**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 2018

**Key Interim Highlights:**

- **HSE continued to outperform the targets with zero incident for TRIR, LTIR and PMVA for 1H2018**
- **Net profit and EBITDA surged by 223% and 109% to RMB205.7 million and RMB367.6 million, respectively**
- **Mabi generated revenues, subsidy, VAT refund and associated expenses in 1H2018 after signing of exploration phase sales contract in July 2017**
- **Panzhuang's realized ASP increased from RMB1.26 per cubic meter in 1H2017 to RMB1.53 per cubic meter in 1H2018**
- **Mabi's realized ASP increased from RMB1.13 per cubic meter in 1H2017 to RMB1.42 per cubic meter in 1H2018**
- **Gross production on track to deliver the 723 MMCM target for 2018**
  - — 1H2018 gross production reached 381 MMCM, 24% YoY increase for Panzhuang and 91% YoY increase for Mabi
  - — 1H2018 daily production reached 2.11 MMCM per day for the first half year, 30% YoY increase
- **29 SLH and 6 PDW wells were drilled in Panzhuang in 1H2018 with stable low cost, but Mabi's 2018 drilling program was postponed due to change of expected time for Mabi ODP I approval**
- **Mabi ODP I approval process resumed in June 2018 using the NDRC Approval Process while waiting for the new NDRC Filing Process to be in place. Final approval for Mabi ODP I expected in late 2018**
- **AAG's combined 2018 capital expenditures for Panzhuang and Mabi revised down to RMB490 million given Mabi ODP I submitted to NDRC in June 2018 to apply for ODP approval using NDRC Approval Process**

## FINANCIAL SUMMARY

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Revenue | **430,501** | 225,631 |
| Other income | **123,809** | 84,844 |
| Profit from operations | **290,939** | 128,847 |
| EBITDA | **367,554** | 176,126 |
| Adjusted EBITDA | **380,068** | 189,693 |
| Profit for the period | **205,698** | 63,694 |
| Basic earnings per share (RMB) | **0.062** | 0.019 |
| Diluted earnings per share (RMB) | **0.061** | 0.019 |

| | As at | As at |
|---|---|---|
| | **30 June** | 31 December |
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Property, plant and equipment | **3,601,752** | 3,504,437 |
| Cash and bank balances | **2,120,175** | 2,274,633 |
| Total assets | **6,302,314** | 6,132,689 |
| Total equity | **5,116,968** | 4,950,345 |

## 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 2018, together with the comparative figures for the same period last year as follows:

## BUSINESS REVIEW AND PROSPECTS

2018 has been an excellent year for AAG so far. China's total gas consumption was up 15% to 134.5 billion cubic meters ("**bcm**") for the first half of 2018 ("**1H2018**") compared to the first half of 2017 ("**1H2017**") according to SIA Energy, an independent China-focused oil and gas consulting firm. We are very pleased to report that due to the strong demand for gas in China and the government's policy/efforts for coal-to-gas conversion, our realized average selling price ("**realized ASP**")[1] in Panzhuang and Mabi have increased substantially in 1H2018 compared to 1H2017.

*Note 1:* Please refer to Management Discussion and Analysis — Review of Operating Results notes 5 and 4 for definition of "Realized average selling price" and "Average selling price", respectively.

During 1H2018, the Group's gross gas production increased by 30% to 381.2 million cubic meters ("**MMCM**") (13.5 billion cubic feet ("**bcf**") (comprising Panzhuang's gross production of 331.3 MMCM or 11.7 bcf and Mabi's gross production of 49.9 MMCM or 1.8 bcf) compared with 1H2017.

Due to increased demand for gas, Panzhuang's realized ASP increased from RMB1.26 per cubic meter ("**cm**") in 1H2017 to RMB1.53 per cubic meter in 1H2018, and Mabi's realized ASP increased from RMB1.13 per cubic meter in 1H2017 to RMB1.42 per cubic meter in 1H2018.

The combination of improved performance of existing production wells from operation efficiency, new wells drilled in Panzhuang during 2017 and 2018, and better well design, implementation and performance in Mabi led to increased production output in 1H2018. We expect production in the second half of 2018 ("**2H2018**") will be greater than production in 1H2018 subject to anticipated project execution and related government approval.

Revenue in 1H2018 increased by 90.8% to RMB430.5 million compared with 1H2017. Net profit in 1H2018 surged by 222.9% to RMB205.7 million. EBITDA in 1H2018 surged by 108.7% to RMB367.6 million.

The Group has achieved considerable progress towards certain key operational objectives during 1H2018:

- **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 Injury Rate ("**TRIR**")*, Lost Time Injury Rate ("**LTIR**")*, and Preventable Motor Vehicle Accident ("**PMVA**")* were all zero during 1H2018, showing the importance we place for HSE.

  * 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, to the best of our knowledge, both with the highest producing CBM wells in China and as the lowest cost CBM producer in the Qinshui Basin. 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 24% in 1H2018 to 331.3 MMCM (11.7 bcf), compared with 1H2017. Sales utilization rate maintained at high level of 98% in 1H2018. Daily average gas production during 1H2018 was 1.83 MMCM per day ("**MMCMD**") (64.6 million cubic feet ("**mmcf**")/day) compared to 1.47 MMCMD (52.0 mmcf/day) in 1H2017.

The Panzhuang 2018 work plan focuses on increasing production growth while keeping costs competitive. In 1H2018, we are ahead of schedule with 29 single lateral horizontal ("**SLH**") wells and 6 pad drilled wells ("**PDW**") completed drilling and we fracture stimulated 5 PDWs. In 1H2018, we added 29 wells into production in Panzhuang after dewatering or other work over activities. The average drilling cost for 1 SLH well in 1H2018 remained low at RMB2.9 million per well with wells drilled in just 16 days on average.

The current production capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 6 gas gathering stations, 20 wellhead compressors, 62 km of trunk links and 91 km of single well pipelines completed. We have completed the upgrade work for central gathering station, which enable us to supply gas with higher pressure. There is a 35KV power facility construction in progress.

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有限公司**, "**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 2018, 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 1H2018, Mabi produced 49.9 MMCM (1.8 bcf), a 91% YoY increase. Average daily production in Mabi was 276 thousand cubic meters per day ("**MCMD**") (9.75 mmcf/day) for 1H2018.

In Mabi, AAG completed hydraulic fracturing completion for 24 wells in 1H2018, and put 57 wells into pilot production, including 9 wells in northern Mabi previously for exploration purpose. In total, there are 184 wells in pilot production as of the end of June 2018. Due to the delay in Mabi ODP I regulatory approval, AAG did not drill any new wells in Mabi in 1H2018. Based on the recent success of Mabi pilot production performance 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**

  As stated in 2017 annual report, Mabi concession has been going through major exploration and appraisal program and achieved reasonable resources assessment. The exploration focus has been moving towards field development preparation. At the same time, the abandonment work for exploration well has been carried out.

  In 2018, Mabi concession carried out abandonment work for a total of 44 exploration wells. The site land reclamation work of 14 exploration wells has been completed in 1H2018.

