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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 2016 AND CONNECTED TRANSACTION — RELINQUISHMENT OF RIGHT TO EXERCISE THE INNER MONGOLIA OPTION

FINANCIAL SUMMARY

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**193,294**	278,747
Other income	**82,240**	74,324
Profit from operations	**109,229**	137,391
EBITDA	**144,901**	208,700
Profit for the period	**72,407**	89,981
Basic and diluted earnings per share (RMB per share)	**0.02**	0.03

	As at	
	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**2,854,755**	2,639,914
Cash and bank balances	**2,332,431**	2,563,843
Total assets	**5,537,584**	5,487,765
Total equity	**4,702,332**	4,591,446

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of AAG Energy Holdings Limited (the "**Company**") 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 2016, together with the comparative figures for the same period last year as follows:

BUSINESS REVIEW AND PROSPECTS

During the first half of 2016 ("**1H2016**"), the Group's gross gas production increased by 0.6% to 251.8 million cubic meters ("**mmcm**") (8.9 billion cubic feet ("**bcf**")) (comprising Panzhuang's gross production of 240.5 mmcm or 8.5 bcf and Mabi's gross production of 11.3 mmcm or 0.4 bcf) compared with the first half of 2015 ("**1H2015**"). The combination of new wells drilled in Panzhuang in the last quarter of 2015 and first quarter of 2016 which were still under the de-watering process during 1H2016, and some existing production wells being temporarily shut in to accommodate the drilling of new wells resulted in the small decrease in gross production for Panzhuang in 1H2016 compared to 1H2015. With the contribution of production from the new wells which were under the de-watering process in 1H2016 to Panzhuang's production in the second half of 2016 ("2H2016"), it is expected that the full year's gross production for Panzhuang will be 529.2 mmcm (18.7 bcf), an increase of 288.7 mmcm (10.2 bcf), or 20.0%, over Panzhuang's gross production for 1H2016. Our net gas sales volume for Panzhuang increased by 2.6% to 161.6 mmcm (5.7 bcf), compared with 1H2015. The Group's average realized gas price was RMB1.20 per cubic meter in 1H2016 compared to the average realized gas price of RMB1.77 per cubic meter in 1H2015, a reflection of the gas market conditions in 1H2016 due to the NDRC announcement on gas price adjustment in November 2015.

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

Realized net sales revenue decreased by 30.6% to RMB193.3 million from the 1H2015. Profit from operations decreased by 20.5% to RMB109.2 million. EBITDA decreased by 30.6% to RMB144.9 million.

The Group has achieved significant progress towards certain key operational objectives during 1H2016:

- **Environmental Health and Safety ("EHS")**

  The Group continues to make good progress on EHS performance metrics. Specifically, the employee total recordable incident rate ("**TRIR**"*) and lost time incident rate ("**LTIR**"*) were 0.0 and 0.0 respectively during 1H2016. The contractor safety incident rates were 0.0 and 0.26 for LTIR and TRIR respectively.

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

- **Panzhuang production update**

  Panzhuang gross production has been maintained stably in 1H2016 at 240.5 mmcm (8.5 bcf), a minor decrease by 0.5% compared with 1H2015. Sales utilization rate is 97.8% in 1H2016 compared to 99.4% in 1H2015.

  Panzhuang daily gas production exceeded 1.55 mmcm/day (54.7 million cubic feet ("**mmcf**")/day) on 17 June 2016, which created a new record. Average gas production in June exceeded 1.47 mmcm/day (51.9 mmcf/day) which represents 13% increase from beginning of this year.

- **Panzhuang drilling and surface facilities**

  A total of 7 compression uplift projects have been completed in 1H2016 which combined for incremental gross production uplift of 159,000 m^3 (5.6 mmcf)/day. The Company intends to complete 1 more similar project in 2H2016. To expand gas processing capacity, the central station upgrade and 35KV power supply project have kicked off in 1H2016.

  In 1H2016, 9 horizontal wells have been drilled by 4 rigs. 1 vertical pad drilled well ("**PDW**") was fractured and put into production.

- **Mabi pilot program update**

  In respect of pilot production well testing in northern Mabi, the first well pad comprising of 7 PDWs continues to show stable gas flows with daily average of about 2,500 m^3 (88.3 thousand cubic feet ("**mcf**")), which proved the potential of commercial development in northern Mabi area. In 1H2016, 17 more PDWs in other 2 pads have been fractured and put into operation. 2 single lateral horizontal wells completed drilling in March, 1 of them has been fractured in 11-stages in May.

  In southern Mabi, significant progress has been made on pilot program in 1H2016. The production from pilot wells reached 11.3 mmcm by the end of June, a 33% increase compare with 1H2015. The current daily pilot production exceeds 100,000 cubic meters ("**cm**"), an increase of around 3 times since the beginning of the year. All the newly operated 33 PDW vertical wells started industrial production after successful execution of de-watering process, with average daily gas production exceeding 55.8 thousand standard cubic meters ("**kscm**") at average BHP of 1.20 Mpa, an indication of good production potential.

  After 8 and 14 stages fracture operation respectively, the two single lateral horizontal ("**SLH**") wells drilled in 2015 were put online in January and February of 2016 for de-watering process. Daily gas rate of MB01-B2-43L-01 SLH well reached 6,600 standard cubic meters ("**scm**") and proved the success of multiple stage fracture at SLH wells. This result enriched the drilling and completion inventory of Mabi and laid a solid foundation for future commercial development after ODP approval.

- **Mabi ODP progress**

  The submission and approval of the Overall Development Plan ("**ODP**") is one of the most important key milestones for the commercialization of CBM projects. By the end of February, all of the associated approvals which are required by the National Development and Reform Commission of the People's Republic of China ("**NDRC**") for ODP approval of Mabi Phase I had been secured, including the Environmental Impact Assessment ("**EIA**"), which has been reviewed and approved by the Shanxi Bureau of Environmental Protection, the land-use pre-checking had been approved by the Ministry of Land and Resources. The approvals of social stability assessment and efficiency assessment had also been secured. The Group is cooperating with our partner China National Petroleum Corporation ("**CNPC**") on their internal review of the ODP report. Under the current progress, we expect our partner CNPC will complete their internal review by the end of the third quarter of 2016 and make submission to the NDRC for final review and approval subsequently.

