

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

Key Interim Results Highlights:

- **As of 30 June 2021, AAG Energy has achieved an excellent safety performance record of zero lost time injury for 6 years and 298 days in a row.**
- **Our revenue and other income (including subsidy and VAT refund) for 1H2021 increased by 33.15%¹ to RMB839 million as compared to that of the corresponding period of 2020. Net profit increased by 21.98% to RMB381 million. EBITDA increased by 33.22% to RMB683 million. Earnings per share increased by 21.74% to RMB0.112.**
- **Our gross production for 1H2021 was 617 MMCM, representing an increase of 31.94% as compared to that of the corresponding period of 2020:**
 - In respect of Panzhuang concession, gross production for 1H2021 was 569 MMCM, representing an increase of 30.10% as compared to that of the corresponding period of 2020;
 - In respect of Mabi concession, gross production for 1H2021 was 48 MMCM, representing an increase of 58.23% as compared to that of the corresponding period of 2020;
 - In respect of AAG Energy, daily production for 1H2021 reached 3.41 MMCM, representing an increase of 32.68% as compared to that of the corresponding period of 2020.

- **Our gross sales volume² for 1H2021 was 589 MMCM, representing an increase of 30.06% as compared to that of the corresponding period of 2020:**
 - In respect of Panzhuang concession, gross sales volume for 1H2021 was 549 MMCM, representing an increase of 29.47% as compared to that of the corresponding period of 2020;
 - In respect of Mabi concession, gross sales volume for 1H2021 was 40 MMCM, representing an increase of 38.75% as compared to that of the corresponding period of 2020.
- In 1H2021, the realized ASP³ in respect of Panzhuang concession was RMB1.64 per cubic meter, representing an increase of 11.56% as compared to that of the corresponding period of 2020; while the realized ASP in respect of Mabi concession was RMB1.39 per cubic meter, which remained the same as compared to that of the corresponding period of 2020.
- In 1H2021, we have drilled a total of 33 wells (of which 17 were SLHs and 16 were PDWs) in Panzhuang concession; while we have drilled a total of 88 wells (of which 15 were SLHs and 73 were PDWs) in Mabi concession.

Note 1: Due to the difference in units of expression and decimal places reserved of data, there may be a 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.

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

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

The board (the “**Board**”) of directors (the “**Directors**”) of AAG Energy Holdings Limited (the “**Company**”, “**AAG Energy**” or “**We**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the same period last year as follows:

FINANCIAL SUMMARY

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB,000</i>
	(Unaudited)	(Unaudited)
Revenue	714,731	483,668
Other income	123,949	146,218
Profit from operations	515,907	385,593
EBITDA	683,116	512,767
Adjusted EBITDA	685,303	512,767
Profit for the period	380,640	312,050
Basic earnings per share (RMB)	0.112	0.092
Diluted earnings per share (RMB)	0.112	0.092
	As at	As at
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB,000</i>
	(Unaudited)	(Audited)
Property, plant and equipment	4,136,649	3,994,259
Cash and bank balances	1,262,403	1,845,553
Total assets	7,090,604	7,038,381
Total equity	5,987,041	5,960,842

BUSINESS REVIEW

In the first half of 2021 (“**1H2021**”), the COVID-19 Pandemic reappeared in certain regions in the People’s Republic of China (“**PRC**”). Local governments responded promptly to the pandemic and the spread of the pandemic was contained and normal economic and living conditions were resumed gradually within a relatively short period of time. Shanxi Province, where the Group’s major coalbed methane (“**CBM**”) assets operate, and Henan Province, where the Group’s major market is located, have not been affected. The efficient and effective prevention and control measures against the COVID-19 Pandemic in the PRC, coupled with the promotion of vaccination, have created a favorable development environment for stable and sustainable production and operation of the Group.

The Chinese economy has rebounded strongly with a 12.7% year-on-year growth in gross domestic product (“**GDP**”) in 1H2021, resulting in an increase in industrial gas demand. The importance of natural gas as a clean energy source has again been highlighted by the establishment of the “dual-carbon” goal and increased pressure on environmental protection. Certain indicators such as natural gas generation hours have improved significantly. The substantial increase in commodity prices such as crude oil has further driven up the overall and domestic natural gas prices. Affected by rising costs, the spot prices of imported liquefied natural gas (“**LNG**”) in Asia reached US\$14 per million British thermal units (“**BTU**”) (approximately RMB3.02 per cubic meter) during off-seasons, slowing the growth of imported LNG supply. In addition, the tight supply of coal has boosted the market demand for natural gas and further increased the share of the natural gas at energy market.

Many upstream energy companies had substantially reduced their capital expenditures or even declared bankruptcy amid such global economic contraction caused by the COVID-19 Pandemic in 2020. The Group adhered to its investment plan, gradually increased its investments and further invested more capital expenditures to the Mabi concession, so as to capture the opportunities arising from growing demand and rising prices in natural gas market due to the recovering economy and other international factors, and achieve considerable growth in production, sales, revenue, EBITDA, net profit and earnings per share.

The gross production of CBM of the Group in 1H2021 recorded a growth as compared to that of the first half of 2020 (“**1H2020**”), representing a period-on-period growth of 31.94% to 617 million cubic meters (“**MMCM**”) (being 21.8 billion cubic feet (“**bcf**”)), including Panzhang concession’s gross production of 569 MMCM (being 20.1 bcf) and Mabi concession’s gross production of 48 MMCM (being 1.7 bcf).

The gross sales volume of CBM of the Group in 1H2021 increased by 30.06% to 589 MMCM (being 20.8 bcf) as compared to that of 453 MMCM (being 16.0 bcf) for 1H2020, including Panzhuang concession’s gross sales volume of 549 MMCM (being 19.4 bcf) and Mabi concession’s gross sales volume of 40 MMCM (being 1.4 bcf).

