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 2020

Key Interim Results:

- **As of 30 June 2020, AAG Energy has achieved an excellent safety performance record of zero lost time injury for 5 years and 299 days in a row.**

- **Our revenue and other income (including subsidy and VAT refund) for 1H2020 decreased by 17.52%[1] to RMB630 million as compared to that of the corresponding period of 2019. Net profit decreased by 7.83% to RMB312 million. EBITDA decreased by 12.34% to RMB513 million. Earnings per share decreased by 8.00% to RMB0.092.**

- **Our gross production for 1H2020 was 468 MMCM, representing an increase of 3.15% as compared to that of the corresponding period of 2019:**

  — In respect of Panzhuang concession, gross production for 1H2020 was 437 MMCM, representing an increase of 5.13% as compared to that of the corresponding period of 2019;

  — In respect of Mabi concession, gross production for 1H2020 was 31 MMCM, representing a decrease of 18.79% as compared to that of the corresponding period of 2019;

  — In respect of AAG Energy, daily production for 1H2020 reached 2.57 MMCM, representing an increase of 2.80% as compared to that of the corresponding period of 2019.

- **Our gross sales volume[2] for 1H2020 was 453 MMCM, representing an increase of 2.45% as compared to that of the corresponding period of 2019:**

  — In respect of Panzhuang concession, gross sales volume for 1H2020 was 424 MMCM, representing an increase of 4.52% as compared to that of the corresponding period of 2019;

  — In respect of Mabi concession, gross sales volume for 1H2020 was 29 MMCM, representing a decrease of 20.74% as compared to that of the corresponding period of 2019.

- In 1H2020, the realized ASP[3] per cubic meter in respect of Panzhuang concession was RMB1.47, representing a decrease of 18.33% as compared to that of the corresponding period of 2019; while the realized ASP per cubic meter in respect of Mabi concession was RMB1.39, which remained steady as compared to that of the corresponding period of 2019.

- In 1H2020, we have drilled a total of 44 wells (of which 26 were SLHs and 18 were PDWs) in Panzhuang concession, representing an increase of 100.00% as compared to that of the corresponding period of 2019; while we have drilled a total of 20 wells (of which 9 were SLHs and 11 were PDWs) in Mabi concession.

Note 1: Due to the different in 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 less utilization loss.

Note 3: Realized ASP excludes the directly attributable pass through cost, thus reflecting 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 2020, together with the comparative figures for the same period last year as follows:

FINANCIAL SUMMARY

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB,000*
	(Unaudited)	(Unaudited)
Revenue	**483,668**	597,651
Other income	**146,218**	166,006
Profit from operations	**385,593**	445,689
EBITDA	**512,767**	584,949
Adjusted EBITDA	**512,767**	604,850
Profit for the period	**312,050**	338,577
Basic earnings per share (RMB)	**0.092**	0.100
Diluted earnings per share (RMB)	**0.092**	0.100

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB,000*
	(Unaudited)	(Audited)
Property, plant and equipment	**3,811,656**	3,721,688
Cash and bank balances	**1,852,256**	2,183,826
Total assets	**6,741,906**	6,748,160
Total equity	**5,804,197**	5,843,642

BUSINESS REVIEW

In the first half of 2020 ("**1H2020**"), we experienced drastic changes in the external environment:

Firstly, due to the fact that the global energy consumption market ran low while the supply market ran high, the international energy market has experienced a serious surplus, and international energy prices have plunged. West Texas Intermediate (WTI) plummeted from an average price of US$57.53 in January to an average price of US$16.70 in April. Even in the trading session on 19 April, the May contract for WTI recorded a negative closing price for the first time in history. Although crude oil prices in May and June rebounded slightly as compared with that of April, they still remained in the doldrums. The average prices of WTI in May and June were US$28.53 and US$38.31 respectively.

Secondly, the outbreak of Coronavirus Disease 2019 ("**COVID-19**") pandemic (the "**COVID-19 Pandemic**") in January has spread rapidly around the world. As of 30 June 2020, the number of COVID-19 confirmed cases around the world has exceeded 10.42 million. The COVID-19 pandemic continued to impact the global economy and financial system. In June, the International Monetary Fund (IMF) predicted in the World Economic Outlook that the global economy will shrink by 4.9% this year, which is more pessimistic than the forecast of 3.0% in April.

Thirdly, in China, natural gas production and import still maintained rapid growth. In the first half of the year, natural gas production increased by 10.3% period-on-period, and import increased by 3.3% period-on-period. However, the COVID-19 pandemic and the measures to prevent and control the epidemic caused greater impact to the production resumption of downstream market, especially industrial users, and upstream enterprises adopted price reduction and promotion policy, as a result, the natural gas market presented regional oversupply situation in the first half of the year, forcing upstream companies to adopt phased production reduction measures. For prices, the National Development and Reform Commission ("**NDRC**") of the People's Republic of China ("**PRC**") issued a policy on 22 February 2020, requiring city-gates for non-residential use to implement off-season pricing policy in advance, as a result, the overall selling price of the natural gas market declined by approximately 20%. As affected by the surplus of upstream supply and sluggish downstream demand, the selling price of natural gas further dropped in late May, which brought massive challenges and impacts to our coalbed methane ("**CBM**") production and sales.

In face of the drastic changes in the external environment and market challenges, the Group was fearless and had risen up to challenges. With high-quality investment management and control, refined market research and balanced production-sales disposition, continuous cost reduction and efficiency enhancement and technological innovation, the gross production of CBM in 1H2020 continued to grow as compared with that of the first half of 2019 ("**1H2019**"), representing a period-on-period growth of 3.15% to 468 million cubic meters ("**MMCM**") (being 16.5 billion cubic feet ("**bcf**")), including Panzhuang concession's gross production of 437 MMCM (being 15.4 bcf) and Mabi concession's gross production of 31 MMCM (being 1.1 bcf).