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

| **1H2018 update*** | **1H 2018** | 1H 2017 | % change | 2017 Total |
|---|---|---|---|---|
| Total gross production (MMCM) | **381.2** | 292.8 | 30% | 629.9 |
| Total average daily production (MMCMD) | **2.11** | 1.62 | 30% | 1.72 |
| PZ gross production (MMCM) | **331.3** | 266.7 | 24% | 571.6 |
| PZ Multi Lateral Drill (MLD) | **132.4** | 182.4 | –27% | 340.9 |
| PZ SLH | **181.8** | 73.2 | 148% | 205.7 |
| PZ PDW | **17.1** | 11.2 | 53% | 25.0 |
| Total PZ producing wells** | **176** | 118 | 49% | 147 |
| PZ MLD | **49** | 48 | 2% | 49 |
| PZ SLH | **104** | 54 | 93% | 79 |
| PZ PDW | **23** | 16 | 44% | 19 |
| PZ wells drilled | **35** | 23 | 52% | 55 |
| PZ wells fracked | **5** | 3 | 67% | 6 |
| MB gross production (MMCM) | **49.9** | 26.1 | 91% | 58.3 |
| MB SLH | **15.4** | 8.8 | 75% | 23.8 |
| MB PDW | **34.5** | 17.2 | 101% | 34.4 |
| Total MB producing wells** | **184** | 93 | 98% | 127 |
| MB SLH | **16** | 10 | 60% | 10 |
| MB PDW | **168** | 82 | 105% | 116 |
| MB wells drilled | **–** | 16 | –100% | 67 |
| MB wells fracked | **24** | 6 | 300% | 56 |

* Operations update as of June 30, 2018, 08:00 CST

** Well count is calculated from pumping start date

- **Mabi ODP I Progress — Improved Certainty on Timing**

  Since the State Council published the announcement in early 2017 saying that all Sino-foreign CBM Overall Development Plans would no longer require approval from National Development and Reform Commission ("**NDRC**") but go through the NDRC Filing Process to obtain approval for Overall Development Plans, we have been waiting for the requirements and procedures to obtain ODP approval using the NDRC Filing Process. However, up to now, such requirements and procedures for the NDRC Filing Process have still not been issued. Based on recent discussions with our partner, CNPC, and its communication with NDRC, AAG and CNPC jointly decided to go through the NDRC Approval Process given that Mabi has been waiting for the requirements and procedures for NDRC Filing Process since early 2017. In June 2018, CNPC submitted Mabi ODP I to the NDRC to commence the NDRC Approval Process. As a result of this change, we expect to obtain the approval from NDRC for Mabi ODP I by end of 2018 and be able to start the scaled development of ODP I in 2019.

  The following table is the summary of the expenditures incurred in our exploration, development and production activities for 1H2018.

| *(thousands of RMB)* | **Exploration expenditures** | **Development expenditures** | **Production operating expenditures** |
|---|---|---|---|
| Panzhuang | 1,882 | 122,421 | 119,249 |
| Mabi | 10,444 | 94,429 | 45,846 |
| **Total** | 12,326 | 216,850 | 165,095 |

## OUTLOOK FOR THE SECOND HALF OF 2018

For 2H2018, we are pleased to present updated guidance below:

- **Panzhuang**

  We are confident to complete the 2018 drilling plan of 49 SLH and 12 PDW wells. The new wells to be drilled in 2H2018 will contribute to production from 2019. Surface facilities investments will include the further power station construction and related trunk line construction for future development.

  We expect production in 2H2018 will be greater than production in 1H2018 subject to anticipated project execution and related government approval.

- **Mabi**

In light of the above Mabi ODP I progress, the Group has revised the 2018 capital expenditure plan ("**CAPEX**") from the original RMB570 million down to RMB170 million and will continue to focus on the preparation of scaled commercial development, including fine tuning the implementation plan, and continue drilling and completion in core development zone. In 2H2018, we plan to drill 39 PDW wells and perform 5 well completion works. The facility and surface engineering work in 2H2018 includes the preparation of well pads, the preparation and approval of the forest and land, and the preliminary design of station, power and export pipeline.

Regardless of the change in Mabi's CAPEX plan, it is not expected that there will be significant changes in our expected production target for Mabi in 2018 as most production is expected to be contributed from existing 184 producing wells. The Group's full year gross production expectation for Mabi remains 97.3 MMCM (3.4 bcf) subject to anticipated project execution, especially the optimization of existing wells and facilities, and related government approvals.

Based on the above development plan for Panzhuang and Mabi, the Group's 2018 planned CAPEX will decrease from the original plan of approximately RMB890 million (comprising approximately RMB320 million in Panzhuang and RMB570 million in Mabi), to approximately RMB490 million (comprising approximately RMB320 million for Panzhuang and RMB170 million for Mabi). We have incurred a net CAPEX of RMB229.2 million in 1H2018. The remaining CAPEX for 2H2018 will be funded by internal cashflows or a portion of proceeds from the initial public offering of the Company ("**IPO**").

As stated above, due to the strong demand for gas in China and the government's policy/efforts for coal-to-gas conversion, our realized ASP in Panzhuang and Mabi have increased substantially in 1H2018 compared to 1H2017. We expect this strong gas price environment to continue for the rest of 2018.

Besides the government's coal-to-gas policy, NDRC introduced a Circular on Fine-turing the City-Gate Gas Price of Natural Gas Used for Residential Purpose (Fa Gai Price Gui 2018 No. 794) (國家發展改革委員會關於理順居民用氣門站價格的通知（發改價格規2018794號)) in late May 2018 to merge the two-tier gas pricing mechanism of residential-use gas prices together with non-residential-use gas prices in China. This will further improve expected gas prices in China. In the past, China had a two-tier gas pricing policy where residential-use gas was priced significantly lower than non-residential-use gas. The city-gate gas distributors negotiate gas price with gas suppliers based on the expected mix of residential users versus non-residential users in that city. As a result, the gas price negotiated with city-gate distributors is a blended gas price comprising residential and non-residential users. With the merge of two-tier gas pricing mechanism, the blended gas price used for negotiation between gas supplier and city-gate gas distributors will gradually increase. Bringing residential-use gas prices up to the level of non-residential gas price at each provincial-gate, provides another stimulus to increase gas price in the coming quarters. Moreover, with international oil prices trading around US$70/bbl, the spot Liquefied Natual Gas ("**LNG**") import price (which is linked to international oil price) plus transmission costs to Henan and Shanxi (being markets that we sell our gas to) will be even less competitive compared to the cost of our gas. It is the Company's belief that gas use promotion policy and environmental protection will continue to be resilient growth drivers in the medium and long term.

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 and realize good return to our shareholders.

**LIMING PARTIAL OFFER UPDATE**

On 14 May 2018, Liming Holding Limited ("**Liming**"), an indirect wholly owned subsidiary of Xinjiang Xintai Natural Gas Co., Ltd., a company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 603393), announced ("**Announcement**") it will make a voluntary conditional partial cash offer to acquire a maximum of 1,692,295,936 shares (representing approximately 50.5% of the shares in issue as at that date) or such higher number of shares representing 50.5% of the shares in issue as at the final closing date (including any shares for which a valid notice of exercise has been delivered in respect of an option on or after that date and on or before the final closing date) at the offer price of HK$1.75 per share and, pursuant to Rule 13.1 of The Codes on Takeovers and Mergers and Share Repurchases ("**Takeovers Code**"), extend an appropriate offer to cancel or acquire (as applicable) a maximum of 100,956,224 options and 20,444,228 restricted share unit ("**RSU**") shares (representing approximately 50.5% of the outstanding options and RSU shares, respectively, as at that date). On that date, each of WP China and Baring (each being an existing shareholder of the Company holding approximately 25.21% and 20.56%, respectively, of the issued share capital of the Company as at that date) gave an irrevocable undertaking to Liming that it will (i) tender all the shares held by it for acceptance of the partial offer and (ii) approve the partial offer in respect of all the shares held by it.

