCES
AAG ENERGY HOLDINGS LIMITED
AS OF DECEMBER 31, 2014

Category/Issue	Likelihood	Consequence	Overall Risk
Coal Quantity			
Lack of Coal	Unlikely	Major	Low
Poor Coal Quality (Rank, Maceral Composition)	Likely	Moderate	Medium
Poor Seam Distribution (Multiseam vs. Single Seam)	Likely	Moderate	High
Gas Content			
Insufficient Quantity	Possible	Major	Medium
Insufficient Pressure (Underpressured)	Possible	Moderate	Medium
Low Saturation Levels	Likely	Major	High
Unfavorable Gas Composition	Unlikely	Moderate	Low
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Possible	Major	Medium
Insufficient Cleat Development	Possible	Moderate	Low
Detrimental Stress Orientation	Unlikely	Minor	Low
Detrimental Overburden Stress (Depth)	Possible	Moderate	Medium
Gas Producibility			
Inability to Depressure Coal	Possible	Major	Medium
Inefficient Completion Practice	Possible	Major	High
Excessive Aquifer Recharge	Unlikely	Moderate	Low
Insufficient Peak Gas Rates	Possible	Major	High
Insufficient EUR per Spacing Unit	Possible	Major	Medium
Economic Development			
Insufficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Unlikely	Major	Low
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Possible	Moderate	Medium
Geological and Environmental Disasters	Unlikely	Moderate	Low

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3-29



COMPARISON OF HISTORICAL RESERVES AND NET PRESENT VALUE ESTIMATES
PANZHUANG AND MABI BLOCKS
AAG ENERGY HOLDINGS LIMITED INTEREST

Block/Category	Gross (100%) Gas Reserves (BCF)		Net Gas Reserves (BCF)		Net Present Value Before Income Tax Discounted at 10% (MM\$)	
	As of 12-31-2014	As of 12-31-2013	As of 12-31-2014	As of 12-31-2013	As of 12-31-2014	As of 12-31-2013
Panzhuang						
Proved (1P)	107.9	78.4	82.3	62.8	448.6	395.2
Proved Plus Probable (2P)	217.3	166.9	164.9	130.1	924.5	838.4
Possible	134.5	140.8	100.3	105.8	N/A	N/A
Mabi						
Proved (1P)	0.0	0.0	0.0	0.0	0.0	0.0
Proved Plus Probable (2P)	690.1	711.8	459.8	472.8	1,221.1	1,794.3
Possible	1,544.3	2,160.4	928.7	1,302.5	N/A	N/A
Total						
Proved (1P)	107.9	78.4	82.3	62.8	448.6	395.2
Proved Plus Probable (2P)	907.4	878.7	624.7	602.9	2,145.6	2,632.7
Possible	1,678.8	2,301.2	1,028.9	1,408.3	N/A	N/A

Totals may not add because of rounding.

Notes: Although the scope of each evaluation shown was similar, when comparing estimates between evaluations it is important to consider the production between time periods and to refer to the respective reports to understand the differences in prices, costs, development timing, development plans, and all other economic data.

The estimates shown as of June 30, 2012, are from our report dated August 1, 2012, setting forth our estimates of reserves and future revenue and unrisksed contingent and prospective resources to the Asian American Gas, Inc. interest in certain coalbed methane properties located in Panzhunag and Mabi Blocks, Shanxi Province, The People's Republic of China, as of June 30, 2012.

The estimates shown as of December 31, 2013, are from our report dated March 28, 2014, setting forth our estimates of reserves and future revenue and unrisksed contingent and prospective resources to the AAG Energy Limited interest in certain coalbed methane properties located in Panzhunag and Mabi Blocks, Shanxi Province, The People's Republic of China, as of December 31, 2013.

Figure A-1

All estimates and exhibits herein are part of this NSA/ report and are subject to its parameters and conditions.



COMPARISON OF HISTORICAL CONTINGENT RESOURCES ESTIMATES
PANZHUANG AND MABI BLOCKS
AAG ENERGY HOLDINGS LIMITED INTEREST

Block/Category	Gross (100%) Unrisked Contingent Gas Resources (BCF)			Net Unrisked Contingent Gas Resources (BCF)		
	As of 12-31-2014	As of 12-31-2013	As of 6-30-2012	As of 12-31-2014	As of 12-31-2013	As of 6-30-2012
Panzhuang						
Low Estimate (1C)	5.0	0.0	0.0	3.8	0.0	0.0
Best Estimate (2C)	11.4	0.0	0.0	8.6	0.0	0.0
High Estimate (3C)	16.3	0.0	0.0	12.4	0.0	0.0
Mabi						
Low Estimate (1C)	190.2	228.6	31.9	127.5	152.3	21.5
Best Estimate (2C)	393.9	449.3	69.8	261.5	296.8	47.0
High Estimate (3C)	625.7	686.9	105.7	410.7	449.0	70.9
Total						
Low Estimate (1C)	195.2	228.6	31.9	131.3	152.3	21.5
Best Estimate (2C)	405.2	449.3	69.8	270.1	296.8	47.0
High Estimate (3C)	642.0	686.9	105.7	423.1	449.0	70.9

Totals may not add because of rounding.

Notes: Although the scope of each evaluation shown was similar, when comparing estimates between evaluations it is important to consider the production between time periods and to refer to the respective reports to understand the differences in prices, costs, development timing, development plans, and all other economic data.

The estimates shown as of June 30, 2012, are from our report dated August 1, 2012, setting forth our estimates of reserves and future revenue and unrisksed contingent and prospective resources to the Asian American Gas, Inc. interest in certain coalbed methane properties located in Panzhuang and Mabi Blocks, Shanxi Province, The People's Republic of China, as of June 30, 2012.

The estimates shown as of December 31, 2013, are from our report dated March 28, 2014, setting forth our estimates of reserves and future revenue and unrisksed contingent and prospective resources to the AAG Energy Limited interest in certain coalbed methane properties located in Panzhuang and Mabi Blocks, Shanxi Province, The People's Republic of China, as of December 31, 2013.

Figure A-2

All estimates and exhibits herein are part of this NSA report and are subject to its parameters and conditions.

Set out below is a summary of certain provisions of the Memorandum of Association and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on December 23, 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Memorandum of Association (the “**Memorandum**”) and the Articles of Association (the “**Articles**”) comprise our constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on our Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 5, 2015 and will take effect upon Listing. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and

may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and the members may by ordinary resolution appoint another in his place

at the meeting at which such Director is removed. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;

- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution

dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention.

The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may

not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is

ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from February 16, 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should

exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated as an exempted company with limited liability under the Cayman Companies Law on December 23, 2014. Our Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance and our head office and principal place of business in Hong Kong is at Unit 2109-10, 21st Floor, China Merchants Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Hong Kong. Mr. Allen Mak has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong and the address for service of process and notices is Unit 2109-10, 21st Floor, China Merchants Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Hong Kong.

As our Company is incorporated in the Cayman Islands, our operation is subject to the relevant laws and regulations of the Cayman Islands and our Company's constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this prospectus.

2. Subsidiaries

Details about our subsidiaries are set out in note 1 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

3. Changes in our share capital

On the date of our Company's incorporation, the authorized share capital of our Company is US\$250,000 divided into 2,500,000,000 shares of US\$0.0001 each.

Immediately after our Company's incorporation, we transferred one subscriber Share and allotted and issued 9,999 Shares to our Parent Company. On December 30, 2014, we further allotted and issued 835,069,049 Shares to our Parent Company.

Pursuant to the resolutions in writing of our sole Shareholder passed on March 31, 2015, the authorized share capital of our Company was increased from US\$250,000 divided into 2,500,000,000 Shares to US\$600,000 divided into 6,000,000,000 Shares by the creation of an additional 3,500,000,000 Shares.

On April 23, 2015, our Company repurchased one issued Share at nominal consideration and such Share was cancelled on the same date.

Pursuant to the resolutions of our sole Shareholder passed on June 5, 2015, the Directors are authorised to allot and issue a total of 1,496,483,718 Shares by way of capitalization of the sum of US\$149,648.37 standing to the credit of the share premium account of the Company, credited as fully paid at par to the Shareholders as appearing on the register of members of the

Company on the date of the Prospectus, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares of the same category.

Immediately upon the Listing becoming unconditional and immediately after the conversion of the Preferred Parent Shares and the Convertible Bonds into ordinary shares of our Parent Company, our Company will issue the Additional Shares to our Parent Company at par value.

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), our issued share capital will be US\$332,437 comprising 3,324,368,920 Shares, ranking *pari passu* and credited as fully paid. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Resolutions in Writing of the Sole Shareholder of our Company passed on June 5, 2015" in this Appendix. Our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this appendix, there has been no alteration in the share capital of our Company since our establishment.

4. Corporate reorganization

Our Group underwent the 2012 Share Swap and the Reorganization in preparation for the Listing, which involved the following steps. For further details on the 2012 Share Swap and the Reorganization, please refer to the section headed "History and Corporate Structure".

4.1 Incorporation of our Parent Company, changes in its share capital and its acquisition of AAGI and SAE

(1) Incorporation of our Parent Company

Our Parent Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on November 9, 2007.

(2) Changes in the share capital of our Parent Company and acquisition of AAGI and SAE by our Parent Company

The following sets out the changes in our Parent Company's issued share capital since the date of its incorporation:

On November 9, 2007, one ordinary share of US\$1.00 of our Parent Company was allotted and issued as fully paid to Offshore Incorporations (Cayman) Limited.

On November 9, 2007, Offshore Incorporations (Cayman) Limited transferred one ordinary share of US\$1.00 of our Parent Company to Capital Gas at its par value and our Parent Company allotted and issued an additional 49,999 ordinary shares of US\$1.00 each of our Parent Company to Capital Gas. The 50,000 ordinary shares were subdivided into 500,000,000 ordinary shares on January 26, 2008. Our Parent Company repurchased 427,878,240 ordinary shares of our Parent Company from Capital Gas at par value of US\$0.0001, and Capital Gas held the remaining 72,121,760.

On January 29, 2008, the Parent Shareholders approved an increase of the authorized share capital of our Parent Company from US\$50,000 to US\$75,000 divided into 435,388,266 ordinary shares of a par value of US\$0.0001 per share, 129,445,067 Series A-1 Preferred Parent Shares of a par value of US\$0.0001 per share and 185,166,667 redeemable Series A Preferred Parent Shares of a par value of US\$0.0001 per share.

On February 4, 2008, our Parent Company raised gross proceeds of US\$88.88 million through the issuance of 185,166,667 Series A Preferred Parent Shares at a price of US\$0.48 per share to Baring PE and members of the Chengwei Entities pursuant to the Series A Preferred Parent Share Purchase Agreement with Capital Gas, Baring PE and Chengwei Entities.

On February 4, 2008, our Parent Company issued 82,716,469 Series A-1 Preferred Parent Shares in exchange of 82,716,469 shares of AAGI pursuant to a share exchange agreement dated February 4, 2008 by and among our Parent Company and certain shareholders of AAGI.

On June 8, 2009, pursuant to a stock purchase agreement dated April 20, 2006 by and among AAGI, SAE (US), CBM Energy and IMC and the board resolution of our Parent Company, our Parent Company issued and allotted 801,746 and 534,497 Series A-1 Preferred Parent Shares to Dr. Zou and Ann Zou, an independent third party, respectively, as CBM Energy's designated recipients in substitution of issuance of AAGI's shares to CBM Energy as part of the purchase consideration for the acquisition of SAE under the stock purchase agreement. Please see the section headed "History and Corporate Structure — Our Subsidiaries" for further details.

On March 16, 2010, our Parent Company raised gross proceeds of US\$33.53 million through the issuance of 69,854,166 Series B Preferred Parent Shares to WP China and certain Parent Shareholders at a price of US\$0.48 per share pursuant to the WP Series B Preferred Parent Shares Subscription Agreement, as well as a shareholder bridge loan agreement dated August 24, 2009, the first advance drawn down of the bridge loan was converted into Series B Preferred Parent Shares of our Parent Company on March 16, 2010.

On May 21, 2010, the Parent Shareholders approved an increase of the authorized share capital of our Parent Company from US\$75,000 to US\$150,000 by authorizing an additional 729,166,667 Parent Shares, par value of US\$0.0001 per share, and an additional 20,833,333 of the Series B Preferred Parent Shares, par value of US\$0.0001 per share.

On April 21, 2011, our Parent Company issued 83,333,333 Series B Preferred Parent Shares to WP China at a price of US\$0.48 per share for a total consideration of US\$40 million pursuant to the WP Series B Preferred Parent Shares Subscription Agreement.

On April 25, 2011, our Parent Company issued 20,833,333 Series B Preferred Parent Shares to CDB-CITIC for a total consideration of US\$10 million pursuant to the CDB-CITIC Series B Preferred Parent Shares Subscription Agreement.

On October 21, 2011, our Parent Company raised gross proceeds of US\$20 million through the issuance of 41,666,667 Series B Preferred Parent Shares to WP China at a price of US\$0.48 per share pursuant to the WP Series B Preferred Parent Shares Subscription Agreement.

