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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

Key Interim Results Highlights:

- **As of 30 June 2019, AAG Energy has achieved an outstanding safety performance record of zero lost time injury for 4 years and 299 days.**

- **Our revenue for 1H2019 (including subsidy and VAT refund) increased by 37.77%[1] to RMB764 million as compared to that of the corresponding period of 2018. Net profit increased by 64.60% to RMB339 million. EBITDA increased by 59.15% to RMB585 million. Earnings per share increased by 61.29% to RMB0.100.**

- **Our gross production for 1H2019 was 453 MMCM, representing an increase of 18.92% as compared to that of the corresponding period of 2018:**

  — In respect of Panzhuang concession, gross production for 1H2019 was 416 MMCM, representing an increase of 25.48% as compared to that of the corresponding period of 2018;

  — In respect of Mabi concession, gross production for 1H2019 was 37 MMCM, representing a decrease of 24.61% as compared to that of the corresponding period of 2018;

  — In respect of AAG Energy, daily production for 1H2019 reached 2.50 MMCM, representing an increase of 18.48% as compared to that of the corresponding period of 2018.

- **Our gross sales volume[2] for 1H2019 was 442 MMCM, representing an increase of 20.15% as compared to that of the corresponding period of 2018:**

  — In respect of Panzhuang concession, gross sales volume for 1H2019 was 406 MMCM, representing an increase of 24.70% as compared to that of the corresponding period of 2018;

  — In respect of Mabi concession, gross sales volume for 1H2019 was 36 MMCM, representing a decrease of 14.71% as compared to that of the corresponding period of 2018.

- **In 1H2019, the realized average selling price[3] per cubic meter in respect of Panzhuang concession was RMB1.80, representing an increase of 17.65% as compared to that of the corresponding period of 2018; while the realized average selling price per cubic meter in respect of Mabi concession was RMB1.40, representing a decrease of 1.41% as compared to that of the corresponding period of 2018.**

- **In 1H2019, we have drilled a total of 22 wells (of which 19 were SLHs and 3 were PDWs) in Panzhuang concession. Average drilling time for SLHs was 16.7 days, and our drilling efficiency remained the same as compared with the corresponding period of last year.**

Note 1: Due to the different units of expression and decimal places reserved of data, there may be slight deviation in the percentage of increase or decrease; the percentage of increase or decrease is based on the calculation of the minimum units of expression and decimal places reserved available in the announcement.

Note 2: Gross sales volume is gross production volume less utilization loss.

Note 3: Realized average selling price excludes the directly attributable pass through cost and reflects the realized wellhead price.

The board (the "**Board**") of directors (the "**Directors**") of AAG Energy Holdings Limited (the "**Company**" or "**AAG Energy**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the same period last year as follows:

FINANCIAL SUMMARY

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**597,651**	430,501
Other income	**166,006**	123,809
Profit from operations	**445,689**	290,939
EBITDA	**584,949**	367,554
Adjusted EBITDA	**604,850**	380,068
Profit for the period	**338,577**	205,698
Basic earnings per share (RMB)	**0.100**	0.062
Diluted earnings per share (RMB)	**0.100**	0.061

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**3,591,488**	3,651,419
Cash and bank balances	**1,707,355**	1,700,290
Total assets	**6,131,486**	6,007,107
Total equity	**5,464,190**	5,376,853

BUSINESS REVIEW

We are pleased to announce that the Group continues to deliver strong growth in gross production of coalbed methane ("**CBM**") in the first half of 2019 ("**1H2019**") as compared to the first half of 2018 ("**1H2018**"), representing a period-on-period growth of 18.92% to 453 million cubic meters ("**MMCM**") (being 16.0 billion cubic feet ("**bcf**")) (comprising Panzhuang concession's production of 416 MMCM (being 14.7 bcf) and Mabi concession's production of 37 MMCM (being 1.3 bcf)).

Due to the growth of production, the Group's gross sales volume of CBM grew by 20.15% to 442 MMCM (being 15.6 bcf) (comprising Panzhuang concession's sales volume of 406 MMCM (being 14.3 bcf) and Mabi concession's sales volume of 36 MMCM (being 1.3 bcf)) in 1H2019 as compared to 368 MMCM (being 13.0 bcf) in 1H2018.

Due to the strong demand for natural gas in winter, the realized average selling price ("**ASP**") of Panzhuang concession increased from RMB1.53 per cubic meter in 1H2018 to RMB1.80 per cubic meter in 1H2019, representing a growth of 17.65%; the realized ASP of Mabi concession in 1H2018 amounted to RMB1.42 per cubic meter, and the realized ASP in 1H2019 amounted to RMB1.40 per cubic meter due to the change in customer structure.

Our revenue for 1H2019 (including subsidy and VAT refund) increased by 37.77% to RMB764 million as compared to that of the corresponding period of 2018. Net profit increased by 64.60% to RMB339 million. EBITDA increased by 59.15% to RMB585 million. Earnings per share increased by 61.29% to RMB0.100.

The Group has achieved considerable progress towards certain key operational objectives during 1H2019:

- **Health Safety Environment ("HSE")**

  As a leading CBM exploration and production company in the People's Republic of China ("**PRC**"), the Group always gives top priorities to HSE work. With the collaborative efforts of all employees, the Group continues to make outstanding progress in terms of HSE performance indicators. Specifically, the Group has recorded zero for the employee total recordable injury rate ("**TRIR**"), lost time injury rate ("**LTIR**"), and preventable motor vehicle accident ("**PMVA**") in 1H2019. The Company's subsidiary, Asian American Gas, Inc. ("**AAGI**"), was awarded the "Eco-Environmental Advanced Group 2018 (2018年度生態環保先進集體)" by the People's Government of Qinshui County in February 2019, and was awarded the "Outstanding Enterprise in Environment Protection 2018 (2018年度落實環境保護工作優秀企業)" by the People's Government of Jincheng City in April 2019. The Company's subsidiary, Sino-American Energy, Inc. ("**SAEI**"), was awarded the "County's Safety Production Advanced Group 2018 (2018年度全縣安全生產先進集體)" by the People's Government of Yangcheng County in April 2019. As of 30 June 2019, AAG Energy has achieved an outstanding safety performance record of zero lost time injury for 4 years and 299 days.

- **Panzhuang Concession**

  Our Panzhuang concession, which is in partnership with China United Coalbed Methane Corporation Ltd. ("**CUCBM**"), was listed as China's key CBM project in production under the 13th Five-Year Plan for the development and utilization of CBM (coal mine gas) prepared by the National Energy Administration ("**NEA**") and issued by the National Development and Reform Commission of the People's Republic of China ("**NDRC**").

