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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of AAG Energy Holdings Limited ("**AAG**" or the "**Company**", together with its subsidiaries, collectively the "**Group**"), I hereby present the annual results of the Company for the year ended 31 December 2016.

BUSINESS REVIEW

2016 total gross production and net reserve growth:

We are pleased to announce the Group continues to deliver both gross production and net reserve growth, compared with 2015. The Group's 2016 total gross production increased by 7% compared with 2015 to 541 million cubic meters ("**MMCM**") (19.1 billion cubic feet ("**bcf**")), comprising 506 MMCM (17.9 bcf) from Panzhuang and 35 MMCM (1.2 bcf) from Mabi. Our gross gas sales volume before value added tax ("**VAT**") and local taxes increased by 3.5% to 496 MMCM (17.5 bcf), compared with 2015. The Group's Net Proved + Probable ("**2P**") natural gas reserves as at year-end 2016 is approximately 698 bcf, which represents a 4.1% increase over the Net 2P of 670 bcf at year-end 2015.

Panzhuang entered production phase:

The Group would like to announce that the Panzhuang project, partnered with China United Coalbed Methane Corporation Ltd. (中聯煤層氣有限責任公司, "**CUCBM**") reached its Overall Development Plan ("**ODP**") design capacity of 495 MMCM (17.5 bcf) and entered production phase on 1 November 2016. This makes Panzhuang the first Sino-foreign Coalbed Methane ("**CBM**") project to complete development and enter production phase. This is another major milestone for Panzhuang since its receipt of ODP approval from The National Development and Reform Commission of the People's Republic of China ("**PRC**") (中華人民共和國國家發展和改革委員會, "**NDRC**") on 28 November 2011.

AAG reported a profit of RMB106.6 million in 2016:

2016 was a challenging year for oil and gas producers globally and it was no different for AAG. Due to the slowdown in the Chinese economy and the announcement by the NDRC to reduce the China gas price, our average realized gas price ("**ASP**") was RMB1.20/m^3 (US$5.13/mcf) in 2016, a decrease of RMB0.46/m^3 or 28%, compared with 2015. As a result, our 2016 revenue declined by RMB125.4 million to RMB411.3 million. While revenue decreased in 2016, the Company realized a profit of RMB106.6 million in 2016.

FINANCIAL REVIEW

Please refer to section headed Review of Financial Results below.

OPERATIONS REVIEW

The Group has achieved significant progress towards certain key operational objectives for its two key assets operated by the Group's two subsidiaries: Panzhuang concession operated by Sino-American Energy, Inc. ("**SAEI**") and Mabi concession operated by Asian American Gas, Inc. ("**AAGI**").

Panzhuang Concession

- *Panzhuang production update*

  Panzhuang 2016 gross production increased by 3.7% to 506 MMCM (17.9 bcf) compared to last year's Panzhuang gross production of 488 MMCM (17.2 bcf). Panzhuang's utilization rate remained very good at 98% of gross production in 2016. Panzhuang's gross sales volume before VAT and local taxes in 2016 increased slightly by 3.5% to 495.5 MMCM (17.5 bcf), compared with the full year 2015 gross sales volumes before VAT and local taxes of 478.6 MMCM (16.9 bcf). Further details on production and well count of Panzhuang are set out below in Table 1.

- *Panzhuang drilling and surface facilities update*

  In 2016, AAG drilled and completed 30 wells (comprising 28 single lateral horizontals ("**SLH**") and 2 pad drill wells ("**PDW(s)**"). The 28 SLH wells were drilled in just 22 days on average with an average drilling cost of RMB3.8 million compared with a 2015 average of RMB5.8 million, with wells drilled in 31 days on average. We fractured 6 PDWs and completed 10 surface compressors uplift projects further expanding the well completion activities and achieving the target wellhead gathering pressure in 2016. By the end of 2016, there was a total of 5 gas gathering stations, and 16 wellhead compressors online. The 2016 average daily production was 1.38 MMCM per day ("**MMCMD**") and remained the highest productive CBM concession in China. At the end of 2016, there were a total of 97 wells contributing to production. Of these 97 wells, there are 14 PDWs, 49 multi-lateral wells ("**MLD**"), and 34 SLH wells.

Mabi Concession

- *Mabi pilot program update*

AAG's Mabi concession showed promising success in 2016 as it continues to ramp up to Overall Development Plan Phase I ("**ODP I**") approval. Mabi's 2016 gross pilot production increased to 35 MMCM (1.2 bcf) compared with 15.9 MMCM (0.57 bcf) in 2015. The 2016 average daily production for Mabi was 95.5 thousand cubic meters per day ("**MCMD**"), a 119% increase compared to 43.65 MCMD in 2015.

We drilled 8 SLH wells in Mabi in 2016 with an average drilling cost of RMB4.8 million and average drilling time of 28 days. The fracture work plan was expanded in 2016 building off the demonstrated success in 2015, with 31 wells fractured, a total of 127 stages. Of these 127 stimulations, there were 69 fractures on 7 SLH wells with an average of 10 stages per well. These fracture stimulations cost an average of RMB550,000 per stage in 2016. The remaining 58 fractures were conducted on PDW wells, with an average of 4 stages per PDW in multiple coal seams. The fracture work for PDW cost an average of RMB400,000 per stage. Of the fractured PDWs, pad MB02-A3-67S with 12 PDWs averaged 34 MCMD in December 2016, representing an average of 2.8 MCMD per well, very promising production for PDW. AAG is very pleased with the increasing success of the well stimulation and completion techniques further demonstrating the Group's leading technological advantage in CBM development and production.

Mabi continues to dewater the recently drilled SLH wells as many have yet to hit their gas production peak rate and still have a high bottom hole pressure. Therefore, more production track record is needed before we can determine the economic viability of these wells.