On March 21, 2012, pursuant to a stock purchase agreement dated April 20, 2006 by and among AAGI, SAE (US), CBM Energy and IMC and the board resolution of our Parent Company dated June 8, 2009, our Parent Company issued 1,336,243 Series A-1 Preferred Parent Shares to Ann Zou, an independent third party, as CBM Energy's designated recipient in substitution of issuance of AAGI's shares to CBM Energy as part of the purchase consideration for the acquisition of SAE under the stock purchase agreement. Please see the section headed "History and Corporate Structure — The 2012 Share Swap" for further details.

On May 2, 2012, our Parent Company raised gross proceeds of US\$49,999,996.8 through the issuance of 40,041,893 Series A Preferred Parent Shares to Baring PE, Chengwei Entities and certain Parent Shareholders at a price of US\$0.60 and 43,291,435 Series B Preferred Parent Shares to WP China, CDB-CITIC and certain Parent Shareholders at a price of US\$0.60 per share pursuant to the AAG Subscription Agreement.

On May 2, 2012, our Parent Company raised gross proceeds of US\$15,088,456.8 through the issuance of 20,787,563 Parent Shares in connection with warrants exercised by WP China, Baring PE, Chengwei Entities, Evan Energy, Box Six Seven Four and Vertex Asia Growth Ltd. at prices of US\$0.72 and US\$0.96 per share for a total consideration of US\$15.1 million. The remaining warrants were cancelled by April 30, 2012.

On February 18, 2013, our Parent Shareholders approved an increase of the authorized share capital of our Parent Company from US\$150,000 to US\$250,000 by the creation of an additional 791,666,667 Parent Shares of a par value of US\$0.0001 per share and an additional 208,333,333 Series C Preferred Parent Shares of a par value US\$0.0001 per share.

On April 12, 2013, our Parent Company issued 68,055,556 Series C Preferred Parent Shares to Chinastone Hong Kong Holdings Limited at a price of US\$0.72 per share for a total consideration of US\$49.0 million pursuant to a Series C Preferred Parent Shares Subscription Agreement.

On June 18, 2013, our Parent Company issued an aggregate of 90,648,833 Series C Preferred Parent Shares to PA Investment, Chinastone Overseas Holdings Limited and certain existing Parent Shareholders and employees of our Parent Company at a price of US\$0.72 per share for a total consideration of US\$65.3 million pursuant to a Series C Preferred Parent Shares Subscription Agreement.

On August 30, 2013, our Parent Company issued 13,888,888 Series C Preferred Parent Shares to VTD 705 HL Company Limited at a price of US\$0.72 per share for a total consideration of US\$10.0 million pursuant to a Series C Preferred Parent Shares Subscription Agreement.

On September 30, 2014, our Parent Company issued Convertible Bonds convertible into Parent Shares or Series D Preferred Parent Shares with a principal amount of US\$130 million for which the Convertible Bondholders severally subscribed pursuant to the Convertible Bonds Subscription Agreement.

4.2 Incorporation of our Company and the Reorganization

Please refer to the section headed “History and Corporate Structure — Reorganization” for details of incorporation of our Company and the Reorganization.

5. Changes in share capital of our subsidiaries

Save as disclosed in this appendix, there has been no other alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Resolutions in writing of the sole shareholder of our Company passed on June 5, 2015

Written resolutions were passed by the sole shareholder of our Company on June 5, 2015 pursuant to which, among other matters:

1. that conditional upon all the conditions set out in the paragraph headed “Structure of the Global Offering — The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering” of this prospectus being fulfilled:
 - (i) the Memorandum of Association and the Articles of Association, the terms of which are summarized in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus, were approved and adopted and will become effective upon Listing;

- (ii) the Listing, the Capitalization Issue, the Global Offering and the Over-allotment Option were approved and our Directors were authorized and directed to do all such things as they consider necessary in relation thereto, including to allot and issue, and to approve the transfer of, such number of Shares pursuant to the Global Offering on and subject to the terms and conditions stated in this prospectus and to such modifications, amendments, variations or otherwise as may be made by the Board (or any committee thereof established by the Board) in its absolute discretion, and the Board or any such committee of the Board or any Director were authorized and directed to effect such modifications, amendments, variations or otherwise as appropriate;
- (iii) a general mandate was generally and unconditionally granted to our Directors during the relevant period as set out in paragraph (vii) below, to exercise all powers of our Company to allot, issue and deal with any Shares or securities convertible into Shares and to make an offer or agreement or grant an option (including but not limited to warrants, options, bonds, notes, securities and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require the exercise of such power;
- (iv) the approval in paragraph (iii) above authorized our Directors during the relevant period to make or grant offers, agreements and options (including but not limited to warrants, options, bonds, notes, securities and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or may require the Shares to be allotted and issued during or after the end of the relevant period as set out in paragraph (vii) below;
- (v) the aggregate nominal value of the Shares allotted or issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by our Directors pursuant to the approval in paragraph (iii) above, otherwise than pursuant to:
 - (a) a rights issue;
 - (b) the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time;
 - (c) the exercise of certain options which have been granted under the Pre-IPO Share Option Scheme;
 - (d) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend or Shares in accordance with the Articles of Association; or
 - (e) any specific authority granted by the Shareholders in general meetings, shall not exceed 20% of the aggregate nominal value of our Company's share capital in issue immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-

IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), and conditional on the ordinary resolutions in paragraphs (vi) and (viii) below being passed, the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the authorization granted to our Directors under the ordinary resolution in paragraph (vi) below, and the approval granted pursuant to paragraphs (iii) and (iv) above shall be limited accordingly;

- (vi) a general mandate be and is hereby generally and unconditionally granted to our Directors during the relevant period as set out in paragraph (vii) below, to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, subject to all applicable laws and the requirements under the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time, with an aggregate nominal value of the Shares repurchased by our Company not exceeding 10% of the aggregate nominal value of our Company's share capital in issue immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), provided that immediately following any such repurchase, our Company shall be able to pay its debts as they fall due in the ordinary course of business, and the authority granted shall be limited accordingly;
- (vii) the general mandates as mentioned in paragraphs (iii) to (vi) above will remain in effect until whichever is the earliest of (a) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either conditionally or subject to condition; (b) the expiration of the period within which our next annual general meeting is required to be held by any applicable law of Cayman Islands or the Articles of Association; or (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting; and
- (viii) conditional on the ordinary resolutions from paragraphs (iii) to (vi) above being passed, the general mandate granted to our Directors in paragraphs (iii) to (v) above was extended by the addition to the aggregate nominal amount of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares under the authority granted pursuant to such general mandate, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the shares in issue immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account

any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

7. Repurchase by our Company of our Shares

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders, either by way of general mandate or by specific approval of a particular transaction.

On June 5, 2015, our Directors were granted the repurchase mandate of not more than 10% of the aggregate nominal value of the issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account of any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme). This mandate will expire at the earliest of (i) the conclusion of our next annual shareholders' general meeting, (ii) the expiration of the period within which our next annual shareholders' general meeting is required by any applicable laws or the Memorandum and Articles of Association to be held, or (iii) such mandate being revoked or varied by an ordinary resolution of our shareholders in a general meeting (the "**Relevant Period**").

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of Cayman Islands and Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by us may be made out of profits of our Company, out of share premium, or out of the proceeds of a new issue of shares made for the purpose of the repurchase or, subject to the Cayman Islands Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be

provided for out of either or both of the profits of our Company, or our Company's share premium account, or, subject to the Cayman Islands Companies Law, out of capital.

(c) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) Status of repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

(e) Suspension of repurchased Shares

A listed company may not make any repurchase of securities after inside information has come to knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(f) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(g) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

Reasons for repurchase

The Directors believe that it is in the best interest of our Company and our Shareholders for the Directors to have general authority from the Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders. The Directors have sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of Cayman Islands and Hong Kong. On the basis of our current financial condition as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for us.

General

Exercise in full of the repurchase mandate, on the basis of 3,324,368,920 Shares in issue immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account of any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), could accordingly result in up to 332,436,892 Shares being repurchased by us during the period prior to:

- (1) the conclusion of our next annual general meeting;
- (2) the expiration of the period within which our next annual general meeting is required by the Articles of Association, the Cayman Islands Companies Law or any other applicable laws of Cayman Islands to be held; or
- (3) the revocation or variation of the repurchase mandate by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us or our subsidiaries. The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the Memorandum and Articles of Association, the Cayman Islands Companies Law or any other applicable laws of Cayman Islands and Hong Kong.

If, as a result of a repurchase of securities, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Hong Kong Takeovers Code. Save as aforesaid, the Directors are not aware of any consequence which would arise under the Hong Kong Takeovers Code as a consequence of any repurchase made pursuant to the repurchase mandate immediately after the Listing.

No core connected person of our Company has notified our Company that he/she has a present intention to sell the Shares to our Company, or has undertaken not to do so, in the event the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**1. Summary of our material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this prospectus which are or may be material:

- (a) the subscription agreement dated August 29, 2013 entered into by our Parent Company and VTD in relation to the subscription by VTD of 13,888,888 Series C Preferred Parent Shares at a consideration of US\$0.72 per Series C Preferred Parent Share;
- (b) the Convertible Bonds Subscription Agreement dated September 29, 2014 entered into among our Parent Company and WP China, Baring PE, Chengwei Entities, Chinastone Entities and other investors in relation to the subscription of the Convertible Bonds of our Parent Company for a total consideration of US\$130 million;
- (c) the sale and purchase agreement dated December 30, 2014 entered into between our Parent Company and our Company as further described in the section headed “History and Corporate Structure — Reorganization” in this prospectus;
- (d) the Deed of Amendment dated January 29, 2015 entered into among our Parent Company and the Convertible Bondholders to, among others, vary certain rights of the Convertible Bondholders;
- (e) the Amendment to the Restated Shareholders Agreement dated February 27, 2015 entered into among our Parent Company and certain of our Preferred Parent Shareholders to, among others, vary certain rights of the Preferred Parent Shareholders;
- (f) the Inner Mongolia Option Supplemental Agreement dated March 16, 2015 entered into among CCBM II, our Parent Company, our Company, Meiya, Shanxi Shengyang and one of its subsidiaries, in respect to which our Parent Company assigned all of its rights under the Inner Mongolia Option Agreement to our Company for nil consideration;
- (g) the conditional share repurchase agreement dated May 20, 2015 entered into among our Parent Company and all the existing shareholders of our Parent Company as further described in the section headed “History and Corporate Structure — Reorganization” in this prospectus;









- (h) a cornerstone investment agreement dated May 29, 2015 entered into among our Company, HSBC, China International Capital Corporation Hong Kong Securities Limited and Shenzhen Tongyu as further described in the section headed “Our Cornerstone Investors” in this prospectus;
- (i) a cornerstone investment agreement dated April 27, 2015 entered into among our Company, HSBC, China International Capital Corporation Hong Kong Securities Limited and Addor Fund as further described in the section headed “Our Cornerstone Investors” in this prospectus;
- (j) a cornerstone investment agreement dated May 28, 2015 entered into among our Company, HSBC, China International Capital Corporation Hong Kong Securities Limited and CMH as further described in the section headed “Our Cornerstone Investors” in this prospectus;
- (k) a cornerstone investment agreement dated May 29, 2015 entered into among our Company, HSBC, China International Capital Corporation Hong Kong Securities Limited and Beibu Gulf Fund as further described in the section headed “Our Cornerstone Investors” in this prospectus;
- (l) a cornerstone investment agreement dated May 28, 2015 entered into among our Company, HSBC, China International Capital Corporation Hong Kong Securities Limited and Sichuan Datong Gas as further described in the section headed “Our Cornerstone Investors” in this prospectus; and
- (m) the Hong Kong Underwriting Agreement.


2. Our intellectual property rights

As at the Latest Practicable Date, we had registered or applied for the registration of the following intellectual property rights, which are material in relation to our business.

2.1 Trademarks

As of the Latest Practicable Date, we are the owner of the following material registered trademarks, details of which are as follows:

<u>Trademark</u>	<u>Registrant</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration Number</u>	<u>Expiration Date</u>
	AAGI	PRC	4	6027226	January 13, 2020
			37	6026865	February 27, 2020
			39	6026864	April 6, 2020
			40	6026863	February 27, 2020
	AAGI	PRC	4	6151061	June 20, 2020
			16	6151060	February 6, 2020
			37	6151059	March 27, 2021
			39	6151058	August 13, 2021
			40	6151359	March 13, 2020
	AAGI	PRC	4	6026862	October 27, 2021
			37	6026861	January 6, 2021
			39	6026860	August 13, 2020
			40	6026859	May 27, 2020
	SAE	PRC	4	6026858	January 13, 2020
			37	6026857	May 27, 2020
			39	6026856	September 27, 2020
			40	6026855	February 27, 2020
	SAE	PRC	4	7787084	December 20, 2020
			37	7787083	March 6, 2021
			39	7787082	January 27, 2021
			40	7787081	March 6, 2021
	Our Company	Hong Kong	4, 16, 37, 39, 40, 42	302173185	February 26, 2022
					
	Our Company	Hong Kong	4, 16, 37, 39, 40, 42	302173176	February 26, 2022

<u>Trademark</u>	<u>Registrant</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration Number</u>	<u>Expiration Date</u>
	Our Company	Hong Kong	4, 16, 37, 39, 40, 42	302419830	October 29, 2022

2.2 Domain names

As of the Latest Practicable Date, our Group had registered in the PRC the following domain names:

<u>Domain Name</u>	<u>Registrant</u>	<u>Registration date</u>	<u>Expiration date</u>
aagenergy.com	AAGI	October 8, 2012	October 8, 2015
aagenergy.com.cn	AAGI Representative Office	October 9, 2012	October 9, 2015
asianamericangas.com*	AAGI	March 7, 2001	March 7, 2016
asianamericangas.com.cn*	AAGI Representative Office	March 23, 2012	March 23, 2016

* These two domains will not be used upon the Listing Date.

