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 2017

Key Interim Highlights:

- **HSE showed strong performance for first half of 2017**
- **Higher realized ASP of RMB1.26 per cubic meter in 1H2017**
- **Profit from operations and EBITDA increased by 17.9% and 21.5% respectively**
- **Gross production on track to deliver the 614 MMCM target for 2017 (Panzhuang: 557 MMCM, Mabi: 57 MMCM)**
  - — 1H2017 gross production reached 293 MMCM, 11% YoY increase for Panzhuang and 130% YoY increase for Mabi
  - — 1H2017 daily production reached 1.62 MMCM per day for the first half year
- **2017 drilling program on schedule, with 39 wells drilled in 1H2017**
- **Gas sales with exceptional utilization rate of 98% in 1H2017**
- **Costs under control**
  - — Drilling cost per well for Panzhuang in 1H2017 down by RMB1 million YoY
  - — Drilling cost per well for Mabi in 1H2017 RMB0.3 million lower than budgeted RMB1.2 million
- **Increased drilling program for Panzhuang in 2017 from 29 wells to 44 SLH wells and 8 PDWs as a result of Capex savings and faster well completion**

FINANCIAL SUMMARY

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**225,631**	193,294
Other income	**84,844**	82,240
Profit from operations	**128,847**	109,229
EBITDA	**176,126**	144,901
Adjusted EBITDA	**189,693**	165,407
Profit for the period	**63,694**	72,407
Basic and diluted earnings per share (RMB)	**0.02**	0.02

	As at	
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**3,349,848**	3,188,674
Cash and bank balances	**2,231,946**	2,375,347
Total assets	**5,915,525**	5,938,474
Total equity	**4,873,779**	4,836,934

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of AAG Energy Holdings Limited (the "**Company**" or "**AAG**") 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 2017, together with the comparative figures for the same period last year as follows:

BUSINESS REVIEW AND PROSPECTS

2017 has been a terrific year for AAG so far. Low domestic gas prices in China, and an increasingly competitive global market for oil and gas has become the new normal, but AAG remains strong and continues to grow our business despite these challenges. In 2017, our focus is on increasing natural gas production while driving costs down.

During the first half of 2017 ("**1H2017**"), the Group's gross gas production increased by 16% to 293 million cubic meters ("**MMCM**") (10.3 billion cubic feet ("**bcf**")) (comprising Panzhuang's gross production of 266.7 MMCM or 9.4 bcf and Mabi's gross production of 26 MMCM or 0.9 bcf) compared with the first half of 2016 ("**1H2016**").

During 1H2017, AAG realized a higher average selling price ("**ASP**") of RMB1.26 per cubic meter (compared to RMB1.20 per cubic meter for 1H2016) due to increased demand for gas in the winter months. It is not expected that our ASP will stay at this level for the second half of this year.

The combination of new wells drilled in Panzhuang during 2016 and 2017, combined with better well design and implementation in Mabi led to increased production output in 1H2017. We expect production in the second half of 2017 ("**2H2017**") will be greater than production in 1H2017.

Realized net sales revenue in 1H2017 increased by 16.7% to RMB225.6 million compared with 1H2016. Profit from operations in 1H2017 increased by 17.9% to RMB128.8 million. EBITDA in 1H2017 increased by 21.5% to RMB176.1 million.

Gross production volume is the total amount of coalbed methane ("**CBM**") produced in the contracted areas. Gross sales volume is gross production volume less (i) utilization loss and (ii) amounts sold to pay applicable value added tax ("**VAT**") and local taxes. Net sales volume is the portion of gross sales volume allocated to the Group under the production sharing contract ("**PSC**").

The Group has achieved considerable progress towards certain key operational objectives during 1H2017:

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

  As the leading independent producer of CBM in China, AAG is proud of our enviable safety record. AAG continues to make excellent progress on HSE performance metrics. Specifically, the employee total recordable incident rate and lost time incident rate were both 0.00 during 1H2017 while the preventable motor vehicle accident rate was 0.79, showing strong performance.

  * Recordable incident rates refer to those incidents defined as recordable per 200,000 man-hours worked.

- **Panzhuang concession — Continues to outperform with production growth**

  The Panzhuang concession remains AAG's crown jewel as it continues to outperform the competition, both with the highest producing wells in China and as the lowest cost producer in the region. We are very excited that AAG's Panzhuang concession in partnership with China United Coalbed Methane Corporation Ltd. ("**CUCBM**") was designated as the leading CBM project in China under the Thirteenth Five-Year Development and Utilization Plan for Coalbed Methane ("**Energy Plan**") released by the National Energy Administration (國家能源局, "**NEA**").

  Panzhuang gross production increased 11% in 1H2017 to 266.7 MMCM (9.4 bcf), compared with 1H2016. Sales utilization rate was 98% in 1H2017 compared with 97.8% in 1H2016. Daily average gas production during 1H2017 was 1.47 MMCM per day ("**MMCMD**") (51.9 million cubic feet ("**mmcf**")/day) compared to 1.32 MMCMD (46.6 mmcf/day) in 1H2016, an increase of 11%.

  The Panzhuang 2017 work plan focuses on increasing production growth while keeping costs down. In 1H2017, we are ahead of schedule with 21 single lateral horizontal ("**SLH**") wells and 2 pad drilled wells ("**PDW**") completed drilling, with only 8 SLH wells left to drill before we complete our original drilling plan of 29 SLH wells for the full year. In addition to the 23 wells drilled, we fracture stimulated 3 PDWs. In 1H2017, we added 23 wells into production in Panzhuang after dewatering or other work over activities. Drilling costs are down with the average drilling cost in 1H2017 for 1 SLH well down to RMB3 million with wells drilled in just 17.2 days. Compared to 1H2016, this is huge savings of over 25% with 1 SLH well cost of RMB4 million with wells drilled in 21.3 days.