The gross sales volume of CBM of the Group for 1H2020 increased by 2.45% to 453 MMCM (being 16 bcf) as compared to 442 MMCM (being 15.6 bcf) for 1H2019, including Panzhuang concession's gross sales volume of 424 MMCM (being 15 bcf) and Mabi concession's gross sales volume of 29 MMCM (being 1 bcf).

The realized average selling price ("**ASP**") of Panzhuang concession decreased from RMB1.80 per cubic meter in 1H2019 to RMB1.47 per cubic meter in 1H2020, representing a decrease of 18.33%; the realized ASP of Mabi concession in 1H2020, being RMB1.39 per cubic meter, basically remained steady as compared to that of 1H2019.

Our revenue and other income (including subsidy and VAT refund) for 1H2020 decreased by 17.52% to RMB630 million as compared to that of 1H2019. EBITDA decreased by 12.34% to RMB513 million as compared to that of 1H2019. Despite our revenue fell sharply as compared with the corresponding period, the net profit for 1H2020 only decreased by 7.83% to RMB312 million as compared with the corresponding period, which demonstrated the excellent management and operating capabilities of the Company.

During 1H2020, the Group has achieved operating results towards certain key business objectives as follows:

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

  As a leading CBM exploration and production company in the 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 1H2020. As of 30 June 2020, AAG Energy has achieved an excellent safety performance record of zero lost time injury for 5 years and 299 days in a row.

- **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 NDRC.

In 1H2020, the gross production for Panzhuang concession reached 437 MMCM (being 15.4 bcf), representing a period-on-period increase of 5.13% as compared with 416 MMCM (being 14.7 bcf) in 1H2019. Daily average production during 1H2020 was 2.401 MMCM (being 84.79 million cubic feet ("**mmcf**")) compared to 2.2964 MMCM (being 81.1 mmcf) in 1H2019. As of 30 June 2020, 346 wells were in production in Panzhuang concession, including 49 multilateral drilling wells ("**MLD**"), 92 pad drilling wells ("**PDW**") and 205 single lateral horizontal wells ("**SLH**").

The work plan in 2020 for Panzhuang concession focuses on accelerating production growth while keeping competitive costs. In 1H2020, in respect of Panzhuang concession, we have drilled a total of 44 wells, of which 26 were SLHs and 18 were PDWs. Most of these newly drilled CBM wells are located in areas where the geological conditions are of certain risks and challenges. For example, the Sitou fault in the western area of the concession has brought significant challenges to the drilling cycle days and well construction cost. In face of such challenges, the Company strengthened the integration, management and control of its technical capabilities, and completed drilling task with high quality in the first half of the year. Average drilling time for each SLH, being the main type of well, was 18.95 days with average drilling cost maintained at RMB2.83 million, which basically remained steady as compared to that of the corresponding period of last year. In addition, we have fractured 17 PDWs and put 41 wells into production in Panzhuang concession.

The production capacity of surface facilities in Panzhuang concession, with a primary compression capacity reaching 3.56 MMCM per day and a secondary compression capacity reaching 0.8 MMCM per day, includes 6 gas gathering stations, 30 wellhead compressors, 65.2 km of trunk lines and 107 km of well to well pipelines. With compelling coordination and organization, the 35 kilovolt power transmission and transformation project has been put into operation, which will be able to satisfy the electricity demand of Panzhuang concession and further improve the gas distribution capacity, thus increasing our production and sales volumes.

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

- **Mabi Concession**

Our Mabi concession, which is in partnership with China National Petroleum Corporation ("**CNPC**"), was listed as China's key CBM project in 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.

In 2019, the 27 newly drilled wells were located in four well sites respectively. After the completion of the drilling of all new wells on the same well site, the fracturing construction and production of new wells were organized in an orderly manner. In view of the geological characteristics of low coal seam permeability in Mabi concession, we have formulated a suitable pumping plan that can improve the permeability of CBM, which ensures good gas production effect and a stable gas production cycle through a continuous, stable and slow pumping method that reduces geological pressure of CBM wells and adjacent reservoirs. These new wells were put into production from the end of 2019 to the first quarter of 2020, and are currently under pressure reduction and pumping. Such wells are expected to start producing gas and contribute to production in the second half of the year. Based on the above, in 1H2020, the gross production of Mabi concession was 30.55 MMCM (being 1.1 bcf), representing a period-on-period decrease of 18.79% as compared with 37.62 MMCM (being 1.3 bcf) in 1H2019. Daily average production in 1H2020 was 0.1679 MMCM (being 5.93 mmcf). As of 30 June 2020, 212 wells were in production in Mabi concession, including 3 MLDs, 15 SLHs and 194 PDWs.

In 1H2020, as the COVID-19 pandemic spread across the world and international energy prices continued to plunge, many oil and gas companies underwent significant downward adjustment for their investment expansion plans, and reduced expenses through various means. Despite such efforts, many oil and gas companies around the world had declared bankruptcy under the harsh environment of continuous low energy prices and sluggish global market demand. Under such unfavorable factors, with continuous evaluation, as well as technological innovation in Mabi concession in 2019, we have identified production-rich areas for development of Mabi concession for the next 5 years. Based on the principle of phased implementation and rolling development, and through strong organization and leadership, high-quality investment management and control, and high-standard quality requirements, in 2020, in addition to maintaining the investment in 65 wells and ancillary surface equipment and facilities in Mabi concession as planned at the beginning of the year, we have further increased the number of fracturing wells from 68 wells at the beginning of the year to 87 wells, including the CBM wells drilled in 2019 and the CBM wells newly drilled in 2020. As of the end of June 2020, 20 new wells have been drilled and 24 new wells have been fractured. The Company accelerates the investment and development of Mabi concession through continuous, high-quality and rapid investment, and strives to amp up the CBM production of Mabi concession, thereby bringing excellent returns to its shareholders, partners and the society.