  In 1H2019, the gross production for Panzhuang concession reached 416 MMCM (being 14.7 bcf), representing a period-on-period increase of 25.48% compared with 331 MMCM (being 11.7 bcf) in 1H2018. Daily average production during 1H2019 was 2.2964 MMCM (being 81.1 million cubic feet ("**mmcf**")) compared to 1.8302 MMCM (being 64.6 mmcf) in 1H2018. As of 30 June 2019, 273 wells were in production in Panzhuang concession, including 49 multi-lateral drilling wells ("**MLD**"), 74 pad drilling wells ("**PDW**") and 150 single lateral horizontal wells ("**SLH**").

The Panzhuang 2019 work plan focuses on accelerating production growth while keeping costs competitive. In 1H2019, in respect of Panzhuang concession, we have drilled a total of 22 wells, of which 19 were SLHs and 3 were PDWs. Average drilling time for each SLH, being the main type of well, was 16.7 days with average drilling cost controlled at RMB2.8 million, which was lower than the amount of RMB2.9 million in the corresponding period of last year. In addition, in respect of Panzhuang concession, we fractured 7 PDWs and added 30 wells into production.

The daily production capacity of our Panzhuang surface facilities has exceeded 3 MMCM, including 6 gas gathering stations, 24 wellhead compressors, 62.4 km of trunk lines and 97.8 km of completed single well pipelines. The construction of 35 kilovolt ("**KV**") power line is in progress, which will be able to satisfy the electricity demand of the Panzhuang concession and further improve the gas distribution capacity upon the commencement of operations, thus increasing our production and sales volumes.

Please refer to Table 1 for specific information on the operational performance of Panzhuang concession and well count.

- **Mabi Concession**

  Our Mabi concession, which is in partnership with China National Petroleum Corporation ("**CNPC**"), was listed as China's key CBM project under construction under the 13th Five-Year Plan for the development and utilization of CBM (coal mine gas) prepared by the NEA and issued by the NDRC.

  As reported in our 2018 annual report, in respect of Mabi concession, for 1H2019 the Group focused on implementing the application of certain new technologies and techniques identified by us as scheduled with reference to the geological features, and continuously optimizing the project implementation plan, thereby increasing the expected return on investment in connection with the 2019 drilling plan and the Overall Development Plan ("**ODP**") of the Southern Area in Mabi Concession. Upon the comprehensive optimization, 2019 drilling plan will be implemented in the second half of 2019 ("**2H2019**") in order to prepare for further sizable development.

  In 1H2019, as there was no new well being put into production while technological optimization, such as ultrasonic stimulation trial and downhole equipment modification, was carried out on the existing wells, the number of pumps inspection recorded a period-on-period decrease of 53%. The gross production reached 37.62 MMCM (being 1.3 bcf), 4.67% higher than the original target of 35.94 MMCM for 1H2019. Daily average production was 0.2078 MMCM (being 7.34 mmcf), 0.0093 MMCM higher than the production target.

  Please refer to Table 1 for specific information on the operational performance of Mabi concession and well count.

Table 1 — Operation matrix of Panzhuang ("**PZ**") and Mabi ("**MB**") concessions*

	1H2019	**1H2018**	**% change**	**2018 Full year**
Gross production (MMCM)	**453.27**	381.16	18.92%	802.21
Total average daily production (MMCMD)	**2.50**	2.11	18.48%	2.20
PZ gross production (MMCM)	**415.65**	331.26	25.48%	705.53
PZ MLD	**105.60**	132.40	–20.24%	254.82
PZ SLH	**263.75**	181.80	45.08%	404.29
PZ PDW	**46.30**	17.06	171.40%	46.41
Total PZ producing wells**	**273**	176	55.11%	243
PZ MLD	**49**	49	0.00%	49
PZ SLH	**150**	104	44.23%	127
PZ PDW	**74**	23	221.74%	67
PZ wells drilled	**22**	35	–37.14%	63
PZ wells fracked	**7**	5	40.00%	14
MB gross production (MMCM)	**37.62**	49.90	–24.61%	96.68
MB MLD	**0.02**	–	—	0.01
MB SLH	**9.59**	15.40	–37.73%	26.64
MB PDW	**28.01**	34.50	–18.81%	70.03
Total MB producing wells**	**171**	184	–7.07%	175
MB MLD	**1**	–	—	1
MB SLH	**10**	16	–37.50%	10
MB PDW	**160**	168	–4.76%	164
MB wells drilled	**–**	–	—	–
MB wells fracked	**–**	24	–100.00%	31

* Operations update as of 30 June, 2019, 08:00 CST.

** Well count is calculated from pumping start date.

OUTLOOK FOR 2H2019

As mentioned above, the Group's gross production of CBM increased substantially in 1H2019, and the realized ASP increased steadily. Meanwhile, the total demand of natural gas in the PRC continues to grow, and the national and local governments have intensively introduced policies related to energy revolution and renewable energy development recently, AAG Energy believes that the Group will maintain the continuous growth of its production while achieving more effective cost management in 2H2019, and lay a solid foundation for exploring the Group's medium to long-term resource possession at the same time.

The eighth meeting of the Central Comprehensive Deepening Reform Committee, held on 29 May 2019, approved the Opinions on the Comprehensive Reform of the Energy Revolution in Shanxi (《關於在山西開展能源革命綜合改革試點的意見》), and mentioned that Shanxi should strive to make breakthroughs in aspects such as promoting technological innovation in energy, deepening the reform of energy system, and expanding energy external cooperation through pilot comprehensive reform in respect of energy revolution, so as to act as the leader of national energy revolution. As one of the most important energy development bases in Shanxi Province, Jincheng City clearly stated in the 2019 work report of the People's Government that it will continue to deepen energy revolution, seize the strategic opportunity derived from the country's support in relation to the commencement of comprehensive pilot for energy revolution in Shanxi Province, and actively strive to create "One zone, three bases and one center" (一區三基地一中心) for CBM throughout the nation. "One zone, three bases and one center" includes a National Comprehensive Supporting Reform Pilot Zone for CBM Resources Development (國家煤層氣資源開發綜合配套改革試驗區), a National CBM Industry Development and Demonstration Base (全國煤層氣產業發展示範基地), a National CBM Exploration Technology R&D and Promotion Base (全國煤層氣開採技術研發推廣基地), an Emergency Peak-shaving Guarantee Base in Beijing-Tianjin-Hebei and Central Region (京津冀和中部地區應急調峰保障基地), and a National CBM Trading Center (全國煤層氣交易中心). The opinions on energy revolution and institutional reform of CBM industry introduced by the national and regional governments will facilitate the access to upstream CBM concession resources of the Group, and promote the investment and development speed of the existing CBM assets, which is favourable for the Group to release its CBM production capacity in a quality and rapid manner.