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

	2016	2015	% Change
PZ gross production (MMCM)	**506.13**	488.29	3%
Total PZ producing wells*	**97**	63	54%
PZ MLD	**49**	49	0
PZ SLH	**34**	7	386%
PZ PDW	**14**	7	100%
PZ daily production (MMCMD)	**1.38**	1.34	3%
PZ daily production per well (MCMD)	**14.26**	21.23	–33%
PZ wells fracked	**6**	13	–46%
MB gross production (MMCM)	**34.95**	15.93	119%
Total MB producing wells*	**121**	80	51%
MB MLD	**2**	4	–50%
MB SLH	**12**	7	71%
MB PDW	**107**	69	55%
MB daily production (MCMD)	**95.5**	43.65	119%
MB daily production per well (MCMD)	**0.79**	0.55	44%
MB wells fracked	**31**	35	–9%

* Well count is calculated from pumping start date

- *Mabi ODP progress*

  Mabi made further progress in 2016 based on the approvals for Mabi ODP I. All Mabi ODP I associated pre-approvals have been secured, including land use, social stability assessment and environment impact assessment, etc. The Mabi ODP I report has been revised based on the latest progress made in the Mabi pilot program and changed market conditions, and is currently under final review by our project partner, China National Petroleum Corporation (中國石油天然氣集團公司, "**CNPC**"), and it will be submitted to the NDRC afterwards. Based on prior experience, once submission is made to the NDRC, Mabi ODP I approval is expected to be obtained within 6 to 12 months.

EXPLORATION AND RESERVE UPDATE

The Group is very pleased with the 2016 reserve upgrade program in both the Mabi and Panzhuang concessions. In Mabi, 8 reserve wells have been drilled, and 37 wells have been fractured in 2016. A total of 35 wells are contributing to the reserve upgrade program in Mabi (targeting coal seams 2, 3, 9, and 15) in 2016 which will contribute to both the national reserve certification by the PRC Ministry of Land and Resources, (中華人民共和國國土資源部, "**MOLAR**") and the Netherland, Sewell & Associations, Inc. ("**NSAI**")'s 2P reserve upgrade for Mabi. In Panzhuang, we drilled 2 wells in 2016 that contributed to the reserve upgrade, with one well currently under commercial production.

Based on reports issued by NSAI , an independent reserve certification company, the Group's Net 2P natural gas reserves as at year-end 2016 are approximately 698 bcf, which represents a 4.1% increase over the Net 2P of 670 bcf at year-end 2015. The Panzhuang concession contributed a Net 2P of 197.3 bcf, a 6.1% increase over the Net 2P of 186 bcf at year-end 2015, and the Mabi concession contributed a Net 2P of 500.5 bcf, a 3.4% increase over the Net 2P of 484 bcf at year-end 2015.

We continue to migrate reserves up the value chain and are very pleased that we announced Net 1P reserves of 9.7 bcf in Mabi in 2016. The Group's Net 3P reserves at year-end 2016 is 1,525 bcf, a decrease of 3.1% from 1,574 bcf at year-end 2015. The main cause of this decrease, is the delay in receiving Mabi ODP I approval that we now expect to receive in the second half of 2017.

Panzhuang's Net 3P reserves increased by 8.9% from 243 bcf at year-end 2015 to 264.8 bcf at year-end 2016 due to additional wells added to our long-range plan, increasing the amount of gas we expect to produce before the Panzhuang production sharing contract ("**PSC**") expires in 2028. This shows our commitment to developing Panzhuang above its original design capacity of 17.5 bcf per year. This expanded reserve base will further contribute production uplift in Panzhuang and the full-scale commercialization of Mabi.

The following table sets forth our reserve data as of 31 December 2016 compared with 2015:

Table 2 — The reserve data of the Group

Reserve Data***	**Gross**	**Net(*) (***)**	**Post-tax NPV10%(**)**	**2015 Net (*) (***)**
	(bcf)	*(bcf)*	*(US$ million)*	*(bcf)*
Total				
Proved (1P)	136.0	107.2	277.6	93.5
Proved + probable (2P)	1,002.1	697.8	701.6	670.5
Proved + probable + possible (3P)	2,357.6	1,525.0	1,137.0	1,573.8
Panzhuang				
Proved (1P)	124.4	97.5	252.6	93.5
Proved + probable (2P)	253.1	197.3	508.8	186.0
Proved + probable + possible (3P)	341.6	264.8	682.8	243.4
Mabi				
Proved (1P)	11.6	9.7	25.0	N/A
Proved + probable (2P)	749.0	500.5	192.8	484.4
Proved + probable + possible (3P)	2,016.0	1,260.2	454.2	1,330.4

Notes:

* Net gas reserves are our share of the gas reserves according to the terms of each production sharing contract and after adjustment for fuel and shrinkage.

** Represents our share of the future gross revenue from the CBM concession under the production sharing contracts, after additions for cost recovery and deductions for value-added taxes, royalties, future capital costs and operating expenses. The future net revenue is presented after deduction of income taxes and has been discounted at an annual rate of 10% to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report should not be construed as being the fair market value of the properties.

*** Our reserve estimates and the future net revenue have been prepared by NSAI in accordance with generally accepted petroleum engineering and evaluation principles set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. NSAI used standard engineering and geosciences methods or a combination of methods, including performance analysis, volumetric analysis, and analogy, that it considered to be appropriate and necessary to classify, categorize, and estimate volumes in accordance with the 2007 PRMS (the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007) definitions and guidelines. These reserve amounts are estimates only and should not be construed as exact quantities.

NEW OPPORTUNITIES

The Group has been actively pursuing new oil and gas opportunities for future growth, mainly covering attractive oil and gas assets inside and outside China. Under the current lower oil price environment, the valuation of oil and gas assets is very attractive. In 2016, the AAG Team screened numerous deals and progressed one highly attractive South East Asia deal to a very advanced stage of negotiations. Unfortunately, the seller pulled the asset off the market during this advanced stage due to internal corporate and strategic reasons. With our strong balance sheet and technical knowhow of the management team, we believe the Group is well positioned for further expansion through partnering with other oil and gas producers and/or acquiring attractive assets in the near term.

OUTLOOK AND GUIDANCE FOR 2017

China gas demand is expected to grow by 14% in 2017 according to research conducted by SIA Energy, an independent China-focused oil and gas consulting firm. Global oil price recovery, combined with the PRC government plan to encourage the use of more natural gas to replace coal consumption, will further contribute to an increase in China gas demand and natural gas's competitiveness over oil and other hydrocarbon products in 2017.