On 2 August 2018, Liming announced that it had received (i) valid acceptances of the partial offer in respect of 2,552,902,846 shares, representing approximately 76.18% of the issued share capital of the Company as at the date of the Announcement (or approximately 76.16% of the issued share capital of the Company as at 2 August 2018), (ii) 181,086,246 valid acceptances in respect of the option offer, and (iii) 28,163,423 valid acceptances in respect of the RSU offer. The partial offer had been approved by shareholders holding 2,374,511,706 shares, representing approximately 70.83% of the issued share capital of the Company as at that date. Liming further announced that as at 2 August 2018, all the conditions for the partial offer have been fulfilled and that the partial offer has become unconditional in all respects.

On 16 August 2018, being the final closing date, Liming announced that it had received (i) valid acceptances of the partial offer in respect of 2,758,498,386 shares, representing approximately 82.3% of the issued share capital of the Company as at the date of the Announcement (or approximately 82.3% of the issued share capital of the Company as at 16 August 2018), (ii) 194,462,080 valid acceptances in respect of the option offer, and (iii) 36,116,793 valid acceptances in respect of the RSU offer. Pursuant to the terms of the partial offer, Liming will take up 1,692,871,886 shares at HK$1.75 per share. Pursuant to the terms of the option offer and RSU offer, Liming also will take up and cancel 100,323,140 options and 20,154,383 RSUs at HK$0.5647 per option and HK$1.75 per RSU, respectively.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *6* | **430,501** | 225,631 |
| Other income | *7* | **123,809** | 84,844 |
| Other (losses)/gains, net | | **(26)** | 142 |
| **Operating expenses** | | | |
| Depreciation and amortisation | | **(76,615)** | (47,279) |
| Employee benefit expenses | | **(78,534)** | (65,761) |
| Materials, services and logistics | | **(95,337)** | (57,493) |
| Others | | **(12,859)** | (11,237) |
| **Total operating expenses** | | **(263,345)** | (181,770) |
| **Profit from operations** | | **290,939** | 128,847 |
| Interest income | *8* | **11,923** | 3,405 |
| Finance costs | *8* | **(5,497)** | (7,078) |
| Exchange losses | *8* | **(8,222)** | (5,612) |
| **Finance costs, net** | | **(1,796)** | (9,285) |
| **Profit before income tax** | | **289,143** | 119,562 |
| Income tax expense | *10* | **(83,445)** | (55,868) |
| **Profit attributable to owners of the Company for the period** | | **205,698** | 63,694 |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Currency translation differences | | **15,683** | (37,074) |
| **Total comprehensive income attributable to owners of the Company for the period** | | **221,381** | 26,620 |
| **Earnings per share (RMB)** | | | |
| — Basic | *15* | **0.062** | 0.019 |
| — Diluted | *15* | **0.061** | 0.019 |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

| | Note | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,601,752** | 3,504,437 |
| Land use rights | | **11,841** | 11,982 |
| Intangible assets | | **40,221** | 39,832 |
| Restricted bank deposits | *12* | **37,663** | 37,663 |
| Other non-current assets | | **1,123** | 1,434 |
| | | **3,692,600** | 3,595,348 |
| **Current assets** | | | |
| Inventories | | **2,796** | 2,444 |
| Trade and other receivables | *11* | **524,406** | 297,927 |
| Cash and cash equivalents | *12* | **2,082,512** | 2,236,970 |
| | | **2,609,714** | 2,537,341 |
| **Total assets** | | **6,302,314** | 6,132,689 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **2,051** | 2,041 |
| Capital surplus | | **4,730,255** | 4,769,340 |
| Retained earnings | | **384,662** | 178,964 |
| **Total equity** | | **5,116,968** | 4,950,345 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Asset retirement obligations | | **14,983** | 14,609 |
| Borrowings | *13* | **569,846** | 513,593 |
| Deferred income tax liabilities | | **277,660** | 232,080 |
| | | **862,489** | 760,282 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | **303,689** | 396,953 |
| Current income tax liabilities | | **19,168** | 25,109 |
| | | **322,857** | 422,062 |
| **Total liabilities** | | **1,185,346** | 1,182,344 |
| **Total equity and liabilities** | | **6,302,314** | 6,132,689 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | Note | Six months ended 30 June 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | | **137,225** | 207,384 |
| Interest paid | | **(18,071)** | (15,765) |
| Income tax paid | | **(43,805)** | (7) |
| Net cash generated from operating activities | | **75,349** | 191,612 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment and intangible assets | | **(229,417)** | (281,479) |
| Proceeds from disposal of property, plant and equipment | | **36** | 112 |
| Interest received | | **13,310** | 4,002 |
| Net cash used in investing activities | | **(216,071)** | (277,365) |
| **Cash flows from financing activities** | | | |
| Proceeds from exercise of options | | **1,546** | 62 |
| Proceeds from borrowings | | **44,489** | – |
| Finance costs paid | | **(4,724)** | (6,913) |
| Dividends paid | | **(67,943)** | – |
| Net cash used in financing activities | | **(26,632)** | (6,851) |
| **Net decrease in cash and cash equivalents** | | **(167,354)** | (92,604) |
| Cash and cash equivalents at beginning of the period | *12* | **2,236,970** | 2,343,764 |
| Exchange gains/(losses) on cash and cash equivalents | *12* | **12,896** | (50,797) |
| **Cash and cash equivalents at end of the period** | | **2,082,512** | 2,200,363 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six months ended 30 June 2018*

### 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 ("**PetroChina**") (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. Asian American Gas Inc. ("**AAGI**") and PetroChina entered into exploration phase sales contract with effect from 1 July 2017. As at 30 June 2018, 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 report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 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.

#### (a) New and amended standards adopted by the Group

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

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies.

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

***(i) HKFRS 16 Leases***

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised 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 recognised. 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 RMB 11,764,000. 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. The Group does not intend to adopt the standard before its effective date.

## 4. CHANGES IN ACCOUNTING POLICIES

This Note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

**(a) HKFRS 9 Financial Instruments**

***Impact of adoption***

The new impairment model under HKFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and notes receivables. To measure the expected credit losses, the Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience. Management considers that the expected credit loss is close to zero and the adoption of HKFRS 9 has no impact on the recognition of impairment.

***Accounting policies***

The Company has financial assets subject to HKFRS 9's new expected credit loss model:

- trade receivables,
- notes receivables, and
- other receivables (excluding prepayments)

For trade and notes receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade and notes receivables.

The other receivables (excluding prepayments) of the Group are considered to have low credit risks since the majority are due from government and Chinese partners. Based on management assessment, no impairment provision should be recognised.

**(b) HKFRS 15 Revenue from Contracts with Customers**

***Impact of adoption***

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted this standard using the modified retrospective approach which means that the cumulative impact of the adoption shall be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. The Group has assessed the effects of applying the new standard and found no cumulative impact of the adoption on retained earnings.

***Accounting policies***

*Sales of gas*

The Group produces and sells gas. Sales of gas are recognised when the gas is delivered to the customers. The amount of revenue covers directly attributable costs and is allocated based on the terms of the PSCs and gas sales agreements.

