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AAG

AAG Energy Holdings Limited

亞美能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2686)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

Key Highlights:

- **Our revenue and other income (including subsidy and VAT refund) for 2019 increased by 19.89%¹ to RMB1.508 billion, while net profit and EBITDA for the year increased by 71.30% and 45.52% to RMB707 million and RMB1.175 billion, respectively. Our earnings per share increased by 75.00% to RMB0.21.**
- **The Board recommends a final full year dividend of RMB0.1061 per share (equivalent to approximately HKD0.1163 per share) for approval by shareholders of the Company at the AGM.**
- **The Coal Bed Methane gross production for 2019 reached 931 MMCM, representing an increase of 16.07% compared to the gross production of 802 MMCM for 2018.**
 - In respect of Panzhuang concession, gross production for 2019 was 859 MMCM, representing an increase of 21.78% compared to the gross production of 705 MMCM for 2018;
 - In respect of Mabi concession, gross production for 2019 was 72 MMCM, representing a decrease of 25.61% compared to the gross production of 97 MMCM for 2018;

Note 1: Due to the difference in units of expression and decimal places reserved of data, there may be slight deviation in the percentage of increase or decrease. The percentage of increase or decrease is based on the calculation of the minimum units of expression and decimal places reserved available in the announcement.

- **The average production for 2019 reached 2.55 MMCM per day, representing a YoY increase of 15.91% compared to 2.20 MMCM per day for 2018.**
- **The gross sales volume² for 2019 reached 913 MMCM, representing an increase of 16.87% compared to the gross sales volume of 781 MMCM for 2018.**
 - In respect of Panzhuang concession, the gross sales volume for 2019 reached 844 MMCM, representing an increase of 21.63% compared to the gross sales volume of 694 MMCM for 2018;
 - In respect of Mabi concession, the gross sales volume for 2019 reached 69 MMCM, representing a decrease of 20.92% compared to the gross sales volume of 87 MMCM for 2018.
- **The realized ASP³ in respect of Panzhuang concession for 2019 has increased by 1.20% to RMB1.69 per cubic meter compared to RMB1.67 for 2018; while the realized ASP in respect of Mabi concession for 2019 maintained at RMB1.39 per cubic meter, remained the same as that of 2018.**
- **In 2019, a total of 99 wells have been drilled (of which 71 were SLHs and 28 were PDWs) in Panzhuang concession, 36 more wells have been drilled compared to that of 2018. Average drilling time for SLH wells was just 15.40 days, representing an improvement of 6.84% in our drilling efficiency compared to that of 2018.**
- **In 2019, a total of 27 wells have been drilled (of which 5 were SLHs and 22 were PDWs) in Mabi concession.**
- **AAG Energy placed great value on HSE and made efforts on assuming its social responsibilities. In 2019, AAG Energy maintained zero for LTIR, TRIR and PMVA in respect of its safety and environmental protection performance. As of 31 December 2019, the excellent safety performance record of zero lost time injury of AAG Energy has accumulated to 5 years and 117 days.**

Note 2: Gross sales volume represents gross production less utilization loss.

Note 3: Realized ASP excludes the directly attributable pass through cost, thus reflecting the realized wellhead price.

Dear shareholders:

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of AAG Energy Holdings Limited (“**AAG Energy**” or the “**Company**”, together with its subsidiaries, collectively the “**Group**”), I hereby present the annual results of the Group for the year ended 31 December 2019.

FINANCIAL SUMMARY

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,161,246	978,671
Other income	346,805	279,169
Profit from operations	901,908	603,595
EBITDA	1,174,775	807,281
Adjusted EBITDA	1,198,564	905,348
Profit for the year	707,368	412,937
Basic earnings per share (RMB)	0.21	0.12
Diluted earnings per share (RMB)	0.21	0.12
	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	3,721,688	3,651,419
Cash and bank balances	2,183,826	1,700,290
Total assets	6,748,160	6,007,107
Total equity	5,843,642	5,376,853

BUSINESS REVIEW

We are pleased to announce that the Group continued to deliver stable growth in gross production of coalbed methane (“**CBM**”) compared with 2018. The Group’s 2019 gross production increased by 16.07% to 931 million cubic meters (“**MMCM**”) (32.8 billion cubic feet (“**bcf**”)) (comprising Panzhuang concession’s production of 859 MMCM (30.3 bcf) and Mabi concession’s production of 72 MMCM (2.5 bcf)) compared with 2018.

Compared with the budgeted capital expenditure of RMB536 million for the full year, the actual capital expenditure this year was RMB348 million. The average drilling cost of each single lateral horizontal well (“**SLH**”) in Panzhuang concession decreased slightly when compared to that of 2018, of which the average drilling cost of SLHs in 3# coal seam was RMB2.70 million, decreased by 5.26% from RMB2.85 million for 2018, and the average drilling cost of SLHs in 15# coal seam was RMB2.96 million, decreased by 0.67% from RMB2.98 million for 2018. The average drilling cost of each pad drilling well (“**PDW**”) in Panzhuang concession significantly decreased by 25.00% to RMB0.9 million from RMB1.2 million for 2018. We are committed to lowering the cost for enhancing profitability.

In 2019, the Group achieved a higher realized average selling price (“**realized ASP**”) of RMB1.67/cubic meter, comprising a realized ASP of RMB1.69/cubic meter (an increase of 1.20% from RMB1.67/cubic meter for 2018) for Panzhuang concession and a realized ASP of RMB1.39/cubic meter (remained the same as that of 2018) for Mabi concession. The increase in the realized ASP for Panzhuang concession mainly benefited from the Chinese government policy of unifying the city-gate prices of natural gas for residential and non-residential use.

The revenue and other income (including subsidy and VAT refund) for 2019 increased to RMB1.508 billion, representing an increase of 19.89% over 2018. Operating profit increased to RMB902 million, representing an increase of 49.42%. Profit for the year increased by 71.30% to RMB707 million. EBITDA increased by 45.52% to RMB1.175 billion. Earnings per share increased by 75.00% to RMB0.21.

PROPOSED DIVIDEND

The Board recommends a final full year dividend of RMB0.1061 per share (equivalent to approximately HKD0.1163 per share) for the year ended 31 December 2019 in view of the strong operational and financial performance. The Company’s continuous strong cash position and increased cash flow from operations financed the payment of the Company’s dividend. The promising outlook for the Company’s business supports the Company’s continuous payment of dividend in the future.

OPERATIONS REVIEW

AAG Energy placed great value on Health, Safety, Environment (“**HSE**”) and made efforts on assuming its social responsibilities. In 2019, AAG Energy maintained zero on lost time injury rate (“**LTIR**”), total recordable incident rate (“**TRIR**”) and preventable motor vehicle accidents (“**PMVA**”) in respect of its safety and environmental protection performance. As of 31 December 2019, the excellent safety performance record of zero lost time injury of AAG Energy has accumulated to 5 years and 117 days. Meanwhile, AAG Energy disclosed the Environmental, Social and Governance (“**ESG**”) report as scheduled in May 2019. The report showed an outstanding performance of the Company in terms of the governance of environmental protection and community relations, and also provided a strong guarantee for AAG Energy’s sustainability.

AAG Energy focuses on the construction of HSE and social responsibility management system as well as the continuous improvement to strengthen the HSE consciousness for all of its employees and improve its HSE performance through multi-dimensional programs regarding compliance assurance, employee training, inspection and audit, accident management and social welfare activities. In 2019, Asian American Gas, Inc. (“**AAGI**”), a subsidiary of the Company, was accredited as the “2018 Eco-friendly Advanced Entity (2018年度生態環保先進集體)” by the People’s Government of Qinshui County in February 2019 and the “2018 Outstanding Enterprise in Environment Protection (2018年度落實環境保護工作優秀企業)” by the People’s Government of Jincheng City in April 2019. In April 2019, Sino American Energy Inc. (“**SAEI**”), a subsidiary of the Company, was accredited as the “The County’s Advanced Entity for Production Safety (全縣安全生產先進集體)” by the People’s Government of Yangcheng County.