The realized average selling price (“**ASP**”) of Panzhuang concession increased from RMB1.47 per cubic meter in 1H2020 to RMB1.64 per cubic meter in 1H2021, representing an increase of 11.56%; the realized ASP of Mabi concession in 1H2021 was RMB1.39 per cubic meter, which remained the same as compared to that of 1H2020.

Our revenue and other income (including subsidy and VAT refund) for 1H2021 increased by 33.15% to RMB839 million as compared to that of 1H2020. Net profit increased by 21.98% to RMB381 million. EBITDA increased by 33.22% to RMB683 million. Earnings per share increased by 21.74% to RMB0.112.

During 1H2021, the Group has achieved operating results towards certain key business objectives as follows:

- **Health, Safety and Environment (“HSE”)**

As a leading CBM exploration and production company in the PRC, the Group always gives top priorities to HSE work. With the collaborative efforts of all employees, the Group continues to make outstanding progress in terms of HSE performance indicators. Specifically, the Group has recorded zeros for the employee total recordable incident rate (“**TRIR**”), lost time injury rate (“**LTIR**”) and preventable motor vehicle accident (“**PMVA**”) in 1H2021. As of 30 June 2021, AAG Energy has achieved an excellent safety performance record of zero lost time injury for 6 years and 298 days in a row.

The Group adjusted its Safety Management Committee and HSE management organization structure in the first half of the year, and signed 2021 HSE target responsibility letters with all staff at the beginning of the year. According to the project management and operation performance, combining with the advanced and standardized internal control management system and the HSE management system documents, the Group rationalized, revised and improved its project HSE management system, and updated, released and implemented the HSE Management System of Project. In 1H2021, the Group organized safety and environmental protection-related training for its staff for a total of 647 person-times, approximately 13,265 hours. The Group also organized training for its contractors’ staff for a total of 1,587 person-times, approximately 6,749 hours. Through continuous safety and environmental protection education and training, the Group has improved the safety awareness, knowledge and operation skills of its staff and contractors. Leveraging on continuous inspection and hidden risk management, the Group standardized the management of its production sites and construction sites, thus realizing its HSE management goals.

- **Panzhuang Concession**

Our Panzhuang concession, which is in partnership with China United Coalbed Methane Corporation Ltd. (“**CUCBM**”), has been listed as the key CBM project in Shanxi Province.

In 1H2021, the gross production of Panzhuang concession reached 569 MMCM (being 20.1 bcf), representing a period-on-period increase of 30.10% as compared to 437 MMCM (being 15.4 bcf) in 1H2020. Daily average production during 1H2021 was 3.1410 MMCM (being 110.92 million cubic feet (“**mmcf**”)) as compared to 2.4010 MMCM (being 84.79 mmcf) in 1H2020. As at 30 June 2021, 452 wells were in production in Panzhuang concession, including 49 multilateral drilling wells (“**MLD**”), 272 single lateral horizontal wells (“**SLH**”) and 131 pad drilling wells (“**PDW**”).

The work plan in 2021 for Panzhuang concession focused on accelerating production growth while keeping competitive costs. In 1H2021, in respect of Panzhuang concession, we have drilled a total of 33 wells, of which 17 were SLHs and 16 were PDWs. Most of these newly drilled CBM wells are located in areas where the geological conditions are of certain risks and challenges. For example, the Sitou fault in the western area of the concession has brought significant challenges to the drilling cycle days and well construction cost. In face of such challenges, the Company strengthened the integration, management and control of its technical capabilities, and completed drilling tasks with high quality in the first half of the year. Average drilling time for each SLH, being the main type of well, was 15 days, representing a decrease of 21% as compared to 19 days for the corresponding period of last year. Average drilling cost for each SLH maintained at RMB2.54 million, representing a decrease of approximately 10% as compared to RMB2.83 million for the corresponding period of last year. Average drilling time for each PDW was 5.82 days, representing a decrease of 2% as compared to 5.94 days for the corresponding period of last year. Average drilling cost for each PDW maintained at RMB0.80 million, representing a decrease of approximately 9% as compared to RMB0.88 million for the corresponding period of last year. In addition, we have fractured 15 PDWs and put 28 wells into production in Panzhuang concession.

The production capacity of surface facilities in Panzhuang concession, with a primary compression capacity reaching 4.30 MMCM per day and a secondary compression capacity reaching 1.20 MMCM per day, includes 6 gas gathering stations, 18 valve banks, 52 compressors, 67.1 km of trunk lines and 123 km of well to well pipelines.

Please refer to Table 1 for specific information on the operation performance and well count of Panzhuang concession.

- **Mabi Concession**

Our Mabi concession, which is in partnership with China National Petroleum Corporation (“CNPC”), has also been listed as the key CBM project in Shanxi Province.

In 1H2021, the gross production of Mabi concession was 48.34 MMCM (being 1.7 bcf), representing a period-on-period increase of 58.23% as compared to 30.55 MMCM (being 1.1 bcf) in 1H2020. Daily average production during 1H2021 was 0.2671 MMCM (being 9.43 mmcf) as compared to 0.1679 MMCM (being 5.93 mmcf) in 1H2020. As at 30 June 2021, 270 wells were in production in Mabi concession, including 1 MLD, 48 SLHs and 221 PDWs.

Based on the positive development results demonstrated in developed areas of Mabi concession and leveraging on our additional investment in 2020, the Group continued to roll out a stronger capital expenditure plan for Mabi concession in 1H2021. As of 30 June 2021, in respect of Mabi concession, the Group has drilled a total of 88 wells, of which 15 were SLHs and 73 were PDWs, representing a period-on-period increase of 340% as compared to 20 wells in 1H2020 and exceeding a total of 65 wells drilled in 2020. As CBM in Mabi concession is located at deeper depths as compared to Panzhuang concession and a slightly different drilling process was adopted, drilling cost for each SLH in Mabi concession was slightly higher than Panzhuang concession and basically remained steady as compared to that of 1H2020. In addition, 26 new wells in Mabi concession have been fractured in the first half of the year. The Company accelerates the investment and development of Mabi concession through continuous, high-quality and rapid investments, and strives to ramp up the CBM production of Mabi concession, thereby bringing excellent returns to its shareholders, partners and the society.