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

Table 1 — Operation Update* of Panzhuang ("PZ") and Mabi ("MB") Concessions

	1H2020	1H2019	% change	2019 full year
Gross production (MMCM)	**467.53**	453.27	3.15%	931.09
Total average daily production (MMCMD)	**2.57**	2.50	2.80%	2.55
Gross production of PZ (MMCM)	**436.98**	415.65	5.13%	859.17
PZ MLD	**76.45**	105.60	–27.60%	205.46
PZ SLH	**312.33**	263.75	18.42%	559.88
PZ PDW	**48.20**	46.30	4.10%	93.83
Total producing wells of PZ**	**346**	273	26.74%	305
PZ MLD	**49**	49	0.00%	49
PZ SLH	**205**	150	36.67%	175
PZ PDW	**92**	74	24.32%	81
PZ wells drilled	**44**	22	100.00%	99
PZ wells fracked	**17**	7	142.86%	16
Gross production of MB(MMCM)	**30.55**	37.62	–18.79%	71.92
MB MLD	**0.07**	0.02	250.00%	0.07
MB SLH	**7.12**	9.59	–25.76%	17.93
MB PDW	**23.36**	28.01	–16.60%	53.92
Total producing wells of MB**	**212**	171	23.98%	183
MB MLD	**3**	1	200.00%	1
MB SLH	**15**	10	50.00%	10
MB PDW	**194**	160	21.25%	172
MB wells drilled	**20**	–	—	27
MB wells fracked	**24**	–	—	13

* Operations update as of 30 June 2020, 08:00 CST.

** Well count is calculated from pumping start date.

OUTLOOK FOR THE SECOND HALF OF 2020 (“2H2020”)

As mentioned above, in 1H2020, due to the COVID-19 Pandemic, the collective decline in international energy prices, the NDRC’s policy to implement offseason pricing in advance, and the overall pattern of oversupply of natural gas, both the global and China’s economies were exposed to the risk of economic downturn, which brought massive challenges to the development of oil and gas exploitation industry and the investment of oil and gas companies. Such challenges could be seen from the phased production reduction and the plunge in selling price in 1H2020.

In face of the above risks and challenges, AAG Energy addressed and mitigated the complex environment and immense pressure of the market through production stimulation, sales stimulation and efficiency stimulation. Although the Company’s revenue declined significantly as compared with the corresponding period due to the plunge in selling price in the first half of the year, the decline in net profit was controlled within a small range through continuous and strong cost control measures. We believe that, in 2H2020, under effective cost management, the Group will take sales stimulation as its primary task, and formulate a targeted and highly operable sales stimulation plan. Furthermore, the Group will utilize diversified sales channels to increase market sales, and use sales volume to make up price differences and production reduction. The Group will continue to fully coordinate with its partners to jointly improve their ability to address market changes, which will lay a solid foundation for the Group to maintain continuous growth of production and net profit, as well as to expand its medium and long-term resource holdings.

On 12 June 2020, the Ministry of Finance of the PRC promulgated the Interim Measures for the Administration of Special Funds for the Development of Clean Energy (《清潔能源發展專項資金管理暫行辦法》), pursuant to which compensation will be granted for exploration and utilization of unconventional natural gas, such as CBM (coal mine gas), shale gas and tight gas through the use of special funds, which will be available from 2020 to 2024. 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”. As compared with the 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》promulgated by the Ministry of Finance on 11 June 2019, the extended one year of compensation as confirmed will have a positive impact to the Group.

The People’s Government of Shanxi Province issued the “Three-Year Action Plan for Increasing Reserves and Production of Coal-Formed Gas in Shanxi Province (2020-2022)” (《山西省煤成氣增儲上產三年行動計劃(2020-2022年)》) on 27 February 2020, requiring the province’s CBM production to reach 20 billion cubic meters in 2022. The key tasks clearly demonstrated that the government will promote the development of concessions jointly explored with the foreign parties, and focus on ensuring the stable increase in production of developed concessions, such as Panzhuang.

On 23 June 2020, the NDRC and the Ministry of Commerce issued the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) and the Special Administrative Measures (Negative List) for Foreign Investment Access to Pilot Free Trade Zones (2020) (《自由貿易試驗區外商投資准入特別管理措施(負面清單)(2020年版)》), which further limited the negative list for the access of foreign investment. The promulgation of such list and supporting measures will further provide political support for the Group's development in the PRC.

For 2H2020, we are pleased to report the following updated objectives:

- **Panzhuang concession**

  In 2H2020, Panzhuang concession will continue to promote the drilling work of remaining 44 wells, the purchase of pumping equipment, the production of new wells and the construction of related ancillary surface facilities as scheduled. The completed wells in 2H2020 will begin to contribute to the production in 2021.

- **Mabi concession**

  In 2H2020, Mabi concession will continue to promote the drilling work of remaining 45 wells, the production of new wells, the construction of related ancillary surface facilities and the fracturing work of 63 wells in accordance with the adjusted annual work plan. Mabi concession will facilitate the completion of drilling work, fracturing and production for the year with high-quality investment management and control. In order to materialize the simultaneous sales of newly added production volume of Mabi concession, the construction of valve group stations and export pipelines in the region will be completed in the second half of the year. New wells drilled and fractured in 2020 will contribute to the production in 2021.