We have achieved significant progress towards certain principal operational objectives for the two key assets operated by the Company’s two subsidiaries: Panzhuang concession operated by SAEI and Mabi concession operated by AAGI.

- **Panzhuang Concession**

Our Panzhuang concession, which is in partnership with China United Coalbed Methane Corporation Ltd. (“**CUCBM**”), continued to be the CBM project with the highest output in China, and was listed as China’s key CBM project in production under the “13th Five-Year Plan” for the development and utilization of CBM (coal mine gas) prepared by the National Energy Administration (the “**NEA**”) and issued by the National Development and Reform Commission (the “**NDRC**”) of the People’s Republic of China.

— *Production Update*

In 2019, the gross production of Panzhuang concession reached 859 MMCM (30.3 bcf), which was 6.11% higher than the original target of 810 MMCM (28.6 bcf), with a 21.78% year-on-year (“**YoY**”) increase compared with 705 MMCM (24.9 bcf) in 2018. The average daily gas production was 2.35 MMCM, representing an increase of 21.76% compared to 1.93 MMCM in 2018. By the end of 2019, there were a total of 305 wells in production, including 81 PDWs, 49 multi-lateral drilling wells (“**MLD**”) and 175 SLHs in Panzhuang concession. Further details on production and well count are set out below in Table 1.

— *Drilling and Surface Facilities Update*

In 2019, a total of 99 wells have been drilled (of which 71 were SLHs and 28 were PDWs) in Panzhuang concession, 36 more wells have been drilled compared to that of 2018, a historical high of number of wells drilled. Average drilling time for each SLH wells was just 15.40 days, representing an improvement of 6.84% in our drilling efficiency compared to that of 2018. With more input of new wells and the improvement of operational efficiency, a solid foundation has been laid for the increase of 2020 annual production.

Among the 99 newly drilled wells in Panzhuang concession, we succeeded in our first attempt on two-section completion well type for SLHs in 3# coal seam, so that the diameters of producing wellbores were further enlarged and the production capacity of natural gas could be released more effectively. The near-bit geosteering technique was successfully applied on SLHs in 3# coal seam and 15# coal seam, which not only improved the coal seam drilling-penetration rate, but also shortened the drilling cycle. In the drilling construction of 4 well groups, batch drilling was attempted. We firstly commenced the first and second well sections in batches, and then concentrated on the drilling of the third section in coal seams, which not only reduced the pollution of the drilling fluid to the strata, but also particularly enhanced drilling efficiency. For PDW fracturing, a new technique of tip screen-out fracturing was successfully tested, which improved the fracturing effect significantly. For pumping of SLHs, a new type of pump was used, which effectively reduced the liquid level and extended the pump inspection period.

Currently, the surface facilities of our Panzhuang concession include 6 gas gathering stations, 24 wellhead compressors, 64 km of trunk lines and 103 km of single well pipelines. The central gas gathering station has a secondary processing capacity of 800,000 cubic meters per day, and compressors at remaining stations and wellheads have a processing capacity of 3.88 MMCM per day. The construction of a double circuited 35 kilovolt power line has been completed, and is presently under relevant formalities before power transmission. This power line will be able to satisfy the electricity demand of the Panzhuang concession and further improve the gas distributing capacity therein, thus increasing our production and sales.

- **Mabi Concession**

Our Mabi concession, which is in partnership with China National Petroleum Corporation (“CNPC”), was listed as China’s key CBM project under construction under the “13th Five-Year Plan” for the development and utilization of CBM (coal mine gas) prepared by the NEA and issued by the NDRC, and became one of the key CBM construction projects in Shanxi Province in 2019.

— **Production Update**

In 2019, the gross production of Mabi concession reached 72 MMCM (2.5 bcf), which was 0.90% higher than the original target of 71 MMCM (2.5 bcf). The average daily gas production was 0.197 MMCM. In 2019, a total of 27 wells have been drilled (of which 5 were SLHs and 22 were PDWs) in Mabi concession. By the end of 2019, there were a total of 183 wells in production, including 172 PDWs, 1 MLD and 10 SLHs in Mabi concession. Further details on production and well count are set out below in Table 1.

— **Implementation Progress of the Overall Development Plan (“ODP”) of Mabi’s Southern Area**

In 2019, Mabi concession has optimized the implementation of ODP for its southern area with the principle of favorable region selection, coupled with 3D seismic interpretation and application of other new technologies, thus establishing a new development pattern of prioritized sweet zone and combination of multiple well-types. The feasibility of the development plan has been enhanced through precise determination and strengthened management and control. Meanwhile, Mabi concession focused on excavating the potential of existing wells. Through various small and micro innovative measures, Mabi concession has achieved a significant reduction in comprehensive decline rate of existing wells as well as stronger operation reliability and investment return. In the coming year, Mabi concession will continue to optimize related engineering and technical skills, so that the preparatory work in the early development stage will be strengthened with a clearer direction, so as to lay a solid foundation for clarifying investment direction, expanding investment scale and realizing commercial production as soon as possible.

— **Acreage Decrease of Mabi Concession under New Exploration License and Potential Impact on Reserves**

According to the “Notice with Regard to the Strengthening of Joint Verification on the Overlap of Land for All Kinds of Reserves and Construction Projects with Exploration Rights or Mining Rights” jointly issued by the Shanxi Provincial Department of Land and Resources (currently the Natural Resources Department) and the Shanxi Provincial Department of Environmental Protection (currently the Ecology and Environment Department), the overlapped area of the national forest parks and reserves have been excluded from the 2018 renewed exploration license of Mabi concession accordingly. The excluded area accounted for only 7.68% of the original exploration right area in Mabi concession, and the estimated proved reserves were reduced by 11.28%. Accordingly, Mabi concession filed an application with the Natural Resources Department of Shanxi Province to retain the excluded exploration right area until the issue of new regulations related to overlapping resources. Currently, as the government is yet to promulgate any new administration measure for overlapping resources, the Group will continue to follow this subject.

Table 1 — Operation Update* of
Panzhuang (“**PZ**”) and Mabi (“**MB**”) Concessions

	2019	2018	% Change
Gross production (MMCM)	931.09	802.21	16.07%
Total average daily production (MMCMD)	2.55	2.20	15.91%
Gross production of PZ (MMCM)	859.17	705.53	21.78%
PZ MLD	205.46	254.82	-19.37%
PZ SLH	559.88	404.29	38.48%
PZ PDW	93.83	46.41	102.18%
Total producing wells of PZ**	305	243	25.51%
PZ MLD	49	49	0.00%
PZ SLH	175	127	37.80%
PZ PDW	81	67	20.90%
PZ wells drilled	99	63	57.14%
PZ wells fracked	16	14	14.29%
Gross production of MB (MMCM)	71.92	96.68	-25.61%
MB MLD	0.07	0.01	600.00%
MB SLH	17.93	26.64	-32.70%
MB PDW	53.92	70.03	-23.00%
Total producing wells of Mabi**	183	175	4.57%
MB MLD	1	1	0.00%
MB SLH	10	10	0.00%
MB PDW	172	164	4.88%
MB wells drilled	27	0	—
MB wells fracked	13	31	-58.06%

* Operations update as of 31 December 2019, 08:00 CST.

** Well count is calculated from pumping start date.

EXPLORATION AND RESERVE UPGRADE

Based on reports issued by Netherland Sewell & Associates Inc. (“NSAI”), an independent reserve certification company, the Group’s 1P and 2P natural gas reserves as at the end of 2019 (“2019YE”) were 197.7 bcf and 654.6 bcf respectively, representing a 4% decrease from the 1P reserve of 205.4 bcf as at the end of 2018 (“2018YE”) and a 0.4% decrease from the 2P reserve of 656.9 bcf as at 2018YE. After deducting net gas production of 26.6 bcf for 2019, the 1P and 2P reserves increased by 11% and 4% respectively.