Please refer to Table 1 for specific information on the operation performance and well count of Mabi concession.

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

	1H2021	1H2020	% Change	2020 full year
Gross production (MMCM)	616.86	467.53	31.94%	1,034.05
Total average daily production (MMCMD)	3.41	2.57	32.68%	2.83
Gross production of PZ (MMCM)	568.52	436.98	30.10%	967.19
PZ MLD	63.78	76.45	-16.57%	156.95
PZ SLH	421.74	312.33	35.03%	697.81
PZ PDW	83.00	48.20	72.20%	112.43
Total producing wells of PZ**	452	346	30.64%	424
PZ MLD	49	49	0.00%	49
PZ SLH	272	205	32.68%	255
PZ PDW	131	92	42.39%	120
PZ wells drilled	33	44	-25.00%	90
PZ wells fracked	15	17	-11.76%	38
Gross production of MB (MMCM)	48.34	30.55	58.23%	66.86
MB MLD	0.09	0.07	28.57%	0.17
MB SLH	20.19	7.12	183.57%	17.40
MB PDW	28.06	23.36	20.12%	49.29
Total producing wells of MB**	270	212	27.36%	220
MB MLD	1	3	-66.67%	1
MB SLH	48	15	220.00%	25
MB PDW	221	194	13.92%	194
MB wells drilled	88	20	340.00%	65
MB wells fracked	26	24	8.33%	81

Notes:

* Operations update as of 30 June 2021, 08:00 CST.

** Well count is calculated from pumping start date.

OUTLOOK FOR THE SECOND HALF OF 2021 (“2H2021”)

On 22 September 2020, President Xi Jinping announced at the General Debate of the Seventy-fifth Session of the General Assembly of the United Nations that the PRC will put more effort in making contribution and adopt more effective policies and measures. The carbon dioxide emissions will reach its peak by 2030, and the PRC will strive to achieve carbon neutrality by 2060. Subsequently, the PRC has emphasized at least 7 times at international conferences that it will fulfil these commitments. According to the Report on the Work of the Government (《政府工作報告》) issued by Premier Li Keqiang and the Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) passed at the Fourth Session of the 13th National People’s Congress on 5 March 2021, the PRC has developed plans for carbon emissions peak and carbon neutrality.

According to the Development of China’s Natural Gas Industry during the 14th Five-Year Plan in the Background of Carbon Neutrality (《碳中和背景下中國「十四五」天然氣行業發展》) compiled by experts from PetroChina Planning and Engineering Institute (中國石油規劃總院), the energy-economy-environment collaborative model (LEAP model) was used to set the scenario parameters to study the development space and focus of the natural gas market in the PRC under the goal of carbon neutrality. It is concluded that the natural gas market in the PRC will remain in a period of stable growth in the next 15 years. The natural gas consumption will reach a peak of 650.0 billion cubic meters in 2035. During the 14th Five-Year Plan, the natural gas market will continue to grow. It is expected that the market demand will reach 450.0 billion cubic meters in 2025.

In the face of such market opportunities, under the guidance of the Group’s clear strategic planning, we will increase the development and capital allocation of its concessions to increase production and continuously expand the market share. We will also further strengthen the establishment of strong CBM transmission and distribution capabilities and industrial ecological chain, by continuing to seek promising investment targets beneficial to the Group’s business development. Currently, certain projects have entered into detailed negotiation stage. The Group will also promote our value-based cooperation with our partners, jointly enhance our ability to cope with market changes, further optimize our costs, and maintain growth in both production and net profit, thereby laying a solid foundation for high-quality and rapid development of the Group in the medium to long run.

On 3 June 2021, the Government of Shanxi Province issued the Approval Procedures for Coal-Formed Gas Exploitation Projects in Shanxi Province (《山西省煤成氣開採項目審批流程》), which divides the coal-formed gas exploitation cycle into four stages, namely mining rights acquisition, exploration, development and production, and relinquishment in accordance with the characteristics of the coal-formed gas projects. With the implementation of this policy, the approval procedures have been optimized, and the approval time required has been substantially shortened, thereby further accelerating CBM exploration and development progress of the Group.

For 2H2021, we are pleased to report the following updated objectives:

- **Panzhuang concession**

In 2H2021, Panzhuang concession will continue to promote the drilling work of the remaining 32 wells, the purchase of pumping equipment, the production of new wells and the construction of related ancillary surface facilities as scheduled. The completed wells in 2H2021 will begin to gradually contribute to the production in 2022.

- **Mabi concession**

In 2H2021, based on the consensus between the domestic and foreign parties of Mabi concession to accelerate the exploitation of resources and enhance the investment efficiency, the Company will accelerate the development activities in the southern area of Mabi concession. In addition to the completion of the drilling work of 134 wells according to the annual plan, we will drill an additional 50 wells, achieving a total of 184 wells for the year, so as to increase the number of wells fractured and put into production. Furthermore, we will commence the integration project for the evaluation, development and production of the northern area of Mabi concession in a timely manner. By completing the drilling work of 6 new wells as planned, we will achieve the workload required for evaluation. The Company will overfulfil the drilling, fracturing and production work for the year with high-quality investment management and cost control in Mabi concession, demonstrating our confidence in concession development efficiency. Moreover, in order to materialize the simultaneous sales of newly added production volume of Mabi concession, the construction of valve bank stations and export pipelines in the concession will be completed in the second half of the year. It is expected that new wells drilled and fractured in 2021 will start to gradually contribute to the production in the first half of 2022.

According to the above development plan of Panzhuang concession and Mabi concession, the Group's capital expenditure budget for 2021 will be adjusted from the originally planned approximately RMB817 million to approximately RMB967 million, including approximately RMB251 million and approximately RMB716 million for the expenditure of Panzhuang concession and Mabi concessions respectively. AAG Energy completed a capital expenditure of RMB261 million in 1H2021. In 2H2021, the remaining capital expenditure will be funded by internal cash flow.