- **Mabi exploration program update**

  In 1H2016, 2 exploration wells were drilled in northern Mabi, 1 exploration well is under drilling, relevant geological data for reserve upgrade have been collected, including overburden of coal seams, coal thickness and gas content, etc. 18 exploration wells have been under production test, of which 4 wells are qualified for reserve booking in 1H2016. We expect our exploration program will continue to expand the Group's reserve base and provide strong support for the commercial development of the concession.

OUTLOOK FOR 2016

For 2016, the Group continues to pursue development of Panzhuang beyond its designed commercial production capacity and development preparation for Mabi. In Panzhuang, the focus has been on installation of wellhead compressors in current producing areas and drilling of new production wells, and in Mabi, the focus has been on improving the performance of pilot wells with optimizing fracturing, and drilling and completing of SLH, as well as facilitating the relevant approvals from authorities associated to the Mabi ODP I. Our full year 2016 plan expects the drilling of 42 SLH production wells (comprising 34 in Panzhuang and 8 in Mabi) and 10 exploration wells (in Mabi), and fracturing of 6 SLH production wells (in Mabi), and 28 PDWs (comprising 6 in Panzhuang and 22 in Mabi), and 34 exploration wells (comprising 2 in Panzhuang and 32 in Mabi). Our full year gross production expectation is 564.5 mmcm (19.9 bcf) (comprising 529.2 mmcm (18.7 bcf) for Panzhuang and 35.3 mmcm (1.2 bcf) for Mabi) subject to anticipated project execution and related government approvals. We are confident that this program will further enhance the Group's position as the leading independent CBM producer in China, and will greatly support the Group's further growth.

In November 2015, the NDRC made an announcement to adjust the non-residential gas price to decrease non-residential city gate base gas price by RMB0.70/cubic meter. The base city gate gas price was allowed to rise up to 20% after 20 November 2016. According to the NDRC, the adjustment is a step forward to a more market driven natural gas pricing system from the previously regulated natural gas pricing system, aiming to improve gas penetration rate in total energy mix. In terms of gas consumption in the nearby Henan market, the adjustment of natural gas price has resulted in the increase of natural gas consumption.

According to the data from the NEA, gas consumption in Henan increased 11% year on year in 1H2016, higher than the national average of 9.8%. In May 2016, Panzhuang commenced gas sales to a new downstream customer in Xuchang, Henan and we plan to start gas sales to Zhengzhou, the largest natural gas consuming city in Henan in December 2016. We believe the continuous strong growth in our target market will benefit the upstream development of natural gas and CBM in the long term.

On 14 February 2016, the Ministry of Finance announced the CBM subsidy increase from previous RMB0.20 per cubic meter to RMB0.30 per cubic meter. Such favorable policy has demonstrated Chinese government's continuous support for CBM exploration and development.

NEW OPPORTUNITIES

The Group has been actively looking at new oil & gas opportunities for future growth, mainly focusing on attractive conventional and unconventional oil & gas assets in China and Southeast Asia. Under the current low oil price environment, oil & gas asset valuations are at the low end of the valuation spectrum and the Group sees very favourable industry dynamics and deal flow in our key areas of focus.

Because of this, the Group has developed a clear set of objectives and an entry strategy with focus:

- Developed a clear set of valuation and strategy metrics to assure we are focusing on the right assets

- Acquiring material producing or development assets with cash flow and bottom line impact on our financial metrics

- Building an experienced, networked and multi-disciplined team with international E&P experience and a proven track record of creating significant shareholder value in the E&P space

- Exploiting the acquired assets with further synergistic/strategic M&A and exploration as required

- Leverage AAG's strong balance sheet and focused objectives to execute the entry strategy

With our strong balance sheet and management team, we believe the Group is well positioned for further expansion either alone or through preferred partnering with other oil & gas producers.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**193,294**	278,747
Other income	*6*	**82,240**	74,324
Other (losses)/gains, net		**(470)**	77
Operating expenses			
Depreciation and amortisation		**(35,672)**	(71,309)
Employee benefit expenses		**(73,946)**	(74,261)
Materials, services and logistics		**(45,452)**	(60,336)
Others		**(10,765)**	(9,851)
Total operating expenses		**(165,835)**	(215,757)
Profit from operations		**109,229**	137,391
Interest income	*7*	**5,038**	1,977
Finance costs	*7*	**(9,737)**	(3,699)
Exchange gains	*7*	**7,563**	5,096
Finance income, net		**2,864**	3,374
Profit before income tax		**112,093**	140,765
Income tax expense	*9*	**(39,686)**	(50,784)
Profit for the period		**72,407**	89,981
Total profit attributable to:			
Owners of the Company		**72,407**	89,981
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**18,836**	(2,049)
Total comprehensive income for the period		**91,243**	87,932

	Note	Six months ended 30 June **2016** **_RMB'000_** **(Unaudited)**	2015 _RMB'000_ (Unaudited)
Total comprehensive income attributable to:			
Owners of the Company		**91,243**	87,932
Earnings per share attributable to owners of the Company (RMB)			
— Basic	_14_	**0.02**	0.03
— Diluted	_14_	**0.02**	0.03

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	**As at 30 June 2016** *RMB'000* **(Unaudited)**	As at 31 December 2015 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**2,854,755**	2,639,914
Land use rights		**12,406**	12,547
Intangible assets		**18,840**	15,025
Other non-current assets		**3,500**	–
		2,889,501	2,667,486
Current assets			
Inventories		**1,881**	1,097
Trade and other receivables	*10*	**311,696**	255,339
Current income tax prepaid		**2,075**	–
Restricted bank deposits	*11*	**25,899**	8,033
Term deposits with initial terms of over three months	*11*	**–**	246,000
Cash and cash equivalents	*11*	**2,306,532**	2,309,810
		2,648,083	2,820,279
Total assets		**5,537,584**	5,487,765
EQUITY			
Equity attributable to owners of the Company			
Share capital		**2,034**	2,034
Capital surplus		**4,738,760**	4,700,281
Accumulated deficits		**(38,462)**	(110,869)
Total equity		**4,702,332**	4,591,446

	Note	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		**8,615**	8,409
Borrowings	*12*	**430,750**	418,859
Deferred income tax liabilities		**115,555**	76,158
		554,920	503,426
Current liabilities			
Trade and other payables	*13*	**280,332**	390,453
Current income tax payables		**–**	2,440
		280,332	392,893
Total liabilities		**835,252**	896,319
Total equity and liabilities		**5,537,584**	5,487,765

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		**108,474**	72,173
Interest paid		**(12,478)**	(11,437)
Income tax paid		**(4,805)**	–
Net cash generated from operating activities		**91,191**	60,736
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		**(340,154)**	(216,083)
Decrease in term deposits with initial terms of over three months		**246,000**	–
Increase in restricted bank deposits		**(17,866)**	–
Proceeds from disposal of property, plant and equipment		**328**	87
Interest received		**4,366**	2,095
Net cash used in investing activities		**(107,326)**	(213,901)
Cash flows from financing activities			
Cash paid for listing expenses		**(7,700)**	(10,844)
Finance costs paid		**(11,055)**	(3,599)
Net cash used in financing activities		**(18,755)**	(14,443)
Net decrease in cash and cash equivalents		**(34,890)**	(167,608)
Cash and cash equivalents at beginning of the period	*11*	**2,309,810**	1,099,673
Exchange gains on cash and cash equivalents		**31,612**	74
Cash and cash equivalents at end of the period	*11*	**2,306,532**	932,139

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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 Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, 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 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. As at 30 June 2016, Mabi concession was still in exploration phase.