The Ministry of Finance of the PRC promulgated the Supplementary Notice on the Interim Administrative Measures for Special Funds for the Development of Renewable Energy (Cai Jian [2019] No. 298) (《關於〈可再生能源發展專項資金管理暫行辦法〉的補充通知》(財建[2019] 298 號)) on 11 June 2019. Since 2019, subsidies were no longer available based on the quota standard. Instead, progressive compensation will be granted for those exceeded the exploration and utilization volume of previous year based on the principle of "compensating for the increased volume"; and compensation of excess coefficient will be granted for the increased volume produced during the heating season based on the principle of "compensating for the increased volume in winter". Given the Group's momentum forecast for CBM utilization and winter production in 2019, such policies will provide positive impacts to the Group.

The NDRC and the Ministry of Commerce of the People's Republic of China (the "**MOFCOM**") jointly released the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (《外商投資准入特別管理措施(負面清單) (2019年版)》) on 30 June 2019, which removed the restrictions concerning oil and gas exploration in the mining industry where investors can only act as a joint venture or cooperation. The NDRC will work with authorities, such as the MOFCOM, and various localities to promote the revision or abolition according to procedures. By the end of 2019, apart from the negative list for the access of foreign investment, all restrictions will be completely abolished, which means that it is possible for foreign companies to independently explore and develop oil and gas concession in the PRC. Such policy adjustment will be favourable for the Group to gain further access of more CBM concession resources and possibly obtain opportunities for independent exploration and development of CBM concession.

Based on the above-mentioned incentive policies for the CBM industry, which will drive the Group's rapid development in the field of natural gas, for 2H2019, we are pleased to report the following updated objectives:

- **Panzhuang concession**

  In 2H2019, Panzhuang concession will continue to promote the drilling work of 76 wells, the purchase of pumping equipment and production of new wells and the execution of related ancillary surface facilities engineering. The increased drilling in 2H2019 will begin to contribute to the production in 2020.

  With the scheduled project implementation and relevant government approval, the anticipated gross production of Panzhuang concession in 2H2019 will exceed that of 1H2019.

- **Mabi concession**

  Following the efforts made in 1H2019, according to the Company's specific requirements for the implementation of the ODP of the southern area of Mabi and based on the latest understanding of the research on geological gas reserve and the results of technological innovation in 1H2019, we have conducted multiple rounds of demonstration and optimization in connection with the 36 pilot development wells within the area stipulated in the ODP for the southern area. The plan includes the drilling of 20 PDWs and 4 SLHs, and surface facilities engineering and construction in 2H2019. The optimized plan will be more specific and economical. Such wells will begin to contribute to the production in 2020.

  With the scheduled project implementation, the anticipated gross production of Mabi concession remains unchanged.

  In addition, in order to meet the requirements for the preparation of the ODP for the northern area of Mabi and accelerate the commercial development of the northern area of Mabi, we plan to drill 2 SLHs with multistage fracturing, 3 PDWs with separate fracturing and commingled production of the target coal seams, and fracture the unfractured coal seams in 3 existing wells. In order to increase the single well production of these wells, some innovative techniques will also be applied to them.

According to the above development plan of Panzhuang concession and Mabi concession, the Group's capital expenditure budget for 2019 will be reduced from the originally planned approximately RMB622 million to approximately RMB536 million, including RMB408 million and RMB128 million for the expenditure of Panzhuang concession and Mabi concession respectively. AAG Energy completed a net capital expenditure of RMB79.85 million in 1H2019. In 2H2019, the remaining capital expenditure will be funded by a portion of proceeds from internal cash flow or initial public offering ("**IPO**").

As a leading upstream CBM producer in the field of CBM exploration and development in the PRC, the Group is confident in increasing the output while lowering the production costs on an ongoing basis to deliver promising operating results. Meanwhile, we will continue to enhance the innovation in respect of technologies and management, thereby laying a solid foundation for the stable production and development of existing wells in Panzhuang and the advancement of development technologies for Mabi. Besides, AAG Energy will identify new development opportunities in China and other regions as planned to expand our business, so as to provide more clients and relevant communities with clean energy and create higher return for our shareholders.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June **2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Unaudited)
Revenue	*6*	**597,651**	430,501
Other income	*7*	**166,006**	123,809
Other gains/(losses), net		**82**	(26)
Operating expenses			
Depreciation and amortisation		**(139,260)**	(76,615)
Employee benefit expenses		**(64,408)**	(78,534)
Materials, services and logistics		**(107,378)**	(95,337)
Others		**(7,004)**	(12,859)
Total operating expenses		**(318,050)**	(263,345)
Profit from operations		**445,689**	290,939
Interest income	*8*	**16,479**	11,923
Finance costs	*8*	**(1,830)**	(5,497)
Exchange gains/(losses)	*8*	**1,380**	(8,222)
Finance costs, net		**16,029**	(1,796)
Profit before income tax		**461,718**	289,143
Income tax expense	*10*	**(123,141)**	(83,445)
Profit attributable to owners of the Company for the period		**338,577**	205,698
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**2,250**	15,683
Total comprehensive income attributable to owners of the Company for the period		**340,827**	221,381
Earnings per share (RMB)			
— Basic	*13*	**0.100**	0.062
— Diluted	*13*	**0.100**	0.061

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,591,488**	3,651,419
Right-of-use assets		**47,716**	—
Land use rights		**7,986**	11,700
Intangible assets		**37,337**	39,589
Restricted bank deposits		**43,767**	43,767
Other non-current assets		**142**	142
		3,728,436	3,746,617
Current assets			
Inventories		**12,515**	11,506
Other current assets		**11,058**	17,002
Trade and other receivables	*11*	**715,889**	575,459
Cash and cash equivalents		**1,663,588**	1,656,523
		2,403,050	2,260,490
Total assets		**6,131,486**	6,007,107
EQUITY			
Equity attributable to owners of the Company			
Share capital		**2,078**	2,077
Share premium		**4,223,957**	4,475,667
Other reserves		**307,677**	307,208
Retained earnings		**930,478**	591,901
Total equity		**5,464,190**	5,376,853