On 26 July 2021, the National Bureau of Statistics announced the changes in prices of important means of production in circulation in mid-July 2021. According to the monitoring of the market prices of 50 kinds of important means of production in 9 categories in the national circulation field, the prices in mid-July 2021 of 35 kinds of products increased, 14 kinds decreased, and 1 kind kept at the same level as compared to that in early July. In particular, the price of LNG increased by 7.9%. In addition, as reported by World Oil on 23 July 2021, U.S. natural gas futures prices hit a 31-month high. The strong and sustained international and domestic demand for natural gas has led to resilience in natural gas prices this year, thereby boosting the confidence of upstream natural gas producers to increase their investments and demonstrating the correctiveness of the Group's sensible decision to continue to expand its capital investments. As a leading upstream CBM producer in the field of CBM exploration and development in the PRC, the Group is confident in increasing the output while lowering the production costs on an ongoing basis to deliver promising operating results. Meanwhile, we will continue to enhance the innovation in respect of technologies and management, thereby laying a solid foundation for the stable production and development of existing wells in Panzhuang concession and the advancement of development technologies in Mabi concession. Furthermore, AAG Energy will seek new development opportunities in China and other regions 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.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	714,731	483,668
Other income	6	123,949	146,218
Other gains, net		4,832	1,561
Operating expenses			
Depreciation and amortisation		(167,209)	(127,174)
Employee benefit expenses		(48,597)	(37,065)
Materials, services and logistics		(102,951)	(76,429)
Net impairment losses on financial assets		(3,548)	–
Others		(5,300)	(5,186)
Total operating expenses		(327,605)	(245,854)
Profit from operations		515,907	385,593
Finance income	8	11,379	18,834
Finance costs	8	(2,181)	(2,396)
Exchange (losses)/gains	8	(3,563)	9,740
Finance income, net		5,635	26,178
Profit before income tax		521,542	411,771
Income tax expense	9	(140,902)	(99,721)
Profit attributable to owners of the Company for the period		380,640	312,050
Other comprehensive (losses)/income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		(5,133)	9,909
Total comprehensive income attributable to owners of the Company for the period		375,507	321,959
Earnings per share (RMB)			
— Basic	12	0.112	0.092
— Diluted	12	0.112	0.092

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Note</i>	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		4,136,649	3,994,259
Right-of-use assets		59,499	65,579
Intangible assets		27,091	29,742
Restricted bank deposits		55,048	55,048
Financial assets at fair value through profit or loss		13,511	–
Other financial assets at amortised cost		55,000	–
Other non-current assets		142	142
		4,346,940	4,144,770
Current assets			
Inventories		10,853	9,822
Other current assets		53,204	21,873
Trade and other receivables	10	1,472,252	1,071,411
Term deposits with initial terms of over three months		200,000	–
Cash and cash equivalents		1,007,355	1,790,505
		2,743,664	2,893,611
Total assets		7,090,604	7,038,381
EQUITY			
Equity attributable to owners of the Company			
Share capital		2,080	2,079
Share premium		3,522,168	3,869,806
Other reserves		272,588	279,392
Retained earnings		2,190,205	1,809,565
Total equity		5,987,041	5,960,842

		As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		21,291	20,120
Non-current lease liabilities		42,765	40,357
Deferred income tax liabilities		476,980	437,612
		<u>541,036</u>	<u>498,089</u>
Current liabilities			
Trade and other payables	11	501,593	468,169
Current income tax liabilities		51,290	94,572
Current lease liabilities		9,644	16,709
		<u>562,527</u>	<u>579,450</u>
Total liabilities		<u><u>1,103,563</u></u>	<u><u>1,077,539</u></u>
Total equity and liabilities		<u><u>7,090,604</u></u>	<u><u>7,038,381</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	417,870	319,387
Interest paid	(1,762)	(2,027)
Income tax paid	(144,815)	(72,758)
	<u>271,293</u>	<u>244,602</u>
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(288,005)	(184,721)
Increase in term deposits with initial terms of over three months	(200,000)	(179,732)
Payments for financial assets at fair value through profit or loss	(274,312)	(104,200)
Payments for financial assets at amortised cost	(207,957)	–
Proceeds from sale of financial assets at fair value through profit or loss	261,080	54,670
Proceeds from disposal of property, plant and equipment	741	1
Interest received	10,559	7,784
	<u>(697,894)</u>	<u>(406,198)</u>
Cash flows from financing activities		
Proceeds from exercise of options	1,481	–
Principal elements of lease payments	(3,443)	(5,658)
Dividends paid to the Company's shareholders	(351,120)	(358,755)
	<u>(353,082)</u>	<u>(364,413)</u>
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	1,790,505	2,083,931
Exchange (losses)/gains on cash and cash equivalents	(3,467)	11,752
	<u>1,007,355</u>	<u>1,569,674</u>
Cash and cash equivalents at end of the period	<u><u>1,007,355</u></u>	<u><u>1,569,674</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

AAG Energy Holdings Limited (the “**Company**”) and its subsidiaries (collectively, 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 Panzhuang and Mabi concessions respectively in Qinshui Basin, Shanxi Province of the PRC.

The Overall Development Plan (“**ODP**”) of Panzhuang concession was approved by the National Development and Reform Commission (“**NDRC**”) of the PRC on 28 November 2011, which allowed Panzhuang concession to enter into the commercial development phase. On 1 November 2016, Panzhuang concession entered into production phase after the Joint Management Committee (“**JMC**”) approved and announced based on the terms of Panzhuang PSC. 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. 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. On 1 January 2020, the Southern Area of Mabi concession entered into production phase after the JMC approved and announced based on the terms of Mabi PSC. As at 30 June 2021, 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. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year reporting period ended 30 June 2021 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

The interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial information is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- Covid-19-related Rent Concession — Amendments to HKFRS 16
- Interest Rate Benchmark Reform — Phase 2 — Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

4. SEGMENT INFORMATION

The chief operating decision-maker (“**CODM**”) has been identified as the directors and chief executive of the Group 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 concessions under the relating 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, finance income, finance costs and exchange gains/(losses) (“**EBITDA**”).