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the "**Reorganisation**"), the Group's business was carried out by Asian American Gas, Inc. ("**AAGI**") and its subsidiary Sino-American Energy, Inc. ("**SAEI**"), and AAG Energy (China) Limited now comprising the Group. In the preparation of listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Reorganisation was undertaken pursuant to which the Group companies engaged in the relevant business under common control were transferred to the Company.

The Reorganisation involved the followings:

(1) On 23 December 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability, with AAG Energy Limited, the then parent company of AAGI and AAG Energy (China) Limited, as its sole shareholder.

(2) On 30 December 2014, pursuant to a sale and purchase agreement entered into between AAG Energy Limited and the Company, the Company issued 835,069,049 ordinary shares to AAG Energy Limited, as the consideration for AAG Energy Limited to transfer its 100% equity interest in AAGI and AAG Energy (China) Limited, together with all shareholder loans totaling RMB2,629,064,000 due from AAGI as of that date, to the Company. Upon completion of the transfer on 31 December 2014, AAGI and AAG Energy (China) Limited became direct wholly-owned subsidiaries of the Company and the shareholder loans were converted into equity.

(3) On 23 June 2015, AAG Energy Limited repurchased and cancelled all but three of its issued and outstanding ordinary shares, and in consideration, transferred all the ordinary shares of the Company held by AAG Energy Limited to its shareholders in proportion to their respective shareholding percentage in AAG Energy Limited. The remaining three ordinary shares of AAG Energy Limited was held by Mr. Stephen Xiangdong Zou, Baring Private Equity Asia IV Holding Limited and WP China CBM Investment Holdings Limited, who are considered as the controlling shareholders of the Group's business and each holds one ordinary share in AAG Energy Limited.

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

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**"), "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants.

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

Change in accounting estimates

The cost of gas properties is amortised using the unit of production method. Unit of production rates were previously calculated at individual well or well group level based on the proved and probable developed producing gas reserves estimated to be recoverable from each well or well group. With effect from 1 January 2016, the Group has applied the unit of production rates calculated at concession level based on the proved and probable developed producing gas reserves estimated to be recoverable from the whole concession. Management considers that the change in estimate to use the concession level reserve will be more reflective of the overall utilisation of gas properties over the life of the PSC. This change resulted in a decrease in depreciation by approximately RMB34 million. It is impracticable to estimate the impact for future years.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

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

(i) HKFRS 9 Financial instruments

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

(ii) HKFRS 15 Revenue from contracts with customers

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is yet to assess the full impact of HKFRS 15.

(iii) HKFRS 16 Leases

HKFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 "Leases", and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting HKFRS 15 "Revenue from contracts with customers" at the same time. The Group is yet to assess the full impact of HKFRS 16.

4. SEGMENT INFORMATION

The chief operating decision-maker ("**CODM**") has been identified as the directors and chief executives 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. Condensed consolidated interim financial statements 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 2016 and 2015 is as follows:

	Panzhuang concession *RMB'000*	**Mabi concession** *RMB'000*	**Total** *RMB'000*
(Unaudited)			
For the six months ended 30 June 2016			
Revenue from external customers	**193,294**	**–**	**193,294**
EBITDA	**219,804**	**(21,228)**	**198,576**
Other income	**82,240**	**–**	**82,240**
Operating expenses	**(87,639)**	**(23,251)**	**(110,890)**
Depreciation and amortisation	**(31,844)**	**(2,558)**	**(34,402)**
Interest income	**4,102**	**89**	**4,191**
Finance costs	**(1,350)**	**(31)**	**(1,381)**
Exchange (losses)/gains	**(1,131)**	**10,102**	**8,971**
Income tax expense	**(39,686)**	**–**	**(39,686)**
(Unaudited)			
For the six months ended 30 June 2015			
Revenue from external customers	278,747	–	278,747
EBITDA	300,911	(19,004)	281,907
Other income	74,324	–	74,324
Operating expenses	(117,865)	(23,390)	(141,255)
Depreciation and amortisation	(65,693)	(4,321)	(70,014)
Interest income	1,937	23	1,960
Finance costs	(583)	(26)	(609)
Exchange gains	918	4,052	4,970
Income tax expense	(50,784)	–	(50,784)

	Panzhuang concession *RMB'000*	**Mabi concession** *RMB'000*	**Total** *RMB'000*
(Unaudited)			
As at 30 June 2016			
Total assets	**2,172,065**	**1,810,910**	**3,982,975**
Additions to non-current assets (other than deferred tax assets)	**80,786**	**140,937**	**221,723**
(Audited)			
As at 31 December 2015			
Total assets	1,948,253	1,653,994	3,602,247
Additions to non-current assets (other than deferred tax assets)	54,462	462,875	517,337

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total EBITDA for reportable segments	**198,576**	281,907
Headquarter overheads	**(53,675)**	(73,207)
Depreciation and amortisation	**(35,672)**	(71,309)
Interest income	**5,038**	1,977
Finance costs	**(9,737)**	(3,699)
Exchange gains	**7,563**	5,096
Profit before income tax	**112,093**	140,765

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

	As at 30 June	As at 31 December
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total segment assets	**3,982,975**	3,602,247
Unallocated		
Unallocated cash and cash equivalent	**1,547,176**	1,878,878
Others	**7,433**	6,640
Total assets per balance sheet	**5,537,584**	5,487,765

5. REVENUE

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

6. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
VAT refund (a)	**24,896**	35,372
Government subsidy (b)	**57,344**	38,952
	82,240	74,324