2.3 Copyright

As of the Latest Practicable Date, our Group has obtained the following copyright in the PRC:

<u>Copyright</u>	<u>Registrant</u>	<u>Registration date</u>	<u>Expiration date</u>
亞美大陸煤層氣智能排污控制系統軟件2.0版	AAGI	September 26, 2014	December 31, 2062

2.4 Patents

As of the Latest Practicable Date, our Group did not have any registered patent or patent application.

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

3. Our properties

As of the Latest Practicable Date, our Group had the following properties:

(a) Long-term Land Use Rights and Gas Gathering Stations

(i) Panzhuang Concession

A parcel of land totaling 34,396 square meters has been granted to us for long-term use under a land use certificate issued to us by the People's Government of Qinshui Town with the expiring date on May 20, 2058. We have constructed our Number 1 gas gathering station, our central gas gathering station and our management center for the Panzhuang concession. We also have constructed our local office, ancillary facilities and employee dormitories on this parcel of land.

Two parcels of land of 4,000 square meters and 3,873 square meters have also been granted to us for long-term use under two land use certificates issued to us by the People's Government of Qinshui Town with the expiring date on September 22, 2060. We have constructed our Number 2 gas gathering station and Number 3 gas gathering station for the Panzhuang concession on these two parcels.

We completed the construction of our Number 5 gas gathering station in February 2015 in a parcel of land of 3,750 square meters and we also completed construction of our Number 4 gas gathering station in September 2014, and plan to construct our Number 11 and Number 13 gas gathering stations for the Panzhuang concession on one additional parcel of land of 9,552 square meters. After completion of the construction of the gas gathering stations or valve groups, we will apply for the land use certificates for a term of 50 years for the three parcels of land.

(ii) Mabi Concession

As of the Latest Practicable Date, we did not occupy any parcels of land under long-term land use permit certificate in the Mabi concession.

(b) Temporary Land Use Rights

(i) Panzhuang Concession

As of the Latest Practicable Date, we operated or maintained 103 geology parameter wells in the Panzhuang concession. As of the Latest Practicable Date, our well sites, including sites where wells have been drilled and sites where pre-drilling preparation work has begun, occupied on a temporary basis an area of approximately 273,000 square meters in the Panzhuang concession. Of these areas, we have previously obtained temporary land use permits from the competent governmental authorities for 100% of our wells sites in Panzhuang concession, whereas as of the Latest Practicable Date, temporary land use permits covering approximately 35.0% of these areas have expired in December 24, 2014. As of the Latest Practicable Date, we have prepared/submitted applications for all of the outstanding temporary land use

permits and to renew all existing expired temporary land use permits. We will provide an update concerning the status of all our outstanding permits in our annual report. As of the Latest Practicable Date, we have also entered into compensation agreements with local farmers to access an area of approximately 971,000 square meters in the Panzhuang concession, where we build roads and surface fixture for our operations on a non-exclusive and temporary basis.

(ii) Mabi Concession

As of the Latest Practicable Date, we operated or maintained 90 geology parameter wells and certain temporary gas-gathering facilities in the Mabi concession. As of the Latest Practicable Date, our well sites, including sites where wells have been drilled and sites where pre-drilling preparation work has begun, occupied an area of 213,000 square meters in the Mabi concession. Among these areas, we have obtained temporary land use permits covering approximately 99.72% of our well sites in Mabi. As of the Latest Practicable Date, we have submitted applications for all of the outstanding temporary land use permits and to renew all existing expired temporary land use permits. We will provide an update concerning the status of all our outstanding permits in our annual report. As of the Latest Practicable Date, we have also entered into compensation agreements with local farmers to access an area of approximately 1,238,000 square meters in the Mabi concession, where we build roads and surface fixture for our operations on a non-exclusive and temporary basis.

For more information, please refer to the paragraph headed “Business — Properties” of this prospectus.

(c) Leased Properties

(i) Leased Properties in Beijing

We leased an office unit of approximately 1,167 square meters from Beijing Landmark Towers Company (北京亮馬河大廈有限公司) located on the 17th floor and 19th floor of Office Tower 1, the Landmark Towers at 8 North Dongsanhuan Road, Chaoyang District, Beijing. AAGI, SAE, AAGI Beijing Rep. Office and Beijing Landmark Towers Company entered into three lease agreements, with effect from January 1, 2013 to December 31, 2015 and from June 15, 2013 to December 31, 2015 with two months grace period, respectively.

(ii) Leased Properties in Shanxi Province and Henan Province

- a. SAE entered into three lease agreements for the purposes of residential, canteen and office purposes with three individuals in Jiaozuo County, Henan Province and Yangcheng County, Shanxi Province for a term of one year with commencement dates from July 9, 2014, September 1, 2014 and November 12, 2013, respectively.

- b. SAE entered into five lease agreements with Jin Hua Yuan Hotel Management Co., Ltd. (錦華苑酒店管理有限公司) located at Jin Huan Yuan Hotel in Jincheng, Shanxi Province for a term of one year with various commencement dates from July 16, 2014 to February 15, 2015. The main purpose is for our office use in Jincheng, Shanxi.
- c. SAE entered into six lease agreements in Jincheng, Shanxi Province and one in Beijing, all for the purpose of employees' accommodation.
- d. AAGI entered into four lease agreements with Jin Hua Yuan Hotel management Co., Ltd. (錦華苑酒店管理有限公司) located at Jin Hua Hotel in Jincheng, Shanxi Province for a term of one year with various commencement dates from September 1, 2014 to May 10, 2015. The main purpose is for our office use in Jincheng, Shanxi.
- e. AAGI entered into a lease agreement for residential, canteen and office purposes with Beitan Forestry Centre of Shanxi Zhongtiaoshan Forest Administration (山西省中條山國有林管理局北壇林場) located in Qin Shui County, Jincheng, Shanxi Province for a term of three years and five months from July 2012 to December 2015, which is renewed to December 31, 2019 by AAGI and the Beitan Forestry Centre of Shanxi Zhongtiaoshan Forest Administration.
- f. AAGI entered into a lease agreement for the purposes of office, residential and canteen purposes with one individual in Lin Fen city, Jincheng, Shanxi Province for a term of one year with commencement date from October 5, 2014.
- g. AAGI entered into 32 lease agreements in Jincheng, Qinshui and Linfen, Shanxi Province and 1 lease agreements in Beijing, all for the purpose of employees' accommodation and warehouse.

(iii) Leased Properties in Hong Kong

We leased an office unit of approximately 2,719 square feet from Smart Shine Holdings Limited located on the Suite Unit 2109-10, 21st Floor, China Merchants Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Hong Kong. The lease was entered into between us and Smart Shine Holdings Limited, with the term of tenancy from March 16, 2015 to March 15, 2018.

(d) Carrying Value

Our Company has not obtained a valuation report in respect of its property interests in reliance upon the exemption provided by section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

1.1 Interests of our Directors and co-chief executive officers in the share capital of our Company upon completion of the Capitalization Issue and the Global Offering

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), the interests or short positions of our Directors and our co-chief executive officers in the shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Interests in our Company

Name of our Directors and co-chief executive officers	Capacity/Nature of Interest	Number and percentage of Shares held as of the date of submission of the prospectus of the Company	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹			
			Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹
Dr. Zou ²	Beneficial owner; Founder of discretionary trusts	70,141,771 ² (8.40%) (L)	195,837,678	5.89%	182,850,235	5.50%

Notes:

1. Calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range.
2. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, immediately upon completion of the Capitalization issue and the Global offering, Dr. Zou beneficially owns 195,837,678 Shares of our Company's total issued share capital. Dr. Zou is deemed to be interested in 64,123,535 Shares and 9,772,092 Shares of our Company's total issued share capital for the purposes of the SFO, which is beneficially owned by Dr. Zou's descendants as beneficiaries of The Zou 2011 Family Trust and The Zou 2012 Family Trust, respectively. Dr. Zou is also deemed to be interested in 26,106,218 Shares of our Company's total issued share capital for the purposes of the SFO, which are beneficially owned by Dr. Zou and his descendants as beneficiaries of Zou GRAT. Each of The Zou 2011 Family Trust, The Zou 2012 Family Trust and the Zou GRAT is a discretionary trust established by Dr. Zou as a settlor and its beneficiaries are Dr. Zou and his family members.

1.2 Interests of our Substantial Shareholders in our Shares which are Disclosable under Divisions 2 and 3 of Part XV of the SFO

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme), so far as our Directors were aware, as of the Latest Practicable Date, the following persons (other than our Directors, chief executive(s) of our Company) were expected to have interests and/or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Interests in our Company

Name of Substantial Shareholders	Capacity/Nature of Interest	Number and percentage of Shares held as of the date of submission of the application prospectus of the Company	Approximate percentage of shareholding in the total issued share capital of our Company			
			Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹
Baring PE	Beneficial owner	209,821,780 25.13% (L)	686,736,210	20.66%	641,193,659	19.29%
Baring Private Equity Asia GP IV Limited ²	Deemed interest of controlled company	209,821,780 25.13% (L)	686,736,210	20.66%	641,193,659	19.29%
Warburg Pincus Private Equity X, L.P. ³	Deemed interest of controlled company	249,987,678 29.94% (L)	839,598,890	25.26%	783,918,885	23.58%
Warburg Pincus X Partners, L.P. ³	Deemed interest of controlled company	249,987,678 29.94% (L)	839,598,890	25.26%	783,918,885	23.58%
WP China	Beneficial owner	249,987,678 29.94% (L)	839,598,890	25.26%	783,918,885	23.58%
Chinastone Hong Kong Holdings Limited	Beneficial owner	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Chinastone Energy Fund ⁴	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%

Name of Substantial Shareholders	Capacity/Nature of Interest	Number and percentage of Shares held as of the date of submission of the application prospectus of the Company	Approximate percentage of shareholding in the total issued share capital of our Company			
			Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Number of Shares held upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹	Approximate percentage of shareholding in the total issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering (assuming Over-allotment is fully exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) ¹
Chinastone Capital Management Limited ⁴	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Shenzhen Pingan ⁴	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Pingan Trust Co.,Ltd ⁴	Deemed interest of controlled company	68,055,556 8.15%(L)	248,046,164	7.46%	248,046,164	7.46%
Ping An Group ⁵	Deemed interest of controlled company	103,105,556 12.35% (L)	345,906,690	10.40%	345,906,690	10.40%

Notes:

1. Calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range.
2. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Baring Private Equity Asia GP IV Limited is the general partner of a limited partnership (Baring Private Equity Asia GP IV, L.P.), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund IV, L.P.), which is one of the limited partnerships comprising The Baring Asia Private Equity Fund IV and which controls a majority of the issued shares in Baring PE. Baring Private Equity Asia GP IV Limited is deemed to be interested in 686,736,210 Shares held by Baring PE immediately upon completion of completion of the Capitalization Issue and the Global Offering. Baring Private Equity Asia GP IV Limited disclaims beneficial ownership of such shares in our Company, except to the extent of its economic interest.
3. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Warburg Pincus & Co. is the managing member of Warburg Pincus Partners LLC, which is the sole shareholder of Warburg Pincus X LLC, which is the general partner of a limited partnership Warburg Pincus X L.P., which is the general partner of Warburg Pincus Private Equity X, L.P., a Delaware limited partnership, together with its affiliate Warburg Pincus X Partners, L.P., which controls a majority of the issued shares in WP China. As such, each of Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus X LLC, Warburg Pincus X L.P., Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P. are deemed to be interested in 839,598,890 Shares held by WP China immediately upon completion of completion of the Capitalization Issue and the Global Offering.

4. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, each of Chinastone Energy Fund (the sole shareholder of Chinastone Hong Kong Holdings Limited), Chinastone Capital Management Limited (the general partner of Chinastone Energy Fund), Shenzhen Pingan (the limited partner of Chinastone Energy Fund and a holder of 50% interest in the capital of Chinastone Capital Management Limited), and Pingan Trust Co., Ltd (the sole shareholder of Shenzhen Pingan) is deemed to be interested in the Shares.
5. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Ping An Group ultimately owns 100% of Chinastone Hong Kong Holdings Limited, which is directly interested in 7.46% of our Shares. Ping An Group also ultimately owns 100% of the shares in PA Investment, which is directly interested in 2.94% of our Shares. Therefore, Ping An Group is deemed to be interested in 248,046,164 Shares held by Chinastone Hong Kong Holdings Limited and 97,860,526 Shares held by PA Investment upon completion of the Capitalization Issue and the Global Offering, representing approximately 10.40% of equity interest in our Company in accordance with Division 2 and 3 of Part XV of SFO.

1.3 Negative statements regarding interests in securities

None of the Directors or our co-chief executive officers will immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account of any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) have any disclosure interests (as referred to in this sub-section above), other than as disclosed in this sub-section above.

Taking no account of Shares which may be taken up under the Capitalization Issue and the Global Offering, none of the Directors knows of any persons who will immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account of any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme) have a notifiable interest (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in the Shares, other than as disclosed in this sub-section above.

2. Particulars of Directors' services agreement and letters of appointment

Our executive Director has entered into a services agreement with our Company on June 5, 2015 for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant services agreement).

Pursuant to the services agreement, the annual salaries of the executive Director payable by the Company are US\$375,258. Our executive Director is fully reimbursed for all reasonable expenses reasonably incurred in the course of his employment under the relevant services agreement.

Each of our non-executive Directors has signed a letter of appointment with our Company on June 5, 2015 for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). No annual remuneration is payable to each of our non-executive Directors under the relevant letters

of appointment. Each of the non-executive Directors is fully reimbursed for all reasonable out-of-pocket expenses incurred in discharging his duties on production of appropriate proofs of payment.

Each of our INEDs has signed a letter of appointment with our Company on June 5, 2015 for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letters of appointment).

The annual remuneration payable to each of our INEDs under the relevant letters of appointment is as follows:

Director	Remuneration (per annum)
	<i>HK\$</i>
Yaowen Wu	250,000
Robert Ralph Parks	250,000
Dr. Tin Yau Kelvin Wong	250,000
Fredrick J. Barrett	250,000

In addition, each of our INEDs is fully reimbursed for all reasonable expenses incurred in discharging his duties on production of appropriate proofs of payment.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any services agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

3. Directors' remuneration

Our Directors receive compensation in the form of salaries, bonuses, share options, and other benefits-in-kind, including our Company's contribution to the pension scheme on their behalf. We determine the salaries of our Directors based on each Director's qualification, position and seniority.

Save as disclosed in this prospectus, none of our Directors received any allowances, benefits in kind (including our contribution to the pension scheme on behalf of our Directors) or any bonuses from us during the three years ended December 31, 2014.

No remuneration was paid to our Directors as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB8.0 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2015 under arrangements in force at the date of this prospectus.

4. Agency fees or commissions received

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

5. Related party transactions

Please refer to note 28 of section headed “Related Party Transactions” of the Accountant’s Report in Appendix I to this prospectus for details of the related party transactions. Our Directors confirm that all related party transactions are conducted on normal commercial terms, and that their terms are fair and reasonable.

6. Disclaimers

Save as disclosed in this prospectus, as of the Latest Practicable Date:

- (a) none of the Directors or our co-chief executive officers has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporation (within the meaning of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO of which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of the Directors or experts referred to in the section headed “— Other Information — Qualifications of Experts” in this appendix has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of the Directors or experts referred to in the section headed “— Other Information — Qualifications of Experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Capitalization Issue and the Global Offering or upon the exercise of the Over-allotment Option or the exercise of certain options which were granted under the Pre-IPO Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of us) who will, immediately upon completion of the Capitalization Issue and

the Global Offering, have an interest or short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

- (f) none of the experts referred to under the section headed “— Other Information — Qualifications of Experts” has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of our share capital have any interests in the five largest customers or the five largest suppliers of our Group.

D. PRE-IPO SHARE OPTION SCHEME

1. Summary of Terms

Pursuant to the Board resolutions of our Company dated March 31, 2015, our Company ratified and approved the Pre-IPO Share Option Scheme. A set of the scheme rules was also approved on the same date for the purpose of providing more comprehensive and detailed rules governing the Pre-IPO Share Option Scheme. Share options (each a “**Option**,” or collectively “**Options**”) were granted to the persons (the “**Grantees**”) listed out under the paragraph headed “Pre-IPO Share Option Scheme — Outstanding Options Granted under the Pre-IPO Share Option Scheme” in this appendix below.

(a) *Purpose of the scheme*

The purpose of the Pre-IPO Share Option Scheme is to assist us in attracting, retaining and motivating key employees, directors or consultants by granting to them Options to purchase our Shares.

(b) *Who may join*

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for our Shares, provided that he or she is not at any time engaged in litigation adverse to our Company (“**Eligible Person**”):

- (i) any full time employee (or his or her Associate(s)) of any Group Company who has executed an employment agreement with such Group Company on terms approved by the board of directors of such Group Company, completed his or her probationary period, and who is not Disabled;
- (ii) any director (or his or her Associate(s)) of such Group Company who is not Disabled; and

- (iii) any part-time employee (or his or her Associate(s)) or consultant (or his or her Associate(s)) of any Group Company who has executed an employment agreement or consulting agreement with the relevant Group Company on terms approved by the board of directors of such Group Company and who is, if a natural person, not Disabled.

(c) *Maximum number of Shares*

- (i) The aggregate number of Shares that may be issued pursuant to the Pre-IPO Share Option Scheme shall not exceed 61,970,388 Shares, subject to the adjustment mechanisms provided under the Pre-IPO Share Option Scheme. An Option shall not be granted if it would have the effect of causing the total number of Shares subject to Options to exceed the total number of Shares reserved for issuance pursuant to the exercise of Options.
- (ii) If for any reason, any Shares subject to issuance by exercising Options under the Pre-IPO Share Option Scheme are not issued or are re-acquired by our Company, for reasons including, but not limited to, a termination or expiration or cancellation (with the consent of the Participant) of an Option, such Shares shall again become available for grant under the Pre-IPO Share Option Scheme.

(d) *Grant of Options*

Our Board shall be entitled at any time during the life of the Pre-IPO Share Option Scheme subject to the provisions of the Pre-IPO Share Option Scheme and such other terms and conditions as our Board may prescribe, grant Options to any Eligible Person.

(e) *Term of Options*

Subject to any accelerated termination as set forth in the Pre-IPO Share Option Scheme, each Option shall expire on the date specified under the Pre-IPO Share Option Scheme or otherwise specified by our Board, provided that, in no event, shall the Exercise Period of an Option exceed five years from the date upon which the relevant Option (or proportion thereof) has vested in accordance with paragraph (f) below ("**Exercise Period**").

(f) *Vesting and exercise*

Options (other than the Vested Options) granted to Participants pursuant to the Pre-IPO Share Option Scheme shall vest as follows:

- (i) 50% of the Options shall be time-based and shall vest at the rate of one half (1/2) for each 12-month period commencing from (i) January 1, 2015 if the relevant Employment Date is on or prior to January 1, 2014; or (ii) one third (1/3) for each 12-month period commencing from the relevant Employment Date if such date is after January 1, 2014; or

- (ii) 50% of the Options shall be KPI-linked (the “**KPI-linked Options**”) and shall be divided into three equal instalments, with each instalment being linked with one of the three KPIs (as defined below) and vested at the rate of one (i) half (1/2) for each 12-month period commencing from January 1, 2015 if the relevant Employment Date is on or prior to January 1, 2014; or (ii) one third (1/3) for each 12-month period commencing from the relevant Employment Date if such date is after January 1, 2014 pursuant to the following payout schedule:
 - (1) 100% of the KPI-linked Options shall vest if 100% of the relevant KPI Target (as defined below) is met; or
 - (2) if the relevant KPI Target is not met at 100%, 50% of the KPI-linked Options shall vest if 80% of the relevant KPI Target is met and an additional 2.5% of the KPI-linked Options shall vest for each 1% further improvement in such KPI Target; provided that if the performance rate of any KPI Target exceeds 100%, then up to 10% of the improvement of that KPI Target can be added to the performance rate of other KPI Target(s) that is not 100% accomplished; or
- (iii) if a Change of Control occurs prior to the Listing Date (a “**Pre-IPO Change of Control**”) in accordance with paragraph (i)(1) below.

For the purposes of paragraph (f)(ii) above, KPIs refer to (i) EBITDA; (ii) Reserves; and (iii) All-in-unit Cost. “KPI Target” shall mean 95% (in the case of EBITDA and Reserves) or 105% (in the case of All-in-unit Cost) of the estimated number of that relevant KPI presented in (i) the annual work plan and budget of the relevant year approved by the Board; or (ii) the revised annual work plan and budget for the relevant year, which is subsequently presented to and approved by the Board. The treatment for any unvested KPI-linked Options shall be determined by the Board or a committee of the Board as delegated by the Board.

Subject to paragraph (g) below, any Options granted under the Pre-IPO Share Option Scheme may only be exercised during the lifetime of the Participant by such Participant personally.

The Optionees may not exercise the Options that have been granted to him/her during any period after the Listing Date if such exercise by him or her would render the public float of our Company falling below 25%, or any other minimum public float percentage as prescribed under the Listing Rules.

(g) Exercise events

The occurrence of any of the following events will result in the acceleration of the right and obligation to exercise Options. If

- (i) an Optionee dies or becomes Disabled;
- (ii) an Optionee's employment agreement terminates due to Retirement, a Voluntary Termination or Termination by our Company; or
- (iii) the Optionee is a consultant of a Group Company and the consulting agreement of such Optionee terminates due to a Voluntary Termination or Termination by our Company (each, an "**Exercise Event**"),

the executor or administrator of the Optionee's estate or the Optionee, as the case may be, shall have the right for a period of six months from the date of the Exercise Event to exercise any Options of the Optionee to the extent that the Options are exercisable at the date of such Exercise Event. Any Options held by the Optionee which were not exercisable at the date of the Exercise Event shall immediately terminate on such date.

If an Optionee dies or becomes Disabled or an Optionee's employment agreement or consulting agreement terminates due to Retirement or Termination by our Company, our Company shall have the right for a period of 180 days from the date of the Exercise Event to repurchase all Shares acquired by the Optionee through exercise of Options at a per share price of the higher of (i) the Exercise Price; and (ii) the per share fair market value of the Options (as determined in good faith by the Board). If an Optionee's employment agreement or consulting agreement terminates due to Voluntary Termination, the Company shall have the right for a period of one year from the date of the Exercise Event to repurchase all Shares acquired by the Optionee through exercise of Options at the lower of (i) 1.5 times the Exercise Price paid by Optionee for the Options; and (ii) the fair market value of the Options (as determined in good faith by the Board). Notwithstanding the foregoing, the repurchase right of our Company under this paragraph (f) shall terminate upon the Listing Date.

(h) Termination for Cause

Where a Participant's employment agreement or consulting agreement with a Group Company is terminated for Cause by such Group Company or by a Voluntary Termination in circumstances where such Group Company had the right to terminate such employment agreement or consulting agreement for Cause, any Options held by the Participant, whether or not such Options are vested and exercisable in whole or in part at the date of such termination, shall immediately terminate on such date and may not be exercised by the Participant at any time after such date. Our Company shall have the right for a period of one year from the date of such termination to repurchase all Shares acquired by the Optionee through exercise of Options at the lower of (i) the Exercise Price paid by Optionee for the Options; and (ii) the fair market value of the Options (as determined in good faith by the Board). Notwithstanding the foregoing, the repurchase right of our Company under this paragraph shall terminate upon the Listing Date.