The current production capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 6 gas gathering stations, 17 wellhead compressors, 52.4 km of trunk links and 89.0 km of single well pipelines completed. We are in the process of upgrading our central gathering station and adding a new 35KV transformer station, which will further improve surface compression capacity.

For a detailed matrix of Panzhuang operation performance and well count, please refer to Table 1.

- **Mabi concession — Considerable progress towards commercialization**

  AAG's Mabi concession in partnership with China National Petroleum Corporation (**中國石油天然氣集團公司**, "**CNPC**"), is the leading development stage CBM project in China and designated as a key project for realizing fast growth under the Energy Plan. In 2017, Mabi's focus is on improving pilot well performance and cost control while preparing for full scale commercial development after Overall Development Plan ("**ODP**") approval is received.

  In 1H2017, Mabi produced 26 MMCM (917.8 mmcf), a 130% YoY increase. Average daily production in Mabi was 144.2 thousand cubic meters per day ("**MCMD**") (5 mmcf/day) for 1H2017, an increase of 130% compared with 1H2016. In Mabi, there are 93 wells at various stages of pilot production.

  In Mabi, AAG completed drilling a total of 16 wells in 1H2017. A low cost PDW, with hydraulic fracturing completion, will allow for one well to reach multiple coal seams with the lowest investment. Drilling cost per well in 1H2017 is RMB0.3 million lower than budgeted RMB1.2 million. Based on the recent success of Mabi pilot production improvement and development optimization, the Mabi concession is ready for scaled commercial development.

  For a detailed matrix of Mabi operation performance and well count, please refer to Table 1.

- **Mabi exploration program update**

  For the Mabi exploration program in 1H2017, the hydraulic fracturing and testing program is ongoing, with 4 appraisal wells fractured to further test the reservoir potential.

  The pilot production test in the north-eastern area of Mabi continues to show good progress during the first half year. The exploration focus has been gradually moving to field phasing development preparation.

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

1H2017 update*	**1H 2017**	1H 2016	% change	2016 Total
Total gross production	**292.80**	251.79	16%	541.08
Total average daily production	**1.62**	1.38	17%	1.48
PZ gross production (MMCM)	**266.71**	240.45	11%	506.13
PZ Multi Lateral Drill (MLD)	**182.38**	224.22	–19%	447.95
PZ SLH	**73.16**	11.93	513%	45.67
PZ PDW	**11.17**	4.30	160%	12.50
Total PZ producing wells**	**118**	78	51%	97
PZ MLD	**48**	49	–2%	49
PZ SLH	**54**	20	170%	34
PZ PDW	**16**	9	78%	14
PZ daily production (MMCMD)	**1.47**	1.32	12%	1.38
PZ MLD	**1.01**	1.23	–18%	1.22
PZ SLH	**0.40**	0.07	517%	0.12
PZ PDW	**0.06**	0.02	161%	0.03
PZ average daily production per well (MCMD)	**12.49**	16.94	–26%	14.26
PZ MLD	**20.99**	25.14	–17%	24.98
PZ SLH	**7.49**	3.28	128%	3.67
PZ PDW	**3.86**	2.63	47%	2.44
PZ wells drilled	**23**	13	77%	30
PZ wells fracked	**3**	2	50%	7
MB gross production (MMCM)	**26.09**	11.34	130%	34.95
MB MLD	**0.09**	0.06	55%	0.19
MB SLH	**8.83**	0.35	2423%	3.08
MB PDW	**17.17**	10.93	57%	31.69
Total MB producing wells**	**93**	121	–23%	121
MB MLD	**1**	3	–67%	2
MB SLH	**10**	10	0%	12
MB PDW	**82**	108	–24%	107
MB average daily production (MCMD)	**144.17**	62.30	131%	95.49
MB MLD	**0.52**	0.33	58%	0.51
MB SLH	**48.79**	1.92	2441%	8.40
MB PDW	**94.86**	60.05	58%	86.58
MB average daily production per well (MCMD)	**1.55**	0.51	201%	0.79
MB MLD	**0.52**	0.11	373%	0.26
MB SLH	**4.88**	0.19	2441%	0.70
MB PDW	**1.16**	0.56	108%	0.81
MB wells drilled	**16**	2	700%	8
MB wells fracked	**6**	22	–73%	31

* Operations update as of June 30, 2017, 08:00 CST

** Well count is calculated from pumping start date

- **ODP approvals — Progress on track**

  All Mabi Overall Development Plan Phase I (“**ODP I**”) associated pre-approvals have been secured. The revised Mabi ODP I report based on the latest progress made in the Mabi pilot program and changed market conditions passed the internal review by our project partner CNPC during the second quarter of 2017, and the communication with the National Development and Reform Commission (國家發展和改革委員會, “**NDRC**”) is underway regarding submission of Mabi’s ODP I.

OUTLOOK FOR THE SECOND HALF OF 2017

For 2H2017, we are pleased to present updated guidance below:

- **Panzhuang**

  With the acceleration of the drilling program, the full year plan is updated to include drilling an additional 15 SLH wells for a total of 44 SLH wells and 8 PDWs in 2017. The additional wells to be drilled in 2H2017 will contribute to production in 2018. Surface facilities investments will include the continuation of the central station upgrade, further power station construction, and related trunk line construction for future development.

  The Group’s full year gross production expectation for Panzhuang is 557 MMCM (19.6 bcf) subject to anticipated project execution and related government approvals.

- **Mabi**

  In Mabi, the Group will focus on fine tuning stimulations of PDWs, and developing the Mabi ODP I implementation plan. This will include both drilling new wells in core areas, infill drilling in existing development areas, and building a core developed zone where the downstream infrastructure already exists. The drilling and completion technology will build off the success in recent years of low cost PDWs while observing longer term performance of SLH wells.