(a) The VAT refund is granted by the PRC government according to "The Notice on Tax Policy Issued by The Ministry of Finance and The State Administration of Taxation on Speeding Up The Drainage of Coalbed Methane" (《財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知》). CUCBM applies for the VAT refund for Panzhuang concession. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

(b) The 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 RMB0.2 per cubic meter of the CBM sold for the six months ended 30 June 2015 and was adjusted according to "The Announcement of Subsidies on The Development and Utilisation of Coalbed Methane during the Country's 13th Five-Year Plan" (《關於"十三五"期間煤層氣（瓦斯）開發利用補貼標準的通知》) to RMB0.3 cubic meter of the CBM sold commencing 1 January 2016. CUCBM applies for the subsidy for Panzhuang concession. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

7. FINANCE INCOME, NET

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense of bank borrowings	**(16,004)**	(14,090)
Bank loan commitment fee	**(9,566)**	(3,538)
Accretion expenses of asset retirement obligations	**(171)**	(161)
Subtotal	**(25,741)**	(17,789)
Less: amounts capitalised on qualifying assets	**16,004**	14,090
Finance costs	**(9,737)**	(3,699)
Interest income	**5,038**	1,977
Exchange gains	**7,563**	5,096
Finance income, net	**2,864**	3,374

8. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Listing expenses	**–**	18,645
Operating lease rental expenses	**6,274**	4,508

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**(289)**	(31,568)
Deferred income tax	**(39,397)**	(19,216)
	(39,686)	(50,784)

(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.

SAEI, which was incorporated in the Samoa Islands under the International Business Companies Acts of the Samoa Islands, is exempted from payment of local income tax.

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

(b) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before income tax	**112,093**	140,765
Tax expense calculated at applicable tax rates	**(22,106)**	(53,419)
Tax losses with no deferred income tax assets recognised	**(15,995)**	(4,767)
Expenses not deductible for taxation purposes	**(1,296)**	(1,441)
Income not subject to tax	**–**	8,843
Others	**(289)**	–
Income tax expense	**(39,686)**	(50,784)

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables (a)		
— Related parties		
— CUCBM	**18,191**	65,288
— PetroChina Company Limited	**4,548**	–
— Others	**69,809**	20,368
Notes receivable (b)	**20,000**	23,000
Government grants receivables (c)		
— Government	**160,112**	77,873
— CUCBM	**–**	33,256
— PetroChina Company Limited	**2,309**	–
Due from CUCBM for cash calls (d)	**20,691**	17,296
Prepaid expenses, deposits and others	**23,233**	25,455
	318,893	262,536
Less: provision for impairment	**(7,197)**	(7,197)
	311,696	255,339

(a) Trade receivables

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

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**22,739**	65,288

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

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

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Within 3 months	**43,648**	13,171
3 months to 6 months	**18,964**	–
Over 3 years	**7,197**	7,197
	69,809	20,368
Provision	**(7,197)**	(7,197)
	62,612	13,171

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Past due but not impaired		
Within 3 months	**43,648**	13,171
3 months to 6 months	**18,964**	–
	62,612	13,171

These past due but not impaired trade receivables related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The overdue trade receivables for 3 months to 6 months had been settled in July 2016.

The trade receivables are due upon billing.

(iii) Movement of bad debt provision:

	Six months ended June 30 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Beginning of the period	**7,197**	7,197
Addition	**–**	–
End of the period	**7,197**	7,197

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

(c) This represents receivables for VAT refund and government subsidies.

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

(e) As of 30 June 2016, the carrying amounts of trade and other receivables approximated their fair values.

11. CASH AND BANK BALANCES

	As at 30 June 2016 *RMB'000* **(Unaudited)**	As at 31 December 2015 *RMB'000* (Audited)
Cash and cash equivalents		
— Cash on hand	**296**	364
— Cash at banks	**2,306,236**	2,309,446
	2,306,532	2,309,810
Term deposits with initial terms of over three months	**–**	246,000
Restricted bank deposits (a)	**25,899**	8,033
	2,332,431	2,563,843

(a) As at 30 June 2016, restricted bank deposits were land restoration deposits for Panzhuang and Mabi concession.

12. BORROWINGS

	As at 30 June 2016 *RMB'000* **(Unaudited)**	As at 31 December 2015 *RMB'000* (Audited)
Bank loans, secured		
Between 2 and 5 years	**430,750**	–
Over 5 years	**–**	418,859
	430,750	418,859
Annual interest rate	**LIBOR+4.15%**	LIBOR+4.15%
Annual effective interest rate	**6.85%**	6.51%

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

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2016 (Unaudited)	
Opening balance as at 1 January 2016	418,859
Amortisation of financing costs	2,957
Currency translation differences	8,934
Closing balance as at 30 June 2016	430,750
Six months ended 30 June 2015 (Unaudited)	
Opening balance 1 January 2015	362,280
Amortisation of financing costs	2,210
Currency translation differences	(325)
Closing balance as at 30 June 2015	364,165

(a) The Group has the following undrawn borrowing facilities:

	As at 30 June 2016	As at 31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Expiring beyond 1 year	**180,000**	180,000

(b) As at 30 June 2016, the fair value of borrowings approximated to RMB431 million (31 December 2015: RMB419 million). The fair value is within level 2 hierarchy.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**251,949**	341,414
Social securities and other payables		
— Related parties		
— CUCBM	**1,349**	1,000
— PetroChina Company Limited	**8,917**	8,183
— Others	**18,117**	39,856
	280,332	390,453

The ageing analysis of trade payables were as follows:

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Within 6 months	**155,617**	303,650
6 months to 1 year	**48,637**	10,553
1 to 2 years	**31,248**	20,418
2 to 3 years	**14,071**	5,929
Over 3 years	**2,376**	864
	251,949	341,414

14. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2016.

For the purpose of presenting earnings per share, the weighted average number of ordinary shares for each of the periods was determined by taking into consideration the issuance of shares by capitalisation issue and additional issue by way of debit to the capital surplus account upon the Listing as if these issuance of shares had occurred at the beginning of the earliest period reported.