(i) *Change of Control*

(1) *Pre-IPO Change of Control*

- (i) In the event of a Pre-IPO Change of Control, all Options will be treated as having been exercised into the Shares for the purposes of calculating payments due to Optionees and determining the extent of an Optionee's right to participate in the proceeds of the transaction triggering the Pre-IPO Change of Control (the "**Proceeds**"). Upon payment of the Proceeds of the transaction triggering a Pre-IPO Change of Control, an Optionee will receive (subject to the liquidation preference provisions of the Articles of Association and paragraph (i)(1)(ii) below) an amount of the Proceeds which is pro rata to its deemed holdings of the Shares as if the Optionee actually held such number of the Shares, less an amount equal to the aggregate Exercise Price under the Optionee's Options (which shall be deducted before the Optionee receives any of the Proceeds) (such aggregate amount being an "**Optionee's Change of Control Vesting Amount**").
- (ii) Each Optionee's Change of Control Vesting Amount will either (x) to the extent that any portion of such Optionee's Change of Control Vesting Amount has been received from the purchaser under the transaction that has triggered the Pre-IPO Change of Control, be placed in escrow and be paid out to Optionees upon their Options vesting in accordance with Section paragraph (i)(1)(iii) below; or (y) be paid out to Optionees on the Pre-IPO Change of Control Completion Date in accordance with paragraph (i)(1)(v) below.
- (iii) In the event of a Pre-IPO Change of Control, subject to paragraph (i)(1)(v) below:
- (A) the first third of each grant of Options to a Participant pursuant to the Pre-IPO Share Option Scheme shall vest on the earlier of:
- (I) the date upon which each of the holders of the Series A Preferred Parent Shares, holders of Series B Preferred Parent Shares and holders of Series A-1 Preferred Parent Shares has received from time to time (i) cash; or (ii) non-cash consideration, the total fair market value of which is in aggregate equal to, or greater than, the amount of such shareholder's total investment in the preferred shares of our Parent Company from time to time; or
- (II) the first anniversary of the Pre-IPO Change of Control Completion Date;

- (B) the second third of each grant of Options to a Participant pursuant to the Pre-IPO Share Option Scheme shall vest on the earlier of:
 - (I) the date upon which each of the holders of the Series A Preferred Parent Shares, holders of Series B Preferred Parent Shares and holders of Series A-1 Preferred Parent Shares has received from time to time (i) cash; or (ii) non-cash consideration, the total fair market value of which is in aggregate equal to, or greater than, two times the amount of such shareholder's total investment in the preferred shares of our Parent Company from time to time; or
 - (II) the second anniversary of the Pre-IPO Change of Control Completion Date; and
 - (C) the final third of each grant of Options to a Participant pursuant to the Pre-IPO Share Option Scheme shall vest on the earlier of:
 - (I) the date upon which each of the holders of the Series A Preferred Parent Shares, holders of Series B Preferred Parent Shares and holders of Series A-1 Preferred Parent Shares has received from time to time (i) cash; or (ii) non-cash consideration, the total fair market value of which is in aggregate equal to, or greater than, 2.5 times the amount of such shareholder's total investment in the preferred shares of our Parent Company from time to time; or
 - (II) the third anniversary of the Pre-IPO Change of Control Completion Date.
 - (iv) No Option shall be capable of being exercised after the Pre-IPO Change of Control Completion Date. Upon Options vesting in accordance with paragraph (i)(1)(iii) below or paragraph (i)(1)(v) below, such Options will lapse and have no further force and effect.
 - (v) Any purchaser(s) under a transaction which triggers a Pre-IPO Change of Control may, by written notice to the Optionees in advance of the Pre-IPO Change of Control Completion Date, require that all Options vest on the Pre-IPO Change of Control Completion Date provided that each Optionee's Change of Control Vesting Amount is paid to each Optionee in full on the Pre-IPO Change of Control Completion Date.
- (2) *Post IPO-Change of Control*
- (i) Where a Change of Control of the Company after the Listing Date is triggered by a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph (i)(2)(ii) below) made to all shareholders and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Optionee shall be entitled to exercise the Option in full (to the extent not already exercised) at any

time after the general offer is declared unconditional (even though the Shares underlying the Option may not have vested) up to the date on which the offer (or, as the case may be, revised offer) closes. The Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date which the offer (or revised offer, as the case may be) closes.

- (ii) Where a Change of Control of our Company after the Listing Date is triggered by a general offer by way of scheme of arrangement which has been approved by the necessary number of shareholders at the requisite meetings, the Optionee shall be entitled to exercise the Option in full (to the extent not already exercised) at any time after the date the general offer for Shares by way of scheme of arrangement was duly approved at the requisite meeting up to the record date for determining entitlements under such scheme of arrangement (even though the Shares underlying the Option may not have vested). An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the record date for determining entitlements under the scheme of arrangement.

(j) Not bound to continue employment or contractual obligations

Nothing in the Pre-IPO Share Option Scheme or any Option granted pursuant thereto shall confer upon a Participant who is an employee any right to continue in the employment of any Group Company or affect in any way the right of any Group Company to, at any time, terminate his or her employment or be deemed or construed to constitute an agreement or an expression of intent, on the part of any Group Company to extend employment of any Participant beyond the time which he or she would normally be retired pursuant to the provisions of any present or future retirement plan of any Group Company or beyond the time at which he or she would otherwise be retired pursuant to the provisions of any contract of employment. Similarly, nothing in the Pre-IPO Share Option Scheme or any Option granted pursuant to the Pre-IPO Share Option Scheme, shall in any way affect the ability of any Group Company to terminate any consulting agreement with any Eligible Person or Participant which is a consultant of such Group Company.

(k) Non-transferability

An Option shall be personal to the Optionee and shall not be transferable or assignable except for (a) the transfer of an Option by the Optionee to the spouse, children and grandchildren of the original Optionee and to a trust, partnership or limited liability company, the entire beneficial interest of which is held, directly or indirectly, by one or more of the Optionee or the spouse, children or grandchildren of the Optionee (each, a “**Permitted Assignee**”), and (b) the transmission of an Option on the death of the Optionee to his personal representative(s) on terms of the Pre-IPO Share Option Scheme. If an Option is assigned to one or more Permitted Assignees, the references under the Pre-IPO Share Option Scheme to the termination of employment agreement or consulting agreement and the death or Disability of an Optionee shall not relate to the assignee of an Option but shall relate to the original Optionee.

(l) Termination

The Pre-IPO Share Option Scheme shall terminate and all outstanding Options not granted under this Scheme shall lapse and shall have no further force and effect if (i) the Listing Date has not occurred by December 31, 2019 (or such other date as approved by the Board); and (ii) a new share option scheme has come into effect to replace this Scheme and the terms and conditions of such new share option scheme shall have been discussed in good faith with the Optionees and approved by the Board.

(m) Governing law

The Pre-IPO Share Option Scheme is created under and shall be governed, construed and administered in accordance with the laws of Hong Kong.

(n) Effective date

The Pre-IPO Share Option Scheme shall become effective on March 31, 2015 (“**Effective Date**”), being the date on which the Board approved the adoption of the Pre-IPO Share Option Scheme.

(o) Termination of prior plans

The adoption of the Pre-IPO Share Option Scheme by the Board shall have the effect of automatically terminating all Other Plans adopted by our Company prior to the Effective Date. The Pre-IPO Share Option Scheme shall supersede all Other Plans previously adopted by our Company and, as of the Effective Date, shall be the sole plan of our Company in respect of our Shares.

2. Outstanding Options Granted under the Pre-IPO Share Option Scheme

In anticipation of the Listing and as adjusted in light of the Capitalization Issue, Options to subscribe for an aggregate of 246,220,412 Shares (representing approximately 6.9% of the enlarged issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering, assuming all Options granted under the Pre-IPO Share Option Scheme are fully exercised but Over-allotment Option is not exercised and taking no account of any Shares which may be issued upon the exercise of the options which will be granted pursuant to the Pre-IPO Share Option Scheme) at the Exercise Price of US\$0.151 per Share (representing approximately 65% discount of the midpoint of the indicative Offer Price range of HK\$3.00 and HK\$3.70) will have been granted under the Pre-IPO Share Option Scheme on the Listing Date. All the Options under the Pre-IPO Share Option Scheme were granted on March 31, 2015 and June 5, 2015, respectively, and no further Options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

Particulars of the outstanding Options conditionally granted under the Pre-IPO Share Option Scheme are set out below:

No.	Name of the Grantee ¹	Position	Residential Address	Consideration Paid for the Grant (US\$)	Exercise Price (US\$)	Date of Grant	Number of unvested Options	Number of Vested Options	Total number of Shares to be issued Subject to Options	Approximate Percentage of the Shareholding upon the full Exercise of the Options ²
<i>Directors/senior management of our Company</i>										
1	Dr. Zou (鄭向東)	Chairman, executive Director	Jiangfu Jiayuan Beili, Unit 131-8-1-502, Chaoyang District, Beijing 100015, PRC	\$1.00	\$0.151	March 31, 2015	0	11,942,710	11,942,710	0.33%
2	Yaowen Wu (吳耀文)	INED	Room 533, 5/F, No 112 Ande Road, Xicheng District, Beijing, PRC	\$1.00	\$0.151	June 5, 2015	477,708	0	477,708	0.01%
3	Robert Ralph Parks	INED	Suite 2906, 2, Macdonnell Road, Central, Hong Kong	\$1.00	\$0.151	June 5, 2015	477,708	0	477,708	0.01%
4	Tin Yau Kelvin Wong (黃天祐)	INED	Flat 2, 4/F, Block D Greenville Gardens, 17 Shiu Fai Terrace, Hong Kong	\$1.00	\$0.151	June 5, 2015	477,708	0	477,708	0.01%
5	Fredrick J. Barrett	INED	15761 W. 79th Place, Arvada, Colorado, United States	\$1.00	\$0.151	June 5, 2015	477,708	0	477,708	0.01%
6	Jing Li (李京)	President, Co- chief executive officer	7-1528, Guangda Garden 2 Quanzong Road Haidian District Beijing 100089 PRC	\$2.00	\$0.151	March 31, 2015	25,571,181	17,343,987	42,915,168	1.20%
7	Carl Lakey	Co-chief executive officer, chief operating officer	3253 Elk View Drive Evergreen, Colorado 80439, United States	\$1.00	\$0.151	March 31, 2015	25,571,181	10,615,743	36,186,924	1.01%
8	Allen Mak (麥雅倫)	Chief financial officer	Flat A, 6th Floor, Tower 7, Residence Bel-Air, 28 Bel-Air Avenue, Pokfulam, Hong Kong	\$2.00	\$0.151	March 31, 2015	23,885,420	0	23,885,420	0.67%
9	Yang Lin (林楊)	Chief legal officer	Apt. 3-4-602, No.33 Guangqu Road Chaoyang District Beijing PRC	\$1.00	\$0.151	March 31, 2015	11,942,710	11,942,710	23,885,420	0.67%
10	Bing Wang (王冰)	Vice president of government liaison	Room 1902, Building 1, Chenghuayuan Xueqing Road Haidian District Beijing 100083 PRC	\$1.00	\$0.151	March 31, 2015	4,511,689	4,246,298	8,757,987	0.25%
11	Christopher Mark Hogle	Vice president of technology	4005 Arapahoe Ave NW Albuquerque NM 87114 United States	\$2.00	\$0.151	March 31, 2015	5,042,479	4,511,689	9,554,168	0.27%
<i>Our experts</i>										
12	Mingzhu Fan (樊明珠)	Chief geologist	5-1504, South Area Anning Nanli Haidian District Beijing 100085 PRC	\$1.00	\$0.151	March 31, 2015	4,777,084	4,777,084	9,554,168	0.27%
13	Jingyi Zhang (張景驊)	Director of marketing and sales	2-1202 Shui Jun Chang An West Shuang Qiao South Road Changyang District Beijing 100024 PRC	\$1.00	\$0.151	March 31, 2015	2,388,542	2,388,542	4,777,084	0.13%

No.	Name of the Grantee ¹	Position	Residential Address	Consideration Paid for the Grant (US\$)	Exercise Price (US\$)	Date of Grant	Number of unvested Options	Number of Vested Options	Total number of Shares to be issued Subject to Options	Approximate Percentage of the Shareholding upon the full Exercise of the Options ²
14	James Landry	Director of drilling engineering	Unit B, Floor 15, Building 1, Sanquan Apartment, No. 38, Maizidian Street, Chaoyang District, Beijing 100125, PRC	\$1.00	\$0.151	March 31, 2015	3,980,903	0	3,980,903	0.11%
15	Ling Xiang (向靈)	Reservoir engineering manager	Room 8-2-1903, No. 88, Dongsihuan North Road, Chaoyang District, Beijing 100016, PRC	\$2.00	\$0.151	March 31, 2015	796,181	398,090	1,194,271	0.03%
<i>Our employees</i>										
16	Feng Zhang (張峰)	Chief financial officer assistant	No.203, Unit 1 Tower 25 Xin Gang Jian Gang Li Tang Gu District Tian Jin PRC	\$1.00	\$0.151	March 31, 2015	2,388,542	2,388,542	4,777,084	0.13%
17	Yingjiang Wu (武英江)	HR/PR director	Room 303 Building 23 Liu Fang Nanli Chaoyang District Beijing 100028 PRC	\$1.00	\$0.151	March 31, 2015	2,189,497	2,189,497	4,378,994	0.12%
18	Haitao Zhang (張海濤)	Deputy general manager of Mabi project	401, Unit 2 Building 8 Huaxi Residential Quarter Jincheng Shanxi Province PRC	\$1.00	\$0.151	March 31, 2015	1,592,361	1,592,361	3,184,723	0.09%
19	Lijun Pan (潘利軍)	Exploration director	502, Unit 6 Building A4 Yingfengwuli Fangshan District Beijing PRC	\$1.00	\$0.151	March 31, 2015	1,592,361	1,592,361	3,184,723	0.09%
20	Xiaosong Han (韓曉松)	Corporate planning & budgeting director	501, Unit 3 Zhongxingyuan Hongxiang Residential Quarter Jincheng Shanxi Province PRC	\$1.00	\$0.151	March 31, 2015	1,194,271	1,194,271	2,388,542	0.07%
21	Yi Cui (崔屹)	Commercial & purchasing director	102, Unit 1 Building A18 Taiping Street Xuanwu District Beijing PRC	\$2.00	\$0.151	March 31, 2015	1,459,666	1,326,966	2,786,632	0.08%
22	Lan Cui (崔嵐)	Senior legal specialist	Room 608 Block 1 Yu Hui Li Chaoyang District Beijing 100101 PRC	\$1.00	\$0.151	March 31, 2015	398,090	398,090	796,181	0.02%
23	Cheng Sun (孫程)	Corporate financial analysis & budgeting director	Room 1204, Gate 1 No. 88 Guang Qu Men Nei Street Chongwen District Beijing 100062 PRC	\$3.00	\$0.151	March 31, 2015	1,857,756	530,786	2,388,542	0.07%
24	Zhongtian Sun (孫仲田)	Project support director	No. 201-3-102 Kaitai Tower 2 Lunan District Tangshan City Hebei Province 063000 PRC	\$1.00	\$0.151	March 31, 2015	1,194,271	1,194,271	2,388,542	0.07%
25	Anthony Morberg ³	Investors relation manager	Flat 603, 6/F Building 35 Zaoyingbeili Chaoyang District Beijing PRC	\$1.00	\$0.151	March 31, 2015	0	398,090	398,090	0.01%
26	Yan Jing (景琰)	Administrative director & executive assistant	Room 3A702, Jindu International Apartment, Jiuxianqiao Road, Chaoyang District, Beijing 100016, PRC	\$2.00	\$0.151	March 31, 2015	1,857,756	530,786	2,388,542	0.07%