As published in the 13th Five Year Plan, the PRC government is committed to establishing the right incentives and market drivers for increasing gas demand by 2020, and CBM is a major part of this plan. The National Energy Administration of the PRC (國家能源局, "**NEA**") and the NDRC took great strides in 2015 and 2016 in gas reform initiatives, including: pushing third party access implementation, rolling out fuel switching programmes, enhancing infrastructure interconnectivity, and streamlining the hierarchy of gas transmission and distribution businesses. The NEA will take further steps in 2017 to incentivize gas production and market reform. These measures will support AAG's growth aspirations as we continue to be the leading independent producer of CBM in China.

For 2017, the Group will continue making investments in Panzhuang and Mabi as follows:

- **Panzhuang**

  In Panzhuang, the Group will continue to invest in production enhancement of existing production wells, by implementing nitrogen cleanouts, surface compression, and fracture stimulation, as well as drilling new wells.

  The full year plan includes drilling 29 SLH production wells, 3 major fracture jobs on PDWs and 4 major work overs on existing wells. Surface facilities investments will include the continuation of the central station upgrade, further power station construction, and related trunk line construction for future development.

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

- **Mabi**

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

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

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

- **Exploration**

  The Group will continue to prove up reserves in our Mabi concession. We plan to drill 1 new reserve well in 2017, while conducting at least 24 fractures on existing wells. Further investment will go into well completion works, including pumping and dewatering for the production test on the portfolio of pilot production wells.

The Group plans to incur capital expenditures ("**CAPEX**") of approximately RMB590 million (comprising approximately RMB290 million in Panzhuang, RMB230 million in Mabi and RMB70 million for exploration, respectively) which will be funded by internal cashflows, a portion of proceeds from the IPO or the unutilized portion of the US$250 million reserve based lending ("**RBL**") loan.

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

FINANCIAL RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2016 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**411,278**	536,655
Other income	*6*	**149,276**	127,672
Other losses, net		**(913)**	(163)
Operating expenses			
Depreciation and amortisation		**(74,613)**	(142,086)
Employee benefit expenses		**(164,142)**	(155,162)
Materials, services and logistics		**(100,203)**	(113,815)
Others		**(23,543)**	(23,260)
Total operating expenses		**(362,501)**	(434,323)
Profit from operations		**197,140**	229,841
Interest income	*7*	**10,699**	5,815
Finance costs	*7*	**(18,578)**	(29,126)
Exchange losses	*7*	**(10,281)**	(154,813)
Finance costs, net		**(18,160)**	(178,124)
Profit before income tax		**178,980**	51,717
Income tax expense	*8*	**(72,345)**	(108,656)
Profit/(loss) attributable to owners of the Company for the year		**106,635**	(56,939)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**90,613**	259,233
Total comprehensive income attributable to owners of the Company for the year		**197,248**	202,294
Earnings/(losses) per share (RMB)			
— Basic	*12*	**0.03**	(0.02)
— Diluted	*12*	**0.03**	(0.02)

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,188,674**	2,639,914
Land use rights		**12,265**	12,547
Intangible assets		**33,907**	15,025
Other non-current assets		**4,116**	–
		3,238,962	2,667,486
Current assets			
Inventories		**1,760**	1,097
Trade and other receivables	*9*	**319,850**	255,339
Current income tax prepaid		**2,555**	–
Restricted bank deposits		**31,583**	8,033
Term deposits with initial terms of over three months		**–**	246,000
Cash and cash equivalents		**2,343,764**	2,309,810
		2,699,512	2,820,279
Total assets		**5,938,474**	5,487,765
EQUITY			
Equity attributable to owners of the Company			
Share capital		**2,034**	2,034
Capital surplus		**4,839,134**	4,700,281
Accumulated deficits		**(4,234)**	(110,869)
Total equity		**4,836,934**	4,591,446
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		**13,176**	8,409
Borrowings	*10*	**496,376**	418,859
Deferred income tax liabilities		**148,213**	76,158
		657,765	503,426
Current liabilities			
Trade and other payables	*11*	**443,775**	390,453
Current income tax liabilities		**–**	2,440
		443,775	392,893
Total liabilities		**1,101,540**	896,319
Total equity and liabilities		**5,938,474**	5,487,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AAG Energy Holdings Limited and its subsidiaries are principally engaged in exploration, development and production of CBM in 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 PSCs entered into with CUCBM and PetroChina Company Limited for the Panzhuang and Mabi concessions respectively in Shanxi Province of the PRC.

The ODP of the Panzhuang concession was approved by NDRC on 28 November 2011, which allowed the Panzhuang concession to enter into the commercial development phase. Panzhuang concession reached its ODP design capacity and entered into production phase on 1 November 2016. As at 31 December 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 AAGI and its subsidiary 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 "**Stock Exchange**"), 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 at 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are presented in Renminbi ("**RMB**") unless otherwise stated.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38

- Annual improvements to HKFRSs 2012–2014 cycle, and

- Disclosure initiative — amendments to HKAS 1

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(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 other comprehensive income ("**OCI**") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial 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 OCI, 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.

There are no other HKFRS or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. 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 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 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 and is consistent with industry practice. This change resulted in a decrease in depreciation by approximately RMB72 million for the year ended 31 December 2016. It is impracticable to estimate the impact for future years.

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. Consolidated 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 losses ("**EBITDA**").

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2016 is as follows:

	Panzhuang concession *RMB'000*	**Mabi concession** *RMB'000*	**Total** *RMB'000*
For the year ended 31 December 2016			
Revenue from external customers	**411,278**	**–**	**411,278**
EBITDA	**441,628**	**(45,075)**	**396,553**
Other income	**149,276**	**–**	**149,276**
Operating expenses	**(184,449)**	**(50,135)**	**(234,584)**
Depreciation and amortisation	**(65,906)**	**(5,589)**	**(71,495)**
Interest income	**8,933**	**113**	**9,046**
Finance costs	**(2,654)**	**(61)**	**(2,715)**
Exchange (losses)/gains	**(13,262)**	**3,782**	**(9,480)**
Income tax expense	**(72,345)**	**–**	**(72,345)**
For the year ended 31 December 2015			
Revenue from external customers	536,655	–	536,655
EBITDA	554,009	(43,313)	510,696
Other income	127,672	–	127,672
Operating expenses	(241,557)	(51,496)	(293,053)
Depreciation and amortisation	(131,214)	(8,370)	(139,584)
Interest income	5,138	36	5,174
Finance costs	(2,053)	(51)	(2,104)
Exchange losses	(62,832)	(88,703)	(151,535)
Income tax expense	(108,656)	–	(108,656)