	Six months ended 30 June 2016 (Unaudited)	2015 (Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**72,407**	89,981
Weighted average number of ordinary basic shares in issue *(Thousands)*	**3,326,780**	2,683,971
Basic earnings per share *(RMB)*	**0.02**	0.03

(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 number of shares that would have been issued assuming the exercise of the share options and RSUs less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total 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	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**72,407**	89,981
Weighted average number of ordinary shares in issue *(Thousands)*	**3,326,780**	2,683,971
Adjustments for assumed conversion of share options and RSUs *(Thousands)*	**4,780**	74,167
Weighted average number of ordinary shares for diluted earnings per share *(Thousands)*	**3,331,560**	2,758,138
Diluted earnings per share *(RMB)*	**0.02**	0.03

15. DIVIDENDS

No dividend has been paid or proposed by the Company during the six months ended 30 June 2016.

16. SUBSEQUENT EVENTS

On 26 August 2016, the Company announced to relinquish the right to exercise the Inner Mongolia Option pursuant to the relevant option agreements, under which the Company has the exclusive right to participate as the only foreign investor for the relevant projects in Inner Mongolia by entering into production sharing contract or any other similar forms of arrangement as allowed under relevant PRC laws and regulations at the time. No consideration is required to be paid by the Company for the relinquishment.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATING RESULTS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**193,294**	278,747
— Panzhuang	193,294	278,747
— Mabi	–	–
Subsidy income	**57,344**	38,952
— Panzhuang	57,344	38,952
— Mabi	–	–
VAT refund	**24,896**	35,372
— Panzhuang	24,896	35,372
— Mabi	–	–
Other (losses)/gains, net	**(470)**	77
— Panzhuang	65	12
— Mabi	(535)	65
Operating expenses	***(165,835)***	*(215,757)*
Depreciation and amortization	(35,672)	(71,309)
Employee benefit expenses	(73,946)	(74,261)
Materials, services and logistics	(45,452)	(60,336)
Others	(10,765)	(9,851)
Panzhuang	***(87,639)***	*(117,865)*
Depreciation and amortization	(31,844)	(65,693)
Employee benefit expenses	(22,333)	(24,705)
Materials, services and logistics	(28,400)	(21,990)
Others	(5,062)	(5,477)
Mabi	***(23,251)***	*(23,390)*
Depreciation and amortization	(2,558)	(4,321)
Employee benefit expenses	(11,606)	(11,270)
Materials, services and logistics	(6,026)	(5,458)
Others	(3,061)	(2,341)
Headquarters	***(54,945)***	*(74,502)*
Depreciation and amortization	(1,270)	(1,295)
Employee benefit expenses	(40,007)	(38,286)
Materials, services and logistics	(11,026)	(32,888)
Others	(2,642)	(2,033)

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
EBITDA	**144,901**	208,700
— Panzhuang	219,804	300,911
— Mabi	(21,228)	(19,004)
Profit from operations	**109,229**	137,391
Interest income	5,038	1,977
Finance costs	(9,737)	(3,699)
Exchange gains	7,563	5,096
Finance income, net	2,864	3,374
Profit before income tax	**112,093**	140,765
Income tax expense	(39,686)	(50,784)
Profit for the period	**72,407**	89,981

Six Months Ended 30 June 2016 Compared to Six Months Ended 30 June 2015

Revenue. Our revenue decreased by RMB85.4 million, or 30.6%, from RMB278.7 million for the six months ended 30 June 2015 to RMB193.3 million for the six months ended 30 June 2016. This decrease was due to a decrease in the average realized price to RMB1.20 per cubic meter for 1H2016 compared to RMB1.77 per cubic meter for 1H2015.

Set out below are the production, sales, number of producing wells, average realized selling price and revenue of Panzhuang.

	Six months ended 30 June	
	2016	2015
Gross production volume (bcf) [1]	**8.488**	8.537
Gross sales volume (bcf) [2]	**7.116**	7.356
Net sales volume (bcf) [3]	**5.703**	5.573
Accumulative number of producing wells	**77**	52
Average realized selling price		
RMB per cubic meter	**1.20**	1.77
US$ per mcf	**5.18**	8.16
Revenue (in RMB in thousands)	**193,294**	278,747

Note:

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

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

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

Subsidy income. We had subsidy income of RMB39.0 million for the six months ended 30 June 2015 and RMB57.3 million for the six months ended 30 June 2016. Our subsidy income increased by RMB18.3 million or 46.9%, mainly due to the increase in subsidy from RMB0.20 per cubic meter in 2015 to RMB0.30 per cubic meter starting from 1 January 2016 as announced by The Ministry of Finance of the PRC.

VAT refund. Our VAT refund for the six months ended 30 June 2015 and 2016 are RMB35.4 million and RMB24.9 million, respectively. Our VAT refund decreased by RMB10.5 million or 29.7% for the six months ended 30 June 2016 mainly due to decrease in sales revenue.

Other (losses)/gains, net. Our other (loss)/gains changed from a gain of RMB76,888 for the six months ended 30 June 2015 to a loss of RMB469,614 for the six months ended 30 June 2016. The loss for the six months ended 30 June 2016 was due to disposition of scrap materials at Mabi.

Operating expenses. Our operating expenses decreased by RMB50.0 million or 23.2%, from RMB215.8 million for the six months ended 30 June 2015 to RMB165.8 million for the six months ended 30 June 2016 primarily due to decreases in depreciation and amortization as a result of applying the unit of production depreciation rates calculated at concession level instead of well or well group level to be consistent with industry practice, decreases in materials, services and logistics expenses mainly due to the reduction of one-off expenses related to our IPO and headquarters' business development/feasibility studies expenses included in the six months ended 30 June 2015, offset by more wells put into production, and additional boosters and compressors installed for the six months ended 30 June 2016.

- *Depreciation and amortization.* Our depreciation and amortization decreased by RMB35.6 million or 49.9%, from RMB71.3 million for the six months ended 30 June 2015 to RMB35.7 million for the six months ended 30 June 2016 due to applying unit of production depreciation rates calculated at concession level instead of well or well group level effective from 1 January 2016. The change in estimate using concession level unit of production depreciation will be more reflective of the overall utilisation of gas properties over the period of the PSC and is consistent with industry practice.

- *Employee benefit expenses.* Our employee benefit expenses are RMB74.3 million and RMB73.9 million for the six months ended 30 June 2015 and 2016, respectively.

- *Materials, services and logistics.* Our materials, services and logistics expenses decreased by RMB14.8 million or 24.5%, from RMB60.3 million for the six months ended 30 June 2015 to RMB45.5 million for the six months ended 30 June 2016, primarily due to the reduction of one-off expenses related to IPO totaling RMB18.6 million and non-operations-related expenses for headquarters' business development/feasibility studies of RMB11.8 million included in the six months ended 30 June 2015, partially offset by increased professional fees after we became a listed company, and increased electricity and other operating costs at Panzhuang associated with more wells put into production and additional boosters and compressors installed in gas gathering stations for the six months ended 30 June 2016.