	Note	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		**17,171**	16,741
Non-current lease liabilities		**46,442**	—
Deferred income tax liabilities		**347,999**	307,322
		411,612	324,063
Current liabilities			
Trade and other payables	*12*	**212,614**	256,284
Current lease liabilities		**11,436**	—
Current income tax liabilities		**31,634**	49,907
		255,684	306,191
Total liabilities		**667,296**	630,254
Total equity and liabilities		**6,131,486**	6,007,107

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	**456,906**	137,225
Interest paid	**(26)**	(18,071)
Income tax paid	**(100,737)**	(43,805)
Net cash generated from operating activities	**356,143**	75,349
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	**(111,747)**	(229,417)
Proceeds from disposal of property, plant and equipment	**149**	36
Interest received	**13,379**	13,310
Net cash used in investing activities	**(98,219)**	(216,071)
Cash flows from financing activities		
Proceeds from exercise of options	**2,031**	1,546
Proceeds from bank borrowings	**–**	44,489
Principal elements of lease payment	**(962)**	—
Finance costs paid	**–**	(4,724)
Dividends paid	**(255,521)**	(67,943)
Net cash used in financing activities	**(254,452)**	(26,632)
Net increase/(decrease) in cash and cash equivalents	**3,472**	(167,354)
Cash and cash equivalents at beginning of the period	**1,656,523**	2,236,970
Exchange gains on cash and cash equivalents	**3,593**	12,896
Cash and cash equivalents at end of the period	**1,663,588**	2,082,512

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Six months ended 30 June 2019

1. GENERAL INFORMATION

AAG Energy Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") are principally engaged in exploration, development and production of coalbed 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 23 December 2014. The address of the Company's registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Group conducts its business through two production sharing contracts ("**PSC**") entered into with China United Coalbed Methane Corporation Ltd. ("**CUCBM**") and China National Petroleum Corporation ("**CNPC**") (authorizing its subsidiary PetroChina Company Limited ("**PetroChina**")) for the Panzhuang and Mabi concessions respectively in Shanxi Province of the PRC.

The Overall Development Plan ("**ODP**") of the Panzhuang concession was approved by the National Development and Reform Commission ("**NDRC**") of the PRC on 28 November 2011, which allowed the Panzhuang concession to enter into the commercial development phase. On 8 October 2018, NDRC formally announced the Approval Regarding the Overall Development Plan ("**ODP**") in respect of the Foreign Cooperation Project within the Southern Area in Mabi concession, Qinshui Basin, Shanxi Province. According to the announcement, the approval was officially issued in September 2018. With this approval, Mabi is eligible for commercial development. As at 30 June 2019, the Northern Area of Mabi concession was still in exploration phase.

The Company's initial public offering ("**IPO**") of its shares on the Main Board of The Stock Exchange of Hong Kong Limited was completed on 23 June 2015.

In 2018, Liming Holding Limited ("**Liming**"), an indirect wholly owned subsidiary, controlled through Sichuan Liming Energy Development Co., Ltd. ("**Sichuan Liming**"), of Xinjiang Xintai Natural Gas Co., Ltd. ("**XTRQ**"), a company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 603393), acquired approximately 50.5% of issued shares of the Company.

The directors regard Liming, Sichuan Liming and XTRQ as the immediate parent entity, intermediate parent entity and the ultimate parent entity of the Company respectively after the completion of the takeover ("**Change of Control**").

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the Company during the interim reporting period.

The condensed consolidated interim financial information is presented in Renminbi ("**RMB**") unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 Leases.

The impact of the adoption of HKFRS 16 are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 4(b) below.

The group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.00%.

	2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**10,336**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**57,877**
Less: short-term leases recognised on a straight-line basis as expense	**(5,563)**
Add: adjustments as a result of a different treatment of extension and termination options	**5,630**
Lease liability recognised as at 1 January 2019	**57,944**
Of which are:	
Current lease liabilities	**12,307**
Non-current lease liabilities	**45,637**
	57,944

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	As at 30 June 2019	**As at 1 January 2019**
	RMB'000	***RMB'000***
Properties and land	**47,425**	**51,480**
Equipment	**291**	**349**
Total right-of-use assets	**47,716**	**51,829**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by RMB51,829,000
- Prepayments — decrease by RMB5,913,000
- Lease liabilities — increase by RMB57,944,000

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, land and equipments. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Extension and termination options are included in a number of land leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

5. SEGMENT INFORMATION

The chief operating decision-maker ("**CODM**") has been identified as the Directors and chief executive of the Group 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. The financial information of the two PSCs have been separated to present 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 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 six months ended 30 June 2019 is as follows:

	Panzhuang concession	**Mabi concession**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
(Unaudited)			
For the six months ended 30 June 2019			
Revenue from external customers	**547,628**	**50,023**	**597,651**
EBITDA	**571,428**	**21,848**	**593,276**
Other income	**150,748**	**15,258**	**166,006**
Operating expenses	**(245,259)**	**(61,828)**	**(307,087)**
Depreciation and amortisation	**(118,205)**	**(18,692)**	**(136,897)**
Interest income	**7,800**	**139**	**7,939**
Finance costs	**(1,123)**	**(602)**	**(1,725)**
Exchange gains/(losses)	**958**	**(601)**	**357**
Income tax expense	**(123,141)**	**–**	**(123,141)**
(Unaudited)			
For the six months ended 30 June 2018			
Revenue from external customers	367,638	62,863	430,501
EBITDA	385,641	24,284	409,925
Other income	105,228	18,581	123,809
Operating expenses	(148,102)	(71,073)	(219,175)
Depreciation and amortisation	(60,985)	(13,833)	(74,818)
Interest income	3,139	117	3,256
Finance costs	(5,279)	(218)	(5,497)
Exchange gains/(losses)	2,216	(5,121)	(2,905)
Income tax expense	(83,445)	–	(83,445)

	Panzhuang concession *RMB'000*	Mabi concession *RMB'000*	Total *RMB'000*
(Unaudited)			
As at 30 June 2019			
Total assets	**3,169,307**	**2,275,759**	**5,445,066**
Total liabilities	**605,170**	**55,403**	**660,573**
Additions to non-current assets (other than deferred income tax assets)	**98,484**	**14,057**	**112,541**
(Audited)			
As at 31 December 2018			
Total assets	2,747,283	2,316,141	5,063,424
Total liabilities	564,631	58,707	623,338
Additions to non-current assets (other than deferred income tax assets)	123,438	72,833	196,271