	Panzhuang concession *RMB'000*	Mabi concession *RMB'000*	Total *RMB'000*
As at 31 December 2016			
Total assets	**2,344,636**	**1,991,940**	**4,336,576**
Additions to non-current assets (other than deferred tax assets)	**234,448**	**336,837**	**571,285**
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:

	Year ended 31 December	
	2016 ***RMB'000***	2015 *RMB'000*
Total EBITDA for reportable segments	**396,553**	510,696
Headquarter overheads	**(124,800)**	(138,769)
Depreciation and amortisation	**(74,613)**	(142,086)
Interest income	**10,699**	5,815
Finance costs	**(18,578)**	(29,126)
Exchange losses	**(10,281)**	(154,813)
Profit before income tax	**178,980**	51,717

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

	As at 31 December	
	2016 ***RMB'000***	2015 *RMB'000*
Total segment assets	**4,336,576**	3,602,247
Unallocated		
Unallocated cash and cash equivalent	**1,594,604**	1,878,878
Others	**7,294**	6,640
Total assets per balance sheet	**5,938,474**	5,487,765

5. REVENUE

For the years ended 31 December 2016 and 2015, all the Group's revenue is derived from the sale of the Group's share of CBM sold to customers in the PRC.

6. OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
VAT refund *(Note (a))*	**29,456**	58,864
Government subsidy *(Note (b))*	**119,820**	68,808
	149,276	127,672

(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 Coal Bed Methane" (《財政部國家税務總局關於加快煤層氣抽採有關税收政策問題的通知》) for the years ended 31 December 2015 and 2016. 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 Coal Bed 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 year ended 31 December 2015 and was adjusted according to "The announcement of Subsidies on The Development and Utilisation of Coal Bed 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 per cubic meter of the CBM sold for the year ended 31 December 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 COSTS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest expense of bank borrowings	**(33,369)**	(28,739)
Bank loan commitment fee	**(18,236)**	(13,925)
Write-off of unamortised costs relating to prepayment of bank borrowings	**–**	(14,878)
Accretion expenses of asset retirement obligations	**(342)**	(323)
Subtotal	**(51,947)**	(57,865)
Less: amounts capitalised on qualifying assets	**33,369**	28,739
Finance costs	**(18,578)**	(29,126)
Interest income	**10,699**	5,815
Exchange losses	**(10,281)**	(154,813)
Finance costs, net	**(18,160)**	(178,124)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**(290)**	(39,287)
Deferred income tax	**(72,055)**	(69,369)
	(72,345)	(108,656)

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 year.

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 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 statutory profit or loss of branches established in the PRC, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. 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%.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**178,980**	51,717
Tax expense calculated at applicable statutory tax rates	**(22,859)**	(47,043)
Tax losses with no deferred income tax assets recognised	**(47,229)**	(34,978)
Expenses not deductible for taxation purposes	**(1,967)**	(2,856)
Others	**(290)**	(23,779)
Income tax expense	**(72,345)**	(108,656)

9. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
— external customers	**20,061**	20,368
— CUCBM *(Note (a))*	**32,948**	65,288
Notes receivable *(Note (b))*	**119,567**	23,000
Government grants receivables *(Note (c))*		
— Government	**43,102**	77,873
— CUCBM	**42,620**	33,256
Due from CUCBM for cash calls and accrued expenses *(Note (d))*	**40,631**	17,296
Prepaid expenses, deposits and others	**28,118**	25,455
	327,047	262,536
Less: provision for impairment	**(7,197)**	(7,197)
	319,850	255,339

Note:

(a) 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.

(b) Notes receivables are bank acceptances with maturity dates within six months.

(c) This represents the VAT refund and government subsidies for CBM receivable through CUCBM.

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

(i) Aging analysis

(1) Trade receivables — due from external customers

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**12,864**	13,171
Over 3 years	**7,197**	7,197
	20,061	20,368
Provision	**(7,197)**	(7,197)
	12,864	13,171

	As at 31 December	
	2016	2015
Past due but not impaired	***RMB'000***	*RMB'000*
Within 3 months	**12,864**	13,171

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

The trade receivables are due upon billing.

(2) Trade receivables — due from CUCBM:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**32,948**	65,288

(ii) Movement of bad debt provision:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Beginning and end of the year	**7,197**	7,197

(iii) As at 31 December 2016, the carrying amounts of trade and other receivables approximated their fair values.

(iv) The carrying amounts of the Group's trade and other receivables (excluding prepayments) are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**298,378**	240,494
HK$	**723**	664
US$	**17**	–
	299,118	241,158

10. BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank loans, secured		
Between 2 and 5 years	**496,376**	–
Over 5 years	**–**	418,859
	496,376	418,859
Annual interest rate	**LIBOR+4.15%**	LIBOR+4.15%
Annual effective interest rate	**6.79%**	6.51%

As at 31 December 2016 and 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.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2016	2015
	USD'000	*USD'000*
Expiring beyond 1 year	**174,000**	180,000

As at 31 December 2016, the fair value of borrowings approximated to RMB496 million (31 December 2015: RMB419 million). The fair value is within level 2 hierarchy.

11. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**393,198**	341,414
Amounts due to related parties		
— CUCBM	**1,000**	1,000
— PetroChina Company Limited	**8,852**	8,183
Social securities and other payables	**40,725**	39,856
	443,775	390,453

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

At 31 December 2016, the aging analysis of the trade payables based on invoice date were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**322,202**	303,650
6 months to 1 year	**18,700**	10,553
1 to 2 years	**29,895**	20,418
2 to 3 years	**16,480**	5,929
Over 3 years	**5,921**	864
	393,198	341,414

(b) As at 31 December 2016, the carrying amounts of trade and other payables approximated their fair values.

(c) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**430,811**	371,518
HK$	**286**	71
US$	**12,678**	18,864
	443,775	390,453

12. EARNINGS/(LOSSES) PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2016.

For the purpose of presenting earnings per share, the weighted average number of ordinary shares for each of the years 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 IPO as if these issuance of shares had occurred at the beginning of the earliest year reported.