## 5. 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 2018 is as follows:

| | Panzhuang concession *RMB'000* | Mabi concession *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **(Unaudited)** | | | |
| **For the six months ended 30 June 2018** | | | |
| Revenue from external customers | **367,638** | **62,863** | **430,501** |
| EBITDA | **385,641** | **24,284** | **409,925** |
| Other income | **105,228** | **18,581** | **123,809** |
| Operating expenses | **(148,102)** | **(71,073)** | **(219,175)** |
| Depreciation and amortisation | **(60,985)** | **(13,833)** | **(74,818)** |
| Interest income | **3,139** | **117** | **3,256** |
| Finance costs | **(5,279)** | **(218)** | **(5,497)** |
| Exchange gains/(losses) | **2,216** | **(5,121)** | **(2,905)** |
| Income tax expense | **(83,445)** | **–** | **(83,445)** |
| **(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) |

| | Panzhuang concession *RMB'000* | Mabi concession *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **(Unaudited)** | | | |
| **As at 30 June 2018** | | | |
| Total assets | **2,391,436** | **2,298,259** | **4,689,695** |
| Total liabilities | **527,349** | **78,426** | **605,775** |
| Additions to non-current assets (other than deferred income tax assets) | **52,969** | **44,699** | **97,668** |
| **(Audited)** | | | |
| **As at 31 December 2017** | | | |
| Total assets | 2,141,264 | 2,282,764 | 4,424,028 |
| Total liabilities | 507,976 | 145,908 | 653,884 |
| Additions to non-current assets (other than deferred income tax assets) | 163,208 | 157,108 | 320,316 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Total EBITDA for reportable segments** | **409,925** | 222,480 |
| Headquarter overheads | **(42,371)** | (46,354) |
| Depreciation and amortisation | **(76,615)** | (47,279) |
| Interest income | **11,923** | 3,405 |
| Finance costs | **(5,497)** | (7,078) |
| Exchange losses | **(8,222)** | (5,612) |
| Profit before income tax | **289,143** | 119,562 |

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

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Total segment assets | **4,689,695** | 4,424,028 |
| **Unallocated** | | |
| Unallocated cash and cash equivalents | **1,607,158** | 1,703,240 |
| Others | **5,461** | 5,421 |
| Total assets per balance sheet | **6,302,314** | 6,132,689 |

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

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Total segment liabilities | **605,775** | 653,884 |
| **Unallocated** | | |
| Unallocated long term borrowings | **569,846** | 513,593 |
| Others | **9,725** | 14,867 |
| Total liabilities per balance sheet | **1,185,346** | 1,182,344 |

## 6. REVENUE

All the Group's revenue is derived through the sale of the Group's share of CBM sold to customers in the PRC.

The revenue of 2018 is presented in accordance with HKFRS15. The Group applied the new revenue standard using the modified retrospective approach on revenue, which covers directly attributable costs. Given that the Group is required to pay its service providers but charge its customers for these directly attributable costs, the new revenue standard has no significant impact on the Group's financial results.

## 7. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| VAT refund (a) | **34,169** | 22,252 |
| Government subsidy (b) | **89,640** | 62,592 |
| | **123,809** | 84,844 |

(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》) at RMB0.3 per cubic meter of the CBM sold. CUCBM and PetroChina apply for the subsidy for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

## 8. FINANCE COSTS, NET

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expense of bank borrowings | **(22,754)** | (19,476) |
| Bank loan commitment fee | **(5,188)** | (6,813) |
| Accretion expenses of asset retirement obligations | **(309)** | (265) |
| Subtotal | **(28,251)** | (26,554) |
| Less: amounts capitalised on qualifying assets | **22,754** | 19,476 |
| Finance costs | **(5,497)** | (7,078) |
| Interest income | **11,923** | 3,405 |
| Exchange losses | **(8,222)** | (5,612) |
| Finance costs, net | **(1,796)** | (9,285) |

## 9. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Operating lease rental expenses | **7,566** | 6,468 |

## 10. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | **(37,865)** | (12,997) |
| Deferred income tax | **(45,580)** | (42,871) |
| | **(83,445)** | (55,868) |

(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.

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 under the International Business Companies Acts of the Samoa, is exempted from payment of local income tax.

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

(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 | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit before income tax | **289,143** | 119,562 |
| Tax expense calculated at statutory tax rates | **(72,942)** | (60,201) |
| (Current period)/utilization of previously deductible temporary differences for which no deferred income tax asset was recognised | **(5,639)** | 6,580 |
| Expenses not deductible for taxation purposes | **(1,012)** | (1,016) |
| Others | **(3,852)** | (1,231) |
| Income tax expense | **(83,445)** | (55,868) |

## 11. TRADE AND OTHER RECEIVABLES

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables (a) | | |
| — CUCBM | **94,394** | 10,769 |
| — PetroChina | **60,773** | 10,503 |
| — external customers | **22,838** | 80,008 |
| Subtotal | **178,005** | 101,280 |
| Notes receivable (b) | **31,000** | 32,600 |
| Government grants receivables (c) | | |
| — Government | **193,892** | 70,084 |
| — CUCBM | **20,938** | 20,938 |
| — PetroChina | **4,432** | 4,432 |
| Due from CUCBM for cash calls and accrued expenses (d) | **75,996** | 54,642 |
| Prepaid expenses, deposits and others | **20,143** | 21,148 |
| | **524,406** | 305,124 |
| Less: provision for impairment | **–** | (7,197) |
| | **524,406** | 297,927 |

**(a) Trade receivables**

(i) The ageing analysis of trade receivables:

| | **As at 30 June 2018** *RMB'000* **(Unaudited)** | As at 31 December 2017 *RMB'000* (Audited) |
|---|---|---|
| Within 3 months | **146,196** | 67,514 |
| 3 months to 6 months | **21,306** | 20,510 |
| 6 months to 1 year | **10,503** | 6,059 |
| Over 3 years | **–** | 7,197 |
| | **178,005** | 101,280 |
| Provision | **–** | (7,197) |
| | **178,005** | 94,083 |

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

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

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

(ii) Trade receivables past due but not impaired

As at 30 June 2018, trade receivables of approximately RMB73,708,000 (31 December 2017: RMB72,811,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | **As at 30 June 2018** *RMB'000* **(Unaudited)** | As at 31 December 2017 *RMB'000* (Audited) |
|---|---|---|
| Past due but not impaired | | |
| Over credit term but within 3 months | **41,899** | 46,242 |
| 3 months to 6 months | **21,306** | 20,510 |
| 6 months to 1 year | **10,503** | 6,059 |
| | **73,708** | 72,811 |

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

(iii) Movement of bad debt provision:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Beginning of the period | **7,197** | 7,197 |
| Write-off | **(7,197)** | – |
| End of the period | **–** | 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 and PetroChina.

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

**(e)** As at 30 June 2018, the carrying amounts of trade and other receivables approximated their fair values.

## 12. CASH AND BANK BALANCES

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Cash and cash equivalents | | |
| — Cash at banks | **2,082,512** | 2,236,970 |
| Restricted bank deposits (a) | **37,663** | 37,663 |
| | **2,120,175** | 2,274,633 |

(a) As at 30 June 2018, restricted bank deposits represented land restoration deposits for Panzhuang and Mabi concessions.

## 13. BORROWINGS

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Bank loans, secured | | |
| Between 2 and 5 years | **569,846** | 513,593 |
| Annual interest rate | **LIBOR+4.15%** | LIBOR+4.15% |
| Annual effective interest rate | **7.21%** | 7.15% |

As at 30 June 2018 and 31 December 2017, 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 are analysed as follows:

| | *RMB'000* |
|---|---|
| **Six months ended 30 June 2018 (Unaudited)** | |
| Opening balance as at 1 January 2018 | **513,593** |
| Addition | **44,489** |
| Amortisation of financing costs | **3,333** |
| Currency translation differences | **8,431** |
| **Closing balance as at 30 June 2018** | **569,846** |
| **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 |

The Group has the following undrawn borrowing facility:

| | **As at 30 June 2018** *US$'000* **(Unaudited)** | As at 31 December 2017 *US$'000* (Audited) |
|---|---|---|
| Expiring beyond 1 year | **86,000** | 118,000 |

The US$250 million borrowing facility commenced 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 at 1 July 2018, the maximum borrowing facility amount was reduced to US$150 million, and accordingly, the undrawn borrowing facility amount as at that date was reduced to US$61 million.