  The full year plan includes drilling approximately 60 new PDWs, 36 well completion works and 8 re-fractures. Much work will go into building surface facilities such as trunk lines, gas gathering stations, well pad preparation, and filing for forestry and land approval.

  The Group’s full year gross production expectation for Mabi is 57 MMCM (2 bcf) subject to anticipated project execution and related government approvals.

The Group's 2017 planned capital expenditures ("**CAPEX**") will increase from the original plan of approximately RMB590 million (comprising approximately RMB290 million in Panzhuang, RMB230 million in Mabi and RMB70 million for exploration), to approximately 602 million (comprising approximately RMB302 million for Panzhuang, RMB230 million for Mabi and RMB70 million for exploration). We have incurred a net CAPEX of RMB281.5 million in 1H2017. The remaining CAPEX for 2H2017 will be funded by internal cashflows, a portion of proceeds from the IPO, or the unutilized portion of the US$200 million reserve based lending ("**RBL**") loan.

As mentioned above, although we achieved ASP of RMB1.26 per cubic meter in 1H2017, it is not expected that our ASP will be maintained at this level in 2H2017 since demand is lower during the summer months.

China's total gas consumption was up 12% year on year to 117 billion cubic meters ("**bcm**") for the period from January to June 2017, according to SIA Energy, an independent China-focused oil and gas consulting firm, owing to the coal-to-gas conversion program which brings out additional gas demand in 2017 as the PRC government encourages coal users to switch to gas. It is the Company's belief that gas use promotion policy and environmental protection will become resilient growth drivers in the medium and long term. Increasing natural gas demand in China further strengthens AAG's position as the leading independent producer of CBM in the region.

The Group is confident that as a high productivity, low-cost upstream gas producer with a strong balance sheet, we are well positioned to further expand our production in Panzhuang and commercial development in Mabi to satisfy China's growing energy demand. At the same time, the Group will continue to pursue new oil and gas business opportunities within China and in other regional markets to expand our business, serving adjacent communities with clean energy, and realizing further return to our shareholders.

NEW OPPORTUNITIES

The Group has been actively pursuing new oil and gas opportunities for future growth in China, and elsewhere which meets the Group's development strategy. Under the current lower oil price environment, the valuation of oil and gas assets is very attractive. With our strong balance sheet and technical knowhow of the management team, we believe the Group is well positioned for further expansion through partnering with other oil and gas producers and/or acquiring attractive assets in the near term.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**225,631**	193,294
Other income	*6*	**84,844**	82,240
Other gains/(losses), net		**142**	(470)
Operating expenses			
Depreciation and amortisation		**(47,279)**	(35,672)
Employee benefit expenses		**(65,761)**	(73,946)
Materials, services and logistics		**(57,493)**	(45,452)
Others		**(11,237)**	(10,765)
Total operating expenses		**(181,770)**	(165,835)
Profit from operations		**128,847**	109,229
Interest income	*7*	**3,405**	5,038
Finance costs	*7*	**(7,078)**	(9,737)
Exchange (losses)/gains	*7*	**(5,612)**	7,563
Finance (costs)/income, net		**(9,285)**	2,864
Profit before income tax		**119,562**	112,093
Income tax expense	*9*	**(55,868)**	(39,686)
Profit attributable to owners of the Company for the period		**63,694**	72,407
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**(37,074)**	18,836
Total comprehensive income attributable to owners of the Company for the period		**26,620**	91,243
Earnings per share (RMB)			
— Basic	*14*	**0.02**	0.02
— Diluted	*14*	**0.02**	0.02

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,349,848**	3,188,674
Land use rights		**12,123**	12,265
Intangible assets		**32,820**	33,907
Other non-current assets		**4,528**	4,116
		3,399,319	3,238,962
Current assets			
Inventories		**1,866**	1,760
Trade and other receivables	*10*	**282,394**	319,850
Current income tax prepaid		**–**	2,555
Restricted bank deposits	*11*	**31,583**	31,583
Cash and cash equivalents	*11*	**2,200,363**	2,343,764
		2,516,206	2,699,512
Total assets		**5,915,525**	5,938,474
EQUITY			
Equity attributable to owners of the Company			
Share capital		**2,041**	2,034
Capital surplus		**4,812,278**	4,839,134
Retained earnings/(Accumulated deficits)		**59,460**	(4,234)
Total equity		**4,873,779**	4,836,934
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		**13,499**	13,176
Borrowings	*12*	**488,284**	496,376
Deferred income tax liabilities		**191,084**	148,213
		692,867	657,765
Current liabilities			
Trade and other payables	*13*	**338,444**	443,775
Current income tax liabilities		**10,435**	–
		348,879	443,775
Total liabilities		**1,041,746**	1,101,540
Total equity and liabilities		**5,915,525**	5,938,474

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	**Six months ended 30 June** **2017** *RMB'000* **(Unaudited)**	2016 *RMB'000* (Unaudited)
Cash flows from operating activities			
Cash generated from operations		**207,384**	108,474
Interest paid		**(15,765)**	(12,478)
Income tax paid		**(7)**	(4,805)
Net cash generated from operating activities		**191,612**	91,191
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		**(281,479)**	(340,154)
Decrease in term deposits with initial terms of over three months		**–**	246,000
Increase in restricted bank deposits		**–**	(17,866)
Proceeds from disposal of property, plant and equipment		**112**	328
Interest received		**4,002**	4,366
Net cash used in investing activities		**(277,365)**	(107,326)
Cash flows from financing activities			
Cash paid for listing expenses		**–**	(7,700)
Proceeds from exercise of options		**62**	–
Finance costs paid		**(6,913)**	(11,055)
Net cash used in financing activities		**(6,851)**	(18,755)
Net decrease in cash and cash equivalents		**(92,604)**	(34,890)
Cash and cash equivalents at beginning of the period	*11*	**2,343,764**	2,309,810
Exchange (losses)/gains on cash and cash equivalents		**(50,797)**	31,612
Cash and cash equivalents at end of the period	*11*	**2,200,363**	2,306,532

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

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 PetroChina Company Limited (through its parent company, China National Petroleum Corporation) 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 of the PRC on 28 November 2011, which allowed the 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. As at 30 June 2017, 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.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**"), "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

(b) Impact of standards issued but not yet applied by the Group

(i) HKFRS 9 Financial instruments

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("**FVOCI**") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. The Group does not expect the new guidance to have an impact on the classification and measurement of its financial assets since the Group does not have any debt instruments and equity investments.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is estimating its loss allowance for receivables using the new impairment model.