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2021 is as follows:

	Panzhuang concession <i>RMB'000</i>	Mabi concession <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)			
For the six months ended 30 June 2021			
Revenue from external customers	671,542	42,442	713,984
EBITDA	673,441	18,049	691,490
Other income	116,430	7,519	123,949
Operating expenses	(259,529)	(55,410)	(314,939)
Depreciation and amortisation	(142,069)	(22,731)	(164,800)
Net impairment losses on financial assets	(1,371)	(2,173)	(3,544)
Finance income	7,995	1,072	9,067
Finance costs	(1,695)	(455)	(2,150)
Exchange (losses)/gains	(4,498)	3,133	(1,365)
Income tax expense	(135,418)	(5,480)	(140,898)
(Unaudited)			
For the six months ended 30 June 2020			
Revenue from external customers	452,956	30,712	483,668
EBITDA	503,698	14,903	518,601
Other income	137,309	8,909	146,218
Operating expenses	(195,290)	(41,536)	(236,826)
Depreciation and amortisation	(108,477)	(16,304)	(124,781)
Finance income	11,902	205	12,107
Finance costs	(1,874)	(431)	(2,305)
Exchange gains/(losses)	11,453	(5,185)	6,268
Income tax expense	(99,720)	–	(99,720)
	Panzhuang concession <i>RMB'000</i>	Mabi concession <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)			
As at 30 June 2021			
Total assets	3,690,634	2,937,626	6,628,260
Total liabilities	748,857	346,300	1,095,157
Additions to non-current assets (other than deferred income tax assets)	104,612	159,325	263,937
(Audited)			
As at 31 December 2020			
Total assets	3,690,541	2,661,475	6,352,016
Total liabilities	816,965	257,513	1,074,478
Additions to non-current assets (other than deferred income tax assets)	285,762	235,782	521,544

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Total EBITDA for reportable segments	691,490	518,601
Headquarter overheads	(8,374)	(5,834)
Depreciation and amortisation	(167,209)	(127,174)
Finance income	11,379	18,834
Finance costs	(2,181)	(2,396)
Exchange (losses)/gains	(3,563)	9,740
	<u>521,542</u>	<u>411,771</u>

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

	As at	As at
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Total segment assets	6,628,260	6,352,016
Unallocated		
Unallocated property, plant and equipment	53,647	207
Unallocated financial assets at fair value through profit or loss	13,511	–
Unallocated other financial assets at amortised cost	55,000	–
Unallocated trade and other receivables	164,405	24,268
Unallocated cash and cash equivalents	155,605	661,101
Others	20,176	789
	<u>7,090,604</u>	<u>7,038,381</u>

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

	As at	As at
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Total segment liabilities	1,095,157	1,074,478
Unallocated		
Unallocated lease liabilities	1,311	518
Unallocated trade and other payables	7,095	2,543
	<u>1,103,563</u>	<u>1,077,539</u>

5. REVENUE

Almost all of 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.

6. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
VAT refund (a)	50,459	46,248
Government subsidy (b)	73,490	99,970
	123,949	146,218

- (a) VAT refund is granted by the PRC government according to “The Notice on Tax Policy Issued by The Ministry of Finance and The State Administration of Taxation on Speeding Up The Drainage of Coalbed Methane” (《財政部國家稅務總局關於加快煤層氣抽採有關稅收政策問題的通知》). CUCBM and PetroChina apply for the VAT refund for Panzhuang and Mabi concession, respectively. The Group recognises its entitlement based on the Group's share of CBM sold and when there is reasonable assurance that the amount will be received.
- (b) Government subsidy is granted by the PRC government according to “The Implementation Opinions of Subsidies Granted by The Ministry of Finance on The Development and Utilisation of Coalbed Methane” (《財政部關於煤層氣(瓦斯)開發利用補貼的實施意見》) published on 20 April 2007, as amended by “Interim Measures for the Administration of Special Funds for the Development of Clean Energy” (《清潔能源發展專項資金管理暫行辦法》) issued on 12 June 2020. From 2020, the Group applies for the subsidy for Panzhuang concession. PetroChina applies for the subsidy for Mabi 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. PROFIT BEFORE INCOME TAX

Profit before income tax was determined after charging the following:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Power and fuel	22,996	25,603
Pipeline transportation cost	40,648	12,593
Maintenance cost	10,943	11,447

8. FINANCE INCOME, NET

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense of lease liabilities	(1,762)	(2,027)
Accretion expenses of asset retirement obligations	(419)	(369)
Finance costs	(2,181)	(2,396)
Finance income	11,379	18,834
Exchange (losses)/gains	(3,563)	9,740
Finance income, net	<u>5,635</u>	<u>26,178</u>

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	101,534	56,546
Deferred income tax	39,368	43,175
	<u>140,902</u>	<u>99,721</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 period.

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 rates as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	521,542	411,771
Tax expense calculated at applicable tax rates	139,493	88,530
Current period deductible temporary differences for which no deferred tax asset was recognised	1,025	5,315
Expenses not deductible for taxation purposes	384	7,097
Others	–	(1,221)
	<u>140,902</u>	<u>99,721</u>
Income tax expense	<u>140,902</u>	<u>99,721</u>

10. TRADE AND OTHER RECEIVABLES

	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (a)		
— CUCBM	143,698	193,194
— PetroChina	101,975	71,828
— External customers	184,253	123,064
	<u>429,926</u>	388,086
Notes receivable (b)	57,000	1,100
Government grants receivables (c)		
— Government	516,050	405,641
— CUCBM	12,196	–
— PetroChina	22,395	21,051
Due from PSC partners for cash calls and accrued expenses (d)		
— CUCBM	138,891	122,656
— PetroChina	147,588	109,294
Other receivables from reorganisation plan (e)	152,957	–
Deposits and others	6,397	31,183
	<u>1,483,400</u>	1,079,011
Loss allowance (f)	(11,148)	(7,600)
	<u>1,472,252</u>	<u>1,071,411</u>

(a) **Trade receivables**

The ageing analysis of trade receivables is as follows:

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 3 months	279,268	251,468
3 months to 6 months	19,379	12,245
6 months to 1 year	24,326	77,038
1 year to 2 years	95,090	42,288
2 years to 3 years	11,471	5,047
More than 3 years	392	–
	429,926	388,086

Trade receivables due from CUCBM represent the cash collected from external customers attributable to Sino-American Energy, Inc. (“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 Mabi and Panzhuang concessions.