The 1P reserve and 2P reserve of Panzhuang concession were 160.3 bcf and 196.3 bcf as at 2019YE, representing a decrease of 1% and 6% respectively from the 1P reserve of 162.2 bcf and the 2P reserve of 209.5 bcf as at 2018YE. After deducting net gas production of 24.2 bcf for 2019, 1P and 2P reserves increased by 16% and 6% respectively. Both the 1P and 2P reserves increased significantly after deducting net gas production for 2019 due to the good performance of existing wells and the improved efficiency of drilling program in 2019, which enable upgrading Panzhuang concession’s original production target of 28.6 bcf for 2019. The increased 1P and 2P reserves will keep contributing to the production of Panzhuang concession in the future.

The 1P reserve and 2P reserve of Mabi concession were 37.4 bcf and 458.3 bcf as at 2019YE, representing a decrease of 13% and an increase of 2% respectively from the 1P reserve of 43.2 bcf and the 2P reserve of 447.4 bcf as at 2018YE. After deducting net gas production of 2.4 bcf for 2019, the 1P reserve decreased by 8% and the 2P reserve increased by 3%. Since there was no capacity contribution from new wells in Mabi concession in 2019, the 1P reserve therefore decreased. However, the production decline in old wells was significantly suppressed and meanwhile, the long-range plan (“LRP”) was optimized to increase the estimated 2P and 3P reserves.

Table 2

Reserve Data**	2019 Gross (bcf)	2019 Net ^(*)(**) (bcf)	2018 Net ^(*)(**) (bcf)
Total			
Proved (1P)	254.5	197.7	205.4
Proved + probable (2P)	908.5	654.6	656.9
Proved + probable + possible (3P)	1,348.1	952.5	876.3
Panzhuang concession			
Proved (1P)	206.9	160.3	162.2
Proved + probable (2P)	254.2	196.3	209.5
Proved + probable + possible (3P)	295.7	227.7	247.1
Mabi concession			
Proved (1P)	47.5	37.4	43.2
Proved + probable (2P)	654.3	458.3	447.4
Proved + probable + possible (3P)	1,052.4	724.8	629.2

Notes:

- * Net gas reserves are the Company's share of the gas reserves according to the terms of each production sharing contract and after adjustment for fuel and shrinkage.
- ** 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 applied standard engineering and geosciences methods or a combination of both methods, including performance analysis, volumetric analysis, and analogy, which are considered to be appropriate and necessary to classify, categorize, and estimate reserves, according to the definitions and guidelines of the 2018 PRMS (the Petroleum Resources Management System published by the Society of Petroleum Engineers (the "SPE"), the World Petroleum Council (the "WPC"), the American Association of Petroleum Geologists (the "AAPG"), the Society of Petroleum Evaluation Engineers (the "SPEE"), the Society of Exploration Geophysicists (the "SEG"), the Society of Petrophysicists and Well Log Analysts (the "SPWLA") and the European Association of Geoscientists and Engineers (the "EAGE") in June 2018). Our reserve is an estimate only and should not be construed as exact quantities.

OUTLOOK AND GUIDANCE FOR 2020

The epidemic outbreak of Coronavirus Disease 2019 ("COVID-19") at the beginning of 2020 directly hit China's economy. The production, operation and profit of the Group have been affected to a certain extent. To ensure normal operation of our production activities under the severe situation of the outbreak, the Group has promptly adopted preventive and protective measures in a scientific and effective manner to safeguard safety and health of our front-line production staff, and there was no reported confirmed or suspected cases within the Group as a result. With regard to the marketing, in addition to the suspended production of regional LNG plants and order cancellation from some customers, the <Notice on the Occasional Reduction of Non-Residential Gas Cost in supporting the Resumption of Work and Production> (《關於階段性降低非居民用氣成本支持企業復工復產的通知》) issued by NDRC requested an early implementation of off-season gate price for non-residential customers. All these changes posed negative impact on the Group's sales and pricing mechanism. When the outbreak is over, the Group will adjust its working plan by endeavoring the speeding up of coordination with its key customers through "sales stimulation", "production stimulation" and ultimately resulting in "efficiency stimulation". The Group will determine the key measures under the strategy of these "three kinds of stimulation", to minimize any potential loss caused by the outbreak.

Meanwhile, 2020 is the last year for China's "13th Five-Year Plan". In 2019, China's natural gas import ranked the first of the globe while the share of domestic natural gas consumption in total energy consumption was lower than 10%, which is the expected target of the "13th Five-Year Plan". Therefore, continuing to speed up domestic natural gas exploitation while encouraging increased reserve and production so as to safeguard the safety of China's energy, is still the main direction for energy reform policy in the future. On the other hand, it is estimated that the domestic natural gas market will witness a periodical and partial over-supply in 2020, coupled with the price down of international oil and gas, the price of domestic natural gas will drop accordingly. Therefore, 2020 will be a year full of opportunities and challenges for AAG Energy.

Establishment of National Petroleum and Natural Gas Pipeline Network Group Co., Ltd

The duly establishment of the state-owned National Petroleum and Natural Gas Pipeline Network Group Co., Ltd. aims at driving the form of an "X+1+X" oil and gas market system with multi-pipeline and multi-subject for upstream energy supply, unified, efficient and collective delivery of midstream pipeline network, and adequate downstream competition, providing favorable conditions for mutual connections within the natural gas market and enabling the Group to expand the downstream market more broadly through the direct sales channels with customers.

Adjustment of Natural Gas Subsidy Policy

On 11 June 2019, the Ministry of Finance of the People's Republic of China promulgated the Supplementary Notice on the Interim Administrative Measures for Special Funds for the Development of Renewable Energy (Cai Jian [2019] No. 298) 《(關於<可再生能源發展專項資金管理暫行辦法>的補充通知》(財建[2019] 298號)). Since 2019, subsidies for the exploitation and utilization of unconventional natural gas would not be calculated according to a quota standard. Instead, subsidies will be granted based on the principle of “compensating for the increased volume”. Meanwhile, subsidies based on an excess coefficient will be granted for the increased volume produced during the heating season for the realization of “compensating for the increased volume in winter”. Given the Group's momentum forecast for CBM exploitation and utilization and winter production in 2020, such policy will bring positive impact to the Group.

Publication of the Opinions on Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation) (《關於推進礦產資源管理改革若干事項的意見(試行)》) (hereinafter referred to as the “Trial Opinions”) and Administrative Measures for Coalbed Methane Exploration and Exploitation in Shanxi Province (for Trial Implementation) (Draft for Consultation Purposes) (《山西省煤層氣勘查開採管理辦法(試行)》) (徵求意見稿) (hereinafter referred to as the “Administration Measures”)

The “Trial Opinions” proposes that qualified domestic and foreign companies are all eligible to acquire oil and gas mining rights in accordance with the regulations whereas the “Administrative Measures” proposes the details of the reform of CBM mining rights, which will promote the circulation of CBM concessions. It is expected that future policies will further reverse the resources monopoly situation of natural gas and unconventional natural gas blocks, and further enhance the competitiveness of upstream enterprises with capital and technological capabilities in the development of the industry. In 2019, the Group incorporated its first domestic wholly-owned second-tier subsidiary, aiming at laying a foundation for the development of domestic upstream business and a better investment development. On the other hand, the “Administration Measures” proposes the minimum exploration input standards for CBM concessions for the first time, which will also prompt the Group to plan the exploration as well as develop plans, investment quota and operation progress for its own concessions in a more reasonable way.