(ii) HKFRS 15 Revenue from contracts with customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

Management does not expect the new guidance to have a significant impact on the revenue recognition of the Group since the Group has only one type of product and the contract terms are similar among different customers. In addition, there are no complex arrangements in the sales contracts.

(iii) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will results in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB10,384,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4. SEGMENT INFORMATION

The chief operating decision-maker ("**CODM**") has been identified as the directors and chief executive of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group's operating segments are defined by PSCs, which is the basis by which the CODM makes decisions about resources to be allocated and assesses their performance. 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 2017 and 2016 is as follows:

	Panzhuang concession	**Mabi concession**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
(Unaudited)			
For the six months ended 30 June 2017			
Revenue from external customers	**225,631**	**–**	**225,631**
EBITDA	**245,584**	**(23,104)**	**222,480**
Other income	**84,844**	**–**	**84,844**
Operating expenses	**(107,137)**	**(26,239)**	**(133,376)**
Depreciation and amortisation	**(42,183)**	**(3,056)**	**(45,239)**
Interest income	**2,593**	**124**	**2,717**
Finance costs	**(1,114)**	**(32)**	**(1,146)**
Exchange (losses)/gains	**(1,464)**	**5,534**	**4,070**
Income tax expense	**(55,861)**	**–**	**(55,861)**
(Unaudited)			
For the six months ended 30 June 2016			
Revenue from external customers	193,294	–	193,294
EBITDA	219,804	(21,228)	198,576
Other income	82,240	–	82,240
Operating expenses	(87,639)	(23,251)	(110,890)
Depreciation and amortisation	(31,844)	(2,558)	(34,402)
Interest income	4,102	89	4,191
Finance costs	(1,350)	(31)	(1,381)
Exchange (losses)/gains	(1,131)	10,102	8,971
Income tax expense	(39,686)	–	(39,686)

	Panzhuang concession *RMB'000*	Mabi concession *RMB'000*	Total *RMB'000*
(Unaudited)			
As at 30 June 2017			
Total assets	**2,013,059**	**2,118,239**	**4,131,298**
Additions to non-current assets (other than deferred tax assets)	**65,859**	**94,887**	**160,746**
(Audited)			
As at 31 December 2016			
Total assets	2,344,636	1,991,940	4,336,576
Additions to non-current assets (other than deferred tax assets)	234,448	336,837	571,285

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total EBITDA for reportable segments	**222,480**	198,576
Headquarter overheads	**(46,354)**	(53,675)
Depreciation and amortisation	**(47,279)**	(35,672)
Interest income	**3,405**	5,038
Finance costs	**(7,078)**	(9,737)
Exchange (losses)/gains	**(5,612)**	7,563
Profit before income tax	**119,562**	112,093

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

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total segment assets	**4,131,298**	4,336,576
Unallocated		
Unallocated cash and cash equivalents	**1,777,328**	1,594,604
Others	**6,899**	7,294
Total assets per balance sheet	**5,915,525**	5,938,474

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.

6. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
VAT refund (a)	**22,252**	24,896
Government subsidy (b)	**62,592**	57,344
	84,844	82,240

(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 applies for the VAT refund for Panzhuang 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.

(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》) at RMB0.3 per cubic meter of the CBM sold. CUCBM applies for the subsidy for Panzhuang 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. FINANCE (COSTS)/INCOME, NET

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense of bank borrowings	**(19,476)**	(16,004)
Bank loan commitment fee	**(6,813)**	(9,566)
Accretion expenses of asset retirement obligations	**(265)**	(171)
Subtotal	**(26,554)**	(25,741)
Less: amounts capitalised on qualifying assets	**19,476**	16,004
Finance costs	**(7,078)**	(9,737)
Interest income	**3,405**	5,038
Exchange (losses)/gains	**(5,612)**	7,563
Finance (costs)/income, net	**(9,285)**	2,864

8. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating lease rental expenses	**6,468**	6,274

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**(12,997)**	(289)
Deferred income tax	**(42,871)**	(39,397)
	(55,868)	(39,686)

(a) 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.

Asian American Gas Inc. ("**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.

Sino-American Energy, Inc. ("**SAEI**"), which was incorporated in the Samoa Islands under the International Business Companies Acts of the Samoa Islands, 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%.

(b) 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	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before income tax	**119,562**	112,093
Tax expense calculated at statutory tax rates	**(60,201)**	(22,106)
Utilization of previously/(current period) deductible temporary differences for which no deferred tax asset was recognised	**6,580**	(15,995)
Expenses not deductible for taxation purposes	**(1,016)**	(1,296)
Others	**(1,231)**	(289)
Income tax expense	**(55,868)**	(39,686)

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade receivables (a)		
— external customers	**29,705**	20,061
— CUCBM	**28,916**	32,948
Notes receivable (b)	**39,394**	119,567
Government grants receivables (c)		
— Government	**129,333**	43,102
— CUCBM	**–**	42,620
Due from CUCBM for cash calls and accrued expenses (d)	**34,668**	40,631
Prepaid expenses, deposits and others	**27,575**	28,118
	289,591	327,047
Less: provision for impairment	**(7,197)**	(7,197)
	282,394	319,850

(a) Trade receivables

(i) The ageing analysis of trade receivables — due from CUCBM:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within 3 months	**28,916**	32,948

Note: 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.