According to the above development plan of Panzhuang concession and Mabi concession, the Group's capital expenditure budget for 2020 will be adjusted from the originally planned approximately RMB702 million to approximately RMB714 million, including RMB364 million and RMB350 million for the expenditure of Panzhuang concession and Mabi concession respectively. AAG Energy completed a net capital expenditure of RMB202 million in 1H2020. In 2H2020, 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 concession and the advancement of development technologies in Mabi concession. Besides, AAG Energy will seek 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

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**483,668**	597,651
Other income	*6*	**146,218**	166,006
Other gains, net		**1,561**	82
Operating expenses			
Depreciation and amortisation		**(127,174)**	(139,260)
Employee benefit expenses		**(37,065)**	(64,408)
Materials, services and logistics		**(76,429)**	(107,378)
Others		**(5,186)**	(7,004)
Total operating expenses		**(245,854)**	(318,050)
Profit from operations		**385,593**	445,689
Finance income	*8*	**18,834**	16,479
Finance costs	*8*	**(2,396)**	(1,830)
Exchange gains	*8*	**9,740**	1,380
Finance income, net		**26,178**	16,029
Profit before income tax		**411,771**	461,718
Income tax expense	*9*	**(99,721)**	(123,141)
Profit attributable to owners of the Company for the period		**312,050**	338,577
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**9,909**	2,250
Total comprehensive income attributable to owners of the Company for the period		**321,959**	340,827
Earnings per share (RMB)			
— Basic	*12*	**0.092**	0.100
— Diluted	*12*	**0.092**	0.100

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,811,656**	3,721,688
Right-of-use assets		**56,044**	56,662
Intangible assets		**32,207**	35,077
Restricted bank deposits		**49,895**	49,895
Other non-current assets		**14,107**	13,770
		3,963,909	3,877,092
Current assets			
Inventories		**9,506**	11,201
Other current assets		**11,548**	10,967
Trade and other receivables	*10*	**904,582**	714,969
Term deposits with initial terms of over three months		**232,687**	50,000
Financial assets at fair value through profit or loss		**50,000**	–
Cash and cash equivalents		**1,569,674**	2,083,931
		2,777,997	2,871,068
Total assets		**6,741,906**	6,748,160
EQUITY			
Equity attributable to owners of the Company			
Share capital		**2,079**	2,079
Share premium		**3,869,806**	4,231,210
Other reserves		**320,993**	311,084
Retained earnings		**1,611,319**	1,299,269
Total equity		**5,804,197**	5,843,642

	Note	As at **30 June** **2020** ***RMB'000*** **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		**18,833**	18,361
Non-current lease liabilities		**46,453**	43,395
Deferred income tax liabilities		**422,979**	379,804
		488,265	441,560
Current liabilities			
Trade and other payables	*11*	**410,006**	404,190
Current lease liabilities		**11,444**	14,562
Current income tax liabilities		**27,994**	44,206
		449,444	462,958
Total liabilities		**937,709**	904,518
Total equity and liabilities		**6,741,906**	6,748,160

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	**319,387**	456,906
Interest paid	**(2,027)**	(26)
Income tax paid	**(72,758)**	(100,737)
Net cash generated from operating activities	**244,602**	356,143
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	**(184,721)**	(111,747)
Increase in term deposits with initial terms of over three months	**(179,732)**	–
Payments for financial assets at fair value through profit or loss	**(104,200)**	–
Proceeds from sale of financial assets at fair value through profit or loss	**54,670**	–
Proceeds from disposal of property, plant and equipment	**1**	149
Interest received	**7,784**	13,379
Net cash used in investing activities	**(406,198)**	(98,219)
Cash flows from financing activities		
Proceeds from exercise of options	**–**	2,031
Payments of lease liabilities	**(5,658)**	(962)
Dividends paid to the Company's shareholders	**(358,755)**	(255,521)
Net cash used in financing activities	**(364,413)**	(254,452)
Net (decrease)/increase in cash and cash equivalents	**(526,009)**	3,472
Cash and cash equivalents at beginning of the period	**2,083,931**	1,656,523
Exchange gains on cash and cash equivalents	**11,752**	3,593
Cash and cash equivalents at end of the period	**1,569,674**	1,663,588

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 Panzhuang and Mabi concessions respectively in Shanxi Province of the PRC.

The Overall Development Plan ("**ODP**") of Panzhuang concession was approved by the National Development and Reform Commission ("**NDRC**") of the PRC on 28 November 2011, which allowed Panzhuang concession to enter into the commercial development phase. On 1 November 2016, Panzhuang concession entered into production phase after the Joint Management Committee ("**JMC**") approved and announced based on the terms of Panzhuang PSC. On 8 October 2018, NDRC formally announced the Approval Regarding the 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, the Southern Area of Mabi concession is eligible for commercial development. On 1 January 2020, the Southern Area of Mabi concession entered into production phase after the JMC approved and announced based on the terms of Mabi PSC. As at 30 June 2020, 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 its immediate parent entity, intermediate parent entity and the ultimate parent entity of the Company respectively subsequent to the completion of the takeover ("**Change of Control**").