The above-mentioned incentive policies for the CBM industry will drive the Group's rapid development in the field of unconventional natural gas. The Group will take advantage of the favorable policies for identifying new development opportunities while further exploring the value of existing concessions and fully expanding high-value customers market for the goal determining sales volume with reference to production. On the basis of stabilizing gas consumption for local residential-use and industrial-use, the Group will seek to actively develop the Henan and Hebei market for the realization of “**production stimulation**” and “**sales stimulation**”. For 2020, we are glad to present the latest goals as follows:

- **Panzhuang Concession**

The Group will continue investing in Panzhuang concession in 2020. Details are as follows:

- The Group will implement the full year plan upon the related government approvals on Panzhuang concession, including the plans of completing pre-drilling construction of 19 well sites, drilling works of 88 new wells, the purchasing pumping equipment, starting production of new wells, as well as commencing of related ancillary surface facilities engineering.
- With the scheduled project implementation and related government approvals, the anticipated gross production of Panzhuang concession is 945 MMCM (33.4 bcf).
- Due to the frequent coal mining activities in the surrounding coal mines adjoin Panzhuang concession, the Company will continue to strengthen communication and cooperation with these coal mines in 2020, to optimize mutual guarantees agreements and continue to seek for new development and cooperation channels.

- **Mabi Concession**

- In Mabi concession, the Group will focus on the ODP approved area in the southern area of Mabi, and will select applicable well types and technologies with reference to the geological features to prioritize well deployment in the sweet zone and optimize the development implementation plan to secure a guaranteed investment return rate. In 2020, we plan to implement 63 wells drilling in southern area of Mabi concession and 2 wells drilling in northern area of Mabi concession, and will also to focus on the development and construction in the area around No. 2 gas gathering station.
- With the scheduled project implementation and government approvals associated, the gross production of Mabi concession is expected to be 72 MMCM (2.5 bcf).

According to the development plan of Panzhuang concession and Mabi concession mentioned above, the Group estimates to incur capital expenditures of approximately RMB702 million in 2020, which will be financed by its own cash flow and part of the proceeds from its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 23 June 2015 (the “**Listing**”). The Group will assess the capital investment plan for 2020 from time to time, and will make necessary disclosure in the interim results for 2020 for any change.

The Group is highly confident in focusing on and dealing with uncertainties, as well as continuously committed to cost reduction and efficiency enhancement to deliver promising operating results. Meanwhile, we will continue to enhance technological innovation, thereby laying a solid foundation for the stable production and development of Panzhuang concession and the large-scale development of Mabi concession. Besides, the Group will base on its groundbreaking technological advantages to identify new development opportunities mainly in China’s market as planned to expand our business, so as to provide more clients and relevant communities with clean energy and create higher return for our shareholders.

FINANCIAL RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2019 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2019	2018
	Note	RMB'000	RMB'000
Revenue	4	1,161,246	978,671
Other income	5	346,805	279,169
Other gains, net		822	371
Operating expenses			
Depreciation and amortisation		(272,867)	(203,686)
Employee benefit expenses		(105,821)	(209,949)
Materials, services and logistics		(209,692)	(214,128)
Others		(18,585)	(26,853)
Total operating expenses		(606,965)	(654,616)
Profit from operations		901,908	603,595
Interest income	6	37,065	25,701
Finance costs	6	(4,287)	(25,556)
Exchange gains/(losses)	6	6,079	(7,480)
Finance income/(costs), net		38,857	(7,335)
Profit before income tax		940,765	596,260
Income tax expense	7	(233,397)	(183,323)
Profit attributable to owners of the Company for the year		707,368	412,937
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		6,315	60,826
Total comprehensive income attributable to owners of the Company for the year		713,683	473,763
Earnings per share (RMB)			
— Basic	10	0.21	0.12
— Diluted	10	0.21	0.12

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2019	2018
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,721,688	3,651,419
Right-of-use asset		56,662	—
Land use rights		—	11,700
Intangible assets		35,077	39,589
Restricted bank deposits		49,895	43,767
Other non-current assets		13,770	142
		3,877,092	3,746,617
Current assets			
Inventories		11,201	11,506
Other current assets		10,967	17,002
Trade and other receivables	8	714,969	575,459
Time deposits with initial term over 3 months		50,000	—
Cash and cash equivalents		2,083,931	1,656,523
		2,871,068	2,260,490
Total assets		6,748,160	6,007,107
EQUITY			
Equity attributable to owners of the Company			
Share capital		2,079	2,077
Share premium		4,231,210	4,475,667
Other reserves		311,084	307,208
Retained earnings		1,299,269	591,901
Total equity		5,843,642	5,376,853

		As at 31 December	
		2019	2018
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		18,361	16,741
Non-current lease liabilities		43,395	—
Deferred income tax liabilities		379,804	307,322
		<u>441,560</u>	<u>324,063</u>
Current liabilities			
Trade and other payables	9	404,190	256,284
Current lease liabilities		14,562	—
Current income tax liabilities		44,206	49,907
		<u>462,958</u>	<u>306,191</u>
Total liabilities		<u>904,518</u>	<u>630,254</u>
Total equity and liabilities		<u>6,748,160</u>	<u>6,007,107</u>

1. GENERAL INFORMATION

AAG Energy Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in exploration, development and production of coalbed methane (“**CBM**”) in the People’s Republic of China (the “**PRC**”). The Company is an exempted company incorporated in the Cayman Islands with limited liability on 23 December 2014. The address of the Company’s registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Group conducts its business through two Production Sharing Contracts (“**PSC**”) entered into with China United Coalbed Methane Corporation Ltd. (“**CUCBM**”) and China National Petroleum Corporation (“**CNPC**”) (authorizing its subsidiary PetroChina Company Limited (“**PetroChina**”)) 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 (“**NDRC**”) of the PRC on 28 November 2011, which allowed the Panzhuang concession to enter into the commercial development phase. On 8 October 2018, NDRC formally announced the Approval Regarding the ODP in respect of the Foreign Cooperation Project within the Southern Area in Mabi concession, Qinshui Basin, Shanxi Province. According to the announcement, the approval was officially issued in September 2018. With this approval, the Southern Area of Mabi concession is eligible for commercial development. As at 31 December 2019, the Northern Area of Mabi concession was still in exploration phase.

The Company’s Initial Public Offering (“**IPO**”) of its shares on the Main Board of the Stock Exchange of Hong Kong Limited was completed on 23 June 2015.

In 2018, Liming Holding Limited (“**Liming**”), an indirect wholly owned subsidiary, controlled through Sichuan Liming Energy Development Co., Ltd. (“**Sichuan Liming**”), of Xinjiang Xintai Natural Gas Co., Ltd. (“**XTRQ**”), a company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 603393), acquired approximately 50.5% of issued shares of the Company.

The Directors regard Liming, Sichuan Liming and XTRQ as its immediate parent entity, intermediate parent entity and the ultimate parent entity of the Company respectively subsequent to the completion of the takeover (“**Change of Control**”).

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.

2.1 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.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- *HKFRS 16 Leases*
- *Interpretation 23 Uncertainty over Income Tax Treatments*
- *Prepayment Features with Negative Compensation — Amendments to HKFRS 9*
- *Annual Improvements to HKFRS Standards 2015-2017 Cycle*
- *Plan Amendment, Curtailment or Settlement — Amendments to HKAS 19*

The impact of the adoption of HKFRS 16 is disclosed in note 2.2 below. The other amendments did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards and interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.00%.

(a) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

	2019 <i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	10,336
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,400
Less: short-term leases recognised on a straight-line basis as expense	(5,563)
Add: adjustments as a result of a different treatment of extension and termination options	50,782
Lease liability recognised as at 1 January 2019	54,619
Of which are:	
Current lease liabilities	7,718
Non-current lease liabilities	46,901
	<u>54,619</u>

(c) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(d) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by RMB59,972,000;
- Prepayments — decrease by RMB6,215,000;
- Lease liabilities — increase by RMB54,619,000;
- Land use rights — decrease by RMB11,700,000.