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 Panzhuang concession.

- (b) Notes receivable are bank acceptance with maturity dates within six months.
- (c) This represents the VAT refund and government subsidies for CBM receivable from the government through CUCBM and PetroChina.
- (d) This represents CUCBM’s and PetroChina’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) This represents receivables from the reorganization administrator of a company based on the approved reorganization plan.
- (f) The loss allowances for trade and other receivables as at 30 June 2021 reconcile to the opening loss allowances as follows:

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 30 June 2020 <i>RMB'000</i> (Unaudited)
Opening loss allowance	(7,600)	–
Increase in loss allowance recognised in profit or loss during the period	(3,548)	–
Closing loss allowance	(11,148)	–

- (g) As at 30 June 2021, the carrying amounts of trade and other receivables approximated their fair values.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade payables (a)	469,430	428,649
Amounts due to related parties		
— Xintai Jinggong	601	576
Amounts due to PSC partners		
— CUCBM	2,432	7,112
— PetroChina	5,963	7,463
Tax payables	645	2,258
Payroll liabilities	17,366	17,138
Other payables	5,156	4,973
	<u>501,593</u>	<u>468,169</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 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 6 months	335,743	371,832
6 months to 1 year	102,191	20,331
1 to 2 years	9,199	12,441
2 to 3 years	2,437	12,526
Over 3 years	19,860	11,519
	<u>469,430</u>	<u>428,649</u>

(b) The carrying amounts of trade and other payables approximated their fair values.

12. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 and 2020.

	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>380,640</u>	<u>312,050</u>
Weighted average number of ordinary shares in issue (<i>Thousands</i>)	<u>3,393,753</u>	<u>3,393,582</u>
Basic earnings per share (<i>RMB</i>)	<u>0.112</u>	<u>0.092</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 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 the number of shares that could have been issued at the average market price of the ordinary shares during the period with the same total assumed proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>380,640</u>	<u>312,050</u>
Weighted average number of ordinary shares in issue (<i>Thousands</i>)	<u>3,393,753</u>	<u>3,393,582</u>
Adjustments for assumed conversion of share options (<i>Thousands</i>)	<u>17</u>	<u>47</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>Thousands</i>)	<u>3,393,770</u>	<u>3,393,629</u>
Diluted earnings per share (<i>RMB</i>)	<u><u>0.112</u></u>	<u><u>0.092</u></u>

13. DIVIDENDS

A dividend in respect of the year ended 31 December 2020 of RMB0.1031 per share was approved at the annual general meeting (“AGM”) on 13 May 2021 and was paid on 28 May 2021.

A dividend in respect of the year ended 31 December 2019 of RMB0.1061 per share was approved at the AGM on 13 May 2020 and was paid on 1 June 2020.

14. SUBSEQUENT EVENTS

After the balance sheet date of this set of condensed consolidated interim financial information, the Group has paid on behalf of a company, which principally engaged in CBM pipeline transportation in PRC, to its lessors about RMB27.7 million payments and the settlement method of these payments will be subject to the final determination between the Group and this company.

FINANCIAL REVIEW

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue	714,731	483,668
— Panzhuang	671,542	452,956
— Mabi	42,442	30,712
— Headquarters	747	—
Subsidy income	73,490	99,970
— Panzhuang	69,850	93,900
— Mabi	3,640	6,070
VAT refund	50,459	46,248
— Panzhuang	46,580	43,409
— Mabi	3,879	2,839
Other gains, net	4,832	1,561
Operating expenses	(327,605)	(245,854)
Depreciation and amortization	(167,209)	(127,174)
Employee benefit expenses	(48,597)	(37,065)
Materials, services and logistics	(102,951)	(76,429)
Net impairment losses on financial assets	(3,548)	—
Others	(5,300)	(5,186)
<i>Panzhuang</i>	(259,529)	(195,290)
Depreciation and amortization	(142,069)	(108,477)
Employee benefit expenses	(34,883)	(28,177)
Materials, services and logistics	(77,339)	(54,655)
Net impairment losses on financial assets	(1,371)	—
Others	(3,867)	(3,981)
<i>Mabi</i>	(55,410)	(41,536)
Depreciation and amortization	(22,731)	(16,304)
Employee benefit expenses	(10,962)	(7,067)
Materials, services and logistics	(18,499)	(17,160)
Net impairment losses on financial assets	(2,173)	—
Others	(1,045)	(1,005)
<i>Headquarters</i>	(12,666)	(9,028)
Depreciation and amortization	(2,409)	(2,393)
Employee benefit expenses	(2,752)	(1,821)
Materials, services and logistics	(7,113)	(4,614)
Net impairment losses on financial assets	(4)	—
Others	(388)	(200)
EBITDA	683,116	512,767
— Panzhuang	673,441	503,698
— Mabi	18,049	14,903
— Headquarters	(8,374)	(5,834)
Profit from operations	515,907	385,593
Finance income	11,379	18,834
Finance costs	(2,181)	(2,396)
Exchange (losses)/gains	(3,563)	9,740
Finance income, net	5,635	26,178
Profit before income tax	521,542	411,771
Income tax expense	(140,902)	(99,721)
Profit for the period	380,640	312,050