3. Mr. Morberg resigned in February 2015.

APPENDIX V
STATUTORY AND GENERAL INFORMATION

No.	Name of the Grantee ¹	Position	Residential Address	Consideration Paid for the Grant (US\$)	Exercise Price (US\$)	Date of Grant	Number of unvested Options	Number of Vested Options	Total number of Shares to be issued Subject to Options	Approximate
										Percentage of the Shareholding upon the full Exercise of the Options ²
27	Maosheng Teng (滕茂盛)	EHS director	Room 54A600, Banshanyihao Villa, Ruixin Road, Huicheng District, Huicheng City, Guangdong Province 516001, PRC	\$2.00	\$0.151	March 31, 2015	1,990,452	398,090	2,388,542	0.07%
28	Yu Tang (唐玉)	Internal control manager	Room 10-1607, Tiantong Xiyuan Unit 2, Changping District, Beijing 102218, PRC	\$2.00	\$0.151	March 31, 2015	796,181	398,090	1,194,271	0.03%
29	Bing Mi (栾兵)	Business development director	Room 1703, Building 1, Liulitun, Chaoyang District, Beijing 100026, PRC	\$1.00	\$0.151	March 31, 2015	1,592,361	796,181	2,388,542	0.07%
30	Jun Li (李军)	General manager of Panzhuang	Room 603-2-203, Wangjing Dongyuan Unit 6, Chaoyang District, Beijing 100102, PRC	\$2.00	\$0.151	March 31, 2015	2,786,632	0	2,786,632	0.08%
31	Peng Zhang (张茂)	Financial accounting controller	Room 8D, Haohong Garden Quyu, No. 3, Xibahe South Road, Chaoyang District, Beijing 100028, PRC	\$2.00	\$0.151	March 31, 2015	1,990,452	398,090	2,388,542	0.07%
32	Han Wang (王晗)	Treasury manager	Room 2-2-3302, Xiangheyuan Zhongli, Chaoyang District, Beijing 100028, PRC	\$1.00	\$0.151	March 31, 2015	530,786	265,395	796,181	0.02%
33	Zhenyi Qiao (乔振义)	IT Director	Room 1-502 Building 8, Block 2, Nanyuan Beili, Sanyingmen, Fengtai District, Beijing 100076, PRC	\$1.00	\$0.151	March 31, 2015	2,388,542	0	2,388,542	0.07%
34	Wei Huang (黄伟) ⁴	Chief financial officer	Room 10-2-203, UHN International Village #2 Xibahe Dong Road Chaoyang District Beijing 100004 PRC	\$1.00	\$0.151	March 31, 2015	0	5,971,355	5,971,355	0.17%
35	Chihua Gong (龚池华)	General manager of Mabi	Unit 18-603, Zao Ying Nan Li, Chaoyang District, Beijing, 100026, PRC	\$1.00	\$0.151	March 31, 2015	3,184,723	0	3,184,723	0.09%
36	Jianjun Cui (崔建军)	Senior vice president	Unit 12-4-302, Yuanjianzhulou, 45 Zengguang Road, Haidian District, Beijing, PRC	\$1.00	\$0.151	June 5, 2015	7,961,807	0	7,961,807	0.22%
37	Lingyi Wang (王玲怡)	Human resource director	Room 3-2103, Liangmajayuan, No. 35 Building, Nanshiliju, Chaoyang District, Beijing, 100016, PRC	\$1.00	\$0.151	June 5, 2015	2,388,542	0	2,388,542	0.07%

4. Wei Huang resigned in March 2014.

No.	Name of the Grantee ¹	Position	Residential Address	Consideration Paid for the Grant (US\$)	Exercise Price (US\$)	Date of Grant	Number of unvested Options	Number of Vested Options	Total number of Shares to be issued Subject to Options	Approximate Percentage of the Shareholding upon the full Exercise of the Options ²
38	Jiansheng Wang (王建生)	Operation manager of Panzhuang	Room 202, Unit 3, No. 4 Building, 36 Jiefang Road, Xuchang City, Henan, PRC	\$1.00	\$0.151	June 5, 2015	796,181	0	796,181	0.02%
39	Quan Wang (王權)	Operation manager of Mabi	Unit 29-4, Fu 3, No. 104, Dayanggongqiao, Shapingba District, Chongqing, PRC	\$1.00	\$0.151	June 5, 2015	796,181	0	796,181	0.02%
40	Zilong Wang (王子龍)	EHS manager of Panzhuang	Unit 6A604, Zhongtiancaihongcheng North District, Danshui Town, Huiyang, Huizhou, Guangdong, PRC	\$1.00	\$0.151	June 5, 2015	398,090	0	398,090	0.01%
41	Haijiao Yu (餘海蛟)	Marketing manager	No.1-9, Tower 40, No. 44 Xuefu Road, Xiaodian District, Taiyuan, Shanxi, PRC	\$1.00	\$0.151	June 5, 2015	597,135	0	597,135	0.02%
42	Hongjin Qian (錢弘晉)	Sales manager of Panzhuang	13, District 2, Maquanyingcun, Cuigezhuangxiang, Chaoyang District, Beijing, 100103, PRC	\$1.00	\$0.151	June 5, 2015	597,135	0	597,135	0.02%
43	You He (何友)	Exploration manager	Unit 501, No. 21 Building, Jianghanyoutianshijiyuan, Qianjiang City, Hubei, PRC	\$1.00	\$0.151	June 5, 2015	597,135	0	597,135	0.02%
44	Guoxian He (何國賢)	Geology manager	27, No. 217 Building, 98 Tongbai South Road, Zhongyuan District, Zhengzhou, Henan, PRC	\$1.00	\$0.151	June 5, 2015	597,135	0	597,135	0.02%
45	Yongfang Wang (王永芳)	Land approval manager	Room 402, Unit 1, 1202, Wenchang East Street, Shicheng District, Jincheng, Shanxi, PRC	\$1.00	\$0.151	June 5, 2015	398,090	0	398,090	0.01%
TOTAL							156,490,335	89,730,077	246,220,412	6.90%

Note:

- As at the Latest Practicable Date, certain of the Grantees have transferred their Options to companies wholly-owned by them, in accordance with the Pre-IPO Share Option Scheme.
- These percentages are calculated on the basis of Shares in issue immediately upon completion of the Capitalization Issue and the Global Offering (as enlarged by the exercise in full of all the options granted under the Pre-IPO Share Option Scheme) but do not take into account any Shares which may fall to be sold and transferred upon the exercise of the Over-allotment Option.

We have granted Options to 45 Grantees to subscribe for 246,220,412 Shares at the price of US\$0.151 on the term set out above. Except for our executive Director, four of our INEDs and six members of our senior management of our Group as disclosed above, no Optionees under the Pre-IPO Share Option Scheme are directors or senior management or core connected persons of our Group.

The total number of Shares underlying all the Options granted under the Pre-IPO Share Option Scheme, immediately before the completion of the Capitalization Issue and the Global Offering, is 246,220,412 Shares. Assuming an Offer Price HK\$3.35 per Share, being the mid-point of the proposed Offer Price range of HK\$3.00 to HK\$3.70 per Share as stated in the Prospectus and calculation stated in the table above, the options issued under the Pre-IPO Share Option Scheme represent approximately 6.9% of our enlarged share capital as the Listing Date (assuming that the Over-allocation Option is not exercised) and the dilutive effect on earnings per share is approximately 4.82%.

Save as disclosed above, no other Options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme as at the date of this prospectus.

3. Definitions

For the purpose of the Pre-IPO Share Option Scheme as disclosed in this appendix:

- (a) **“Affiliate”** of a Person means any Entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. For the purposes of the Pre-IPO Share Option Scheme, “control” of an Entity means the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities or other equity interests, by contract or otherwise;
- (b) **“Associates”** has the meaning ascribed to it in the Listing Rules;
- (c) **“Cause”** means any of the following acts or omissions by or involving a Participant: (i) the conviction of any crime or criminal offense; (ii) any gross neglect of his/her duties to any Group Company, including failing to act in accordance with specific, lawful instructions from the relevant Group Company or its board of directors, which causes substantial losses to the Group; (iii) engaging in unfair or unlawful competition with the Group; (iv) inducing any customer or contractual partner of the Group to breach any contract with the Group; (v) making any unauthorized disclosure of or otherwise misusing any of the secrets or confidential information of the Group which causes substantial losses to the Group; (vi) committing any act of embezzlement, fraud or material theft with respect to any property of the Group which causes substantial losses to the Group; or (vii) any material breach of any provision of any agreement or understanding between any Group Company and such Participant regarding the terms of such Participant’s service as an employee, a director or a consultant of such Group Company;
- (d) **“Change of Control”** is deemed to have occurred when either (a) any Person acquires or becomes the beneficial owner of, or a combination of Persons acting jointly acquire or become the beneficial owners of, directly or indirectly, 51% or more of the Voting Shares, whether through the acquisition of previously issued and outstanding Voting Shares or of Voting Shares that have not been previously issued, or any combination thereof, or any transaction having a similar effect; or (b) any

Person acquires or becomes the beneficial owner of, directly or indirectly, all of the outstanding Voting Shares except for any Shares held by employees (or his Associates) of any Group Company and who are not Participants;

- (e) **“Disabled”** or **“Disability”** means the permanent and total mental or physical incapacity of an Optionee to fulfil his or her responsibilities to our Company or an Affiliate of our Company, as the case may be, for a period of greater than 12 months;
- (f) **“Employment Date”** means the date on which the employment relationship between our Company or any of its Affiliates and the Optionee starts;
- (g) **“Entity”** means any partnership, limited partnership, limited liability company, joint venture, syndicate, sole proprietorship or company with or without share capital, unincorporated association, trust, government or governmental authority or any other form of entity, however designated or constituted;
- (h) **“Exercise Price”** means the per share purchase price of Shares purchasable under any Option according to Schedule A to the Pre-IPO Share Option Scheme, and Exercise Prices in respect of Options granted to any other Eligible Person shall be determined at the sole discretion of the Board of our Company;
- (i) **“Group”** and each a **“Group Company”** means our Company and its Affiliate(s) from time to time;
- (j) **“Option”** means an option or right to purchase Shares under the Pre-IPO Share Option Scheme;
- (k) **“Other Plans”** means stock options, stock option plans or other share compensation arrangements which our Company may issue or establish in addition to the Pre-IPO Share Option Scheme;
- (l) **“Participant”** or **“Optionee”** means an Eligible Person who has been granted one or more Options;
- (m) **“Person”** means any natural person or any Entity;
- (n) **“Pre-IPO Change of Control Completion Date”** the date of closing of the transaction which triggers the Pre-IPO Change of Control;
- (o) **“Retirement”** means retirement by a Participant from active employment with the Company or an Affiliate of the Company at or after age 65, or with the consent of the Board for purposes of the Pre-IPO Share Option Scheme, at or after such earlier age and upon the completion of such years of service as the Board may specify, in each case other than in a circumstance where the Company has the right to terminate such employment for Cause;

- (p) **“Termination by our Company”** means the termination of an employment agreement or consulting agreement with any Group Company by such Group Company other than for Cause or the decline of the extension or renewal of an employment agreement or consulting agreement with any Group Company by such Group Company other than in a circumstance where such Group Company has the right to terminate such employment agreement or consulting agreement for Cause;
- (q) **“Vested Options”** means the options granted to the Participants which have already vested;
- (r) **“Voluntary Termination”** means the voluntary termination of an employment agreement or consulting agreement or the decline of the extension or renewal of an employment agreement or consulting agreement with any Group Company by an Optionee other than in a circumstance where such Group Company has the right to terminate such employment agreement or consulting agreement for Cause; and
- (s) **“Voting Shares”** means any securities of our Company which, by their terms or pursuant to the terms of a shareholders agreement, are entitled to vote to elect our Directors.

