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AAG

AAG Energy Holdings Limited

亞美能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2686)

PROFIT WARNING

This announcement is made by AAG Energy Holdings Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The board of directors of the Company (“Board”) wishes to inform shareholders of the Company and potential investors that based on the preliminary assessment of the unaudited management accounts of 2015, it is expected that the Group will report a net loss for the year ended 31 December, 2015 compared to a net profit of approximately RMB195 million for the year ended 31 December 2014. This result was due principally to: (1) a non-cash foreign exchange translation loss arising from the decrease in the Renminbi (“RMB”) exchange rate against the US Dollar (“US\$”); (2) decrease in average realized selling price (“ASP”) of coalbed methane (“CBM”); (3) expenses related to the Company’s listing on The Stock Exchange of Hong Kong Limited; and (4) writing off unamortized costs related to the original US\$100 million Reserve-Based Lending (“RBL”) loan.

(1) Non-cash foreign exchange translation loss arising from decrease in RMB exchange rate against US\$ (in this regard, reference is also made to the announcement of the Company published on 25 September 2015)

Due to the decrease in the RMB exchange rate against the US\$ during 2015 and the 31 December, 2015 exchange rate of RMB6.4936=US\$1.00, it is expected that the Group will report a RMB161.3 million non-cash foreign exchange translation loss arising from the US\$ denominated intercompany loan between Group entities, but the financial statements of the Group entities are prepared in RMB. This foreign exchange loss is a non-cash accounting loss arising from foreign exchange translation from the US\$ denominated intercompany loan in the respective RMB denominated financial statements, not a cash loss arising from foreign exchange transaction.

Although the Group has (i) RMB cash balances and (ii) a US\$250 million RBL but the Group's cashflows from operations are in RMB, there is no foreign exchange exposure. As at 31 December 2015, the Group had cash balances of approximately US\$38.8 million, HK\$1,960.7 million and RMB669.7 million, and the utilized portion of the US\$250 million RBL was US\$70 million. Given that the Group's US\$ and HK\$ cash balances can cover the repayment of the US\$70 million utilized portion of the RBL loan, and RMB cash balances are used for Panzhuang's and Mabi's operations, there is no foreign exchange exposure on the utilized portion of the RBL and the RMB cash balances.

(2) Decrease in ASP of CBM

During the 3rd quarter of 2015, there were expectations in the market that the National Development and Reform Commission of the People's Republic of China ("NDRC") will lower the city-gate price for natural gas and some competitors began to reduce their selling price of gas. In Henan Province, PetroChina adjusted down the city-gate gas price by around RMB0.20/cubic meter in the 3rd quarter of 2015 and further decreased the city-gate gas price by another around RMB0.20 to RMB0.30/cubic meter in November 2015. On 18 November 2015, the NDRC published a notice in relation to lowering the non-residential city-gate prices by RMB0.70/cubic meter effective 20 November 2015. As a result of the competitive price environment, the Company provided customers with a temporary reduced promotional price beginning in September 2015 which resulted in a decrease to the ASP of CBM to RMB1.56/cubic meter for the 2nd half of 2015 compared to RMB1.77/cubic meter in the 1st half of 2015.

(3) Expenses related to the listing on The Stock Exchange of Hong Kong Limited

In June 2015, the Company completed its listing on The Stock Exchange of Hong Kong Limited and incurred one-time listing expenses of approximately RMB27.7 million.

(4) Writing off unamortized costs related to the original US\$100 million RBL loan

In July 2015, the Group obtained a new US\$250 million RBL loan and drew down US\$70 million from this new RBL loan to repay the utilized portion of the original US\$100 million RBL loan. Unamortized costs of approximately RMB14.9 million related to the original US\$100 million RBL loan was charged as a non-cash expense to the profit and loss account upon repayment of the original US\$100 million RBL loan.

Based on the above factors, only the reduction in ASP of CBM and the one-time listing expenses have an impact to the Group's EBITDA.

As the Company is still in the process of finalizing the annual results of the Group for the year ended 31 December 2015, the information contained in this announcement represents only the preliminary assessment based on the information and figures currently available, and such financial information or figures have not been audited nor reviewed by the Company's auditors. Details of the Group's annual financial results and performance will be disclosed in the Company's annual results announcement for the year ended 31 December 2015.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

On behalf of the Board
AAG Energy Holdings Limited
Stephen Xiangdong ZOU
Chairman and Executive Director

Hong Kong, 18 January 2016

As at the date of this announcement, the board of directors of the Company comprises of: Dr. Stephen Xiangdong ZOU as Executive Director; Mr. Peter Randall KAGAN, Mr. Gordon Sun Kan SHAW, Mr. Zhen WEI, Mr. Zhijie ZENG, Mr. Lei JIN, Dr. Guiyong CUI and Dr. Bo BAI as Non-Executive Directors; Mr. Yaowen WU, Mr. Robert Ralph PARKS, Dr. Tin Yau Kelvin WONG and Mr. Fredrick J. BARRETT as Independent Non-Executive Directors.