2. BASIS OF PREPARATION

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 2019 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 did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- Definition of Material — amendments to HKAS 1 and HKAS 8
- Definition of a Business — amendments to HKFRS 3
- Revised Conceptual Framework for Financial Reporting

4. 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 concessions under the relating PSCs has 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, finance 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 2020 is as follows:

	Panzhuang concession *RMB'000*	Mabi concession *RMB'000*	Total *RMB'000*
(Unaudited)			
For the six months ended 30 June 2020			
Revenue from external customers	**452,956**	**30,712**	**483,668**
EBITDA	**503,698**	**14,903**	**518,601**
Other income	**137,309**	**8,909**	**146,218**
Operating expenses	**(195,290)**	**(41,536)**	**(236,826)**
Depreciation and amortisation	**(108,477)**	**(16,304)**	**(124,781)**
Finance income	**11,902**	**205**	**12,107**
Finance costs	**(1,874)**	**(431)**	**(2,305)**
Exchange gains/(losses)	**11,453**	**(5,185)**	**6,268**
Income tax expense	**(99,720)**	**–**	**(99,720)**
(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)
Finance 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)

	Panzhuang concession *RMB'000*	Mabi concession *RMB'000*	Total *RMB'000*
(Unaudited)			
As at 30 June 2020			
Total assets	**3,730,237**	**2,495,010**	**6,225,247**
Total liabilities	**789,151**	**144,925**	**934,076**
Additions to non-current assets (other than deferred income tax assets)	**153,881**	**74,580**	**228,461**
(Audited)			
As at 31 December 2019			
Total assets	3,435,509	2,446,184	5,881,693
Total liabilities	775,413	121,629	897,042
Additions to non-current assets (other than deferred income tax assets)	298,121	90,125	388,246

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total EBITDA for reportable segments	**518,601**	593,276
Headquarter overheads	**(5,834)**	(8,327)
Depreciation and amortisation	**(127,174)**	(139,260)
Finance income	**18,834**	16,479
Finance costs	**(2,396)**	(1,830)
Exchange gains	**9,740**	1,380
Profit before income tax	**411,771**	461,718

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

	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total segment assets	**6,225,247**	5,881,693
Unallocated		
Unallocated cash and cash equivalents	**329,913**	862,640
Others	**186,746**	3,827
Total assets per balance sheet	**6,741,906**	6,748,160

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

	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total segment liabilities	**934,076**	897,042
Unallocated		
Unallocated lease liabilities	**1,613**	2,587
Others	**2,020**	4,889
Total liabilities per balance sheet	**937,709**	904,518

5. 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.

6. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
VAT refund (a)	**46,248**	66,645
Government subsidy (b)	**99,970**	99,361
	146,218	166,006

(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 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, as amended by "Interim Measures for the Administration of Special Funds for the Development of Clean Energy" (《清潔能源發展專項資金管理暫行辦法》) issued on 12 June 2020. From 2020, the Group applies for the subsidy for Panzhuang concession (2019: CUCBM). PetroChina applies for the subsidy for Mabi concession. 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.

7. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Power and fuel	**25,603**	26,586
Pipeline transportation cost	**12,593**	37,842
Maintenance cost	**11,447**	11,901
Operating lease expenses	**252**	2,227

8. FINANCE INCOME, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense of lease liabilities	**(2,027)**	(1,494)
Accretion expenses of asset retirement obligations	**(369)**	(336)
Finance costs	**(2,396)**	(1,830)
Finance income	**18,834**	16,479
Exchange gains	**9,740**	1,380
Finance income, net	**26,178**	16,029

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**56,546**	82,464
Deferred income tax	**43,175**	40,677
	99,721	123,141

The Company and its subsidiaries incorporated under respective jurisdiction of the Cayman Islands, the British Virgin Islands and Samoa, are 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.

According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate applicable to the Group's subsidiary established in the PRC and the PRC branches of the Group's subsidiaries is 25%. Corporate income tax in the PRC is calculated based on the taxable profit of the company or branches established in the PRC.

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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before income tax	**411,771**	461,718
Tax expense calculated at applicable tax rates	**88,530**	114,149
Current period deductible temporary differences for which no deferred tax asset was recognised	**5,315**	1,405
Expenses not deductible for taxation purposes	**7,097**	419
Others	**(1,221)**	7,168
Income tax expense	**99,721**	123,141

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables (a)		
— CUCBM	**134,088**	97,619
— PetroChina	**42,527**	51,944
— External customers	**191,514**	94,438
	368,129	244,001
Notes receivable (b)	**12,000**	46,000
Government grants receivables (c)		
— Government	**333,148**	176,222
— CUCBM	**–**	84,692
— PetroChina	**15,422**	31,747
Due from PSC parties for cash calls and accrued expenses (d)		
— CUCBM	**93,178**	78,001
— PetroChina	**75,986**	48,699
Deposits and others	**6,719**	5,607
	904,582	714,969

(a) Trade receivables

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

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Within 3 months	**268,266**	201,224
3 months to 6 months	**33,925**	27,745
6 months to 1 year	**50,906**	7,150
1 year to 2 years	**14,641**	7,882
More than 2 years	**391**	–
	368,129	244,001

Trade receivables due from CUCBM represent the cash collected from external customers attributable to Sino-American Energy, Inc. ("**SAEI**") and deposited into CUCBM's bank account on behalf of the Group, which is jointly managed by CUCBM and 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 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 Panzhuang concession.

(ii) Trade receivables past due but not impaired

The trade receivables past due relate to PetroChina and a number of independent customers for whom there is no significant financial difficulty and based on past experience and forward-looking information on macroeconomic factors, the overdue amounts can be recovered.

(b) Notes receivable are bank acceptance with maturity dates within six months.

(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 2020, the carrying amounts of trade and other receivables approximated their fair values.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Trade payables (a)	**383,357**	361,269
Amounts due to related parties		
— Sunshine Ji'ao	**–**	443
Amounts due to PSC parties		
— CUCBM	**3,060**	3,060
— PetroChina	**2,735**	3,602
Tax payables	**764**	874
Payroll liabilities	**8,726**	28,198
Other payables	**11,364**	6,744
	410,006	404,190

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

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

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Within 6 months	**254,520**	270,427
6 months to 1 year	**65,614**	22,892
1 to 2 years	**28,448**	36,999
2 to 3 years	**21,628**	13,607
Over 3 years	**13,147**	17,344
	383,357	361,269

(b) The carrying amounts of trade and other payables approximated their fair values.