3. SEGMENT INFORMATION

The Chief Operating Decision-Maker (“**CODM**”) has been identified as the directors and chief executive of the Company who review the Group’s internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group’s operating segments are defined by PSCs, which is the basis by which the CODM makes decisions about resources to be allocated and assesses their performance. The financial information of the two PSCs has 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 year ended 31 December 2019 is as follows:

	Panzhuang concession <i>RMB’000</i>	Mabi concession <i>RMB’000</i>	Total <i>RMB’000</i>
Year ended 31 December 2019			
Revenue from external customers	1,064,012	97,234	1,161,246
EBITDA	1,146,550	47,548	1,194,098
Other income	322,185	24,620	346,805
Operating expenses	(466,202)	(115,591)	(581,793)
Depreciation and amortisation	(226,464)	(41,560)	(268,024)
Interest income	20,910	369	21,279
Finance costs	(3,084)	(926)	(4,010)
Exchange gains/(losses)	9,049	(5,679)	3,370
Income tax expense	(233,397)	–	(233,397)
Year ended 31 December 2018			
Revenue from external customers	853,728	124,943	978,671
EBITDA	896,259	40,134	936,393
Other income	241,728	37,441	279,169
Operating expenses	(355,347)	(167,003)	(522,350)
Depreciation and amortisation	(156,261)	(44,255)	(200,516)
Interest income	7,515	305	7,820
Finance costs	(7,145)	(457)	(7,602)
Exchange gains/(losses)	11,867	(15,062)	(3,195)
Income tax expense	(183,323)	–	(183,323)

	Panzhuang concession <i>RMB'000</i>	Mabi concession <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2019			
Total assets	3,435,509	2,446,184	5,881,693
Total liabilities	775,413	121,629	897,042
Additions to non-current assets (other than deferred income tax assets)	298,121	90,125	388,246
As at 31 December 2018			
Total assets	2,747,283	2,316,141	5,063,424
Total liabilities	564,631	58,707	623,338
Additions to non-current assets (other than deferred income tax assets)	123,438	72,833	196,271

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Total EBITDA for reportable segments	1,194,098	936,393
Headquarter overheads	(19,323)	(129,112)
Depreciation and amortisation	(272,867)	(203,686)
Interest income	37,065	25,701
Finance costs	(4,287)	(25,556)
Exchange gains/(losses)	6,079	(7,480)
Profit before income tax	940,765	596,260

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

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Total segment assets	5,881,693	5,063,424
Unallocated		
Unallocated cash and cash equivalents	862,640	940,877
Others	3,827	2,806
Total assets per balance sheet	6,748,160	6,007,107

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total segment liabilities	897,042	623,338
Unallocated		
Unallocated lease liabilities	2,587	—
Others	4,889	6,916
Total liabilities per balance sheet	904,518	630,254

4. REVENUE

All the Group's revenue is derived through the sale of the Group's share of CBM sold to customers in the PRC. Sales of gas are recognised when control of the gas has transferred, being when the gas is delivered to the customers. The amount of revenue is allocated based on the terms of the PSCs and gas sales agreements.

5. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
VAT refund (a)	127,375	92,267
Government subsidy (b)	219,430	186,902
	346,805	279,169

- (a) VAT refund is granted by the PRC government according to "The Notice on Tax Policy Issued by The Ministry of Finance and The State Administration of Taxation on Speeding Up The Drainage of Coalbed Methane" (《財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知》). CUCBM and PetroChina applies for the VAT refund for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.
- (b) Government subsidy is granted by the PRC government according to "The Implementation Opinions of Subsidies Granted by The Ministry of Finance on The Development and Utilisation of Coalbed Methane" (《財政部關於煤層氣(瓦斯)開發利用補貼的實施意見》) published on 20 April 2007, as amended by "Supplementary Notice on the Interim Administrative Measures for Special Funds for the Development of Renewable Energy" (《關於〈可再生能源發展專項資金管理暫行辦法〉的補充通知》) issued on 11 June 2019. CUCBM and PetroChina apply for the subsidy for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.

6. FINANCE INCOME/(COSTS), NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest expense		
— Lease liabilities	(3,614)	—
— Bank borrowings	—	(33,069)
Bank loan commitment fee	—	(24,960)
Accretion expenses of asset retirement obligations	(673)	(596)
	<u>(4,287)</u>	<u>(58,625)</u>
Subtotal	(4,287)	(58,625)
Less: amounts capitalised on qualifying assets	—	33,069
	<u>(4,287)</u>	<u>(25,556)</u>
Finance costs	(4,287)	(25,556)
Interest income	37,065	25,701
Exchange gains/(losses)	6,079	(7,480)
	<u>38,857</u>	<u>(7,335)</u>

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	160,915	108,081
Deferred income tax	72,482	75,242
	<u>233,397</u>	<u>183,323</u>

The Company and its subsidiaries incorporated under respective jurisdiction of the Cayman Islands, the British Virgin Islands and Samoa, are 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.

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

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	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	940,765	596,260
Tax expense calculated at applicable tax rates	220,313	145,264
Current year deductible temporary differences for which no deferred tax asset was recognised	11,466	33,396
Expenses not deductible for taxation purposes	2,317	811
Others	(699)	3,852
Income tax expense	233,397	183,323

8. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables (a)		
— CUCBM	97,619	205,155
— PetroChina	51,944	49,548
— External customers	94,438	24,539
	244,001	279,242
Notes receivables (b)	46,000	40,000
Government grants receivables (c)		
— Government	176,222	172,747
— CUCBM	84,692	12,551
— PetroChina	31,747	12,866
Due from PSC parties for cash calls and accrued expenses (d)		
— CUCBM	78,001	40,598
— PetroChina	48,699	9,882
Deposits and others	5,607	7,573
	714,969	575,459

(a) Trade receivables

(i) The ageing analysis of trade receivables is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	201,224	253,043
3 months to 6 months	27,745	7,064
6 months to 1 year	7,150	15,350
1 year to 2 years	7,882	3,785
	244,001	279,242

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.

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

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

(ii) Trade receivables past due but not impaired

As at 31 December 2019, trade receivables of approximately RMB129,720,000 (31 December 2018: RMB62,189,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Past due but not impaired		
Over credit term but within 3 months	96,606	35,990
3 months to 6 months	18,082	7,064
6 months to 1 year	7,150	15,350
1 year to 2 years	7,882	3,785
	129,720	62,189

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

(iii) Movement of bad debt provision:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Beginning of the year	—	7,197
Write-off	—	(7,197)
	<u>—</u>	<u>(7,197)</u>
End of the year	<u><u>—</u></u>	<u><u>—</u></u>

- (b) Notes receivables are bank acceptance with maturity dates within six months.
- (c) This represents the VAT refund and government subsidies for CBM receivable from the government through CUCBM and PetroChina.
- (d) This represents CUCBM's and PetoChina's share of the cash calls and accrued expenses for the development and production costs of Panzhuang and Mabi concession yet to be received from CUCBM and PetroChina, respectively.
- (e) As at 31 December 2019, the carrying amounts of trade and other receivables approximated their fair values.
- (f) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	714,279	574,928
HK\$	583	531
US\$	107	—
	<u>714,969</u>	<u>575,459</u>

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	361,269	228,043
Amounts due to related parties		
— Sunshine Ji'ao	443	—
Amounts due to PSC parties		
— CUCBM	3,060	—
— PetroChina	3,602	4,078
Tax payables	874	810
Payroll liabilities	28,198	14,903
Other payables	6,744	8,450
	<u>404,190</u>	<u>256,284</u>

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

The ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 6 months	270,427	166,785
6 months to 1 year	22,892	13,100
1 to 2 years	36,999	26,066
2 to 3 years	13,607	8,801
Over 3 years	17,344	13,291
	<u>361,269</u>	<u>228,043</u>

- (b) 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	
	2019	2018
	RMB'000	RMB'000
RMB	400,363	249,720
HK\$	189	739
US\$	3,638	5,825
	<u>404,190</u>	<u>256,284</u>

10. 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 years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	<u>707,368</u>	<u>412,937</u>
Weighted average number of ordinary basic shares in issue (Thousands)	<u>3,392,293</u>	<u>3,358,654</u>
Basic earnings per share (RMB)	<u>0.21</u>	<u>0.12</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options and RSUs outstanding which are potentially dilutive. The assumed proceeds from conversion of these options and RSUs shall be regarded as having been received from the issue of ordinary shares at average market price of ordinary shares during the period. The difference between the number of shares that would have been issued assuming the exercise of the share options and RSUs and the number of shares that could have been issued at the average market price of the ordinary shares during the period with the same total assumed proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	<u>707,368</u>	<u>412,937</u>
Weighted average number of ordinary shares in issue (Thousands)	3,392,293	3,358,654
Adjustments for assumed conversion of share options and RSUs (Thousands)	<u>252</u>	<u>752</u>
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	<u>3,392,545</u>	<u>3,359,406</u>
Diluted earnings per share (RMB)	<u><u>0.21</u></u>	<u><u>0.12</u></u>

11. DIVIDENDS

A dividend in respect of the year ended 31 December 2019 of RMB0.1061 per share will be proposed at the annual general meeting (“AGM”) on 13 May 2020. These financial statements do not reflect this dividend payable.