(ii) The ageing analysis of trade receivables — due from external customers:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within 3 months	**22,508**	12,864
Over 3 years	**7,197**	7,197
	29,705	20,061
Provision	**(7,197)**	(7,197)
	22,508	12,864

Past due but not impaired	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within 3 months	**22,508**	12,864

These past due but not impaired trade receivables related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The trade receivables are due upon billing.

(iii) Movement of bad debt provision:

	Six months ended June 30	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Beginning and end of the period	**7,197**	7,197

(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.

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

(e) As at 30 June 2017, the carrying amounts of trade and other receivables approximated their fair values.

11. CASH AND BANK BALANCES

	As at 30 June 2017 ***RMB'000*** **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Cash and cash equivalents		
— Cash on hand	**230**	270
— Cash at banks	**2,200,133**	2,343,494
	2,200,363	2,343,764
Restricted bank deposits (a)	**31,583**	31,583
	2,231,946	2,375,347

(a) Restricted bank deposits represents land restoration deposits for Panzhuang and Mabi concessions.

12. BORROWINGS

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bank loans, secured		
Between 2 and 5 years	**488,284**	496,376
Annual interest rate	**LIBOR+4.15%**	LIBOR+4.15%
Annual effective interest rate	**7.26%**	6.79%

As at 30 June 2017 and 31 December 2016, the Group's borrowings were all denominated in US$, which were drawn down by SAEI. On 8 July 2015, SAEI as borrower entered into an up to US$250 million senior secured revolving credit facility with AAGI as guarantor, and with AAGI's shares in SAEI mortgaged as security, for a term of 69 months with a final maturity date of 31 March 2021 bearing interest at LIBOR plus a margin of 4.15% for the first 4 years and 4.65% for the remainder of the facility.

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2017 (Unaudited)	
Opening balance as at 1 January 2017	496,376
Amortisation of financing costs	3,588
Currency translation differences	(11,680)
Closing balance as at 30 June 2017	488,284
Six months ended 30 June 2016 (Unaudited)	
Opening balance as at 1 January 2016	418,859
Amortisation of financing costs	2,957
Currency translation differences	8,934
Closing balance as at 30 June 2016	430,750

The Group has the following undrawn borrowing facility:

	As at 30 June 2017	As at 31 December 2016
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Expiring beyond 1 year	**174,000**	174,000

The US$250 million borrowing facility will commence reduction of the maximum borrowing facility amount on 1 July 2017 and will continue reducing every six months until the maximum borrowing facility reduces to zero. As of 1 July 2017, the maximum borrowing facility amount was reduced to US$200 million, and accordingly, the undrawn borrowing facility amount as at that date was reduced to US$124 million.

As at 30 June 2017, the fair value of borrowings approximated to RMB488 million (31 December 2016: RMB496 million). The fair value is within level 2 hierarchy.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2017 *RMB'000* (Unaudited)	As at 31 December 2016 *RMB'000* (Audited)
Trade payables	**303,966**	393,198
Amounts due to related parties		
— CUCBM	**1,000**	1,000
— PetroChina Company Limited	**9,242**	8,852
Social securities and other payables	**24,236**	40,725
	338,444	443,775

The ageing analysis of trade payables were as follows:

	As at 30 June 2017 *RMB'000* (Unaudited)	As at 31 December 2016 *RMB'000* (Audited)
Within 6 months	**157,408**	322,202
6 months to 1 year	**94,941**	18,700
1 to 2 years	**19,498**	29,895
2 to 3 years	**16,659**	16,480
Over 3 years	**15,460**	5,921
	303,966	393,198

14. 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 2017 and 2016.

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**63,694**	72,407
Weighted average number of ordinary basic shares in issue *(Thousands)*	**3,330,578**	3,326,780
Basic earnings per share *(RMB)*	**0.02**	0.02

(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	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**63,694**	72,407
Weighted average number of ordinary shares in issue *(Thousands)*	**3,330,578**	3,326,780
Adjustments for assumed conversion of share options and RSUs *(Thousands)*	**24,688**	4,780
Weighted average number of ordinary shares for diluted earnings per share *(Thousands)*	**3,355,266**	3,331,560
Diluted earnings per share *(RMB)*	**0.02**	0.02

15. DIVIDENDS

No dividend has been paid or proposed by the Company for the periods ended 30 June 2017 and 2016.

16. SUBSEQUENT EVENTS

On 1 July 2017, AAGI entered into a gas sales agreement with PetroChina Company Limited, which sets out the terms of gas sales of Mabi concession in the exploration period. Accordingly, AAGI will commence recognizing revenues and related operating expenses for Mabi in the second half of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS
REVIEW OF OPERATING RESULTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**225,631**	193,294
— Panzhuang	**225,631**	193,294
— Mabi	**–**	–
Subsidy income	**62,592**	57,344
— Panzhuang	**62,592**	57,344
— Mabi	**–**	–
VAT refund	**22,252**	24,896
— Panzhuang	**22,252**	24,896
— Mabi	**–**	–
Other gains/(losses), net	**142**	(470)
Operating expenses	**(181,770)**	*(165,835)*
Depreciation and amortization	**(47,279)**	(35,672)
Employee benefit expenses	**(65,761)**	(73,946)
Materials, services and logistics	**(57,493)**	(45,452)
Others	**(11,237)**	(10,765)
Panzhuang	***(107,137)***	*(87,639)*
Depreciation and amortization	**(42,183)**	(31,844)
Employee benefit expenses	**(24,722)**	(22,333)
Materials, services and logistics	**(35,311)**	(28,400)
Others	**(4,921)**	(5,062)
Mabi	***(26,239)***	*(23,251)*
Depreciation and amortization	**(3,056)**	(2,558)
Employee benefit expenses	**(12,041)**	(11,606)
Materials, services and logistics	**(8,055)**	(6,026)
Others	**(3,087)**	(3,061)
Headquarters	***(48,394)***	*(54,945)*
Depreciation and amortization	**(2,040)**	(1,270)
Employee benefit expenses	**(28,998)**	(40,007)
Materials, services and logistics	**(14,127)**	(11,026)
Others	**(3,229)**	(2,642)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
EBITDA	**176,126**	144,901
— Panzhuang	**245,584**	219,804
— Mabi	**(23,104)**	(21,228)
Profit from operations	**128,847**	109,229
Interest income	**3,405**	5,038
Finance costs	**(7,078)**	(9,737)
Exchange (losses)/gains	**(5,612)**	7,563
Finance (costs)/income — net	**(9,285)**	2,864
Profit before income tax	**119,562**	112,093
Income tax expenses	**(55,868)**	(39,686)
Profit for the period	**63,694**	72,407