A reconciliation of EBITDA to total profit before income tax is provided as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total EBITDA for reportable segments	**593,276**	409,925
Headquarter overheads	**(8,327)**	(42,371)
Depreciation and amortisation	**(139,260)**	(76,615)
Interest income	**16,479**	11,923
Finance costs	**(1,830)**	(5,497)
Exchange gains/(losses)	**1,380**	(8,222)
Profit before income tax	**461,718**	289,143

Reportable segments' assets are reconciled to total assets as follows:

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Total segment assets	**5,445,066**	5,063,424
Unallocated		
Unallocated cash and cash equivalents	**681,985**	940,877
Others	**4,435**	2,806
Total assets per balance sheet	**6,131,486**	6,007,107

Reportable segments' liabilities are reconciled to total liabilities as follows:

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Total segment liabilities	**660,573**	623,338
Unallocated		
Others	**6,723**	6,916
Total liabilities per balance sheet	**667,296**	630,254

6. REVENUE

All the Group's revenue is derived through the sale of the Group's share of CBM sold to customers in the PRC. Sales of gas are recognised when control of the gas has transferred, being when the gas is delivered to the customers. The amount of revenue is allocated based on the terms of the PSCs and gas sales agreements.

7. OTHER INCOME

	Six months ended 30 June	
	2019 *RMB'000* **(Unaudited)**	2018 *RMB'000* (Unaudited)
VAT refund (a)	**66,645**	34,169
Government subsidy (b)	**99,361**	89,640
	166,006	123,809

(a) 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 Coalbed Methane" (《財政部國家税務總局關於加快煤層氣抽採有關税收政策問題的通知》). CUCBM and PetroChina apply for the VAT refund for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

(b) Government 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 Coalbed Methane" (《財政部關於煤層氣(瓦斯)開發利用補貼的實施意見》) published on 20 April 2007.

On 11 June 2019, the Ministry of Finance issued "Supplementary Notice on the Interim Administrative Measures for Special Funds for the Development of Renewable Energy" (《關於〈可再生能源發展專項資金管理暫行辦法〉的補充通知》), which setting out a revised calculation basis of determining the grant. Management has recognised the grant based on their best knowledge and understanding of the basis set out in the supplementary notice.

CUCBM and PetroChina apply for the subsidy for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

8. FINANCE COSTS, NET

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense of lease liabilities	**(1,494)**	—
Interest expense of bank borrowings	**–**	(22,754)
Bank loan commitment fee	**–**	(5,188)
Accretion expenses of asset retirement obligations	**(336)**	(309)
Subtotal	**(1,830)**	(28,251)
Less: amounts capitalised on qualifying assets	**–**	22,754
Finance costs	**(1,830)**	(5,497)
Interest income	**16,479**	11,923
Exchange gains/(losses)	**1,380**	(8,222)
Finance costs, net	**16,029**	(1,796)

9. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating lease rental expenses	**2,227**	7,566

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**82,464**	37,865
Deferred income tax	**40,677**	45,580
	123,141	83,445

The Company was 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 period.

AAGI and AAG Energy (China) Limited, which were incorporated in the British Virgin Islands under the International Business Companies Acts of the British Virgin Islands, are exempted from payment of local income tax.

SAEI, which was incorporated in the 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 taxable profit of branches established in the PRC. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate applicable for the PRC branches of the Group's subsidiaries is 25%.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before income tax	**461,718**	289,143
Tax expense calculated at statutory tax rates	**(114,149)**	(72,942)
Current period temporary differences for which no deferred income tax asset was recognised	**(1,405)**	(5,639)
Expenses not deductible for taxation purposes	**(419)**	(1,012)
Others	**(7,168)**	(3,852)
Income tax expense	**(123,141)**	(83,445)

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables (a)		
— CUCBM	**62,509**	205,155
— PetroChina	**80,988**	49,548
— External customers	**61,507**	24,539
	205,004	279,242
Notes receivable (b)	**83,000**	40,000
Government grants receivables (c)		
— Government	**336,180**	172,747
— CUCBM	**12,551**	12,551
— PetroChina	**–**	12,866
Due from related parties for cash calls and accrued expenses (d)		
— CUCBM	**49,015**	40,598
— PetroChina	**24,463**	9,882
Deposits and others	**5,676**	7,573
	715,889	575,459

(a) Trade receivables

(i) The ageing analysis of trade receivables is as follows:

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Within 3 months	**120,834**	253,043
3 months to 6 months	**43,017**	7,064
6 months to 1 year	**32,629**	15,350
1 year to 2 years	**8,524**	3,785
	205,004	279,242

Trade receivables due from CUCBM represent the cash collected from external customers attributable to SAEI and deposited into CUCBM's bank account on behalf of the Group, which is jointly managed by CUCBM and the SAEI.

Trade receivables due from PetroChina represent the amount to be collected from PetroChina relating to the sale of the Group's share of CBM from the Mabi concession.

Trade receivables due from external customers represent the amount to be collected from the independent customers relating to the sale of the Group's share of CBM from the Panzhuang concession.

(ii) Trade receivables past due but not impaired

The ageing analysis of these trade receivables is as follows:

Past due but not impaired	**As at 30 June 2019** ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Over credit term but within 3 months	**44,068**	35,990
3 months to 6 months	**43,017**	7,064
6 months to 1 year	**32,629**	15,350
1 year to 2 years	**8,524**	3,785
	128,238	62,189

These relate to PetroChina and a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

(iii) Movement of bad debt provision:

	Six months ended June 30	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Beginning of the period	**–**	7,197
Write-off	**–**	(7,197)
End of the period	**–**	–

(b) Notes receivable are bank acceptance with maturity dates within one year.

(c) This represents the VAT refund and government subsidies for CBM receivable from the government through CUCBM and PetroChina.

(d) This represents CUCBM's and PetroChina's share of the cash calls and accrued expenses for the development and production costs of Panzhuang and Mabi concession yet to be received from CUCBM and PetroChina, respectively.

(e) As at 30 June 2019, the carrying amounts of trade and other receivables approximated their fair values.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**179,634**	228,043
Amounts due to related parties		
— CUCBM	**4,014**	–
— PetroChina	**5,788**	4,078
Tax payables	**669**	810
Payroll liabilities	**16,272**	14,903
Other payables	**6,237**	8,450
	212,614	256,284

(a) The ageing analysis of trade payables is as follows:

At 30 June 2019, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Within 6 months	**80,303**	166,785
6 months to 1 year	**46,483**	13,100
1 to 2 years	**21,628**	26,066
2 to 3 years	**23,337**	8,801
Over 3 years	**7,883**	13,291
	179,634	228,043

(b) As at 30 June 2019, the carrying amounts of trade and other payables approximated their fair values.

13. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**338,577**	205,698
Weighted average number of ordinary shares in issue *(Thousands)*	**3,391,158**	3,341,714
Basic earnings per share *(RMB)*	**0.100**	0.062

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options and RSUs outstanding which are potentially dilutive. The assumed proceeds from conversion of these options and RSUs shall be regarded as having been received from the issue of ordinary shares at average market price of ordinary shares during the period. The difference between the number of shares that would have been issued assuming the exercise of the share options and RSUs and the number of shares that could have been issued at the average market price of the ordinary shares during the period with the same total assumed proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**338,577**	205,698
Weighted average number of ordinary shares in issue *(Thousands)*	**3,391,158**	3,341,714
Adjustments for assumed conversion of share options and RSUs *(Thousands)*	**490**	44,442
Weighted average number of ordinary shares for diluted earnings per share *(Thousands)*	**3,391,648**	3,386,156
Diluted earnings per share *(RMB)*	**0.100**	0.061

14. DIVIDENDS

A dividend in respect of the year ended 31 December 2018 of RMB255,520,910 has been approved at the annual general meeting on 10 May 2019, which was paid on 12 June 2019.

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	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**597,651**	430,501
— Panzhuang	**547,628**	367,638
— Mabi	**50,023**	62,863
Subsidy income	**99,361**	89,640
— Panzhuang	**89,160**	77,680
— Mabi	**10,201**	11,960
VAT refund	**66,645**	34,169
— Panzhuang	**61,588**	27,548
— Mabi	**5,057**	6,621
Other gains/(losses), net	**82**	(26)
Operating expenses	**(318,050)**	(263,345)
Depreciation and amortization	**(139,260)**	(76,615)
Employee benefit expenses	**(64,408)**	(78,534)
Materials, services and logistics	**(107,378)**	(95,337)
Others	**(7,004)**	(12,859)
Panzhuang	**(245,259)**	(148,102)
Depreciation and amortization	**(118,205)**	(60,985)
Employee benefit expenses	**(37,953)**	(23,361)
Materials, services and logistics	**(83,483)**	(58,297)
Others	**(5,618)**	(5,459)
Mabi	**(61,828)**	(71,073)
Depreciation and amortization	**(18,692)**	(13,833)
Employee benefit expenses	**(22,442)**	(24,778)
Materials, services and logistics	**(19,387)**	(27,718)
Others	**(1,307)**	(4,744)
Headquarters	**(10,963)**	(44,170)
Depreciation and amortization	**(2,363)**	(1,797)
Employee benefit expenses	**(4,013)**	(30,395)
Materials, services and logistics	**(4,508)**	(9,322)
Others	**(79)**	(2,656)
EBITDA	**584,949**	367,554
— Panzhuang	**571,428**	385,641
— Mabi	**21,848**	24,284
Profit from operations	**445,689**	290,939
Interest income	**16,479**	11,923
Finance costs	**(1,830)**	(5,497)
Exchange gains/(losses)	**1,380**	(8,222)
Finance costs, net	**16,029**	(1,796)
Profit before income tax	**461,718**	289,143
Income tax expense	**(123,141)**	(83,445)
Profit for the period	**338,577**	205,698

Gross production volume, gross sales volume, net sales volume, realized ASP and revenue are set out below:

	Six months ended 30 June	
	2019	2018
Gross production volume (bcf)[1]	**16.01**	13.46
Panzhuang	**14.68**	11.70
Mabi	**1.33**	1.76
Gross production volume (MMCM)[1]	**453.27**	381.16
Panzhuang	**415.65**	331.26
Mabi	**37.62**	49.90
Gross sales volume (bcf)[2]	**15.60**	12.98
Panzhuang	**14.32**	11.48
Mabi	**1.28**	1.50
Gross sales volume (MMCM)[2]	**441.75**	367.66
Panzhuang	**405.58**	325.25
Mabi	**36.17**	42.41
Net sales volume (bcf)[3]	**11.24**	9.30
Panzhuang	**10.23**	8.10
Mabi	**1.01**	1.20
Net sales volume (MMCM)[3]	**318.17**	265.00
Panzhuang	**289.75**	229.80
Mabi	**28.42**	35.20
Realized ASP[4]		
RMB per cubic meter		
Panzhuang	**1.80**	1.53
Mabi	**1.40**	1.42
US$ per mcf		
Panzhuang	**7.39**	6.79
Mabi	**5.75**	6.30
Revenue (RMB'000)	**597,651**	430,501
Panzhuang	**547,628**	367,638
Mabi	**50,023**	62,863

Notes:

1. Gross production volume is the total amount of CBM produced.

2. Gross sales volume is gross production volume less utilization loss.

3. Net sales volume is the portion of gross sales volume allocated to us under the production sharing contract, after the deduction of amount sold to pay applicable VAT and local taxes.

4. Realized ASP excludes the directly attributable pass through cost and reflects the realized wellhead price. Pass through costs include fees for transmission cost, processing, and other expenses included in materials, services, and logistics, but are charged to our customers.

SIX MONTHS ENDED 30 JUNE 2019 COMPARED TO SIX MONTHS ENDED 30 JUNE 2018

Revenue. Our revenue increased by RMB167 million, or 38.83%, from RMB431 million for the six months ended 30 June 2018 to RMB598 million for the six months ended 30 June 2019. The increase was generated mainly in Panzhuang due to an increase in gross production from 331 MMCM to 416 MMCM and an increase in realized ASP from RMB1.53/cubic meter in 1H2018 to RMB1.80/cubic meter in 1H2019.

Subsidy income. We had subsidy income of RMB89.64 million and RMB99.36 million for the six months ended 30 June 2018 and 2019, respectively. For the six months ended 30 June 2019, our subsidy income increased by RMB9.72 million, or 10.84%, mainly due to the increased net sales volume in Panzhuang.

VAT refund. Our VAT refund for the six months ended 30 June 2018 and 2019 were RMB34.17 million and RMB66.65 million, respectively. For the six months ended 30 June 2019, our VAT refund increased by RMB32.48 million, or 95.05%, mainly due to the increased net sales volume and realized ASP in Panzhuang.