	Year ended 31 December	
	2016	2015
Profit/(loss) attributable to owners of the Company (RMB'000)	**106,635**	(56,939)
Weighted average number of ordinary basic shares in issue (Thousands)	**3,326,780**	3,007,555
Basic earnings/(losses) per share (RMB)	**0.03**	(0.02)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options and RSUs outstanding which are potentially dilutive. The assumed proceeds from conversion of these options 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.

For the year ended 31 December 2015, the Group made a loss therefore the effect of share options was anti-dilutive and is ignored from the calculation of diluted earnings per share.

	Year ended 31 December	
	2016	2015
Profit/(loss) attributable to owners of the Company (RMB'000)	**106,635**	(56,939)
Weighted average number of ordinary shares in issue (Thousands)	**3,326,780**	3,007,555
Adjustments for assumed conversion of share options and RSUs (Thousands)	**13,538**	–
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	**3,340,318**	3,007,555
Diluted earnings/(losses) per share (RMB)	**0.03**	(0.02)

13. DIVIDENDS

No dividend has been paid or proposed by the Company for the years ended 31 December 2016 and 2015.

REVIEW OF FINANCIAL RESULTS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**411,278**	536,655
— Panzhuang	**411,278**	536,655
— Mabi	**–**	–
Subsidy income	**119,820**	68,808
— Panzhuang	**119,820**	68,808
— Mabi	**–**	–
VAT refund	**29,456**	58,864
— Panzhuang	**29,456**	58,864
— Mabi	**–**	–
Other losses, net	**(913)**	(163)
Operating expenses	**(362,501)**	(434,323)
Depreciation and amortization	**(74,613)**	(142,086)
Employee benefit expenses	**(164,142)**	(155,162)
Materials, services and logistics	**(100,203)**	(113,815)
Others	**(23,543)**	(23,260)
Panzhuang	**(184,449)**	(241,557)
Depreciation and amortization	**(65,906)**	(131,214)
Employee benefit expenses	**(46,316)**	(49,258)
Materials, services and logistics	**(60,978)**	(49,601)
Others	**(11,249)**	(11,484)
Mabi	**(50,135)**	(51,496)
Depreciation and amortization	**(5,589)**	(8,370)
Employee benefit expenses	**(24,896)**	(24,581)
Materials, services and logistics	**(13,249)**	(12,496)
Others	**(6,401)**	(6,049)
Headquarters	**(127,917)**	(141,270)
Depreciation and amortization	**(3,118)**	(2,502)
Employee benefit expenses	**(92,930)**	(81,323)
Materials, services and logistics	**(25,976)**	(51,718)
Others	**(5,893)**	(5,727)
EBITDA	**271,753**	371,927
— Panzhuang	**441,628**	554,009
— Mabi	**(45,075)**	(43,314)
Profit from operations	**197,140**	229,841

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income	**10,699**	5,815
Finance costs	**(18,578)**	(29,126)
Exchange losses	**(10,281)**	(154,813)
Finance costs — net	**(18,160)**	(178,124)
Profit before income tax	**178,980**	51,717
Income tax expense	**(72,345)**	(108,656)
Profit/(loss) for the year	**106,635**	(56,939)

Revenue. Our revenue decreased by RMB125.4 million, or 23.4%, from RMB536.7 million in 2015 to RMB411.3 million in 2016. This decrease was due to a decrease in ASP of CBM after NDRC reduced non-residential gas price in late 2015, which was partially offset by an increase in production. The ASP of CBM for 2015 and 2016 were RMB1.66/m^3 to RMB1.20/m^3, respectively.

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

	Year ended 31 December	
	2016	2015
Gross production volume (bcf)[1]	**17.866**	17.241
Gross sales volume (bcf)[2]	**15.127**	14.648
Net sales volume (bcf)[3]	**12.102**	11.389
Accumulative number of producing wells	**97**	66
ASP		
RMB per cubic meter	**1.20**	1.66
US$ per mcf	**5.13**	7.60
Revenue (in RMB in thousands)	**411,278**	536,655

Notes:

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 that portion of gross sales volume allocated to us under the production sharing contract.

Subsidy income. We had subsidy income of RMB68.8 million and RMB119.8 million in 2015 and 2016, respectively. Our subsidy income increased by RMB51.0 million or 74.1%, mainly due to the increase in the government subsidy rate for CBM from RMB0.20/m^3 to RMB0.30/m^3 with effect from January 2016 and an increase of net sales volume as a result of increased gross production volume at Panzhuang.

VAT refund. Our VAT refund reduced from RMB58.9 million in 2015 to RMB29.5 million in 2016, a decrease of RMB29.4 million, or 49.9%. The decrease was mainly due to a reduction in ASP of CBM in 2016 and an increase in the local government's share of VAT refund with effect from January 2015.

Other losses, net. Our other loss was RMB163 thousands in 2015 and RMB913 thousands in 2016. These losses represent disposal loss of scrap materials at Panzhuang and Mabi.

Operating expenses. Our operating expenses decreased by RMB71.8 million or 16.5%, from RMB434.3 million in 2015 to RMB362.5 million in 2016 primarily due to decreases in depreciation and amortization costs, decrease in materials, services and logistics expenses, but partially offset by increases in employee benefit expenses.

- *Depreciation and amortization.* Our depreciation and amortization decreased by RMB67.5 million or 47.5%, from RMB142.1 million in 2015 to RMB74.6 million in 2016 largely due to change in estimate for unit of production depreciation rates calculated based on proved and probable gas reserves from the whole concession instead of proved and probable gas reserves of individual well or well groups to make it consistent with industry practice.

- *Employee benefit expenses.* Our employee benefit expenses increased by RMB8.9 million or 5.7%, from RMB155.2 million in 2015 to RMB164.1 million in 2016 primarily due to: (i) increase in non-cash share-based compensation expenses in headquarters due to the issuance of restricted stock units in early 2016 and modifications of certain terms of the existing share option scheme, (ii) one-off severance pay as a result of departure of one of our Co-CEOs, and (iii) additional headquarters' senior management headcount hired in 2016.