Six Months Ended 30 June 2017 Compared to Six Months Ended 30 June 2016

Revenue. Our revenue increased by RMB32.3 million, or 16.7%, from RMB193.3 million for the six months ended 30 June 2016 to RMB225.6 million for the six months ended 30 June 2017. This increase was due to an increase in net sales volume as a result of increased production and an increase in the ASP to RMB1.26 per cubic meter for 1H2017 compared to RMB1.20 per cubic meter for 1H2016. The ASP for 1H2017 increased to RMB1.26 per cubic meter due to market conditions during the winter months and it is not expected that our ASP will be maintained at this level in 2H2017 since there is lower demand for gas during the summer months.

Set out below are the production, sales, number of producing wells, ASP and revenue of Panzhuang.

	Six months ended 30 June	
	2017	2016
Gross production volume (bcf)[1]	**9.415**	8.488
Gross sales volume (bcf)[2]	**7.928**	7.116
Net sales volume (bcf)[3]	**6.343**	5.703
Accumulative number of producing wells	**118**	77
ASP		
RMB per cubic meter	**1.26**	1.20
US$ per mcf	**5.20**	5.18
Revenue (in RMB in thousands)	**225,631**	193,294

Note:

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

2. Gross sales volume is gross production volume less (i) utilization loss and (ii) amounts sold to pay applicable VAT and local taxes.

3. Net sales volume is the portion of gross sales volume allocated to us under the production sharing contract.

Subsidy income. We had subsidy income of RMB57.3 million and RMB62.6 million for the six months ended 30 June 2016 and 2017, respectively. Our subsidy income increased by RMB5.3 million or 9.2%, mainly due to the increased sales volume.

VAT refund. Our VAT refund for the six months ended 30 June 2016 and 2017 are RMB24.9 million and RMB22.3 million, respectively. Our VAT refund decreased by RMB2.6 million or 10.4% for the six months ended 30 June 2017 mainly due to an increase in the local government's share of VAT refund.

Other gains/(losses), net. Our other gains/losses changed from a loss of RMB469,614 for the six months ended 30 June 2016 to a gain of RMB142,371 for the six months ended 30 June 2017 due to disposition of scrap materials.

Operating expenses. Our operating expenses increased by RMB16.0 million or 9.7%, from RMB165.8 million for the six months ended 30 June 2016 to RMB181.8 million for the six months ended 30 June 2017 primarily due to increases in depreciation and amortization as a result of increased production wells, increases in materials, services and logistics expenses mainly due to more wells put into production and non-operation-related expenses related to business development expenses and legal consulting service expenses, offset by less employee benefit expenses due to decreased share-based compensation expenses for the six months ended 30 June 2017.

- *Depreciation and amortization*. Our depreciation and amortization increased by RMB11.6 million or 32.5%, from RMB35.7 million for the six months ended 30 June 2016 to RMB47.3 million for the six months ended 30 June 2017 due to more wells put into production.

- *Employee benefit expenses*. Our employee benefit expenses decreased by RMB8.1 million or 11.0%, from RMB73.9 million for the six months ended 30 June 2016 to RMB65.8 million for the six months ended 30 June 2017, largely due to decrease in non-cash share-based compensation expenses by RMB9.4 million.

- *Materials, services and logistics*. Our materials, services and logistics expenses increased by RMB12.0 million or 26.4%, from RMB45.5 million for the six months ended 30 June 2016 to RMB57.5 million for the six months ended 30 June 2017, primarily due to increased electricity and other operating costs at Panzhuang associated with more wells put into production, and non-operation-related expenses for business development and legal consulting service of RMB3.4 million for the six months ended 30 June 2017.

- *Others*. Our other expenses are RMB10.8 million and RMB11.2 million for the six months ended 30 June 2016 and 2017, respectively.

EBITDA. Our EBITDA increased by RMB31.2 million or 21.5%, from RMB144.9 million for the six months ended 30 June 2016 to RMB176.1 million for the six months ended 30 June 2017. This increase was primarily due to increase in net sales volume as a result of increased production, increase in ASP from RMB1.20 per cubic meter for the six months ended 30 June 2016 to RMB1.26 per cubic meter for the six months ended 30 June 2017, increase in subsidy income, decrease in employee benefit expenses as a result of decreased non-cash share-based compensation expenses, partially offset by increased material and electricity expenses in Panzhuang, and non-operation-related expenses related to business development and legal consulting service for the six months ended 30 June 2017. Included in the EBITDA of RMB144.9 million for the six months ended 30 June 2016 are non-cash share-based compensation expenses of RMB19.6 million and non-operation-related business development/ feasibility studies expenses of RMB0.9 million. Included in the EBITDA of RMB176.1 million for the six months ended 30 June 2017 are non-cash share-based compensation expenses of RMB10.2 million and non-operations-related expenses for business development and legal consulting service of RMB3.4 million. Panzhuang's EBITDA increased by RMB25.8 million or 11.7%, from RMB219.8 million for the six months ended 30 June 2016 to RMB245.6 million for the six months ended 30 June 2017. Panzhuang's EBITDA for the six months ended 30 June 2017 increased primarily due to increases in production and ASP and increase in subsidy income, which was partially offset by higher materials and electricity expenses and a reduction in VAT refund. Mabi's EBITDA are negative RMB21.2 million and negative RMB23.1 million for the six months ended 30 June 2016 and 2017, respectively, since it was still in the exploration stage during both periods.