Other gains/(losses), net. Our other gains/(losses) changed from a loss of RMB26,000 for the six months ended 30 June 2018 to a gain of RMB82,000 for the six months ended 30 June 2019 due to the overhead for income of other businesses.

Operating expenses. Our operating expenses increased by RMB54.71 million, or 20.77%, from RMB263 million for the six months ended 30 June 2018 to RMB318 million for the six months ended 30 June 2019 primarily due to increases in depreciation and amortization as a result of increased production wells and increased production, and the increase in electricity, materials, services and logistics expenses due to more wells being put into production.

- *Depreciation and amortization*. Our depreciation and amortization increased by RMB62.65 million, or 81.77%, from RMB76.62 million for the six months ended 30 June 2018 to RMB139 million for the six months ended 30 June 2019, mainly due to the increase in production wells and gas production in Panzhuang, and the increase in depreciation of right-of-use asset adjusted by lease standards.

- *Employee benefit expenses*. Our employee benefit expenses decreased by RMB14.12 million, or 17.99%, from RMB78.53 million for the six months ended 30 June 2018 to RMB64.41 million for the six months ended 30 June 2019, mainly due to the optimization of organizational structure and position settings, and the decrease in share-based non-cash expenses.

- *Materials, services and logistics*. Our materials, services and logistics expenses increased by RMB12.04 million, or 12.63%, from RMB95.34 million for the six months ended 30 June 2018 to RMB107 million for the six months ended 30 June 2019, mainly due to the increase in electricity usage, sewage treatment and other operating costs arising from the production of more wells in Panzhuang, and the increase in transmission costs as a result of the increase in sales volume.

- *Others*. Our other expenses were RMB12.86 million and RMB7 million for the six months ended 30 June 2018 and 2019, respectively, mainly due to the relocation of Beijing headquarters resulting in savings in office rentals and daily administrative and management expenses.

EBITDA. Our EBITDA increased by RMB217 million, or 59.15%, from RMB368 million for the six months ended 30 June 2018 to RMB585 million for the six months ended 30 June 2019. The increase was mainly due to the increase in net sales resulted from a 25.48% increase of Panzhuang's gross production, as well as the increase in subsidy income and VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings, and the increase in materials, services and logistics expenses due to more wells being put into production in Panzhuang. In conclusion, higher production volume and realized ASP, as well as strict cost-control measures, have led to an increase in EBITDA, which could even be greater than the increase in income. Panzhuang's EBITDA increased by RMB185 million, or 48.18%, from RMB386 million for the six months ended 30 June 2018 to RMB571 million for the six months ended 30 June 2019. The increase in EBITDA of Panzhuang was mainly due to the increase in production and realized ASP, and the increase in subsidy income and VAT refund, but was partially offset by higher materials and electricity expenses as a result of more wells being put into production. Mabi's EBITDA decreased by RMB2.43 million, or 10.03%, from RMB24.28 million for the six months ended 30 June 2018 to RMB21.85 million for the six months ended 30 June 2019. The decrease in EBITDA of Mabi was due to the decrease in production and realized ASP.

Profit from operations. As a result of the foregoing, our operating profit increased by RMB155 million, or 53.19%, from RMB291 million for the six months ended 30 June 2018 to RMB446 million for the six months ended 30 June 2019.

Interest income. Our interest income increased by RMB4.56 million, or 38.21%, from RMB11.92 million for the six months ended 30 June 2018 to RMB16.48 million for the six months ended 30 June 2019, primarily due to the increase in fixed deposit rates.

Finance costs. Our finance costs decreased by RMB3.67 million, or 66.71%, from RMB5.5 million for the six months ended 30 June 2018 to RMB1.83 million for the six months ended 30 June 2019, mainly due to the repayment of the US$250 million reserve-based facility. Finance costs for 2019 were mainly the difference between the present value of lease payments and the actual payments upon the adoption of new lease standards, which were recognized as interests on lease liabilities.

Exchange gains/(losses). Our foreign exchange gains/(losses) changed from exchange losses of RMB8.22 million for the six months ended 30 June 2018 to exchange gains of RMB1.38 million for the six months ended 30 June 2019, mainly due to the foreign exchange gains of cash deposit in foreign currency arising from the exchange rate fluctuation between foreign currency and RMB.

Profit before income tax. Our profit before income tax increased by RMB173 million, or 59.69%, from profits of RMB289 million for the six months ended 30 June 2018 to profits of RMB462 million for the six months ended 30 June 2019, primarily due to the factors affecting EBITDA stated above, the increase in interest income and the decrease in finance costs, but partially offset by the increase in depreciation and amortization expenses.

Income tax expense. Our income tax expense increased by RMB39.7 million, or 47.57%, from RMB83.45 million for the six months ended 30 June 2018 to RMB123 million for the six months ended 30 June 2019, mainly due to the increase in profit before income tax of Panzhuang for the six months ended 30 June 2019. Income tax expense was related to the operation of Panzhuang. Mabi had no income tax expense given it had no taxable profit.

Profit for the period. Our profit for the period increased by RMB133 million, or 64.60%, from RMB206 million for the six months ended 30 June 2018 to RMB339 million for the six months ended 30 June 2019, mainly due to the factors affecting profit before income tax stated above but partially offset by the increase in income tax expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial management department is responsible for the financing and fund management policies related to the overall operations of the Group. Our primary sources of funding include cash generated from operating activities and proceeds from IPO.

As at 30 June 2019, we had cash and bank balances of RMB1,707 million (as at 31 December 2018: RMB1,700 million).

Save as the information disclosed above or otherwise in this interim results announcement, the Group had no outstanding mortgage, pledge, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantee or other material contingent liabilities as at 30 June 2019.

Cash Flow

The table below sets forth our cash flow for each of the periods indicated.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**356,143**	75,349
Net cash used in investing activities	**(98,219)**	(216,071)
Net cash used in financing activities	**(254,452)**	(26,632)
Net increase/(decrease) in cash and cash equivalents	**3,472**	(167,354)
Cash and cash equivalents at beginning of the period	**1,656,523**	2,236,970
Exchange gains on cash and cash equivalents	**3,593**	12,896
Cash and cash equivalents at end of the period	**1,663,588**	2,082,512

Operating Activities

Net cash generated from operating activities was RMB356 million for the six months ended 30 June 2019, mainly due to profit before income tax of RMB462 million, depreciation and amortization of RMB139 million and finance costs of RMB1.83 million. Such items were offset by the increase in accounts receivable and other receivables of RMB124 million, income tax paid of RMB101 million, interest income of RMB11.97 million and the decrease in accounts payable and other payables of RMB7.10 million.