Gross production volume, gross sales volume, net sales volume, realized ASP and revenue of Panzhuang and Mabi concessions are set out below:

	Six months ended 30 June	
	2021	2020
Gross production volume (bcf) ¹	21.78	16.51
Panzhuang	20.07	15.43
Mabi	1.71	1.08
Gross production volume (MMCM) ¹	616.86	467.53
Panzhuang	568.52	436.98
Mabi	48.34	30.55
Gross sales volume (bcf) ²	20.79	15.98
Panzhuang	19.38	14.97
Mabi	1.41	1.01
Gross sales volume (MMCM) ²	588.61	452.58
Panzhuang	548.83	423.91
Mabi	39.78	28.67
Net sales volume (bcf) ³	14.75	11.37
Panzhuang	13.87	10.73
Mabi	0.88	0.64
Net sales volume (MMCM) ³	417.53	322.07
Panzhuang	392.71	304.00
Mabi	24.82	18.07
Realized ASP (RMB per cubic meter) ⁴		
Panzhuang	1.64	1.47
Mabi	1.39	1.39
Revenue (RMB'000)	713,984	483,668
Panzhuang	671,542	452,956
Mabi	42,442	30,712

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.

SIX MONTHS ENDED 30 JUNE 2021 COMPARED TO SIX MONTHS ENDED 30 JUNE 2020

Revenue. Our revenue increased by RMB231 million, or 47.77%, from RMB484 million for the six months ended 30 June 2020 to RMB715 million for the six months ended 30 June 2021. The increase was mainly attributable to the increase in realized ASP and the increase in net sales volume as a result of the increase in production in Panzhuang concession. Panzhuang concession's gross production increased by 30.10% from 437 MMCM in 1H2020 to 569 MMCM in 1H2021. Realized ASP increased from RMB1.47 per cubic meter in 1H2020 to RMB1.64 per cubic meter in 1H2021.

Subsidy income. Our subsidy income for the six months ended 30 June 2020 and 2021 were RMB99.97 million and RMB73.49 million, respectively. For the six months ended 30 June 2021, our subsidy income decreased by RMB26.48 million, or 26.49%, mainly due to the lower criteria set by the subsidizing authorities.

VAT refund. Our VAT refund for the six months ended 30 June 2020 and 2021 were RMB46.25 million and RMB50.46 million, respectively. For the six months ended 30 June 2021, our VAT refund increased by RMB4.21 million, or 9.11%, mainly due to the increase in net sales volume and realized ASP in Panzhuang concession.

Other gains, net. Our other gains increased by RMB3.27 million, or 209.55% from RMB1.56 million for the six months ended 30 June 2020 to RMB4.83 million for the six months ended 30 June 2021, mainly due to the increase in shared facilities fee of the management center and the overhead for income of other businesses.

Operating expenses. Our operating expenses increased by RMB82 million, or 33.25%, from RMB246 million for the six months ended 30 June 2020 to RMB328 million for the six months ended 30 June 2021, mainly due to the increase in depreciation and amortization as a result of the increase in production wells, and the increase in pipeline transportation costs as a result of the increase in sales volume.

- *Depreciation and amortization.* Our depreciation and amortization increased by RMB40 million, or 31.48%, from RMB127 million for the six months ended 30 June 2020 to RMB167 million for the six months ended 30 June 2021, mainly due to the increase in production wells and production in Panzhuang concession.
- *Employee benefit expenses.* Our employee benefit expenses increased by RMB11.53 million, or 31.11%, from RMB37.07 million for the six months ended 30 June 2020 to RMB48.60 million for the six months ended 30 June 2021, mainly due to the increase in wages and bonuses.
- *Materials, services and logistics.* Our materials, services and logistics expenses increased by RMB27 million, or 34.70%, from RMB76 million for the six months ended 30 June 2020 to RMB103 million for the six months ended 30 June 2021, mainly due to the increase in repair, wastewater treatment and other operating costs as a result of the increase in production wells, and the increase in pipeline transportation costs as a result of the increase in sales volume.

- *Net impairment losses on financial assets.* Our net impairment losses on financial assets of RMB3.55 million was primarily attributable to an increase in expected credit losses on trade and other receivables.
- *Others.* Our other expenses for the six months ended 30 June 2020 and 2021 were RMB5.19 million and RMB5.30 million, respectively.

EBITDA. Our EBITDA increased by RMB170 million, or 33.22%, from RMB513 million for the six months ended 30 June 2020 to RMB683 million for the six months ended 30 June 2021. The increase was mainly due to the increase in realized ASP and the increase in net sales volume as a result of the increase in gross production of 30.10% in Panzhuang concession, but partially offset by the decrease in subsidy income and the increase in pipeline transportation costs as a result of the increase in sales volume. In conclusion, higher production and realized ASP have led to an increase in EBITDA, the magnitude of which was smaller than the increase in revenue. The EBITDA of Panzhung concession increased by RMB169 million, or 33.70%, from RMB504 million for the six months ended 30 June 2020 to RMB673 million for the six months ended 30 June 2021. The increase in EBITDA of Panzhuang concession was mainly due to the increase in production and realized ASP, but partially offset by the decrease in subsidy income and the increase in pipeline transportation costs as a result of the increase in sales volume. The EBITDA of Mabi concession increased by RMB3.15 million, or 21.11%, from RMB14.90 million for the six months ended 30 June 2020 to RMB18.05 million for the six months ended 30 June 2021. The increase in EBITDA of Mabi concession was mainly due to the increase in production, but partially offset by the increase in employee benefit expenses.

Profit from operations. As a result of the foregoing, our profit from operations increased by RMB130 million, or 33.80%, from RMB386 million for the six months ended 30 June 2020 to RMB516 million for the six months ended 30 June 2021.

Finance income. Our finance income decreased by RMB7.45 million, or 39.58%, from RMB18.83 million for the six months ended 30 June 2020 to RMB11.38 million for the six months ended 30 June 2021, mainly due to the decrease in cash and bank balances.