Profit from operations. As a result of the foregoing, our profit from operations increased by RMB19.6 million or 17.9%, from a profit from operations of RMB109.2 million for the six months ended 30 June 2016 to a profit from operations of RMB128.8 million for the six months ended 30 June 2017.

Interest income. Our interest income decreased by RMB1.6 million or 32.0%, from RMB5.0 million for the six months ended 30 June 2016 to RMB3.4 million for the six months ended 30 June 2017 primarily due to less interest earned as result of decreased cash and fixed deposit balances.

Finance costs. Our finance costs decreased by RMB2.6 million or 26.8%, from RMB9.7 million for the six months ended 30 June 2016 to RMB7.1 million for the six months ended 30 June 2017 largely due to decreased commitment fees resulting from decrease in unused balance of US$250 million reserve-based lending loan.

Exchange (losses)/gains. Our foreign exchange translation losses/gains changed from a gain of RMB7.6 million for the six months ended 30 June 2016 to a loss of RMB5.6 million for the six months ended 30 June 2017 primarily due to foreign exchange translation gains/losses on US$/HK$ cash deposits as a result of RMB/US$ depreciation and appreciation in 1H2016 and 1H2017, respectively.

Profit before income tax. Our profit before income tax increased by RMB7.5 million or 6.7% from a profit of RMB112.1 million for the six months ended 30 June 2016 to a profit of RMB119.6 million for the six months ended 30 June 2017 mainly due to the factors affecting EBITDA, but partially offset by increase in depreciation and amortization expense and the foreign exchange translation losses.

Income tax expense. Our income tax expense increased by RMB16.2 million, or 40.8%, from RMB39.7 million for the six months ended 30 June 2016 to RMB55.9 million for the six months ended 30 June 2017, mainly due to increase in taxable profit before income tax for the six months ended 30 June 2017. Income tax expense arises from Panzhuang's operations. Mabi had no income tax expense given it is still in the exploration stage and had no taxable profit.

Profit for the period. Our profit for the period decreased by RMB8.7 million, or 12.0%, from RMB72.4 million for the six months ended 30 June 2016 to RMB63.7 million for the six months ended 30 June 2017, primarily due to the factors affecting profit before income tax stated above and the increase in income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

We had cash and bank balances of RMB2,231.9 million as at 30 June 2017 (RMB2,375.3 million as at 31 December 2016).

On 8 July 2015, Sino-American Energy, Inc. ("**SAEI**") entered into a new US$250 million reserve-based facility ("**New US$250 million RBL**") with The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, Bank of Communication Ltd, Offshore Banking Unit and Societe Generale, Singapore Branch and on 16 July 2015, SAEI successfully drew down US$70 million from the New US$250 million RBL to prepay and replace the original US$100 million RBL. As at 30 June 2017, the unutilised portion of the New US$250 million RBL is US$174 million.

The New US$250 million RBL will commence reduction of the maximum borrowing facility amount on 1 July 2017 and will continue reducing every six months until the maximum borrowing facility reduces to zero. As of 1 July 2017, the maximum borrowing facility amount was reduced to US$200 million, and accordingly, the undrawn borrowing facility amount as at that date was reduced to US$124 million.

As of 31 December 2016 and 30 June 2017, we had long-term borrowings of RMB496.4 million and RMB488.3 million, respectively, all of which were non-current secured U.S. dollar bank borrowings representing the drawn portion of the New US$250 million RBL as of 31 December 2016 and 30 June 2017, respectively.

Cash Flows

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Net cash generated from operating activities	**191,612**	91,191
Net cash used in investing activities	**(277,365)**	(107,326)
Net cash used in financing activities	**(6,851)**	(18,755)
Net decrease in cash and cash equivalents	**(92,604)**	(34,890)
Cash and cash equivalents at beginning of the period	**2,343,764**	2,309,810
Exchange (losses)/gains on cash and cash equivalents	**(50,797)**	31,612
Cash and cash equivalents at end of the period	**2,200,363**	2,306,532

Operating Activities

Net cash generated from operating activities was RMB191.6 million for the six months ended 30 June 2017 largely due to profit before income tax of RMB119.6 million, depreciation and amortization of RMB47.3 million, a decrease in trade and other receivables of RMB39.5 million, non-cash share-based compensation of RMB10.2 million, finance costs of RMB7.1 million mainly for commitment fee, and exchange loss of RMB6.0 million which includes non-cash foreign exchange translation loss of RMB5.2 million arising from the US$/HK$ denominated cash balances. These were offset by decrease in trade and other payables of RMB18.6 million, RMB15.8 million of interest paid under the New US$250 million RBL, and interest income of RMB3.4 million.

Investing Activities

Net cash used in investing activities was RMB277.4 million for the six months ended 30 June 2017 and comprised mainly of purchases of property, plant and equipment of RMB281.5 million and interest received of RMB4.0 million. The purchase of property, plant and equipment primarily comprised of payment for more wells drilled, additional valve banks, and construction of gas gathering stations and power facilities.

Financing Activities

Net cash used in financing activities was RMB6.9 million for the six months ended 30 June 2017 largely due to finance costs of RMB6.9 million for commitment fees for the unutilised portion of the New US$250 million RBL.