Investing Activities

Net cash used in investing activities was RMB98.22 million for the six months ended 30 June 2019, mainly composed of purchases of property, plant and equipment of RMB112 million, offset by interest received of RMB13.38 million. The purchase of property, plant and equipment mainly composed of payment for more wells drilled, additional valve banks and the construction of gas gathering stations and power facilities.

Financing Activities

Net cash used in financing activities was RMB254 million for the six months ended 30 June 2019, which was mainly used to pay final dividend of RMB256 million of 2018.

Cash and Bank Balances

We had cash and bank balances of RMB1,707 million and RMB1,700 million as at 30 June 2019 and 31 December 2018, respectively. Cash and bank balances consist of cash on hand, cash at banks, and restricted bank deposits. The increase in cash was mainly due to sales returns. As at 30 June 2019 and 31 December 2018, approximately 39.95% and 55.46% of our cash and bank balances were held in HK dollar or US dollar.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit for the period, which is the most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest income, finance costs, exchange gains or losses, income tax and depreciation and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash expenses, non-recurring items or non-operations-related expenses to show EBITDA of the Group's core operations.

We have included EBITDA and adjusted EBITDA as we believe they are financial measures commonly used in the oil and gas industry. We believe that EBITDA and adjusted EBITDA are used as supplemental financial measures by management, investors, research analysts, bankers and others to assess our operating performance, cash flow and return on capital as compared to those of other companies in our industry, and our financing ability. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to operating profit or any other measure of performance or as an indicator of our operating performance or profitability. EBITDA and adjusted EBITDA are unable to account for income tax, exchange gains or losses, interest income, finance costs and depreciation and amortization.

The following table sets forth a reconciliation of EBITDA and adjusted EBITDA to profit for the period.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Reconciliation of profit for the period to EBITDA:		
Profit for the period	**338,577**	205,698
Income tax expense	**123,141**	83,445
Interest income	**(16,479)**	(11,923)
Finance costs	**1,830**	5,497
Exchange (gains)/losses	**(1,380)**	8,222
Depreciation and amortization	**139,260**	76,615
EBITDA	**584,949**	367,554
Share-based non-cash compensation expenses	**–**	11,606
Termination benefits for staff	**19,901**	–
Non-operation-related business development expenses and legal consulting service expenses	**–**	908
Adjusted EBITDA	**604,850**	380,068

Our EBITDA increased by RMB217 million, or 59.15%, from RMB368 million for the six months ended 30 June 2018 to RMB585 million for the six months ended 30 June 2019. Such increase was mainly due to the increase in net sales volume of Panzhuang as a result of a 25.48% increase in gross production, as well as the increase in subsidy income and VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings, and the increase in materials, services and logistics expenses due to more wells being put into production in Panzhuang. In conclusion, higher production volume and realized ASP, as well as strict cost-control measures, have led to an increase in EBITDA, which could even be greater than the increase in income. Panzhuang's EBITDA increased by RMB185 million, or 48.18%, from RMB386 million for the six months ended 30 June 2018 to RMB571 million for the six months ended 30 June 2019. The increase in EBITDA of Panzhuang was mainly due to the increase in production and realized ASP, and the increase in subsidy income and VAT refund, but was partially offset by higher materials and electricity expenses as a result of more wells being put into production. Mabi's EBITDA decreased by RMB2.43 million, or 10.03%, from RMB24.28 million for the six months ended 30 June 2018 to RMB21.85 million for the six months ended 30 June 2019. The decrease in EBITDA of Mabi was due to the decrease in production and realized ASP.

Our adjusted EBITDA increased by RMB225 million, or 59.14%, from RMB380 million in 1H2018 to RMB605 million in 1H2019. Such increase was due to the aforementioned reasons for the increase in EBITDA and the severance package generated in 1H2019.

FINANCIAL RISK FACTORS

(a) Financial risk factors

The Group's operating 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 condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2018.

There have been no changes in the risk management policies since year end.

(b) Liquidity risk

Compared to 31 December 2018, there were no material changes in the contractual undiscounted cash out flows for financial liabilities.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2019.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the six months ended 30 June 2019.

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

There are no important events occurred after the end of financial period for the six months ended 30 June 2019 and up to the date of this announcement.

EMPLOYEES

As at 30 June 2019, the Group had 465 employees, with 7 based in Beijing, 457 based in Shanxi and 1 based in Hong Kong.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the Company (after deducting underwriting fee and other estimated expenses) amounted to approximately RMB1,506.9 million. As at 30 June 2019, RMB1,128 million of the proceeds had been utilized. The net proceeds were and will be used for the same purpose as set out in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code for the six months ended 30 June 2019. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors of the Company, each of the Directors has confirmed that they have complied with the required standards as set out in the Model Code for the six months ended 30 June 2019.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2019.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

For the six months ended 30 June 2019, Mr. Saurabh Narayan Agarwal has resigned as a non-executive Director and a member of the remuneration committee of the Company with effect from 21 March 2019 due to his other personal and work commitments. Mr. Jin Lei has resigned as a non-executive Director and a member of the Audit Committee of the Company with effect from 21 March 2019 due to his other work commitments. Ms. Gu Ren has been appointed as a non-executive Director and a member of the Audit Committee of the Company on and with effect from 21 March 2019. Mr. Zhang Jianbing has been appointed as a member of the Remuneration Committee of the Company on and with effect from 21 March 2019.

Save as disclosed above, there are no changes on the composition of the Board, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Development Committee of the Company for the six months ended 30 June 2019.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Board has established an audit committee (the "**Audit Committee**") which comprises two independent non-executive Directors and a non-executive Director, namely Mr. Tai Kwok Leung Alexander (chairman), Dr. Liu Xiaofeng and Ms. Gu Ren.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2019.

The Company's external auditor has reviewed the unaudited condensed consolidated interim financial information of the Group in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF THE INTERIM RESULTS AND 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aagenergy.com).

The Company's 2019 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
AAG Energy Holdings Limited
Ming Zaiyuan
Chairman and Executive Director

Hong Kong, 20 August 2019

As at the date of this announcement, the executive Directors are Mr. Ming Zaiyuan, Mr. Yan Danhua and Mr. Zhang Jianbing; the non-executive Directors are Dr. Cui Guiyong and Ms. Gu Ren; and the independent non-executive Directors are Mr. Tai Kwok Leung Alexander, Dr. Liu Xiaofeng and Dr. Yang Ruizhao.