- *Others.* Our other expenses increased by RMB0.9 million or 9.1%, from RMB9.9 million for the six months ended 30 June 2015 to RMB10.8 million for the six months ended 30 June 2016, mainly due to increase in office rent in Mabi as a result of growing business.

EBITDA. Our EBITDA decreased by RMB63.8 million or 30.6%, from RMB208.7 million for the six months ended 30 June 2015 to RMB144.9 million for the six months ended 30 June 2016. This decrease was primarily due to decrease in average realized sales price from RMB1.77 per cubic meter for the six months ended 30 June 2015 to RMB1.20 per cubic meter for the six months ended 30 June 2016, reduction in VAT refund as a result of decrease in revenues and increase of material and electricity expenses in Panzhuang, partially offset by increase in subsidy income for the six months ended 30 June 2016, reduction of one-off expenses related to our IPO and headquarters' business development/feasibility studies expenses included in the six months ended 30 June 2015. Included in the EBITDA of RMB208.7 million for the six months ended 30 June 2015 are non-cash share-based compensation expenses of RMB21.2 million, one-time expenses of RMB18.6 million related to our IPO, and non-operations-related expenses for headquarters' business development/feasibility studies of RMB11.8 million. Included in the EBITDA of RMB144.9 million for the six months ended 30 June 2016 are non-cash share-based compensation expenses of RMB19.6 million and business development/feasibility studies expenses of RMB0.9 million. Panzhuang's EBITDA decreased by RMB81.1 million or 27.0%, from RMB300.9 million for the six months ended 30 June 2015 to RMB219.8 million for the six months ended 30 June 2016. Panzhuang's EBITDA for the six months ended 30 June 2016 decreased because of decrease in average realized selling price, reduction in VAT refund and higher materials and electricity expenses, which was partially offset by increase in subsidy. Mabi's EBITDA was negative RMB19.0 million for the six months ended 30 June 2015 and negative RMB21.2 million for the six months ended 30 June 2016 since it was still in the exploration stage during both periods.

Profit from operations. As a result of the foregoing, our profit from operations decreased by RMB28.2 million or 20.5%, from a profit from operations of RMB137.4 million for the six months ended 30 June 2015 to a profit from operations of RMB109.2 million for the six months ended 30 June 2016.

Interest income. Our interest income increased by RMB3.0 million or 150.0%, from RMB2.0 million for the six months ended 30 June 2015 to RMB5.0 million for the six months ended 30 June 2016 primarily due to interest earned from increased cash and fixed deposit balances.

Finance costs. Our finance costs increased by RMB6.0 million or 162.2%, from RMB3.7 million for the six months ended 30 June 2015 to RMB9.7 million for the six months ended 30 June 2016, largely due to commitment fees increased by RMB5.3 million for a new US$250 million reserve-based lending ("**RBL**") loan ("**New US$250 million RBL**") obtained in July 2015 to re-finance the original US$100 million RBL loan ("**Original US$100 million RBL**").

Exchange gains. Our foreign exchange translation gains increased by RMB2.5 million from RMB5.1 million for the six months ended 30 June 2015 to RMB7.6 million for the six months ended 30 June 2016.

Profit before income tax. Our profit before income tax decreased by RMB28.7 million or 20.4% from a profit of RMB140.8 million for the six months ended 30 June 2015 to a profit of RMB112.1 million for the six months ended 30 June 2016 mainly due to the factors affecting EBITDA, reduction in depreciation and amortization expense and the increase in commitment fees as explained in finance costs stated above.

Income tax expense. Our income tax expense decreased by RMB11.1 million, or 21.9%, from RMB50.8 million for the six months ended 30 June 2015 to RMB39.7 million for the six months ended 30 June 2016, mainly due to decrease in profit before income tax for the six months ended 30 June 2016. Income tax expense is calculated based on Panzhuang's taxable profit. Mabi had no income tax expense given it is still in the exploration stage and had no taxable profit.

Profit for the period. Our profit for the period decreased by RMB17.6 million, or 19.6%, from RMB90.0 million for the six months ended 30 June 2015 to RMB72.4 million for the six months ended 30 June 2016, primarily due to the factors affecting profit before income tax stated above, offset by the decrease in income tax expense of RMB11.1 million.

LIQUIDITY AND CAPITAL RESOURCES

We had cash and bank balances of RMB2,332.4 million as at 30 June 2016 (RMB2,563.8 million as at 31 December 2015).

On 8 July 2015, Sino-American Energy, Inc. ("**SAEI**") entered into a new US$250 million reserve-based facility 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 2016, the unutilised portion of the New US$250 million RBL is US$180 million.

As of 31 December 2015 and 30 June 2016, we had long-term borrowings of RMB418.9 million and RMB430.8 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 of 31 December 2015 and 30 June 2016, respectively.

Cash Flows

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Net cash generated from operating activities	**91,191**	60,736
Net cash used in investing activities	**(107,326)**	(213,901)
Net cash used in financing activities	**(18,755)**	(14,443)
Net decrease in cash and cash equivalents	**(34,890)**	(167,608)
Cash and cash equivalents at beginning of period	**2,309,810**	1,099,673
Exchange gains on cash and cash equivalents	**31,612**	74
Cash and cash equivalents at end of the period	**2,306,532**	932,139

Operating Activities

Net cash generated from operating activities was RMB91.2 million for the six months ended 30 June 2016 largely due to profit before income tax of RMB112.1 million, depreciation and amortization of RMB35.7 million, non-cash share-based compensation of RMB19.6 million and finance costs of RMB9.7 million. These were offset by an increase in trade and other receivables of RMB50.9 million, decrease in trade and other payables of RMB6.5 million, interest income of RMB5.0 million, exchange gain of RMB6.0 million which includes non-cash foreign exchange translation gain of RMB7.9 million arising from the US dollar denominated intercompany loan, RMB4.8 million income tax paid, and RMB12.5 million of interest paid under the New US$250 million RBL.

Investing Activities

Net cash used in investing activities was RMB107.3 million for the six months ended 30 June 2016 and comprised mainly of purchases of property, plant and equipment of RMB340.2 million and increase in restricted bank deposits of RMB17.9 million, offset by decrease in term deposits with an initial term of over three months of RMB246.0 million and interest received of RMB4.4 million. The purchase of property, plant and equipment primarily comprised of payment for more wells drilled, additional boosters and compressors, and construction of gas gathering stations and power facilities.