E. POST-IPO RSU SCHEME

1. Summary of Terms

The Company has conditionally adopted the Post-IPO RSU Scheme by a resolution of our Shareholder on June 5, 2015 and a resolution of our Board on June 5, 2015. A set of the scheme rules was also approved on the same date for the purpose of providing more comprehensive and detailed rules governing the Post-IPO RSU Scheme. Restricted share units (each a **“RSU,”** or collectively **“RSUs”**) were granted to the persons (the **“RSU Grantees”**, as defined below). The Post-IPO RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

(a) Purposes of the Post-IPO RSU Scheme

The purposes of the Post-IPO RSU Scheme is to to recognize the contributions by the RSU Grantees (as defined below) and to give incentives thereto in order to retain them for the continual operation and development of our Group and to attract suitable personnel for further development of our Group.

(b) RSU Awards

An award of RSUs under the Post-IPO RSU Scheme (each an **“Award,”** or collectively **“Awards”**) gives a participant in the Post-IPO RSU Scheme a conditional right when the Award vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board at its sole discretion from time to time. An Award may include, if so specified by the Board at

its sole discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

For the purposes of the Post-IPO RSU Scheme, “Board” means the board of directors of our Company or the Remuneration Committee.

(c) *RSU Participants in the Post-IPO RSU Scheme*

Eligible persons of the Post-IPO RSU Scheme (each an “**Eligible Person**,” or collectively “**Eligible Persons**”) include the following persons eligible to receive Awards under the Post-IPO RSU Scheme:

- (i) existing employees, directors or officers of our Company or other members of the Group; and
- (ii) any other person selected by the Board at its sole discretion from time to time.

(d) *Status of the Post-IPO RSU Scheme*

The Post-IPO RSU Scheme is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholder to approve and adopt the Post-IPO RSU Scheme, and to authorize the directors of our Company to grant Awards and to allot and deal with Shares in connection with the Post-IPO RSU Scheme (which occurred on June 5, 2015);
- (ii) the Stock Exchange granting approval of the listing of and permission to deal in the Shares that are the subject of Awards that may be granted pursuant to the Post-IPO RSU Scheme; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange (collectively, the “**RSU Conditions**”).

(e) *Term of the Scheme*

Subject to the RSU Conditions being satisfied and the termination clause in paragraph 16 (*Termination of the Post-IPO RSU Scheme*), the Post-IPO RSU Scheme shall be valid and effective for the period of 10 years commencing on the date of adoption (the “**Scheme Period**”), after which period no further Awards will be granted, but the provisions of the Post-IPO RSU Scheme shall in all other respects remain in full force and effect and Awards that are granted during the Scheme Period may continue to be exercisable in accordance with their terms of issue.

(f) *Grant of Award*

On and subject to the rules of the Post-IPO RSU Scheme and all applicable laws and regulations, the Board may, within the Scheme Period, determine the Selected Persons (as defined below) to participate in the Post-IPO RSU Scheme. Unless being so selected,

no person shall be entitled to participate in the Post-IPO RSU Scheme. The Board has full discretion to determine, from time to time, the basis of eligibility of any Selected Person for participation in the Post-IPO RSU Scheme and the grant of Awards on the basis of their contribution to the development of our Group or any other factors as the Board deems appropriate. The Board has full discretion to grant additional Awards on an annual basis to certain RSU Grantees in order to top-up such portion of their vested Awards, based on the performance of our Group and such RSU Grantees.

The Board shall, after the selection process, inform the RSU Trustee (as define below) of the names of the Selected Persons, the number of Shares underlying the Awards to be granted to each of the Selected Persons, the vesting schedule of the Awards and other terms and conditions (if any) that the Awards are subject to as determined by the Board.

Subject to the limitations and conditions of the Post-IPO RSU Scheme, the RSU Trustee shall, upon receipt of the notification from the Board, grant and deliver to each of the Selected Persons an offer of grant of Awards by way of a letter and/or any such notice or document in such form as the Board may from time to time determine (the “**RSU Grant Letter**”), subject to the conditions that the Board thinks fit.

(g) Acceptance of Award

If the Selected Person accepts the offer of grant of Awards, he/she is required to sign a notice of acceptance (the “**Acceptance Notice**”) and return it to our Company within the time period and in a manner prescribed in the RSU Grant Letter. Upon the receipt by the Board of a duly executed Acceptance Notice, the Awards are granted to the Selected Person, who becomes a Grantee in the Post-IPO RSU Scheme. To the extent that the offer of grant of an Award is not accepted by the Selected Person within the time period or in a manner prescribed in the RSU Grant Letter, it shall be deemed that such offer has been irrevocably declined and thus the grant has immediately lapsed.

The Grantees shall not be required to bear or pay any price or fee for the grant of Awards.

(h) Restrictions on Grants

The Board shall not grant any Award to any Selected Person (the “**Excluded Participants**”) in any of the following circumstances:

- (i) the requisite approvals for that grant from any applicable regulatory authorities have not been obtained;
- (ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the Awards or in respect of the Post-IPO RSU Scheme, unless the Board determines otherwise;
- (iii) where granting the Award would result in a breach by our Group or any of its directors or senior management members of any applicable laws, regulations or rules;

- (iv) the grant would result in breach of the Post-IPO RSU Scheme Limit (as set out in paragraph (j) below) or other rules of the Post-IPO RSU Scheme; or
- (v) after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular commencing one month immediately preceding the earlier of:
 - (i) the date of the meeting of the board of directors of the Company (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement;

in which no Award may be granted. Such period will cover any period of delay in the publication of a results announcement.

(i) Grant to Directors

Where any Award is proposed to be granted to a Director, it shall not be granted on any day on which our financial results are published and during the period of:

- (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(j) Grant to Connected Persons

Any grant of an Award to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates, shall be subject to the prior approval of the INEDs (excluding the INED who is the proposed grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules. Notwithstanding the foregoing, any grant of an Award to a Director pursuant to Rule 14A.95 of the Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant Director's remuneration under his/her service contract.

(k) Post-IPO RSU Scheme Limit

No Award shall be granted pursuant to the Post-IPO RSU Scheme if as a result of such grant (assumed accepted), the aggregate number of Shares underlying all grants made pursuant to the Post-IPO RSU Scheme (excluding Awards that have lapsed or been cancelled in accordance with the rules of the Post-IPO RSU Scheme) will exceed in total 66,487,378 Shares, representing 2% of the number of Shares in issue on the Listing Date (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme), calculated based on the Offer Price of HK\$3.35 per Share, being the mid-point of the indicative Offer Price range (the “**Post-IPO RSU Scheme Limit**”). This Post-IPO RSU Scheme Limit may be refreshed from time to time pursuant to paragraph (m) below.

(l) Annual Mandate

During the Applicable Period (as defined below), to the extent that our Company may grant Awards pursuant to the Post-IPO RSU Scheme which may be satisfied by our Company allotting and issuing new Shares upon the vesting of the Awards granted pursuant to the Post-IPO RSU Scheme, our Company shall at its annual general meeting propose for the Shareholders to consider and, if thought fit, pass on ordinary resolution approving a mandate specifying: (i) the maximum number of new Shares that may underlie the Awards granted pursuant to the Post-IPO RSU Scheme during the Applicable Period; and (ii) that the Board has the power to allot and issue Shares, procure the transfer of Shares and otherwise deal with Shares pursuant to the vesting of any Awards that are granted pursuant to this Scheme during the Applicable Period when the Awards vest.

The above mandate referred shall remain in effect during the period from the passing of the ordinary resolution granting the mandate until the earliest of: (i) the conclusion of the subsequent annual general meeting of our our Company; (ii) the end of the period within which our Company is required by any applicable laws or by the Articles to hold the next annual general meeting of our Company; or (iii) the date on which such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting of our Company, (the “**Applicable Period**”).

(m) Refresh of the Post-IPO RSU Scheme Limit

The Post-IPO RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders’ approval, but in any event, the total number of Shares that may underlie the RSUs granted following the date of approval of the refreshed limit (the “**New Approval Date**”) under the limit as refreshed from time to time must not exceed 2% of the number of Shares in issue as at the New Approval Date. Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme (including those outstanding, cancelled, lapsed or vested Awards) prior to the New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares that may underlie the RSUs granted following the New Approval Date under the limit as renewed.

(n) Rights Attached to the Awards

A Grantee does not have any contingent interest in any Shares underlying an Award unless and until these Shares are actually transferred to the Grantee from the RSU Trustee. Furthermore, a Grantee may not exercise any voting right in respect of the Shares underlying the Award prior to their vesting and, unless otherwise specified by the Board in its sole discretion in the RSU Grant Letter to the Grantee, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the Award.

(o) Rights Attached to Shares

Any Shares transferred to a Grantee in respect of any Award shall be subject to the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of transfer or, if that date falls on a day when the register of members of our Company closed, the first day of the reopening of the register of members.

(p) Awards to be Personal to the Grantee

Awards granted pursuant to the Post-IPO RSU Scheme shall be personal to each Grantee and shall not be assignable or transferrable, except assignment or transfer from each Grantee to a company wholly owned by him/her or between two companies both of which are wholly owned by him/her. Notwithstanding the above, the Grantees are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Trustee on trust for the Grantees, Awards, Shares underlying any Awards or any interest or benefits therein.

(q) Appointment of RSU Trustee

The Board has the sole and absolute right to appoint the RSU Trustee from time to time to administer the granting and vesting of the Awards granted to the Grantees pursuant to the Post-IPO RSU Scheme. Subject to compliance with the laws of the Cayman Islands and the Articles, our Company shall provide such assistance and funds as may be appropriate or necessary to enable the RSU Trustee to satisfy its obligations in connection with the administration and vesting of the Awards granted to the Grantees pursuant to the Post-IPO RSU Scheme.

(r) Vesting of Awards

The Board has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of Awards to any Grantee, which may also be adjusted and re-determined by the Board from time to time. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

Upon fulfillment or waiver of the vesting period and vesting criteria (if any) applicable to each of the Grantees, a vesting notice (the “**Vesting Notice**”) will be sent to the Grantee by the Board, or by the RSU Trustee under the authorization and instruction by the Board confirming (a) the extent to which the vesting period and vesting criteria (if any) have been fulfilled or waived and (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) or the amount of cash the Grantee will receive.

The Grantee is required to execute, after receiving the Vesting Notice, certain documents set out in the Vesting Notice that the Board considers necessary (which may include, without limitation, a certification to our Group that he/she has complied with all the terms and conditions set out in this Scheme and the RSU Grant Letter).

Subject to the execution of documents by the Grantee set out in above paragraph, the Board may decide at its sole discretion to:

- (i) direct and procure the RSU Trustee to transfer the Shares underlying the Awards (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares from the Trust Assets (as defined below)) to the Grantee or its wholly-owned entity; or
- (ii) pay, or direct and procure the RSU Trustee to pay, to the Grantee in cash an amount which is equivalent to the value of the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) set out in subparagraph (i) above.

In the event that the Grantee fails to execute the required documents within seven (7) days after receiving the Vesting Notice, the vested Shares will lapse.

The Board has the sole discretion to determine, at any time, to accelerate the vesting of any Award granted to any Grantee for various considerations.

(s) Rights on a Takeover

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement pursuant to paragraph (u) below) is made to all the Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects prior to the vesting, the Awards of the Grantee will vest immediately to the extent specified in a notice given by our Company.

(t) *Rights on a Scheme of Arrangement*

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the vesting, the Awards of the Grantee will vest immediately to the extent specified in a notice given by our Company.

(u) *Rights on a Voluntary Winding-up*

In the event that an effective resolution is passed during the Scheme Period for voluntary winding-up of our Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement pursuant to paragraph (w) below) prior to the vesting, the Awards of the Grantee will vest immediately to the extent specified in a notice given by the Company, provided that all unexercised Awards must be exercised and effected by no later than one (1) Business Day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company (or to pass written resolutions of the Shareholders to the same effect).

(v) *Rights on a Compromise or Arrangement*

If a compromise or arrangement between our Company and the Shareholders or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies and a notice is given by the Company to the Shareholders to convene a general meeting to consider, and if thought fit, approve such compromise or arrangement prior to the vesting, the Awards of the Grantee will vest immediately to the extent specified in a notice given by our Company.

(w) *Lapse or Cancellation of Awards*

Without prejudice to other rules under the Post-IPO RSU Scheme, an Award will automatically lapse immediately upon the earliest of:

- (i) termination of employment or service of any Grantee for any reason prior to the vesting date of the granted Awards;
- (ii) knowingly performs any act that may confer any competitive benefit or advantage upon any competitor of our Group, or becomes an officer, director, employee, consultant, advisor, partner of, or a stockholder or other proprietor owning more than a 5% interest in any competitor of our Group;
- (iii) the Grantee makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any Shares underlying the granted Awards or any interests or benefits in relation to the Awards; and
- (iv) the commencement of the winding-up of the Company.