Cash and Bank Balances

We had cash and bank balances of RMB2,375.3 million and RMB2,231.9 million as of 31 December 2016 and 30 June 2017, respectively. Our cash and bank balances consist of cash on hand, cash at banks, and restricted bank deposits. The decrease in our cash position is largely due to purchases of property, plant and equipment. As at 31 December 2016 and 30 June 2017, we had approximately 67.2% and 81.5% of our cash and bank balances held in Hong Kong or US dollars.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit for the period, our most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest income, finance costs, exchange gains, 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 from 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 our management and by 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 ability to take on financing. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other measure of performance or as an indicator of our operating performance or profitability. EBITDA and adjusted EBITDA fail to account for income tax, exchange gains, interest income, finance costs and depreciation and amortization.

The following table presents a reconciliation of EBITDA and adjusted EBITDA to profit for the period:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Reconciliation of profit for the period to EBITDA:		
Profit for the period	**63,694**	72,407
Income tax expenses	**55,868**	39,686
Interest income	**(3,405)**	(5,038)
Finance costs	**7,078**	9,737
Exchange losses/(gains)	**5,612**	(7,563)
Depreciation and amortization	**47,279**	35,672
EBITDA	**176,126**	144,901
Non-cash share-based compensation expenses	**10,164**	19,643
Non-operation-related business development and legal consulting services expenses	**3,403**	863
Adjusted EBITDA	**189,693**	165,407

Our EBITDA increased by RMB31.2 million or 21.5%, from RMB144.9 million for the six months ended 30 June 2016 to RMB176.1 million for the six months ended 30 June 2017. This increase was primarily due to increase in net sales volume as a result of increased production, increase in ASP from RMB1.20 per cubic meter for the six months ended 30 June 2016 to RMB1.26 per cubic meter for the six months ended 30 June 2017, increase in subsidy income, decrease in employee benefit expenses as a result of decreased non-cash share-based compensation expenses, partially offset by reduction in VAT refund due to an increase of local government's share of VAT refund, increased material and electricity expenses in Panzhuang, and non-operation-related expenses related to business development and legal consulting service for the six months ended 30 June 2017.

Our adjusted EBITDA increased by RMB24.3 million, or 14.7%, from RMB165.4 million for the six months ended 30 June 2016 to RMB189.7 million for the six months ended 30 June 2017. This increase was due to the reasons explained above for the increase in EBITDA in addition to non-operations-related expenses for business development and legal consulting service included in the six months ended 30 June 2017, partially offset by decreased non-cash share-based compensation expenses for the six months ended 30 June 2017.

FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk and cash flow interest rate risk), liquidity risk and concentration risk.

The condensed consolidated interim financial information do 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 at 31 December 2016.

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

(b) Liquidity risk

Compared to 31 December 2016, 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 2017.

EMPLOYEES

As at 30 June 2017, the Company had 673 employees, with 66 based in Beijing, 601 based in Shanxi and 6 based in Hong Kong, respectively. There have been no material changes to the information disclosed in the Company's prospectus dated 11 June 2015 (the "**Prospectus**") in respect the remuneration of employees, remuneration policies and staff development.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately RMB1,506.9 million. As of 30 June 2017, RMB268.2 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 any interim dividend for the six months ended 30 June 2017.

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 end 30 June 2017. 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 of 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 2017.

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 six months ended 30 June 2017.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES AND APPOINTMENT OF CHIEF OPERATING OFFICER

During the six months ended 30 June 2017, Dr. Bo Bai has resigned as a non-executive Director of the Company, the member of each of the Remuneration Committee and New Business Committee of the Board as he would like to devote more time to his other business commitments, with effect from 28 February 2017. Mr. Saurabh Narayan Agarwal ("**Mr. Agarwal**") has been appointed as a non-executive Director, a member of each of the Remuneration Committee and New Business Committee with effect from 24 March 2017.

Between Dr. Bo Bai's resignation from the Board on 28 February 2017 and the appointment of Mr. Agarwal becoming effective on 24 March 2017, since the Remuneration Committee had consisted of only two members, the number of members of the Remuneration Committee has fallen short of the minimum number as stipulated in the terms of reference of the Remuneration Committee. The terms of reference of the Remuneration Committee had been re-complied with upon appointment of Mr. Agarwal becoming effective.

Save as disclosed above, there are no changes on the composition of the Board of Directors, the Audit Committee, the Nomination Committee, the Remuneration Committee and the New Business Committee of the Company for the six months ended 30 June 2017.

Mr. Shuxing Dong ("**Mr. Dong**") has been appointed as the chief operating officer of the Company with effect from 24 August 2017. Mr. Dong will be primarily responsible for managing the Group's operations, technical group and HSE matters, and will report to the chief executive officer of the Company. Mr. Dong had been the vice president of technology of the Company since June 2016. He has over 24 years of diversified experiences in the oil and gas industry, including conventional oil/gas reservoir, heavy oil and unconventional gas (CBM).

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. Stephen Cheuk Kin Law (chairman), Mr. Robert Ralph Parks and Mr. Gordon Sun Kan Shaw.

The Audit Committee has reviewed the unaudited condensed interim results of the Group for the six months ended 30 June 2017.

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 2017 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 2017 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
Stephen Xiangdong Zou
Chairman

Hong Kong, 24 August 2017

As of the date of this announcement, the executive Director is Stephen Xiangdong Zou; the non-executive Directors are Peter Randall Kagan, Gordon Sun Kan Shaw, Zhen Wei, Lei Jin, Guiyong Cui and Saurabh Narayan Agarwal; and the independent non-executive Directors are Yaowen Wu, Robert Ralph Parks, Stephen Cheuk Kin Law and Fredrick J. Barrett.