A dividend in respect of the year ended 31 December 2018 of RMB0.0737 per share was approved at the AGM on 10 May 2019 and was paid on 12 June 2019.

FINANCIAL REVIEW

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	1,161,246	978,671
— Panzhuang	1,064,012	853,728
— Mabi	97,234	124,943
Subsidy income	219,430	186,902
— Panzhuang	204,181	162,340
— Mabi	15,249	24,562
VAT refund	127,375	92,267
— Panzhuang	118,004	79,388
— Mabi	9,371	12,879
Other gains, net	822	371
Operating expenses	(606,965)	(654,616)
Depreciation and amortization	(272,867)	(203,686)
Employee benefit expenses	(105,821)	(209,949)
Materials, services and logistics	(209,692)	(214,128)
Others	(18,585)	(26,853)
<i>Panzhuang</i>	(466,202)	(355,347)
Depreciation and amortization	(226,464)	(156,261)
Employee benefit expenses	(66,993)	(59,877)
Materials, services and logistics	(158,173)	(127,983)
Others	(14,572)	(11,226)
<i>Mabi</i>	(115,591)	(167,003)
Depreciation and amortization	(41,560)	(44,255)
Employee benefit expenses	(31,674)	(54,306)
Materials, services and logistics	(39,034)	(59,054)
Others	(3,323)	(9,388)
<i>Headquarters</i>	(25,172)	(132,266)
Depreciation and amortization	(4,843)	(3,170)
Employee benefit expenses	(7,154)	(95,766)
Materials, services and logistics	(12,485)	(27,091)
Others	(690)	(6,239)
EBITDA	1,174,775	807,281
— Panzhuang	1,146,550	896,259
— Mabi	47,548	40,134
Profit from operations	901,908	603,595
Interest income	37,065	25,701
Finance costs	(4,287)	(25,556)
Exchange gains/(losses)	6,079	(7,480)
Finance income/(costs), net	38,857	(7,335)
Profit before income tax	940,765	596,260
Income tax expense	(233,397)	(183,323)
Profit for the year	707,368	412,937

Revenue. Our revenue increased by RMB182 million or 18.66% from RMB979 million in 2018 to RMB1.161 billion in 2019. This increase was mainly generated from the increase in the realized ASP and the net sales volume increase as a result of the increased production in Panzhuang concession. Panzhuang concession's gross production increased by 21.78% from 705 MMCM in 2018 to 859 MMCM in 2019, with a constant production-to-sale ratio of 98% for both 2018 and 2019. Panzhuang concession's realized ASP for 2019 increased to RMB1.69/cubic meter compared to RMB1.67/cubic meter for 2018.

Production, sales, realized ASP and revenue are set out below:

	Year ended 31 December	
	2019	2018
Gross production volume (bcf) ¹	32.88	28.33
Panzhuang	30.34	24.92
Mabi	2.54	3.41
Gross production volume (mmcm) ¹	931.09	802.21
Panzhuang	859.17	705.53
Mabi	71.92	96.68
Gross sales volume (bcf) ²	32.23	27.57
Panzhuang	29.79	24.49
Mabi	2.44	3.08
Gross sales volume (mmcm) ²	912.56	780.82
Panzhuang	843.48	693.47
Mabi	69.08	87.35
Net sales volume (bcf) ³	23.36	19.85
Panzhuang	21.35	17.33
Mabi	2.01	2.52
Net sales volume (mmcm) ³	661.41	562.12
Panzhuang	604.55	490.65
Mabi	56.86	71.47
Realized ASP ⁴		
RMB per cubic meter	1.67	1.64
Panzhuang	1.69	1.67
Mabi	1.39	1.39
Revenue (RMB'000)	1,161,246	978,671
Panzhuang	1,064,012	853,728
Mabi	97,234	124,943

Notes:

1. Gross production volume is the total amount of CBM produced.
2. Gross sales volume is gross production volume less utilization loss.
3. Net sales volume is the portion of gross sales volume allocated to us under the production sharing contract, after the deduction of amount sold to pay applicable VAT and local taxes.
4. Realized ASP excludes the directly attributable pass through cost, thus reflecting the realized wellhead price.

Subsidy income. Our subsidy income is RMB187 million and RMB219 million in 2018 and 2019, respectively. In 2019, our subsidy income increased by RMB32 million or 17.40%, mainly due to the increase in net sales volume of Panzhuang concession.

VAT refund. Our VAT refund is RMB92 million and RMB127 million in 2018 and 2019, respectively. In 2019, our VAT refund increased by RMB35 million or 38.05%, mainly due to the increase in net sales volume and the realized ASP of Panzhuang concession.

Other gains, net. Our other gains increased from RMB371,000 in 2018 to RMB822,000 in 2019, representing an increase of RMB451,000 or 121.56%, mainly due to the overhead for income of other businesses.

Operating expenses. Our operating expenses decreased by RMB47 million or 7.28% from RMB654 million in 2018 to RMB607 million in 2019, mainly due to the strict cost-control measures, the optimization of organizational structure and position settings and the decrease in share-based compensation expenses.

- *Depreciation and amortization.* Our depreciation and amortization increased by RMB69 million or 33.96% from RMB204 million in 2018 to RMB273 million in 2019, mainly due to the increase in production wells and production in Panzhuang concession, and the increase in depreciation of right-of-use asset arising from the amended standard for leases.
- *Employee benefit expenses.* Our employee benefit expenses decreased by RMB104 million or 49.60% from RMB210 million in 2018 to RMB106 million in 2019, mainly due to the optimization of organizational structure and position settings, and the decrease in share-based compensation expenses.
- *Materials, services and logistics.* Our materials, services and logistics expenses decreased by RMB4 million or 2.07% from RMB214 million in 2018 to RMB210 million in 2019, mainly due to the strict cost-control measures as well as the decrease in expenses of business development and legal consulting service fees, but was partially offset by the costs increase in electricity, produced water treatment and other operating costs arising from the production of more wells in Panzhuang concession.

- *Others.* Our other expenses were RMB26.85 million and RMB18.59 million in 2018 and 2019 respectively.

EBITDA. Our EBITDA increased by RMB368 million or 45.52% from RMB807 million in 2018 to RMB1.175 billion in 2019. The increase was mainly attributable to the increase in realized ASP and net sales volume increase as a result of a 21.78% increase of Panzhuang concession's gross production, as well as the increase in subsidy income and VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings and the decrease in materials, services and logistics expenses due to strict cost-control measures. In conclusion, higher production volume and realized ASP, as well as strict cost control measures, have led to an increase in EBITDA, which could even be greater than the increase in income. The EBITDA of 2018 amounted to RMB807 million, including share-based compensation expenses of RMB36.08 million and non-operation related business development and legal consulting service expenses of RMB10.29 million and termination compensation of RMB51.70 million arising from the relocation of the Beijing headquarters. The EBITDA of 2019 amounted to RMB1.175 billion, including termination compensation of RMB20.57 million and non-operation related business development and legal consulting service expenses of RMB3.22 million. Panzhuang concession's EBITDA increased by RMB251 million or 27.93% from RMB896 million in 2018 to RMB1.147 billion in 2019. The increase in EBITDA of Panzhuang concession in 2019 was mainly due to the increase in production and realized ASP and the increase in subsidy income and VAT refund, but was partially offset by higher materials and electricity expenses as a result of more wells in production. Mabi concession's EBITDA increased by RMB7.42 million or 18.47% from RMB40.13 million in 2018 to RMB47.55 million in 2019. The increase in Mabi concession's EBITDA in 2019 was mainly attributable to the decrease in employee benefit expenses due to the optimization of organizational structure and position settings and the decrease in materials, services and logistics expenses due to strict cost-control measures, and the fact that the decrease of these items was even greater than the decrease in revenue.