Under the terms of prepayment and cancellation in the facility agreement, there is a clause for prepayment upon change of control. If the majority lenders require the Group to prepay all outstanding loans, the Group shall prepay the borrowings and the total facility will be cancelled.

Under the terms of the borrowing facility, it will constitute an event of default, among others, if (i) Dr. Zou, the chairman of the board of the Company (the "Chairman"), holds (whether directly or indirectly or by way of a trust) less than 25% of the issued share capital of the Company that Dr. Zou holds (whether directly or indirectly or by way of a trust) as at 8 July 2015, representing approximately 1.45% of the issued share capital of the Company; or (ii) at any time, Dr. Zou ceases to be the Chairman. Upon and at any time after occurrence of an event of default, the majority lenders may, among other actions, immediately cancel all commitments and declare any or all outstanding amounts under the borrowing facility and the relevant financing documents together with interest accrued thereon to be immediately due and payable.

Under the terms of the borrowing facility, the Group is required to comply with the following financial covenant: the ratio of net debt to net assets as defined in the borrowing agreement must be not more than 67%. The Group has complied with this covenant throughout the reporting period. As at 30 June 2018, the balance of cash and cash equivalents exceeds the balance of bank borrowings.

As at 30 June 2018, the fair value of borrowings approximated to RMB570 million (31 December 2017: RMB514 million). The fair value is within level 2 hierarchy.

## 14. TRADE AND OTHER PAYABLES

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **270,947** | 350,956 |
| Amounts due to related parties | | |
| — CUCBM | **1,000** | 1,000 |
| — PetroChina | **7,574** | 9,243 |
| Social securities and other payables | **24,168** | 35,754 |
| | **303,689** | 396,953 |

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

At 30 June 2018, the ageing analysis of the trade payables based on invoice date were as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 6 months | **155,904** | 205,987 |
| 6 months to 1 year | **56,345** | 59,960 |
| 1 to 2 years | **39,626** | 56,339 |
| 2 to 3 years | **9,003** | 12,205 |
| Over 3 years | **10,069** | 16,465 |
| | **270,947** | 350,956 |

(b) As at 30 June 2018, the carrying amounts of trade and other payables approximated their fair values.

## 15. 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 2018 and 2017.

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to owners of the Company *(RMB'000)* | **205,698** | 63,694 |
| Weighted average number of ordinary shares in issue *(Thousands)* | **3,341,714** | 3,330,578 |
| Basic earnings per share *(RMB)* | **0.062** | 0.019 |

### (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 | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to owners of the Company *(RMB'000)* | **205,698** | 63,694 |
| Weighted average number of ordinary shares in issue *(Thousands)* | **3,341,714** | 3,330,578 |
| Adjustments for assumed conversion of share options and RSUs *(Thousands)* | **44,442** | 24,688 |
| Weighted average number of ordinary shares for diluted earnings per share *(Thousands)* | **3,386,156** | 3,355,266 |
| Diluted earnings per share *(RMB)* | **0.061** | 0.019 |

## 16. DIVIDENDS

A dividend in respect of the year ended 31 December 2017 of HK$83,106,810 has been proposed at the annual general meeting on 8 May 2018, and was paid on 21 June 2018.

## 17. RECLASSIFICATION

Certain comparative information has been reclassified to conform with the presentation of the financial information for the current period.

## 18. SUBSEQUENT EVENTS

On 14 May 2018, Liming, an indirect wholly owned subsidiary of Xinjiang Xintai Natural Gas Co., Ltd., a company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 603393), announced ("**Announcement**") it will make a voluntary conditional partial cash offer to acquire a maximum of 1,692,295,936 shares (representing approximately 50.5% of the shares in issue as at that date) or such higher number of shares representing 50.5% of the shares in issue as at the final closing date (including any shares for which a valid notice of exercise has been delivered in respect of an option on or after that date and on or before the final closing date) at the offer price of HK$1.75 per share and, pursuant to Rule 13.1 of the Takeovers Code, extend an appropriate offer to cancel or acquire (as applicable) a maximum of 100,956,224 options and 20,444,228 RSU shares (representing approximately 50.5% of the outstanding options and RSU shares, respectively, as at that date). On that date, each of WP China and Baring (each being an existing shareholder of the Company holding approximately 25.21% and 20.56%, respectively, of the issued share capital of the Company as at that date) gave an irrevocable undertaking to Liming that it will (i) tender all the shares held by it for acceptance of the partial offer and (ii) approve the partial offer in respect of all the shares held by it.

On 2 August 2018, Liming announced that it had received (i) valid acceptances of the partial offer in respect of 2,552,902,846 shares, representing approximately 76.18% of the issued share capital of the Company as at the date of the Announcement (or approximately 76.16% of the issued share capital of the Company as at 2 August 2018), (ii) 181,086,246 valid acceptances in respect of the option offer, and (iii) 28,163,423 valid acceptances in respect of the RSU offer. The partial offer had been approved by shareholders holding 2,374,511,706 shares, representing approximately 70.83% of the issued share capital of the Company as at that date. Liming further announced that as at 2 August 2018, all the conditions for the partial offer have been fulfilled and that the partial offer has become unconditional in all respects.

On 16 August 2018, being the final closing date, Liming announced that it had received (i) valid acceptances of the partial offer in respect of 2,758,498,386 shares, representing approximately 82.3% of the issued share capital of the Company as at the date of the Announcement (or approximately 82.3% of the issued share capital of the Company as at 16 August 2018), (ii) 194,462,080 valid acceptances in respect of the option offer, and (iii) 36,116,793 valid acceptances in respect of the RSU offer. Pursuant to the terms of the partial offer, Liming will take up 1,692,871,886 shares at HK$1.75 per share. Pursuant to the terms of the option offer and RSU offer, Liming will take up and cancel 100,323,140 options and 20,154,383 RSUs at HK$0.5647 per option and HK$1.75 per RSU, respectively.

According to the RSU scheme adopted by the Company, when a general offer is made to all the shareholders of the Company and such general offer is approved and the offer becomes or is declared unconditional in all respects, all unvested RSUs will vest immediately. The vesting of the awards will result in the recognition of share based compensation of approximately RMB23 million and an additional 9,636,430 shares being issued in August 2018.

According to the change of control and event of default clauses of the facility agreement disclosed in Note 13, if the majority lenders required, the Company shall prepay the borrowings and, as a result, recognise the unamortised capitalised arrangement fee of approximately RMB18 million in the consolidated statement of comprehensive income.

## MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATING RESULTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | **430,501** | **225,631** |
| — Panzhuang | **367,638** | 225,631 |
| — Mabi | **62,863** | – |
| **Subsidy income** | **89,640** | **62,592** |
| — Panzhuang | **77,680** | 62,592 |
| — Mabi | **11,960** | – |
| **VAT refund** | **34,169** | **22,252** |
| — Panzhuang | **27,548** | 22,252 |
| — Mabi | **6,621** | – |
| **Other (losses)/gains, net** | **(26)** | 142 |
| **Operating expenses** | ***(263,345)*** | *(181,770)* |
| Depreciation and amortization | **(76,615)** | (47,279) |
| Employee benefit expenses | **(78,534)** | (65,761) |
| Materials, services and logistics | **(95,337)** | (57,493) |
| Others | **(12,859)** | (11,237) |
| *Panzhuang* | ***(148,102)*** | *(107,137)* |
| Depreciation and amortization | **(60,985)** | (42,183) |
| Employee benefit expenses | **(23,361)** | (24,722) |
| Materials, services and logistics | **(58,297)** | (35,311) |
| Others | **(5,459)** | (4,921) |
| *Mabi* | ***(71,073)*** | *(26,239)* |
| Depreciation and amortization | **(13,833)** | (3,056) |
| Employee benefit expenses | **(24,778)** | (12,041) |
| Materials, services and logistics | **(27,718)** | (8,055) |
| Others | **(4,744)** | (3,087) |
| *Headquarters* | ***(44,170)*** | *(48,394)* |
| Depreciation and amortization | **(1,797)** | (2,040) |
| Employee benefit expenses | **(30,395)** | (28,998) |
| Materials, services and logistics | **(9,322)** | (14,127) |
| Others | **(2,656)** | (3,229) |
| **EBITDA** | **367,554** | 176,126 |
| — Panzhuang | **385,641** | 245,584 |
| — Mabi | **24,284** | (23,104) |
| **Profit from operations** | **290,939** | 128,847 |
| Interest income | **11,923** | 3,405 |
| Finance costs | **(5,497)** | (7,078) |
| Exchange losses | **(8,222)** | (5,612) |
| **Finance costs-net** | **(1,796)** | (9,285) |
| **Profit before income tax** | **289,143** | 119,562 |
| Income tax expense | **(83,445)** | (55,868) |
| **Profit for the period** | **205,698** | 63,694 |

Set out below are the production, sales, ASP, ARSP, revenue and realized revenue.

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| Gross production volume (bcf) [1] | **13.5** | 10.3 |
| *Panzhuang* | ***11.7*** | *9.4* |
| *Mabi* | ***1.8*** | *0.9* |
| Gross production volume (mmcm) [1] | **381.2** | 292.8 |
| *Panzhuang* | ***331.3*** | *266.7* |
| *Mabi* | ***49.9*** | *26.1* |
| Gross sales volume (bcf) [2] | **11.4** | 8.6 |
| *Panzhuang* | ***10.1*** | *7.9* |
| *Mabi* | ***1.3*** | *0.7* |
| Gross sales volume (mmcm) [2] | **324.9** | 243.2 |
| *Panzhuang* | ***287.3*** | *224.6* |
| *Mabi* | ***37.6*** | *18.6* |
| Net sales volume (bcf) [3] | **9.3** | 6.9 |
| *Panzhuang* | ***8.1*** | *6.3* |
| *Mabi* | ***1.2*** | *0.6* |
| Net sales volume (mmcm) [3] | **265.0** | 197.1 |
| *Panzhuang* | ***229.8*** | *179.7* |
| *Mabi* | ***35.2*** | *17.4* |
| Average selling price [4] | | |
| RMB per cubic meter | | |
| *Panzhuang* | ***1.60*** | *1.26* |
| *Mabi* | ***1.79*** | *1.13* |
| US$ per mcf | | |
| *Panzhuang* | ***7.10*** | *5.20* |
| *Mabi* | ***7.94*** | *4.67* |
| Realized average selling price [5] | | |
| RMB per cubic meter | | |
| *Panzhuang* | ***1.53*** | *1.26* |
| *Mabi* | ***1.42*** | *1.13* |
| US$ per mcf | | |
| *Panzhuang* | ***6.79*** | *5.20* |
| *Mabi* | ***6.30*** | *4.67* |
| Revenue (in RMB in thousands)[6] | **430,501** | 225,631 |
| *Panzhuang* | ***367,638*** | *225,631* |
| *Mabi* [8] | ***62,863*** | *N/A* |
| Realized revenue (in RMB in thousands)[7] | **401,047** | 225,631 |
| *Panzhuang* | ***351,097*** | *225,631* |
| *Mabi* [8] | ***49,950*** | *N/A* |

*Note:*

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 and after deduction of amount sold to pay applicable VAT and local taxes.

4. Average selling price includes the directly attributable pass through costs as a result of the new accounting standard adopted from 1 January 2018. Pass through costs include transmission costs, processing costs and other costs which are included in Material, Services and Logistic Expenses, but are billed to our customers.

5. Realized average selling price does not include the directly attributable pass through costs and reflects our well-head realized selling price.

6. Revenue includes the directly attributable pass through costs as a result of the new accounting standard adopted from 1 January 2018. Pass through costs include transmission costs, processing costs and other costs which are included in Material, Services and Logistic Expenses, but are billed to our customers.

7. Realized revenue does not include the directly attributable pass through costs.

8. After Mabi signed the exploration phase sales contract with effect from 1 July 2017, Mabi commenced revenue recognition in the Profit and Loss Statement in 2H2017. In 1H2017, Mabi's sales was recognized by offsetting Capex/Property, Plant and Equipment per HKFRS requirements.

## Six months ended 30 June 2018 compared to six months ended 30 June 2017

*Revenue*. Our revenue increased by RMB204.9 million, or 90.8%, from RMB225.6 million for the six months ended 30 June 2017 to RMB430.5 million for the six months ended 30 June 2018. Included in revenues are directly attributable pass through costs as a result of the new accounting standard adopted from 1 January 2018. The new accounting standard requires pass through costs such as transmission costs, processing costs and other costs that we incur but bill back to customers to be included in revenues and operating expenses. As a result of this new accounting standard, our revenues and operating expenses increased by an equivalent amount of RMB29.5 million for the six months ended 30 June 2018. If excluding the impact of the new accounting standard, our revenues increased by RMB175.4 million, or 77.7%, from RMB225.6 million for the six months ended 30 June 2017 to RMB401.0 million for the six months ended 30 June 2018. This increase was generated mainly by Panzhuang due to an increase in gross production from 266.7 mmcm to 331.3 mmcm and an increase in realized ASP from RMB1.26/cm to RMB1.53/cm in 1H2017 and 1H2018, respectively. In addition, during 1H2017, Mabi's sales were recognized by offsetting Capex/Property, Plant and Equipment per HKFRS requirements until the signing of the Mabi exploration phase sales contract with effect from 1 July 2017, upon which Mabi began to recognize revenue and related operating expenses into the Profit and Loss Statement.

*Subsidy income*. We had subsidy income of RMB62.6 million and RMB89.6 million for the six months ended 30 June 2017 and 2018, respectively. Our subsidy income increased by RMB27.0 million or 43.1%, mainly due to the increased sales volume in Panzhuang, and in addition, Mabi's sales volume began generating subsidy income after the signing of the exploration phase sales contract with effect from 1 July 2017.

*VAT refund*. Our VAT refund for the six months ended 30 June 2017 and 2018 are RMB22.3 million and RMB34.2 million, respectively. Our VAT refund increased by RMB11.9 million or 53.4% for the six months ended 30 June 2018 mainly due to an increase in revenues for Panzhuang, and in addition, Mabi began to recognize VAT refund after the signing of the exploration phase sales contract with effect from 1 July 2017.

*Other (losses)/gains, net*. Our other losses/gains changed from a gain of RMB142,371 for the six months ended 30 June 2017 to a loss of RMB25,942 for the six months ended 30 June 2018 due to disposition of scrap materials.