Financing Activities

Net cash used in financing activities was RMB18.8 million for the six months ended 30 June 2016 largely due to RMB7.7 million of IPO-related expenses and finance costs of RMB11.1 million for commitment fees and other related costs paid for the unutilised portion of the New US$250 million RBL.

Cash and Bank Balances

We had cash and bank balances of RMB2,563.8 million and RMB2,332.4 million as of 31 December 2015 and 30 June 2016, respectively. Our cash and bank balances consist of cash on hand, cash at banks, term deposits with an initial term of up to three months, and restricted bank deposits. The decrease in our cash position is largely due to purchases of property, plant and equipment. As at 31 December 2015 and 30 June 2016, we had approximately 73.9% and 67.4% 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 a financial measure 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	
	2016	2015
	RMB'000	*RMB'000*
Reconciliation of profit for the period to EBITDA:		
Profit for the period	**72,407**	89,981
Income tax expense	**39,686**	50,784
Interest income	**(5,038)**	(1,977)
Finance costs	**9,737**	3,699
Exchange gains	**(7,563)**	(5,096)
Depreciation and amortization	**35,672**	71,309
EBITDA	**144,901**	208,700
Share-based compensation expenses (non-cash)	**19,643**	21,152
Listing expenses related to the IPO	**–**	18,645
Non-operations-related business development/feasibility studies expenses	**863**	11,790
Adjusted EBITDA	**165,407**	260,287

Our EBITDA decreased by RMB63.8 million or 30.6%, from RMB208.7 million for the six months ended 30 June 2015 to RMB144.9 million for the six months ended 30 June 2016. This decrease was primarily due to decrease in average realized price from RMB1.77 per cubic meter for the six months ended 30 June 2015 to RMB1.20 per cubic meter for the six months ended 30 June 2016, reduction in VAT refund as a result of decrease in revenues and increase of material and electricity expenses in Panzhuang, partially offset by increase in subsidy income for the six months ended 30 June 2016, reduction of one-off expenses related to our IPO and headquarters' business development/feasibility studies expenses included in the six months ended 30 June 2015.

Our adjusted EBITDA decreased by RMB94.9 million, or 36.5%, from RMB260.3 million for the six months ended 30 June 2015 to RMB165.4 million for the six months ended 30 June 2016. This decrease was due to the reasons explained above for the decrease in EBITDA, in addition to one-time IPO related expenses and non-operations-related business development/feasibility studies expenses included in the six months ended 30 June 2015, and decreased non-cash share-based compensation expenses for the six months ended 30 June 2016.

FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

Our activities expose us 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 our annual financial statements as at 31 December 2015.

We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than our functional currency.

Prior to 30 April 2016, we were exposed to non-cash foreign exchange risk arising from retranslation of US$ denominated inter-company loans. To manage the foreign exchange risk, management decided to execute a debt restructuring on 30 April 2016 by converting the inter-company loans into perpetual loans through entering into perpetual loan agreements between respective group companies such that the perpetual loans do not bear interest and the lenders can not request repayment. Upon completion of this debt restructuring, any foreign exchange differences arising from retranslation of these US$ denominated perpetual loans are recognised in equity in the consolidated financial statements.

(b) Liquidity risk

Compared to 31 December 2015, 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 2016.

EMPLOYEES

As at 30 June 2016, the Company had 719 employees, with 78 based in Beijing, 639 based in Shanxi and 2 based in Hong Kong. As of 30 June 2016, the number of outstanding share options granted by the Company to its Directors and employees is 233,003,815 shares. As of 30 June 2016, the number of outstanding RSUs granted by the Company to its employees is 40,213,996 shares.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the Company (the "**Listing**") (after deducting underwriting fee and relevant expenses) amounted to approximately RMB1,506.9 million. As of 30 June 2016, RMB123.0 million of the proceeds had been utilised. The net proceeds 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 of the Company date 11 June 2015 (the "**Prospectus**").

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

We are 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 The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. Save for the non-compliance of CG Code provision A.5.1 due to retirement of Dr. Tin Yau Kelvin Wong with effect from 28 April 2016, which has been remedied upon the appointment of Mr. Stephen Cheuk Kin Law becoming effective on 2 July 2016, the Company has complied with all the code provisions of the CG Code from 1 January 2016 to 30 June 2016 (the "**Reporting Period**"). 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 Issuer" contained in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct for directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code during the Reporting Period.

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 during the Reporting Period.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

During the Reporting Period, Dr. Tin Yau Kelvin Wong has retired as an independent non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee due to his business engagement/arrangements, effective upon the conclusion of the annual general meeting held on 28 April 2016. Mr. Zhijie Zeng has retired as a non-executive Director with effect from 28 April 2016. Mr. Stephen Cheuk Kin Law has been appointed as an independent non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee with effect from 2 July 2016.

Between Dr. Tin Yau Kelvin Wong's retirement from the Board on 28 April 2016 and the appointment of Mr. Stephen Cheuk Kin Law becoming effective on 2 July 2016, since the Company only had three independent non-executive Directors and none of them had the qualification required under Rule 3.10(2) of the Listing Rules, (i) the composition of independent non-executive Directors has fallen short of the minimum number requirement under Rule 3.10A and the qualification requirement under Rule 3.10(2) of the Listing Rules; and (ii) the composition of the Audit Committee has fallen short of the requirements set out in Rule 3.21 of the Listing Rules. The above Listing Rules had been re-complied with upon appointment of Mr. Stephen Cheuk Kin Law becoming effective.

Save as disclosed above, there are no changes on the composition of the Board of Directors, the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company during the Reporting Period.

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 as at the date of this interim results announcement.

The Audit Committee has reviewed the unaudited condensed interim results of the Group for the six months ended 30 June 2016.

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 2016 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 2016 interim report containing all the information required under 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.

CONNECTED TRANSACTION — RELINQUISHMENT OF RIGHT TO EXERCISE THE INNER MONGOLIA OPTION

Reference is made to the Prospectus. Capitalised terms used in the following paragraphs shall have the same meanings as defined in the Prospectus unless the context requires otherwise.