Profit from operations. As a result of the foregoing, our operating profit increased by RMB298 million or 49.42% from RMB604 million in 2018 to RMB902 million in 2019.

Interest income. Our interest income increased by RMB11.37 million or 44.22% from RMB25.70 million in 2018 to RMB37.07 million in 2019, mainly due to the increase in the term of time deposit and its rate.

Finance costs. Our finance costs decreased by RMB21.27 million or 83.23% from RMB25.56 million in 2018 to RMB4.29 million in 2019, mainly due to the repayment of the US\$250 million reserve-based facility in 2018. Finance costs for 2019 were mainly the difference between the present value of lease payments and the actual payments upon the adoption of new lease standards, which were recognized as interests on lease liabilities.

Exchange gains/(losses). Our exchange gains/(losses) switched from exchange losses of RMB7.48 million in 2018 to exchange gains of RMB6.08 million in 2019. It is mainly attributable to the foreign exchange gains of cash deposit in foreign currency arising from the exchange rate fluctuation for foreign currency against RMB.

Profit before income tax. Our profit before income tax increased by RMB345 million or 57.78% from RMB596 million in 2018 to RMB941 million in 2019, mainly due to the factors affecting EBITDA stated above and the increase in interest income and the decrease in finance costs and exchange gains, but was partially offset by the increase in depreciation and amortization expenses.

Income tax expense. Our income tax expense increased by RMB50 million or 27.31%, from RMB183 million in 2018 to RMB233 million in 2019, mainly due to the increase in profit before income tax of Panzhuang concession in 2019. Income tax expense was related to the operation of Panzhuang concession. Mabi concession had no income tax expense because it had no taxable profit.

Profit for the year. Our profit for the year increased by RMB294 million or 71.30% from RMB413 million in 2018 to RMB707 million in 2019, mainly due to the factors affecting profit before income tax stated above, but partially offset by the increase in income tax expense.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit for the year, which is the most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest income, finance costs, exchange gains/losses, income tax and depreciation and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash expenses, non-recurring items or non-operation-related expenses to demonstrate the EBITDA of the Group's core operations.

We have included EBITDA and adjusted EBITDA as we believe they are financial measures commonly used in the oil and gas industry. We consider that EBITDA and adjusted EBITDA are used as supplemental financial measures by our management, 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 financing ability. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to operating profit or any other measure of performance or as indicators of our operating performance or profitability. EBITDA and adjusted EBITDA are unable to account for income tax, exchange gains/losses, interest income, finance costs and depreciation and amortization.

The following table sets forth a reconciliation of EBITDA and adjusted EBITDA to profit for the year.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Reconciliation of profit for the year to EBITDA:		
Profit for the year	707,368	412,937
Income tax expense	233,397	183,323
Interest income	(37,065)	(25,701)
Finance costs	4,287	25,556
Exchange losses/(gains)	(6,079)	7,480
Depreciation and amortization	272,867	203,686
EBITDA	1,174,775	807,281
Share-based compensation expenses	–	36,076
Non-operation-related business development and legal consulting service expenses	3,216	10,290
Termination compensation	20,573	51,701
Adjusted EBITDA	1,198,564	905,348

Our EBITDA increased by RMB368 million or 45.52% from RMB807 million in 2018 to RMB1.175 billion in 2019. The increase was mainly due to the increase in realized ASP and net sales volume increase of Panzhuang concession as a result of a 21.78% increase in gross production, as well as the increase in subsidy income and VAT refund, the decrease in employee benefit expenses due to the optimization of organizational structure and position settings and the decrease in materials, services and logistics expenses due to strict cost-control measures. In conclusion, higher production volume and realized ASP, as well as strict cost-control measures, have led to an increase in EBITDA, which could even be greater than the increase in income.

Our adjusted EBITDA increased by RMB293 million or 32.39% from RMB905 million in 2018 to RMB1.198 billion in 2019. In addition to the factors described above, the increase was also due to the termination compensation and non-operation-related business development and legal consulting service expenses in 2019.

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial management department is responsible for the financing and fund management policies related to the overall operations of the Group. Our primary sources of funding for investment include cash generated from operating activities and proceeds from the Company's IPO in 2015.

As at 31 December 2019, we had cash and bank balances of RMB2.184 billion (RMB1.700 billion as at 31 December 2018).

Save as the information disclosed above or otherwise in this announcement, the Group 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 guarantee or other material contingent liabilities as at 31 December 2019.

Cash Flow

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	948,210	404,933
Net cash used in investing activities	(272,421)	(419,593)
Net cash used in financing activities	(263,492)	(635,140)
Net increase/(decrease) in cash and cash equivalents	412,297	(649,800)
Cash and cash equivalents at beginning of the year	1,656,523	2,236,970
Exchange gains on cash and cash equivalents	15,111	69,353
Cash and cash equivalents at end of the year	2,083,931	1,656,523

Operating Activities

Net cash generated from operating activities was RMB948 million in 2019, mainly due to profit before income tax of RMB941 million and depreciation and amortization of RMB272 million. These items were offset by income tax paid of RMB167 million, the increase in accounts receivable and other receivables by RMB66.98 million, interest income of RMB24.27 million and the decrease in accounts payable and other payables by RMB5.39 million.

Net cash generated from operating activities was RMB405 million in 2018, mainly due to profit before income tax of RMB596 million, depreciation and amortization of RMB204 million, the increase in accounts receivable and other receivables by RMB295 million, share-based compensation of RMB36.07 million, financial costs of RMB25.56 million for the New US\$250 million RBL, the decrease in accounts payable and other payables by RMB23.32 million and exchange losses of RMB7.48 million. These items were offset by interest paid of RMB28.12 million and income tax paid of RMB83.31 million.

Investing Activities

In 2019, net cash used in investing activities was RMB272 million, mainly comprised of purchases of property, plant and equipment of RMB242 million, increase in time deposits with term over 3 months of RMB50.00 million, but was offset by interest received of RMB25.22 million. The purchase of property, plant and equipment mainly comprised of payment for more wells drilled, additional well head compressors and construction of gas gathering stations and power facilities.

In 2018, net cash used in investing activities was RMB420 million, mainly comprised of purchases of property, plant and equipment of RMB439 million, increase in restricted bank deposits of RMB6.10 million, offset by interest received of RMB25.84 million. The purchase of property, plant and equipment mainly comprised of payment for more wells drilled, additional well head compressors and construction of gas gathering stations and power facilities.

Financing Activities

In 2019, net cash used in financing activities was RMB263 million, mainly due to the payment of the dividend of RMB256 million for 2018YE.

In 2018, net cash used in financing activities was RMB635 million, mainly due to the repayment of principal, interests and commitment expenses of the New US\$250 million RBL of RMB614 million and the payment of final dividend of RMB67.94 million of 2017. It was partially offset by a sum of RMB44.49 million drawn from the New US\$250 million RBL.

Cash and Bank Balances

We had cash and bank balances of RMB1.700 billion and RMB2.184 billion as at 31 December 2018 and 2019, respectively. Our cash and bank balances consist of cash on hand, cash at banks, restricted bank deposits and time deposits with term over three months. The increase in our cash is mainly due to sales return. As at 31 December 2018 and 2019, approximately 55.46% and 39.52% of our cash and bank balances were held in Hong Kong dollar or US dollar.

FINANCIAL RISK FACTORS

The operating activities of the Group expose to a variety of financial risks: credit risk, market risk (includes foreign exchange risk), liquidity risk and concentration risk. The overall risk management program of the Group 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 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 mainly from trade and other receivables.