*Operating expenses*. Our operating expenses increased by RMB81.5 million or 44.8%, from RMB181.8 million for the six months ended 30 June 2017 to RMB263.3 million for the six months ended 30 June 2018. The main reasons for increased operating expenses are due to the impact from the new accounting standard adopted from 1 January 2018 for pass through costs which totaled RMB29.5 million and Mabi's operating costs of RMB29.4 million were still capitalized in 1H2017. The new accounting standard requires pass through costs such as transmission costs, processing costs and other costs that we incur but bill back to customers to be included in revenues and operating expenses. As a result of this new accounting standard, our revenues and operating expenses increased by an equivalent amount of RMB29.5 million. In 1H2017, approximately RMB29.4 million of Mabi's operating expenses were still being capitalized given that the exploration phase sales contract was signed in 2H2017 with effect from 1 July 2017, after which, Mabi's operating expenses were charged to the Profit and Loss Statement. In addition, Panzhuang's operating expenses increased primarily due to increases in depreciation and amortization as a result of increased producing wells and increased production.

- *Depreciation and amortization*. Our depreciation and amortization increased by RMB29.3 million or 61.9%, from RMB47.3 million for the six months ended 30 June 2017 to RMB76.6 million for the six months ended 30 June 2018 due to increased production and more wells put into production for Panzhuang. In addition, Mabi recognized RMB10.7 million more depreciation and amortization expenses in 1H2018 given that Mabi did not commence depreciation on gas properties and associated assets until entering into the exploration phase sales contract with effect from 1 July 2017.

- *Employee benefit expenses*. Our employee benefit expenses increased by RMB12.7 million or 19.3%, from RMB65.8 million for the six months ended 30 June 2017 to RMB78.5 million for the six months ended 30 June 2018, largely due to increased employees' benefit expenses directly related to producing wells for Mabi which were capitalized in the six months ended 30 June 2017. As a result of entering into the exploration phase sales contract with effect from 1 July 2017, Mabi's employee benefit expenses directly related to producing wells are charged to the Profit and Loss Statement.

*Materials, services and logistics*. Our materials, services and logistics expenses increased by RMB37.8 million or 65.7%, from RMB57.5 million for the six months ended 30 June 2017 to RMB95.3 million for the six months ended 30 June 2018. Included in material, services and logistics costs for the six months ended 30 June 2018 are directly attributable pass through costs as a result of the new accounting standard which requires pass through costs such as transmission costs, processing costs and other costs that we incur but bill back to customers to be included in revenues and operating expenses. As a result of this new accounting standard, our revenues and materials, services and logistics expenses increased by an equivalent amount of RMB29.5 million. In addition, Mabi recognized RMB8.5 million more materials, services and logistics expenses in the six months ended 30 June 2018 which were capitalized in the prior period until we entered into the exploration phase sales contract with effect from 1 July 2017.

- *Others*. Our other expenses are RMB11.2 million and RMB12.9 million for the six months ended 30 June 2017 and 2018, respectively.

*EBITDA*. Our EBITDA increased by RMB191.5 million or 108.7%, from RMB176.1 million for the six months ended 30 June 2017 to RMB367.6 million for the six months ended 30 June 2018. This increase was primarily due to increased revenues (which included directly attributable pass through costs billed to customers), subsidy and VAT refund for Panzhuang and Mabi, offset by increased materials, services and logistics expenses for Panzhuang and Mabi as a result of the new accounting standard to include directly attributable pass through costs, and Mabi recognizing more operating expenses after the signing of the exploration sales contract with effect from 1 July 2017. Panzhuang's EBITDA increased by RMB140.0 million or 57.0%, from RMB245.6 million for the six months ended 30 June 2017 to RMB385.6 million for the six months ended 30 June 2018. Panzhuang's EBITDA increased due to the increased revenues from higher levels of net sales volume, increased realized ASP from RMB1.26/cm in 1H2017 to RMB1.53/cm in 1H2018, inclusion of directly attributable pass through costs billed to customers, increased subsidy income and VAT refund, offset by higher materials, services and logistics expense due to inclusion of directly attributable pass through costs and higher levels of production and more wells put into production. Mabi's EBITDA changed from negative RMB23.1 million for the six months ended 30 June 2017 to positive RMB24.3 million for the six months ended 30 June 2018. Mabi's EBITDA increased because Mabi recognized revenue, subsidy income and VAT refund and associated operating expenses in 1H2018, but these revenues, subsidy income, VAT refund and associated expenses were not recognized in 1H2017 until we entered into the exploration phase sales contract with effect from 1 July 2017. Included in the EBITDA of RMB367.6 million for the six months ended 30 June 2018 are non-cash share-based compensation expenses of RMB11.6 million and non-operations-related expenses for business development 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.

*Profit from operations*. As a result of the foregoing, our profit from operations increased by RMB162.1 million or 125.9%, from a profit from operations of RMB128.8 million for the six months ended 30 June 2017 to a profit from operations of RMB290.9 million for the six months ended 30 June 2018.

*Interest income*. Our interest income increased by RMB8.5 million or 250.0%, from RMB3.4 million for the six months ended 30 June 2017 to RMB11.9 million for the six months ended 30 June 2018 primarily due to more interest earned as result of cash deposited into longer periods and higher interest rates.

*Finance costs*. Our finance costs decreased by RMB1.6 million or 22.5%, from RMB7.1 million for the six months ended 30 June 2017 to RMB5.5 million for the six months ended 30 June 2018 largely due to decreased commitment fees resulting from reduction in the maximum reserve-based lending loan amount.

*Exchange losses*. Our foreign exchange translation losses increased from RMB5.6 million for the six months ended 30 June 2017 to RMB8.2 million for the six months ended 30 June 2018, primarily due to exchange loss resulting from the impact of the depreciation of the Renminbi on the drawn portion of the new US$250 million reserve-based facility ("**New US$250 million RBL**") which was partially offset by the foreign exchange translation gain between HK$ and US$ for our cash balance in HK$.

*Profit before income tax*. Our profit before income tax increased by RMB169.5 million or 141.7% from a profit of RMB119.6 million for the six months ended 30 June 2017 to a profit of RMB289.1 million for the six months ended 30 June 2018 mainly due to the factors affecting EBITDA and reduced finance costs, but partially offset by increase in depreciation and amortization expense.

*Income tax expense*. Our income tax expense increased by RMB27.5 million, or 49.2%, from RMB55.9 million for the six months ended 30 June 2017 to RMB83.4 million for the six months ended 30 June 2018 due to increase in taxable profit for Panzhuang for the six months ended 30 June 2018. Income tax expense arises from Panzhuang's operations. Mabi had no income tax expense given it had no taxable profit.

*Profit for the period*. Our profit for the period increased by RMB142.0 million, or 222.9%, from RMB63.7 million for the six months ended 30 June 2017 to RMB205.7 million for the six months ended 30 June 2018, primarily due to the factors affecting profit before income tax stated above but partially offset by the increase in income tax expense.

## LIQUIDITY AND CAPITAL RESOURCES

The Group's financial department is responsible for the funding and treasury policies with regard to the overall operation of the Group. Our primary sources of funding include cash generated from operating activities, cash balances and bank borrowings.

We had cash and bank balances of RMB2,120.2 million as at 30 June 2018 (RMB2,274.6 million as at 31 December 2017).

On 8 July 2015, Sino-American Energy, Inc. ("**SAEI**") entered into a 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 2018, the unutilised portion of the New US$250 million RBL is US$86 million.

The New US$250 million RBL commenced reduction of the maximum borrowing facility amount on 1 July 2017 and continues reducing every six months until the maximum borrowing facility reduces to zero. As at 1 July 2018, the maximum borrowing facility amount was reduced to US$150 million, and accordingly, the undrawn borrowing facility amount as at that date was reduced to US$61 million.