12. 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 2020 and 2019.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**312,050**	338,577
Weighted average number of ordinary shares in issue *(Thousands)*	**3,393,582**	3,391,158
Basic earnings per share *(RMB)*	**0.092**	0.100

(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 outstanding which are potentially dilutive. The assumed proceeds from conversion of these options 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 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	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**312,050**	338,577
Weighted average number of ordinary shares in issue *(Thousands)*	**3,393,582**	3,391,158
Adjustments for assumed conversion of share options *(Thousands)*	**47**	490
Weighted average number of ordinary shares for diluted earnings per share *(Thousands)*	**3,393,629**	3,391,648
Diluted earnings per share *(RMB)*	**0.092**	0.100

13. DIVIDENDS

A dividend in respect of the year ended 31 December 2019 of RMB0.1061 per share was approved at the annual general meeting ("**AGM**") on 13 May 2020, which was paid on 1 June 2020.

A dividend in respect of the year ended 31 December 2018 of RMB0.0737 per share was approved at the AGM on 10 May 2019 and was paid on 12 June 2019.

14. IMPACTS OF COVID-19 OUTBREAK

The outbreak of Coronavirus Disease 2019 ("**COVID-19**") brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the Group's financial performance and position mainly in the sales price and revenue from sales of gas, the turnover time of the trade and other receivables, and the carrying value of the Group's long-lived assets. Since the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date on which this interim results announcement is authorised for issue, the Group's financial performance and position has no material adverse impact arising from the outbreak of COVID-19.

FINANCIAL REVIEW

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**483,668**	597,651
— Panzhuang	**452,956**	547,628
— Mabi	**30,712**	50,023
Subsidy income	**99,970**	99,361
— Panzhuang	**93,900**	89,160
— Mabi	**6,070**	10,201
VAT refund	**46,248**	66,645
— Panzhuang	**43,409**	61,588
— Mabi	**2,839**	5,057
Other gains, net	**1,561**	82
Operating expenses	**(245,854)**	(318,050)
Depreciation and amortization	**(127,174)**	(139,260)
Employee benefit expenses	**(37,065)**	(64,408)
Materials, services and logistics	**(76,429)**	(107,378)
Others	**(5,186)**	(7,004)
Panzhuang	**(195,290)**	(245,259)
Depreciation and amortization	**(108,477)**	(118,205)
Employee benefit expenses	**(28,177)**	(37,953)
Materials, services and logistics	**(54,655)**	(83,483)
Others	**(3,981)**	(5,618)
Mabi	**(41,536)**	(61,828)
Depreciation and amortization	**(16,304)**	(18,692)
Employee benefit expenses	**(7,067)**	(22,442)
Materials, services and logistics	**(17,160)**	(19,387)
Others	**(1,005)**	(1,307)
Headquarters	**(9,028)**	(10,963)
Depreciation and amortization	**(2,393)**	(2,363)
Employee benefit expenses	**(1,821)**	(4,013)
Materials, services and logistics	**(4,614)**	(4,508)
Others	**(200)**	(79)
EBITDA	**512,767**	584,949
— Panzhuang	**503,698**	571,428
— Mabi	**14,903**	21,848
Profit from operations	**385,593**	445,689
Finance income	**18,834**	16,479
Finance costs	**(2,396)**	(1,830)
Exchange gains	**9,740**	1,380
Finance income, net	**26,178**	16,029
Profit before income tax	**411,771**	461,718
Income tax expense	**(99,721)**	(123,141)
Profit for the period	**312,050**	338,577

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

	Six months ended 30 June	
	2020	2019
Gross production volume (bcf)[1]	**16.51**	16.01
Panzhuang	**15.43**	14.68
Mabi	**1.08**	1.33
Gross production volume (MMCM)[1]	**467.53**	453.27
Panzhuang	**436.98**	415.65
Mabi	**30.55**	37.62
Gross sales volume (bcf)[2]	**15.98**	15.60
Panzhuang	**14.97**	14.32
Mabi	**1.01**	1.28
Gross sales volume (MMCM)[2]	**452.58**	441.75
Panzhuang	**423.91**	405.58
Mabi	**28.67**	36.17
Net sales volume (bcf)[3]	**11.37**	11.24
Panzhuang	**10.73**	10.23
Mabi	**0.64**	1.01
Net sales volume (MMCM)[3]	**322.07**	318.17
Panzhuang	**304.00**	289.75
Mabi	**18.07**	28.42
Realized ASP (RMB per cubic meter)[4]		
Panzhuang	**1.47**	1.80
Mabi	**1.39**	1.40
Revenue (RMB'000)	**483,668**	597,651
Panzhuang	**452,956**	547,628
Mabi	**30,712**	50,023

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, thus reflecting the realized wellhead price.

SIX MONTHS ENDED 30 JUNE 2020 COMPARED TO SIX MONTHS ENDED 30 JUNE 2019

Revenue. Our revenue decreased by RMB114 million, or 19.07%, from RMB598 million for the six months ended 30 June 2019 to RMB484 million for the six months ended 30 June 2020. The decrease was mainly attributable to the decrease in realized ASP for Panzhuang concession from RMB1.80/cubic meter in 1H2019 to RMB1.47/cubic meter in 1H2020.

Subsidy income. We had subsidy income of RMB99.36 million and RMB99.97 million for the six months ended 30 June 2019 and 2020, respectively. For the six months ended 30 June 2020, our subsidy income increased by RMB0.61 million, or 0.61%, mainly due to the increased net sales volume from Panzhuang concession.