- *Materials, services and logistics.* Our materials, services and logistics expenses decreased by RMB13.6 million or 12.0%, from RMB113.8 million in 2015 to RMB100.2 million in 2016, primarily due to one-off expenses related to IPO totaling RMB28.3 million in 2015, but offset by increased electricity and other operation costs at Panzhuang associated with more wells put into production and additional boosters and compressors installed in gas gathering stations in 2016 and increased compliance expenses after IPO.

- *Others.* Our other expenses remained steady at RMB23.3 million and RMB23.5 million in 2015 and 2016, respectively.

EBITDA. Our EBITDA decreased by RMB100.1 million or 26.9%, from RMB371.9 million in 2015 to RMB271.8 million in 2016. This decrease was primarily due to decrease in ASP of CBM from RMB1.66/m^3 in 2015 to RMB1.20/m^3 in 2016 after NDRC reduced non-residential gas price in late 2015, reduction in VAT refund since our ASP of CBM dropped in 2016 and the local government increased its share of VAT refund, which was offset by an increase in subsidy income after the government increased subsidy from RMB0.20/m^3 to RMB0.30/m^3 with effect from January 2016. Included in the EBITDA of RMB371.9 million in 2015 are non-cash share-based compensation expenses of RMB44.7 million, one-time expenses of RMB28.3 million related to our IPO and non-operations-related expenses for headquarters' business development feasibility studies of RMB13.0 million. Included in the EBITDA of RMB271.8 million in 2016 are non-cash share-based compensation expenses of RMB48.3 million, non-operations-related expenses for headquarters' business development feasibility studies of RMB8.3 million and one-off severance pay of RMB4.6 million as a result of departure of one of our Co-CEOs. After excluding (i) non-cash share-based compensation expenses, one-time IPO expenses and non-operations-related business development feasibility studies expenses included in 2015; and (ii) non-cash share-based compensation expenses, non-operations-related business development feasibility studies expenses and one-off severance pay as a result of departure of one of our Co-CEOs included in 2016, our adjusted EBITDA from core operations is RMB457.9 million and RMB332.9 million in 2015 and 2016, respectively. Included in EBITDA of 2016 is a one-time adjustment to increased local government's share of VAT refund with effect from January 2015 which not only reduces our VAT refund income in 2016 but also decreases our shares of VAT refund income in the future, and has not been adjusted to calculate adjusted EBITDA for 2016. Panzhuang's EBITDA decreased by RMB112.4 million or 20.3%, from RMB554.0 million in 2015 to RMB441.6 million in 2016. Panzhuang's EBITDA in 2016 decreased mainly due to decrease in ASP, lower VAT refund and higher material, services and logistic expenses associated with more wells, boosters and compressors which was partially offset by increased subsidy income in 2016. Mabi's EBITDA was negative RMB43.3 million in 2015 and negative RMB45.1 million in 2016 since it was still in the exploration stage during both years.

Profit from operations. As a result of the foregoing, our profit from operations decreased by RMB32.7 million or 14.2%, from a profit from operations of RMB229.8 million in 2015 to a profit from operations of RMB197.1 million in 2016.

Interest income. Our interest income increased by RMB4.9 million or 84.5%, from RMB5.8 million in 2015 to RMB10.7 million in 2016 primarily due to interest earned from increased cash and fixed deposit balances.

Finance costs. Our finance costs decreased by RMB10.5 million or 36.1%, from RMB29.1 million in 2015 to RMB18.6 million in 2016, largely due to writing off non-cash unamortized costs of RMB14.9 million in 2015 related to the original US$100 million RBL loan after re-financing this US$100 million RBL loan ("**Original US$100 million RBL**") with a new US$250 million RBL loan ("**New US$250 million RBL**") in 2015, partially offset by increased commitment fees in 2016.

Exchange losses. Our foreign exchange translation losses decreased by RMB144.5 million from RMB154.8 million in 2015 to RMB10.3 million in 2016. Non-cash foreign currency translation losses of RMB161.3 million was booked in 2015 due to the depreciation of Renminbi during the year and a US dollar denominated intercompany loan was provided by us to our subsidiaries while local books and records are denominated in Renminbi. In order to manage the foreign exchange risk, we executed a debt restructuring on 30 April 2016 by converting the intercompany loan into a perpetual loan through entering into perpetual loan agreements between respective group companies. Upon completion of the debt restructuring, any foreign exchange differences arising from retranslation of the US dollar denominated perpetual loan are recognized in equity in the consolidated financial statements. The exchange loss of RMB10.3 million in 2016 is largely due to the impact of the depreciation of the Renminbi on the drawn portion of the New US$250 million RBL.

Profit before income tax. Our profit before income tax increased by RMB127.3 million or 246.2% from a profit of RMB51.7 million in 2015 to a profit of RMB179.0 million in 2016 mainly due to reduction in non-cash foreign exchange translation losses and reduction in depreciation and amortization expenses in 2016, one-time write off of non-cash unamortized costs in 2015 related to the Original US$100 million RBL, and the factors affecting EBITDA stated above.

Income tax expense. Our income tax expense decreased by RMB36.4 million or 33.5%, from RMB108.7 million in 2015 to RMB72.3 million in 2016. Income tax expense arises from Panzhuang's operations. In 2016, Panzhuang did not have taxable income subject to taxation, whereas in 2015 Panzhuang had taxable income subject to taxation. Mabi had no income tax expense given it is still in the exploration stage and had no profit.

Profit/(loss) for the year. Our profit/loss for the year changed from a loss of RMB56.9 million in 2015 to a profit of RMB106.6 million in 2016, primarily due to the factors affecting profit before income tax and EBITDA stated above and the decrease in income tax expense.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit/(loss) for the year, our most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest income, finance costs, exchange loss, 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 losses, interest income, finance costs and depreciation and amortization.