Under the terms of prepayment and cancellation in the facility agreement, there is a clause for prepayment upon change of control. If the majority lenders require the Group to prepay all outstanding loans, the Group shall prepay the borrowings and the total facility will be cancelled.

Under the terms of the borrowing facility, it will constitute an event of default, among others, if (i) Dr. Zou, the chairman of the board of the Company (the "**Chairman**"), holds (whether directly or indirectly or by way of a trust) less than 25% of the issued share capital of the Company that Dr. Zou holds (whether directly or indirectly or by way of a trust) as at 8 July 2015, representing approximately 1.45% of the issued share capital of the Company; or (ii) at any time, Dr. Zou ceases to be the Chairman. Upon and at any time after occurrence of an event of default, the majority lenders may, among other actions, immediately cancel all commitments and declare any or all outstanding amounts under the borrowing facility and the relevant financing documents together with interest accrued thereon to be immediately due and payable.

As at 31 December 2017 and 30 June 2018, we had long-term borrowings of RMB513.6 million and RMB569.8 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 at 31 December 2017 and 30 June 2018, respectively.

As at 30 June 2018, the gearing ratio (ratio of total borrowings to total equity) of the Group was 11.1% (31 December 2017: 10.4%). Save as the information disclosed above or otherwise in this interim result announcement, we 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 guarantees or other material contingent liabilities as at 30 June 2018.

**Cash Flows**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net cash generated from operating activities | **75,349** | 191,612 |
| Net cash used in investing activities | **(216,071)** | (277,365) |
| Net cash used in financing activities | **(26,632)** | (6,851) |
| Net decrease in cash and cash equivalents | **(167,354)** | (92,604) |
| Cash and cash equivalents at beginning of the period | **2,236,970** | 2,343,764 |
| Exchange gains/(losses) on cash and cash equivalents | **12,896** | (50,797) |
| Cash and cash equivalents at end of the period | **2,082,512** | 2,200,363 |

*Operating Activities*

Net cash generated from operating activities was RMB75.3 million for the six months ended 30 June 2018 largely due to profit before income tax of RMB289.1 million, depreciation and amortization of RMB76.6 million, non-cash share-based compensation of RMB11.6 million, unrealized exchange loss of RMB8.2 million, and finance costs of RMB5.5 million. These were offset by increase in trade and other receivables of RMB227.8 million, RMB43.8 million income tax paid, RMB18.1 million of interest paid under the New US$250 million RBL, and decrease in trade and other payables of RMB13.8 million and interest income of RMB11.9 million.

*Investing Activities*

Net cash used in investing activities was RMB216.1 million for the six months ended 30 June 2018 and comprised mainly of purchases of property, plant and equipment of RMB229.4 million and offset by interest received of RMB13.3 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 RMB26.6 million for the six months ended 30 June 2018 largely due to RMB67.9 million paid for 2017 year end dividends and finance costs of RMB4.7 million for commitment fees for the unutilised portion of the New US$250 million RBL, partially offset by RMB44.5 million drawn under the New US$250 million RBL.

*Cash and Bank Balances*

We had cash and bank balances of RMB2,120.2 million and RMB2,274.6 million as at 30 June 2018 and 31 December 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 2017 and 30 June 2018, we had approximately 75.1% and 76.3% 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 | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Reconciliation of profit for the period to EBITDA:** | | |
| **Profit for the period** | **205,698** | 63,694 |
| Income tax expense | **83,445** | 55,868 |
| Interest income | **(11,923)** | (3,405) |
| Finance costs | **5,497** | 7,078 |
| Exchange losses | **8,222** | 5,612 |
| Depreciation and amortization | **76,615** | 47,279 |
| **EBITDA** | **367,554** | 176,126 |
| Non-cash share-based compensation expenses | **11,606** | 10,164 |
| Non-operations-related business development and legal consulting service | **908** | 3,403 |
| **Adjusted EBITDA** | **380,068** | 189,693 |

Our EBITDA increased by RMB191.5 million or 108.7%, from RMB176.1 million for the six months ended 30 June 2017 to RMB367.6 million for the six months ended 30 June 2018. This increase was primarily due to increased revenues (which included directly attributable pass through costs billed to customers), subsidy and VAT refund for Panzhuang and Mabi, offset by increased materials, services and logistics expenses for Panzhuang and Mabi as a result of the new accounting standard to include directly attributable pass through costs, and Mabi recognizing more operating expenses after the signing of the exploration sales contract with effect from 1 July 2017. Panzhuang's EBITDA increased by RMB140.0 million or 57.0%, from RMB245.6 million for the six months ended 30 June 2017 to RMB385.6 million for the six months ended 30 June 2018. Panzhuang's EBITDA increased due to the increased revenues from higher levels of net sales volume, increased realized ASP from RMB1.26/cm in 1H2017 to RMB1.53/cm in 1H2018, inclusion of directly attributable pass through costs billed to customers, increased subsidy income and VAT refund, offset by higher materials, services and logistics expense due to inclusion of directly attributable pass through costs and higher levels of production and more wells put into production. Mabi's EBITDA changed from negative RMB23.1 million for the six months ended 30 June 2017 to positive RMB24.3 million for the six months ended 30 June 2018. Mabi's EBITDA increased because Mabi recognized revenue, subsidy income and VAT refund and associated operating expenses in 1H2018, but these revenues, subsidy income, VAT refund and associated expenses were not recognized in 1H2017 until we entered into the exploration phase sales contract with effect from 1 July 2017.

Our adjusted EBITDA increased by RMB190.4 million, or 100.4%, from RMB189.7 million for the six months ended 30 June 2017 to RMB380.1 million for the six months ended 30 June 2018. This increase was due to the reasons explained above for the increase in EBITDA and increased non-cash share-based compensation expenses included in the six months ended 30 June 2018, partially offset by decreased non-operations-related expenses for business development for the six months ended 30 June 2018. Included in the EBITDA of RMB367.6 million for the six months ended 30 June 2018 are non-cash share-based compensation expenses of RMB11.6 million and non-operations-related expenses for business development 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.

## 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 2017.

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

### (b) Liquidity risk

Compared to 31 December 2017, 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 2018.

## SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the six months ended 30 June 2018.

## EMPLOYEES

As at 30 June 2018, the Company had 627 employees, with 69 based in Beijing, 555 based in Shanxi and 5 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. For the six months ended 30 June 2018, RMB70.1 million of the proceeds had been utilised. The unutilized proceeds as of 30 June 2018 amounted to RMB1,163.7 million. 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. Based on current gas price and LNG price in China, current government policies and support for the usage of gas, as well as other factors, and assuming obtaining the necessary government approvals for Mabi's ODP can be obtained and local government approvals necessary for the expansion of production for Panzhuang and Mabi can be obtained, we currently expect that the remaining IPO funds allocated for Panzhuang and Mabi development will be used up during 2019. Regarding the IPO proceeds allocated for expansion of our business by making acquisitions or participation in other energy projects, we expect such sums will be used when a suitable target is identified and approved by our Board.

## INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2018.

## 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 2018. 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 2018.

## 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 2018.

## COMPOSITION OF THE BOARD AND BOARD COMMITTEES

Mr. Fei Nie, appointed by the Board as an addition to the Board on 8 December 2017, has not been re-elected as a non-executive Director at the annual general meeting held on 8 May 2018 and retired as a Director pursuant to Article 83(3) of the Company's article of association after conclusion of the annual general meeting.

Save as disclosed above, there are no changes on the composition of the Board, the Audit Committee, the Nomination Committee, the Remuneration Committee and the New Business Committee of the Company for the six months ended 30 June 2018.

## 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 2018.

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 2018 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 2018 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 2018

*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.*