Foreign Exchange Risk

The Group is exposed to foreign exchange risk arising from various currency exposures, particularly with respect to US dollar. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the entity's functional currency.

Prior to 30 April 2016, we were exposed to non-cash foreign exchange risks arising from retranslation of inter-company loans denominated in US dollar. To manage the foreign exchange risk, the 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 cannot request repayment. Upon completion of this debt restructuring, any foreign exchange difference arising from the retranslation of these US dollar denominated perpetual loans was recognized in equity in the consolidated financial statements.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign exchange rates and companies' internal accounts denominated in US dollar.

As at 31 December 2019, if RMB had weakened/strengthened by 1% against US dollar, with all other variables held constant, profit before income tax for the year would have been RMB3,954,000 (31 December 2018: RMB2,250,000) higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of US\$ denominated receivables and payables held by our entities with their functional currency as RMB.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment for the year ended 31 December 2019.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2019.

SIGNIFICANT CHANGES/EVENTS AFTER THE END OF THE FINANCIAL YEAR

Following the outbreak of the COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, etc. These measures delayed the production activities across China, which affected the demand and hence the production of gas by the Group in early 2020 to certain extent.

The majority of the Group's production and operations has been restored to the normal level in March 2020. As at the date on which the publication of this announcement is approved, the impact of the COVID-19 outbreak on the macro-economic conditions as a whole are still uncertain, the Group is unable to quantify the related financial effects. The Group will pay close attention to the development of the COVID-19 outbreak, thereby performing further assessment of its impact and taking relevant measures.

EMPLOYEES

As at 31 December 2019, the Group employed 479 employees (include 6 disabled persons), with 1 of them based in Hong Kong.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) on 31 March 2015, the principal terms (such as the purpose, participants and consideration for accepting any options,) of which are set out in the section headed “Statutory and General Information — Pre-IPO Share Option Scheme” in Appendix V to the prospectus of the Company dated 11 June 2015 (the “**Prospectus**”).

The maximum number of shares issued and to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme to any one person (including exercised and outstanding options) pursuant to the Pre-IPO Share Option Scheme and any other share compensation arrangements adopted by the Company shall not exceed 3.0% of the shares in issue from time to time.

OUTSTANDING OPTIONS

For the year ended 31 December 2019, no option was cancelled, 310,073 options were lapsed and 3,024,231 options were exercised. No movements in any share options of the directors, chief executives of the Company or substantial shareholders or their respective associates during the year. As at 31 December 2019, there were 1,734,440 options outstanding. None of the directors, chief executives of the Company or substantial shareholders or their respective associates held outstanding options.

As at 31 December 2019, total outstanding options under the Pre-IPO Share Option Scheme represented approximately 0.051% of issued shares.

Save as disclosed above, no further options have been or would be granted by the Company after the date of Listing pursuant to the Pre-IPO Share Option Scheme.

POST-IPO RSU SCHEME

The Company adopted a post-IPO restricted share unit scheme (the “**Post-IPO RSU Scheme**”) on 5 June 2015, which took effect on 23 June 2015, a summary of the principal terms (such as the purpose and participants) of which is set out in the section headed “Statutory and General Information — Post-IPO RSU Scheme” in Appendix V to the Prospectus.

The Post-IPO RSU Scheme is valid and effective for a term of 10 years from the 5 June 2015 (the “**Scheme Period**”), after which period no further Restricted Share Units (“**RSUs**”) shall be granted or accepted, but the provisions of such scheme shall remain in full force and effect in order to give effect to the vesting of RSUs granted and accepted prior to the expiration of the Scheme Period.

The limit of the Post-IPO RSU Scheme may be refreshed from time to time subject to prior approval of the shareholders of the Company (the “**Shareholders**”), but in any event, the total number of Shares subject to the RSUs granted following the date of approval of the refreshed limit (the “**New Approval Date**”) under the limit as refreshed from time to time shall not exceed 2% of the number of Shares in issue as at the New Approval Date.

On 18 December 2015, the Company granted an aggregate of 41,234,696 RSUs to certain connected grantees and non-connected grantees of the Group pursuant to the Post-IPO RSU Scheme. Subsequently, the grant of RSUs to three connected grantees was approved by the independent shareholders at the extraordinary general meeting held on 22 January 2016. 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.

On 24 March 2017, the Board granted an aggregate of 26,333,182 RSUs to certain connected grantees and non-connected grantees of the Group pursuant to the Post-IPO RSU Scheme. Subsequently, the grant of RSUs to six connected grantees was approved by the independent shareholders at the extraordinary general meeting held on 9 May 2017. On 31 May 2017, an aggregate of 26,333,182 RSUs were accepted by the relevant grantees.

At the annual general meeting of the Company (the “**AGM**”) in 2018, a specific mandate was granted to the Directors to exercise all the powers of the Company to grant RSUs pursuant to the Post-IPO RSU Scheme in respect of underlying Shares not exceeding 2% (i.e. the Directors were authorized to exercise the powers of the Company to grant the RSUs involving a maximum number of 67,830,467 underlying Shares) of the Shares in issue as at the date of the 2018 AGM during the period from the date of approving the 2018 mandate up to the conclusion of the next AGM.

OUTSTANDING RSUs

For the year ended 31 December 2019, no RSUs have been granted, vested, lapsed and cancelled. As at 31 December 2019, there were no outstanding RSUs.

USE OF PROCEEDS FROM LISTING OF THE COMPANY

The net proceeds from Listing received by the Company (after deducting underwriting fee and other estimated expenses) amounted to a total of approximately RMB1.5069 billion. As at 31 December 2019, RMB1.150 billion of the proceeds from Listing had been utilized. 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.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.1061 per share (equivalent to approximately HKD0.1163 per share) for the year ended 31 December 2019, subject to the approval of the Shareholders at the forthcoming AGM to be held on 13 May 2020. The proposed dividends are expected to be paid on 1 June 2020 to the Shareholders whose names appear on the register of members on 21 May 2020. The dividends payable to the Shareholders will be distributed in HK Dollar at an average exchange rate of the central parity of RMB against HK Dollar as announced by The People’s Bank of China for the five business days prior to the dividend declaration date.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The AGM is scheduled to be held on Wednesday, 13 May 2020. The notice of the AGM will be published and issued to the Shareholders in due course. For the purpose of determining the Shareholders’ eligibility to attend and vote at the AGM, the register of members of the Company will be closed from 8 May 2020 to 13 May 2020, both days inclusive, during which period no transfers of shares of the Company will be registered. To be eligible to attend and vote at the AGM, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company’s 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 no later than 4:30 p.m. on 7 May 2020.

The record date for determining the entitlements to the proposed final dividend is 21 May 2020. In order to determine the Shareholders’ right to receive the proposed final dividend, which is subject to the approval by the Shareholders at the AGM to be convened, the register of members of the Company will be closed from 19 May 2020 to 21 May 2020, both days inclusive, during which period the registration of transfer of shares will be suspended. To be eligible to receive the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates, must be lodged for registration with the Company’s share registrar and transfer office 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 for registration no later than 4:30 p.m. on 18 May 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance our corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange as its own code of corporate governance. The Company has complied with all applicable provisions under the CG Code during the year ended 31 December 2019. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

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 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries to all Directors, all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2019.

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. Tai Kwok Leung Alexander (chairman), Dr. Liu Xiaofeng and Ms. Gu Ren.

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 2019. 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 2019 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). The annual report for the year ended 31 December 2019 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
Ming Zaiyuan
Chairman and Executive Director

Hong Kong, 27 March 2020

As of the date of this announcement, the executive Directors are Mr. Ming Zaiyuan, Mr. Yan Danhua, and Mr. Zhang Jianbing; the non-executive Directors are Dr. Cui Guiyong, Ms. Gu Ren and Mr. Huang Min; and the independent non-executive Directors are Mr. Tai Kwok Leung Alexander, Dr. Liu Xiaofeng and Dr. Yang Ruizhao.