The following table presents a reconciliation of EBITDA and adjusted EBITDA to profit/(loss) for the year:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Reconciliation of profit/(loss) for the year to EBITDA:		
Profit/(loss) for the year	**106,635**	(56,939)
Income tax expense	**72,345**	108,656
Interest income	**(10,699)**	(5,815)
Finance costs	**18,578**	29,126
Exchange losses	**10,281**	154,813
Depreciation and amortization	**74,613**	142,086
EBITDA	**271,753**	371,927
Non-cash share-based compensation expenses	**48,270**	44,702
Listing expenses related to the IPO	**–**	28,273
Non-operations-related feasibility studies expenses	**8,272**	12,968
Severance pay for departure of one of our Co-CEOs	**4,613**	–
Adjusted EBITDA	**332,908**	457,870

Our EBITDA decreased by RMB100.1 million or 26.9%, from RMB371.9 million in 2015 to RMB271.8 million in 2016. This decrease was primarily due to decrease in ASP of CBM from RMB1.66/m^3 in 2015 to RMB1.20/m^3 in 2016 after NDRC reduced non-residential gas price in late 2015, reduction in VAT refund since our ASP of CBM dropped in 2016 and the local government increased its share of VAT refund, which was offset by an increase in subsidy income after the government increased the subsidy from RMB0.20/m^3 to RMB0.30/m^3 with effect from January 2016.

Our adjusted EBITDA decreased by RMB125.0 million, or 27.3%, from RMB457.9 million in 2015 to RMB332.9 million in 2016. This decrease was due to the reasons explained above for the decrease in EBITDA, adjusted for non-cash share-based compensation expenses, one-time IPO related expenses, non-operations-related feasibility studies expenses and one-off severance pay as a result of departure of one of our Co-CEOs included in 2016 and 2015. Included in EBITDA of 2016 is a one-time adjustment to increased local government's share of VAT refund with effect from January 2015 which not only reduces our VAT refund income in 2016 but also decreases our shares of VAT refund income in the future, and has not been adjusted to calculate adjusted EBITDA for 2016.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding include cash generated from operating activities and bank borrowings.

We had cash and bank balances of RMB2,375.3 million as at 31 December 2016 (RMB2,563.8 million as at 31 December 2015).

As of 31 December 2015 and 2016, we had long-term borrowings of RMB418.9 million and RMB496.4 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.

Save the information disclosed above, 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 31 December 2016.

Cash Flows

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash generated from operating activities	**257,418**	317,382
Net cash used in investing activities	**(337,742)**	(743,937)
Net cash generated from financing activities	**12,874**	1,517,712
Net (decrease)/increase in cash and cash equivalents	**(67,450)**	1,091,157
Cash and cash equivalents at beginning of the year	**2,309,810**	1,099,673
Exchange gains on cash and cash equivalents	**101,404**	118,980
Cash and cash equivalents at end of the year	**2,343,764**	2,309,810

Operating Activities

Net cash generated from operating activities was RMB257.4 million in 2016 largely due to profit before income tax of RMB179.0 million, depreciation and amortization of RMB74.6 million, non-cash share-based compensation of RMB48.3 million, finance costs of RMB18.6 million and unrealized exchange losses of RMB12.6 million, and increase in trade and other payables of RMB7.8 million. These were offset by an increase in trade and other receivables of RMB40.9 million, RMB26.3 million of interest paid, interest income of RMB10.7 million and RMB5.3 million income tax paid.

Net cash generated from operating activities was RMB317.4 million in 2015 largely due to profit before income tax of RMB51.7 million, exchange translation losses of RMB159.1 million which includes non-cash foreign exchange translation losses of RMB161.3 million arising from the US dollar denominated intercompany loan, depreciation and amortization of RMB142.1 million, non-cash share-based compensation of RMB44.7 million, RMB28.3 million of expenses related to IPO, finance costs of RMB29.1 million which included RMB14.9 million non-cash unamortized costs written off for the Original US$100 million RBL, and increase in trade and other payables of RMB9.5 million. These were offset by an increase in trade and other receivables of RMB7.3 million, RMB109.9 million income tax paid, and RMB24.2 million of interest paid under the Original US$100 million RBL and New US$250 million RBL.

Investing Activities

Net cash used in investing activities was RMB337.7 million in 2016 is mainly for the purchase of property, plant and equipment of RMB570.1 million, increase in restricted bank deposits of RMB23.6 million, offset by decrease in term deposits with an initial term of over three months of RMB246.0 million and interest received of RMB9.5 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.

Net cash used in investing activities was RMB743.9 million in 2015 is mainly for the purchase of property, plant and equipment of RMB494.8 million, increase in term deposits with an initial term of over three months of RMB246.0 million, increase in restricted bank deposits of RMB8.0 million, offset by interest received of RMB4.8 million. The purchase of property, plant and equipment primarily comprised of payment for construction of Panzhuang's new office building, more wells drilled, additional boosters and compressors, and construction of gas gathering stations and power facilities.

Financing Activities

Net cash generated from financing activities was RMB12.9 million in 2016 largely due to RMB40.4 million of cash received from drawing down a portion of the New US$250 million RBL, offset by finance costs of RMB19.9 million largely due to payment for commitment fees paid for unutilized portion of the New US$250 million RBL and payment of RMB7.7 million of IPO-related expenses.

Net cash generated from financing activities was RMB1,517.7 million in 2015 largely due to RMB1,544.4 million of proceeds from the IPO and RMB428.0 million of cash received from the New US$250 million RBL, offset by RMB29.3 million of IPO-related expenses, RMB379.0 million repayment of the utilized portion of the Original US$100 million RBL, and finance costs of RMB48.7 million comprising RMB12.3 million payment for commitment fees paid for unutilized portion of the Original US$100 million RBL and the New US$250 million RBL, and RMB36.4 million of arrangement fee and expenses related to the New US$250 million RBL.

Cash and Bank Balances

We had cash and bank balances of RMB2,563.8 million and RMB2,375.3 million as of 31 December 2015 and 2016, respectively. Our cash and bank balances consist of cash on hand, cash at banks, term deposits with an initial term of over three months, and restricted bank deposits. The decrease in our cash position is largely due to cash used in investing activities. As at 31 December 2015 and 2016, we had approximately 73.9% and 67.2% of our cash and bank balances held in Hong Kong or US dollars.

FINANCIAL RISK FACTORS

Our activities expose us to a variety of financial risks, including credit risk, market risk (including foreign exchange risk, cash flow interest rate risk), liquidity risk and concentration risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Credit Risk

As the majority of the cash at bank balances are placed with state-owned and international banks and financial institutions in the PRC and Hong Kong, and there has been no recent history of default in relation to these banks and financial institutions, the corresponding credit risk is relatively low. Therefore, our credit risk arises primarily from trade and other receivables. We have controls in place to assess the credit quality of our customers. We have concentration risk on trade receivables. Only limited allowance for uncollectible receivables were made in the past as our sales were only made to the customers with good credit history. The utilisation of credit limits is regularly monitored.