VAT refund. Our VAT refund for the six months ended 30 June 2019 and 2020 were RMB66.65 million and RMB46.25 million, respectively. For the six months ended 30 June 2020, our VAT refund decreased by RMB20.4 million, or 30.61%, mainly due to the decrease in realized ASP in Panzhuang concession.

Other gains, net. Our other gains increased by RMB1.479 million from RMB82,000 for the six months ended 30 June 2019 to RMB1.561 million for the six months ended 30 June 2020 due to the overhead for income of other businesses.

Operating expenses. Our operating expenses decreased by RMB72.2 million, or 22.70%, from RMB318 million for the six months ended 30 June 2019 to RMB246 million for the six months ended 30 June 2020 primarily due to the adoption of strict cost-control measures, optimization of organizational structure and position settings and a decrease in termination benefits for staff.

- *Depreciation and amortization*. Our depreciation and amortization decreased by RMB12.09 million, or 8.68%, from RMB139 million for the six months ended 30 June 2019 to RMB127 million for the six months ended 30 June 2020, mainly due to the decrease in future investment.

- *Employee benefit expenses*. Our employee benefit expenses decreased by RMB27.34 million, or 42.45%, from RMB64.41 million for the six months ended 30 June 2019 to RMB37.07 million for the six months ended 30 June 2020, mainly due to the optimization of organizational structure and position settings and a decrease in termination benefits for staff.

- *Materials, services and logistics*. Our materials, services and logistics expenses decreased by RMB30.95 million, or 28.82%, from RMB107 million for the six months ended 30 June 2019 to RMB76.43 million for the six months ended 30 June 2020, mainly due to the adoption of strict cost-control measures and the decrease in pipeline transportation costs and coordination services costs.

- *Others*. Our other expenses were RMB7 million and RMB5.19 million for the six months ended 30 June 2019 and 2020, respectively, the decrease was mainly due to the savings in office rentals and daily administrative and management expenses.

EBITDA. Our EBITDA decreased by RMB72.18 million, or 12.34%, from RMB585 million for the six months ended 30 June 2019 to RMB513 million for the six months ended 30 June 2020. The decrease was mainly due to the decrease in realized ASP in Panzhuang concession, as well as the decrease in VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings, and the decrease in materials, services and logistics expenses due to the adoption of strict cost-control measures. In conclusion, lower realized ASP has led to a decrease in EBITDA, which could even be smaller than the decrease in income. The EBITDA of Panzhuang concession decreased by RMB67.73 million, or 11.85%, from RMB571 million for the six months ended 30 June 2019 to RMB504 million for the six months ended 30 June 2020. The decrease in EBITDA of Panzhuang concession was mainly due to the decrease in realized ASP and VAT refund, but was partially offset by the adoption of strict cost-control measures and the decrease in pipeline transportation costs and coordination services costs. The EBITDA of Mabi concession decreased by RMB6.95 million, or 31.79%, from RMB21.85 million for the six months ended 30 June 2019 to RMB14.9 million for the six months ended 30 June 2020. The decrease in EBITDA of Mabi concession was due to the decrease in production and realized ASP.

Profit from operations. As a result of the foregoing, our profit from operations decreased by RMB60.1 million, or 13.48%, from RMB446 million for the six months ended 30 June 2019 to RMB386 million for the six months ended 30 June 2020.

Finance income. Our finance income increased by RMB2.35 million, or 14.29%, from RMB16.48 million for the six months ended 30 June 2019 to RMB18.83 million for the six months ended 30 June 2020, primarily due to the increase in the terms and interest rates of term deposits.

Finance costs. Our finance costs increased by RMB0.57 million, or 30.93%, from RMB1.83 million for the six months ended 30 June 2019 to RMB2.4 million for the six months ended 30 June 2020, mainly due to the increase in interests on lease liabilities.

Exchange gains. Our foreign exchange gains increased from RMB1.38 million for the six months ended 30 June 2019 to RMB9.74 million for the six months ended 30 June 2020, 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 decreased by RMB49.95 million, or 10.82%, from RMB462 million for the six months ended 30 June 2019 to RMB412 million for the six months ended 30 June 2020, primarily due to the factors affecting EBITDA stated above and the increase in finance costs, but partially offset by the decrease in depreciation and amortization expenses and the increase in finance income and exchange gains.

Income tax expense. Our income tax expense decreased by RMB23.42 million, or 19.02%, from RMB123 million for the six months ended 30 June 2019 to RMB99.72 million for the six months ended 30 June 2020, mainly due to the decrease in profit before income tax of Panzhuang concession for the six months ended 30 June 2020. Income tax expense was related to the operation of Panzhuang concession. Mabi concession had no income tax expense given it had no taxable profit.

Profit for the period. Our profit for the period decreased by RMB26.53 million, or 7.83%, from RMB339 million for the six months ended 30 June 2019 to RMB312 million for the six months ended 30 June 2020, mainly due to the factors affecting profit before income tax stated above, but partially offset by the decrease 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 2020, we had cash and bank balances of RMB1,852 million (31 December 2019: RMB2,184 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 2020.

Cash Flow

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**244,602**	356,143
Net cash used in investing activities	**(406,198)**	(98,219)
Net cash used in financing activities	**(364,413)**	(254,452)
Net (decrease)/increase in cash and cash equivalents	**(526,009)**	3,472
Cash and cash equivalents at beginning of the period	**2,083,931**	1,656,523
Exchange gains on cash and cash equivalents	**11,752**	3,593
Cash and cash equivalents at end of the period	**1,569,674**	1,663,588

Operating Activities

Net cash generated from operating activities was RMB245 million for the six months ended 30 June 2020, mainly due to profit before income tax of RMB412 million and depreciation and amortization of RMB127 million. Such items were offset by the increase in accounts receivable and other receivables of RMB188 million, income tax paid of RMB72.76 million, the decrease in accounts payable and other payables of RMB12.63 million and finance income of RMB10.5 million.