As mentioned in the section headed “Relationship with Controlling Shareholders” in the Prospectus, pursuant to the Inner Mongolia Option Agreement, the Option Agreement and the Inner Mongolia Option Supplemental Agreement (together, the “**Inner Mongolia Project Agreements**”), the Company (or its designated foreign entity) has the exclusive right to participate as the only foreign investor in the Inner Mongolia Project by entering into production sharing contract or any other similar forms of arrangement as allowed under relevant PRC laws and regulations at the time (the “**Inner Mongolia Option**”). The Inner Mongolia Option will expire at the earlier of (i) the Company or any of its designated foreign company entering into a production sharing contract with a Chinese partner authorized by the State Council for the Inner Mongolia Project and all relevant PRC governmental and regulatory approvals and consents having been obtained; or (ii) three years after the Listing.

The Inner Mongolia Project is in respect of three CBM concessions, which are situated in northeastern Xilingol League, Inner Mongolia and extend over areas of 365.6 square kilometers, 508.802 square kilometers and 513.5 square kilometers, respectively. The Inner Mongolia Option was granted by China CBM Investment Holdings II (2) Limited (“**CCBMII**”), a wholly owned subsidiary of Northern Gas Limited (“**Northern Gas**”). For further details of the Inner Mongolia Project, please refer to the Prospectus.

The commercial rationale for such an arrangement is to allow the Company the right to participate in the future upside of the Inner Mongolia Project, but at the same time, to avoid the potential risks and uncertainties associated with investing in the Inner Mongolia Project given that at the time of the Listing, the Inner Mongolia Project was still at its planning stage and there are certain risks and uncertainties (including operational risks and uncertainties of obtaining the governmental approvals) associated with investing in the Inner Mongolia Project.

During the period from the date of Listing to the date of this announcement, there was no substantial development in the CBM exploration and production in the Inner Mongolia Project.

In order to support exploration activities planned under the Inner Mongolia Project and maintain sufficient capital level (the “**Capital Requirement**”) as required under the relevant exploration licenses granted by the Ministry of Land and Resources of the PRC (the “**Licenses**”), the Inner Mongolia Project requires further financing of approximately US$10 million during the years of 2016 to 2018. Without timely funding, the Licenses may be revoked due to the non-fulfillment of the Capital Requirement and the Inner Mongolia Project will as a result be unable to continue its exploration work.

The Company and CCBM II have explored and evaluated various ways for providing funding to the Inner Mongolia Project. Having considered that:

(i) the Inner Mongolia Project is still in a very early exploration stage and entails various uncertainties including, among others, limited exploration scale and yet-to-be-tested reserves and commerciality, and providing further financial supports to the Inner Mongolia Project will cause direct adverse impact on the profits of the Company;

(ii) the Inner Mongolia Option is not exercisable yet as the relevant governmental and regulatory approvals and consents for the investment in the Inner Mongolia Project by the Company have yet to be obtained; and

(iii) the Inner Mongolia Project is difficult to attract any new investment given the uncertainty of the involvement of the Company in the Inner Mongolia Project and whether or not the Company will exercise the Inner Mongolia Option,

the Company has decided to relinquish the right to exercise the Inner Mongolia Option to enable the Inner Mongolia Project to bring in new investments or funding and avoid incurring significant expenditure in the Inner Mongolia Project by the Company, and allow the Company a future potential opportunity for other forms of cooperation in the Inner Mongolia Project.

The Board is of the view that the relinquishment of the right to exercise the Inner Mongolia Option is unlikely to impact the market value of the Company, given that the Inner Mongolia Project is still in a very early stage and will not be able to generate significant revenue now or in the foreseeable future.

As mentioned in the Prospectus, in order to further protect the interests of the shareholders of the Company in respect of the exercise of the Inner Mongolia Option, the following additional corporate governance measures have been adopted:

(i) Dr. Guiyong Cui and Dr. Bo Bai who are directors of CCBM II have abstained from participation, and were not counted towards the quorum, in the Board meeting at which the matters relating to the exercise of the Inner Mongolia Option was discussed. As Dr. Stephen Xiangdong Zou, WP China CBM Investment Holdings Limited and Baring Private Equity Asia IV Holding (4) Limited hold interest in Northern Gas, Dr. Stephen Xiangdong Zou, Mr. Peter Randall Kagan, Mr. Gordon Sun Kan Shaw and Mr. Zhen Wei have abstained from participation, and were not counted towards the quorum, in the Board meeting at which the matters relating to the exercise of the Inner Mongolia Option was discussed. Save as disclosed above, none of the Directors had material interests in the matters relating to Inner Mongolia Option and was required to abstain from participation in the Board meeting.

(ii) An independent board committee comprising all of the independent non-executive Directors has reviewed the matters in relation to the Inner Mongolia Option and decided, after having considered, among other things, the advice of relevant members of the Company's senior management, that (i) relinquishment of the right to exercise the Inner Mongolia Option is in the best interests of the Company and the shareholders of the Company as a whole and (ii) the Company to relinquish the right to exercise the Inner Mongolia Option.

Pursuant to the Inner Mongolia Project Agreements, the Company is entitled to unilaterally relinquish the right to exercise the Inner Mongolia Option. The Company has on 26 August 2016 serve a termination notice to CCBM II informing it the Company's decision to relinquish the right to exercise the Inner Mongolia Option. No consideration is required to be paid by the Company for the relinquishment of the right to exercise the Inner Mongolia Option.

FINANCIAL INFORMATION OF THE INNER MONGOLIA PROJECT

Below set forth the net losses (both before and after taxation and extraordinary items) attributable to the Inner Mongolia Project for the two financial years ended 31 December 2014 and 2015.

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2015
Net loss (before taxation and extraordinary items)	RMB5,396,568	RMB943,698
Net loss (after taxation and extraordinary items)	RMB5,396,568	RMB943,698

As at 31 December 2015, the value of the assets of the Inner Mongolia Project was RMB2,133,687.

LISTING RULES IMPLICATIONS

As WP China CBM Investment Holdings Limited, a substantial Shareholder, controls the exercise of more than 30% of the voting power at general meetings of Northern Gas, Northern Gas is therefore a connected person of the Company. The relinquishment of the right to exercise the Inner Mongolia Option constitutes a connected transaction of the Company.

As the applicable percentage ratios for the relinquishment of the right to exercise the Inner Mongolia Option are higher than 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The principal business activities of the Group are the exploration, development and production of coal bed methane resources in China.

The principal business activities of CCBM II are investment in the exploration of coal bed methane resources in Inner Mongolia, China.

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, 26 August 2016

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 Bo Bai; and the independent non-executive Directors are Yaowen Wu, Robert Ralph Parks, Stephen Cheuk Kin Law and Fredrick J. Barrett.