Foreign Exchange Risk

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 dollar denominated inter-company loans. To manage the foreign exchange risk, we executed a debt restructuring on 30 April 2016 by converting the intercompany 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 the debt restructuring, any foreign exchange differences arising from retranslation of the US dollar denominated perpetual loans are recognised in equity in the consolidated financial statements.

We manage our foreign exchange risk by closely monitoring the movement of the foreign currency rates, and by monitoring the amount of the US dollar loan utilised from the US$250 million revolving credit facility, which is our only US dollar borrowings from third parties.

As at 31 December 2016, if RMB had weakened/strengthened by 1% against the US$ with all other variables held constant, profit before income tax for the year would have been RMB3,909,000 (31 December 2015: RMB28,905,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated payables held by our entities with entity's functional currency as RMB.

Interest Rate Risk

Our income and operating cash flows are substantially independent of the changes in market rates. Our floating-rate bank borrowings expose us to cash flow interest rate risk.

SIGNIFICANT INVESTMENT HELD

We did not hold any significant investments for the year ended 31 December 2016.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

We had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2016.

SIGNIFICANT CHANGES/EVENTS AFTER THE END OF FINANCIAL YEAR

There are no other significant changes in the Group's financial position or from the information disclosed under the management discussion and analysis in this annual results announcement for the year ended 31 December 2016 or significant events occurred after the end of financial year.

EMPLOYEES

As at 31 December 2016, the Company had 690 employees, with 66 based in Beijing, 618 based in Shanxi and 6 based in Hong Kong, respectively. There have been no material changes to the information disclosed in the Company's prospectus dated 11 June 2015 (the "**Prospectus**") in respect the remuneration of employees, remuneration policies and staff development.

PRE-IPO SHARE OPTION SCHEME

The Company adopted the pre-IPO share option scheme of the Company (the "**Pre-IPO Share Option Scheme**") on 31 March 2015, a summary of principal terms (such as the purpose, the participants and the consideration for accepting and exercising any options, among others) of which is set out in the section headed "Statutory and General Information — Pre-IPO Share Option Scheme" in Appendix V to the Prospectus.

Outstanding Options

For the year ended 31 December 2016, 5,175,174 options have been cancelled, 4,060,520 options have lapsed. As at 31 December 2016, there were a total of 230,615,273 options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the share capital of the Company as at 31 December 2016 of approximately 6.93%. Save as disclosed above, no further options have been or would be granted by the Company after the date on which the Shares were listed on the Stock Exchange and from which dealing therein commenced (the "**Listing Date**") pursuant to the Pre-IPO Share Option Scheme.

POST-IPO RSU SCHEME

The Company adopted the post-IPO restricted share unit scheme of the Company (the "**Post-IPO RSU Scheme**") on 5 June 2015, which took effect on the Listing Date, a summary of principal terms (such as the purpose, the participants, among others) of which is set out in the section headed "Statutory and General Information — Post-IPO RSU Scheme" in Appendix V to the Prospectus.

On 18 December 2015, the Company offered to grant of an aggregate of 41,234,696 restricted share units ("**RSUs**") to certain connected grantees and non-connected grantees of the Group in accordance with the Post-IPO RSU Scheme, on 31 January 2016, an aggregate of 19,865,199 RSUs were accepted by the connected grantees and an aggregate of 21,199,297 RSUs were accepted by the non-connected grantees, respectively.

OUTSTANDING RSUs

For the year ended 31 December 2016, 345,700 RSUs have been cancelled and 734,800 RSUs have lapsed. As at 31 December 2016, there were a total of 40,154,196 RSUs outstanding. If all outstanding RSUs are vested, there would be a dilution effect on the share capital of the Company as at 31 December 2016 of approximately 1.21%.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately RMB1,506.9 million. As of 31 December 2016, RMB235.0 million of the proceeds had been utilized. The net proceeds were and will be used for the same purpose as set out in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The annual general meeting of the Company (the "**AGM**") is tentatively scheduled to be held on Tuesday, 9 May 2017. The notice of the AGM will be published and issued to shareholders in due course. The register of members of the Company will be closed from 4 May 2017 to 9 May 2017, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend and vote at the AGM, during which period no transfers of Shares will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 2 May 2017.

CORPORATE GOVERNANCE

The Group 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 on The Stock Exchange of Hong Kong Limited (the "**Listing Rules** ") as its own code of corporate governance.

Save as disclosed below, the Company has complied with all applicable code provisions under the CG Code during the year ended 31 December 2016. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Following the retirement of Dr. Tin Yau Kelvin Wong as an independent non-executive Director, during the interim period between 28 April 2016 and the effective date of Mr. Stephen Cheuk Kin Law's position as independent non-executive Director (the "**Interim Period**"), the composition of independent non-executive Directors has fallen short of the minimum number requirement under Rule 3.10A of the Listing Rules and the qualification requirement under Rule 3.10(2). In addition, during the Interim Period, the composition of the Audit Committee and the composition of the Nomination Committee have fallen short of the requirements set out in Rule 3.21 of the Listing Rules and code provision A.5.1 of CG Code as set out in Appendix 14 to the Listing Rules, respectively. Following the appointment of Mr. Law as the independent non-executive Director with effect from 2 July 2016, the chairman of the Audit Committee and a member of the nomination committee of the Board, the Company fully complies with the requirements under Listing Rules 3.10(2), 3.10A and 3.21 and A.5.1 of the CG Code to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all directors of the Company, each of the Directors has confirmed that they have complied with the required standards as set out in the Model Code from 1 January 2016 to 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

AUDIT COMMITTEE

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. Gordon Sun Kan Shaw and Mr. Robert Ralph Parks.

The Audit Committee has, together with the Board and external auditor of the Company, reviewed the accounting standards and practices adopted by the Group and the audited annual results for the year ended 31 December 2016. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Company and considers the risk management and internal control systems to be effective and adequate.

PUBLICATION OF THE ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aagenergy.com), and the annual report for the year ended 31 December 2016 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
AAG Energy Holdings Limited
Stephen Xiangdong Zou
Chairman

Hong Kong, 24 March 2017

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