Investing Activities

Net cash used in investing activities was RMB406 million for the six months ended 30 June 2020, mainly composed of purchases of property, plant and equipment of RMB185 million, the increase in term deposits with term over three months of RMB180 million and the purchase of financial assets of RMB49.53 million, offset by interest received of RMB7.78 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 RMB364 million for the six months ended 30 June 2020, which was mainly used to pay dividend of RMB359 million for the year ended 31 December 2019.

Cash and Bank Balances

We had cash and bank balances of RMB1,852 million and RMB2,184 million as at 30 June 2020 and 31 December 2019, respectively. Cash and bank balances consist of cash on hand, cash at banks, restricted bank deposits and term deposits with term over three months. The decrease in cash was mainly due to delay in the collection of receivables. As at 30 June 2020 and 31 December 2019, approximately 27.60% and 39.52% 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 finance 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, finance 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Reconciliation of profit for the period to EBITDA:		
Profit for the period	**312,050**	338,577
Income tax expense	**99,721**	123,141
Finance income	**(18,834)**	(16,479)
Finance costs	**2,396**	1,830
Exchange gains	**(9,740)**	(1,380)
Depreciation and amortization	**127,174**	139,260
EBITDA	**512,767**	584,949
Termination benefits for staff	**–**	19,901
Adjusted EBITDA	**512,767**	604,850

Our EBITDA decreased by RMB72.18 million, or 12.34%, from RMB585 million for the six months ended 30 June 2019 to RMB513 million for the six months ended 30 June 2020. Such decrease was mainly due to the decrease in realized ASP in Panzhuang concession, as well as the decrease in VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings, and the decrease in materials, services and logistics expenses due to the adoption of strict cost-control measures. In conclusion, lower realized ASP has led to a decrease in EBITDA, which could even be smaller than the decrease in income. The EBITDA of Panzhuang concession decreased by RMB67.73 million, or 11.85%, from RMB571 million for the six months ended 30 June 2019 to RMB504 million for the six months ended 30 June 2020. The decrease in EBITDA of Panzhuang concession was mainly due to the decrease in realized ASP and VAT refund, but was partially offset by the adoption of strict cost-control measures and the decrease in pipeline transportation costs and coordination services costs. The EBITDA of Mabi concession decreased by RMB6.95 million, or 31.79%, from RMB21.85 million for the six months ended 30 June 2019 to RMB14.9 million for the six months ended 30 June 2020. The decrease in EBITDA of Mabi concession was due to the decrease in production and realized ASP.

Our adjusted EBITDA decreased by RMB92.08 million, or 15.22%, from RMB605 million in 1H2019 to RMB513 million in 1H2020. Such decrease was due to the aforementioned reasons for the decrease in EBITDA.

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), 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 2019.

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

(b) Liquidity risk

Compared to 31 December 2019, 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 2020.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the six months ended 30 June 2020.

IMPORTANT EVENTS AFTER THE END OF THE SIX MONTHS ENDED 30 JUNE 2020

Save as disclosed otherwise in this announcement, there are no important events occurred after the end of the six months ended 30 June 2020 and up to the date of this announcement.

EMPLOYEES

As at 30 June 2020, the Group had 481 employees, with 7 based in Beijing (including 5 employment of the disabled), 473 based in Shanxi and 1 based in Hong Kong.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 June 2015 with net proceeds from the IPO of approximately RMB1,506.9 million, after deduction of the underwriting commission and other expenses. The Company intends to apply the proceeds from the Listing in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in prospectus of the Company dated 11 June 2015.

As at 30 June 2020, the following table sets out the breakdown of the use of proceeds from the IPO:

Use of net proceeds	Percentage of net proceeds	Net proceeds allocated *(RMB million)*	Amount used during the six months ended 30 June 2020 *(RMB million)*	Remaining amount *(RMB million)*
For the exploration and development of CBM in Panzhuang and Mabi concessions	60%	904.1	87.0	38.1
For the expansion of operations by acquiring interests in other CBM or other unconventional gas concessions or participating in cooperation or joint venture projects	35%	527.4	1.0	209.2
For working capital and general corporate purposes	5%	75.4	4.2	17.4
Total	100%	1,506.9	92.2	264.7

Depending on the progress of the exploration and development of CBM in Panzhuang and Mabi concessions and the identification of possible acquisition targets or opportunities to participate in cooperation or joint venture project, the Company will disclose the information in its annual reports and interim reports and in accordance with the relevant Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

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 Listing Rules 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 2020. 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 2020.

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 2020.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

During the six months ended 30 June 2020, Mr. Huang Min was appointed as a non-executive Director on 27 March 2020. For details of the appointment of Mr. Huang Min, please refer to the announcement of the Company dated 27 March 2020.

Save as disclosed above, there were no changes in the composition of the Board and Board Committees for the six months ended 30 June 2020.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

As of 30 June 2020, the audit committee (the "**Audit Committee**") 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 2020.

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 2020 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 2020 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.

Certain figures included in this announcement have been subject to rounding adjustments. Any discrepancies are due to rounding.

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

Hong Kong, 27 August 2020

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, Ms. Gu Ren and Mr. Huang Min; and the independent non-executive Directors are Mr. Tai Kwok Leung Alexander, Dr. Liu Xiaofeng and Dr. Yang Ruizhao.