If the event set out in this paragraph (other than sub-paragraph (iv)) occurs, the Award shall lapse on a proportional basis, in another words, based on the proportion of the time period commencing from the grant date of the Award through the occurrence of such event of the entire vesting period set out in the Grant Letter to the Grantee provided that other vesting criteria (if any) have been fulfilled or waived as of the date of occurrence of such event.

(x) *Reorganization of Capital Structure*

In the event of any alteration in the capital structure of our Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion, including:

- (i) make arrangements for the grant of substitute Awards of equivalent fair value to an Award in the purchasing or surviving company; or
- (ii) reach such accommodation with the Grantee as it considers appropriate, including the payment of cash compensation to the Grantee equivalent to the fair value to an Award to the extent not vested; or
- (iii) waive any conditions to vesting of an Award to the extent not already vested; or
- (vi) permit the continuation of an Award in accordance with its original terms.

(y) *Alteration or Amendment of the Post-IPO RSU Scheme*

The terms of the Post-IPO RSU Scheme may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any Grantee hereunder. Any alteration, amendment or waiver to this Scheme of a material nature shall be approved by the Shareholders. The Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

(z) *Termination of the Post-IPO RSU Scheme*

The Post-IPO RSU Scheme may be terminated at any time prior to the expiry of the Scheme Period by the Board provided that such termination shall not affect any subsisting rights of any Grantee hereunder. For the avoidance of doubt, no further Awards shall be granted after the Post-IPO RSU Scheme is terminated but in all other respects the provisions of the Post-IPO RSU Scheme shall remain in full force and effect. No further Award shall be granted after such termination; however, all Awards granted prior to such termination and not vested on the date of termination shall remain valid. In such event, the Board shall notify the RSU Trustee and all Grantees of such termination and how the Shares held by the RSU Trustee on trust and other interests or benefits in relation to the outstanding Awards shall be dealt with.

(aa) Administration of the Post-IPO RSU Scheme

The Board may delegate the authority to administer the Post-IPO RSU Scheme to the Remuneration Committee. The Board or the Remuneration Committee shall have the right to:

- (i) interpret and construe the provisions of the Post-IPO RSU Scheme;
- (ii) determine the persons who will be granted Awards under the Post-IPO RSU Scheme, the terms on which Awards are granted and when the RSUs granted pursuant to the Post-IPO RSU Scheme may vest;
- (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the Post-IPO RSU Scheme as it deems necessary; and
- (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the Post-IPO RSU Scheme.

(bb) General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, new Shares underlying any Awards which may be granted pursuant to the Post-IPO RSU Scheme.

As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the Post-IPO RSU Scheme. The grant and vesting of any RSUs which may be granted pursuant to the Post-IPO RSU Scheme will be in compliance with Rule 10.08 of the Listing Rules.

The Company will issue announcements according to applicable Listing Rules, disclosing particulars of any RSUs granted under the Post-IPO RSU Scheme, including the date of grant, number of Shares involved, the vesting period, the appointment and arrangement with the RSU Trustee and comply with Chapter 14A of the Listing Rules. Details of the Post-IPO RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

2. Definitions

For the purpose of the Post-IPO RSU Scheme as disclosed in this appendix:

- (a) “**RSU Grantee(s)**” means the Selected Persons who have accepted the grants of Awards by the Board pursuant to the Post-IPO RSU Scheme;
- (b) “**RSU Trustee**” means a professional trustee, who is an Independent Third Party, appointed by the Board to assist with the holding, administration and vesting of Awards granted pursuant to the Post-IPO RSU Scheme;

- (c) “**Selected Person(s)**” means Eligible Persons selected by the Board, at its discretion, to receive the Awards under Post-IPO RSU Scheme Scheme;

F. OTHER INFORMATION

1. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group that would have a material adverse effect on our Group’s results of operations or financial condition.

2. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were US\$8,700 and were paid by AAGI.

3. Application for Listing

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering, the Additional Shares and our Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued pursuant to the RSUs granted under the Post-IPO RSU Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

4. Independence of Joint Sponsors and Joint Sponsors’ fees

China International Capital Corporation Hong Kong Securities Limited, being one of the Joint Sponsors, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

HSBC Corporate Finance (Hong Kong) Limited, being the other Joint Sponsor, is not independent from our Company according to Rule 3A.07 of the Listing Rules. HSBC Corporate Finance (Hong Kong) Limited is an indirect wholly-owned subsidiary of HSBC. HSBC currently has a term facility and may potentially increase the total lending exposure which will exceed 30% of the total assets of the Company as of 31 December 2014.

The Joint Sponsors will be paid by our Company a total fee of US\$900,000 to act as sponsors to our Company in connection with the Global Offering.

5. No material adverse change

Our Directors believe that there has been no material adverse change in the financial or trading position, indebtedness, mortgages, contingent liabilities, guarantees or prospects of our Group since December 31, 2014 (being the date on which the latest audited combined financial statements of our Group).

6. Compliance adviser

Our Company has appointed Haitong International Capital Limited as our compliance adviser upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

7. Agency fees or commissions received

The Underwriters will receive an underwriting commission as referred to in the section headed “Underwriting — Underwriting Arrangements and Expenses — Underwriting Commission and Expenses.”

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted to our Directors or any of the persons whose names are listed in the paragraph headed “Consents” in this appendix in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Register of members

Subject to the provisions of the Cayman Companies Law, our register of members will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted to CCASS.

10. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance) who have given their opinion and/or advice in this prospectus are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealings in futures contracts), Type 3 (leverage foreign exchange trading), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities
HSBC Corporate Finance (Hong Kong) Limited	Licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity
PricewaterhouseCoopers	Certified Public Accountants
Netherland, Sewell & Associates, Inc.	Independent technical consultant
SIA Energy Limited	Industry consultant
King & Wood Mallesons	PRC legal adviser
Conyers Dill & Pearman	Cayman Islands attorneys-at-law

11. Consents

Each of the experts set out in the sub-section headed “Qualifications of experts” in this appendix has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the section headed “Qualifications of experts” in this appendix had any shareholding interests in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

12. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Capitalization Issue and the Global Offering and the related transactions described in this prospectus.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32 of the Laws of Hong Kong).

14. Tax and other indemnities

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax.

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to, our Shares.

15. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

16. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no share or loan capital of our Company or of any of our principal operating subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of the principal subsidiaries;

- (c) within the two years preceding the date of this prospectus, no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;
- (d) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (e) no share or loan capital of our Company or any of our combined subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (f) none of the parties (save in connection with the Underwriting Agreement) listed in the sub-paragraph headed “Consents” under the paragraph headed “Other information” in this appendix:
 - (aa) is interested legally or beneficially in any securities of any member of our Group;
or
 - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.
- (g) there is no arrangement under which future dividends are waived or agreed to be waived.

17. Particulars of the Over-allotment Option Grantors

Pursuant to the International Underwriting Agreement, if the Joint Bookrunners (on behalf of the International Underwriters) elect to fully exercise the Over-allotment Option to purchase 114,210,000 Shares, WP China, Baring PE, Dr. Zou and The Zou 2011 Family Trust will sell and transfer 55,680,005, 45,542,552, 6,493,722 and 6,493,722 Shares, respectively, representing 15% of our Shares initially being offered under the Global Offering at the Offer Price to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” of this prospectus.

The number of Shares held by the Over-allotment Option Grantors assuming the Over-allotment Option is fully exercised are set out in the following table:

Name of the Over-allotment Option Grantors	Number of Shares held by the Over-allotment Option Grantors (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme)	Number of Shares to be sold and transferred upon the full exercise of the Over-allotment Option	Number of Shares held and approximate percentage of shareholding immediately upon the full exercise of the Over-allotment Option (without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme)	
	(Shares)	(Shares)	(Shares)	(%)
WP China	839,598,890	55,680,005	783,918,885	23.58%
Baring PE	686,736,210	45,542,552	641,193,659	19.29%
Dr. Zou	95,835,832	6,493,722	89,342,111	2.69%
The Zou 2011 Family Trust	<u>64,123,535</u>	<u>6,493,722</u>	<u>57,629,814</u>	<u>1.73%</u>
		<u>114,210,000</u>	<u>1,572,084,469</u>	<u>47.29%</u>

Particulars of the Over-allotment Option Grantors as at the Latest Practicable Date are set out as follow:

Name:	Stephen Xiangdong Zou
Nationality:	American
Residential Address:	Jiangfu Jiayuan Beili Unit 131-4-1-502 Chaoyang District Beijing 100015 PRC

Number of Shares to be sold and transferred upon the full exercise of the Over-allotment Option:	6,493,722
Name	HSBC Bank USA, N.A. as trustee of Zou Family 2011 Irrevocable Trust
Place of Incorporation	USA
Date of Incorporation	August 29, 2011
Registered Office	300 Delaware Avenue, Ste. 1401 Wilmington, DE 19801
Number of Shares to be sold and transferred upon the full exercise of the Over-allotment Option	6,493,722
Name:	WP China CBM Investment Holdings Limited
Place of Incorporation:	BVI
Date of Incorporation:	September 24, 2008
Registered Office:	PO Box 3340, Road Town Tortola, British Virgin Islands
Number of Shares to be sold and transferred upon the full exercise of the Over-allotment Option:	55,680,005
Name:	Baring Private Equity Asia IV Holding (4) Limited
Place of Incorporation:	BVI
Date of Incorporation:	December 11, 2007
Registered Office:	P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands
Number of Shares to be sold and transferred upon the full exercise of the Over-allotment Option:	45,542,552

18. Particulars of the Selling Shareholder

Pursuant to the International Underwriting Agreement, CDB-CITIC will sell 95,239,080 Shares representing approximately 2.86% of the total issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to the Post-IPO RSU Scheme).

The number of Shares held by CDB-CITIC prior to and following the sale of its Shares are set out in the table below:

<u>Name of the Selling Shareholder</u>	<u>Number of Shares held by the Selling Shareholder prior to the Global Offering</u> <i>(Shares)</i>	<u>Number of Sale Shares to be sold by the Selling Shareholder</u> <i>(Shares)</i>	<u>Approximate Percentage of Shareholding and Number of Shares held after the Global Offering</u> <i>(Shares) (%)</i>	
CDB-CITIC	96,821,596	95,239,080	1,582,516	0.05%

The particulars of the Selling Shareholder are set out the follows:

Name:	CDB-CITIC Capital Investment Co., Ltd.
Place of Incorporation:	China
Date of Incorporation:	August 1, 2008
Registered Office:	Suite 058, 22th Floor 1 Dongzhimen South Street Dongcheng District Beijing PRC
Number of Sale Shares to be sold as part of the Global Offering:	95,239,080

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE, YELLOW** and **GREEN** Application Forms, (ii) the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents” in Appendix V to this prospectus, and (iii) copies of each of the material contracts referred to in the section headed “Statutory and General Information — Further Information about the Business of our Company — Summary of our material contracts” in Appendix V to this prospectus and the statement of particulars of the Over-allotment Option Grantors and the particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Kirkland & Ellis on 26th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountant’s report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers on unaudited pro forma financial information of our Company, the text of which is set out in Appendix II to this prospectus;
- (d) the Independent Technical Report prepared by Netherland, Sewell & Associates, Inc., the text of which is set out in Appendix III to this prospectus;
- (e) the industry report dated May 15, 2015 prepared by SIA Energy, our independent industry consultant;
- (f) the letter of advice issued by Conyers Dill & Pearman, our legal advisers as to Cayman Islands laws, summarizing certain aspects of the Cayman Islands company law, a summary of which is set out in Appendix IV to this prospectus;
- (g) the PRC legal opinions dated June 11, 2015 issued by King & Wood Mallesons, our PRC legal adviser, in respect of our general matters and property interests;
- (h) copies of material contracts referred to under the section headed “Statutory and General Information — Further Information about the Business of our Company — Summary of our material contracts” in Appendix V to this prospectus;
- (i) the written consents referred to under the section headed “Statutory and General Information — Other Information — Consents” in Appendix V to this prospectus;

- (j) the service agreement and letters of appointment referred to under the section headed “Statutory and General Information — Further Information about Our Directors, Senior Management and Substantial Shareholders” in Appendix V to this prospectus;
- (k) the Cayman Companies Law;
- (l) the Pre-IPO Share Option Scheme;
- (m) the full list of all the Grantees of the Pre-IPO Share Option Scheme, containing all the details in respect of each option required under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules;
- (n) the statement of Particulars of the Over-allotment Option Grantors, details of which are set out in the section headed “Other Information — Particulars of the Over-allotment Option Grantors” in Appendix V to this prospectus;
- (o) the statement of Particulars of the Selling Shareholder, details of which are set out in the section headed “Other Information — Particulars of the Selling Shareholder” in Appendix V to this prospectus; and
- (p) the Post-IPO RSU Scheme.



AAG

AAG Energy Holdings Limited
亞美能源控股有限公司