Finance costs. Our finance costs for the six months ended 30 June 2020 and 2021 were RMB2.40 million and RMB2.18 million, respectively.

Exchange (losses)/gains. Our exchange (losses)/gains switched from exchange gains of RMB9.74 million for the six months ended 30 June 2020 to exchange losses of RMB3.56 million for the six months ended 30 June 2021, mainly due to the foreign exchange losses of monetary items 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 RMB110 million, or 26.66%, from RMB412 million for the six months ended 30 June 2020 to RMB522 million for the six months ended 30 June 2021, mainly due to the factors affecting EBITDA stated above and the decrease in finance costs, but partially offset by the increase in depreciation and amortization expenses, the decrease in finance income and exchange losses incurred.

Income tax expense. Our income tax expense increased by RMB41 million, or 41.30%, from RMB100 million for the six months ended 30 June 2020 to RMB141 million for the six months ended 30 June 2021, mainly due to the increase in profit before income tax of Panzhuang concession and the increase in deferred income tax expense of Mabi concession for the six months ended 30 June 2021.

Profit for the period. Our profit for the period increased by RMB69 million, or 21.98%, from RMB312 million for the six months ended 30 June 2020 to RMB381 million for the six months ended 30 June 2021, mainly due to the factors affecting profit before income tax stated above, but partially offset by the increase in income tax expenses.

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 include cash generated from operating activities and proceeds from initial public offering ("IPO").

As at 30 June 2021, we had cash and bank balances of RMB1.262 billion (31 December 2020: RMB1.846 billion).

Save as the information disclosed above or otherwise in this interim results 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 30 June 2021.

CASH FLOW

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	271,293	244,602
Net cash used in investing activities	(697,894)	(406,198)
Net cash used in financing activities	(353,082)	(364,413)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(779,683)	(526,009)
Cash and cash equivalents at beginning of the period	1,790,505	2,083,931
Exchange (losses)/gains on cash and cash equivalents	(3,467)	11,752
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	1,007,355	1,569,674
	<hr/> <hr/>	<hr/> <hr/>

Operating Activities

Net cash generated from operating activities was RMB271 million for the six months ended 30 June 2021, mainly due to profit before income tax of RMB522 million and depreciation and amortization of RMB167 million. Such items were offset by the increase in trade and other receivables of RMB280 million and income tax paid of RMB145 million.

Investing Activities

Net cash used in investing activities was RMB698 million for the six months ended 30 June 2021, mainly composed of purchases of property, plant and equipment of RMB288 million, purchases of financial assets at amortised cost of RMB208 million, the increase in term deposits with term over three months of RMB200 million, offset by interest received of RMB10.56 million. The purchase of property, plant and equipment mainly composed of payment for more wells drilled, additional valve banks and the construction of gas gathering stations and power facilities.

Financing Activities

Net cash used in financing activities was RMB353 million for the six months ended 30 June 2021, which was mainly used to pay dividends of RMB351 million for the year ended 31 December 2020.

Cash and Bank Balances

We had cash and bank balances of RMB1.262 billion and RMB1.846 billion as at 30 June 2021 and 31 December 2020, respectively. Cash and bank balances consist of cash on hand, cash at banks, restricted bank deposits and term deposits with term over three months. The decrease in cash was mainly due to the expansion of investments and the inadequacy of sales return. As at 30 June 2021 and 31 December 2020, approximately 1.62% and 30.30% of our cash and bank balances were held in HK dollar or US dollar.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit for the period, which is the most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before finance income, finance costs, exchange gains or losses, 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 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 believe that EBITDA and adjusted EBITDA are used as supplemental financial measures by 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 an indicator of our operating performance or profitability. EBITDA and adjusted EBITDA are unable to account for income tax, exchange gains or losses, finance income, finance costs and depreciation and amortization.

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reconciliation of profit for the period to EBITDA:		
Profit for the period	380,640	312,050
Income tax expense	140,902	99,721
Finance income	(11,379)	(18,834)
Finance costs	2,181	2,396
Exchange losses/(gains)	3,563	(9,740)
Depreciation and amortization	167,209	127,174
	<u>683,116</u>	<u>512,767</u>
EBITDA	<u>683,116</u>	<u>512,767</u>
Non-operation-related business development and legal consulting service expenses	<u>2,187</u>	<u>–</u>
Adjusted EBITDA	<u>685,303</u>	<u>512,767</u>

Our EBITDA increased by RMB170 million, or 33.22%, from RMB513 million for the six months ended 30 June 2020 to RMB683 million for the six months ended 30 June 2021. The increase was mainly due to the increase in realized ASP and the increase in net sales volume as a result of the increase in gross production of 30.10% in Panzhuang concession, but partially offset by the decrease in subsidy income and the increase in pipeline transportation costs as a result of the increase in sales volume. In conclusion, higher production and realized ASP have led to an increase in EBITDA, the magnitude of which was smaller than the increase in revenue. The EBITDA of Panzhung concession increased by RMB169 million, or 33.70%, from RMB504 million for the six months ended 30 June 2020 to RMB673 million for the six months ended 30 June 2021. The increase in EBITDA of Panzhuang concession was mainly due to the increase in production and realized ASP, but partially offset by the decrease in subsidy income and the increase in pipeline transportation costs as a result of the increase in sales volume. The EBITDA of Mabi concession increased by RMB3.15 million, or 21.11%, from RMB14.90 million for the six months ended 30 June 2020 to RMB18.05 million for the six months ended 30 June 2021. The increase in EBITDA of Mabi concession was mainly due to the increase in production, but partially offset by the increase in employee benefit expenses.

Our adjusted EBITDA increased by RMB172 million, or 33.65%, from RMB513 million in 1H2020 to RMB685 million in 1H2021. The increase was due to the aforementioned reasons for the increase in EBITDA and the increase in non-operation-related business development and legal consulting service expenses.

FINANCIAL RISK FACTORS

(a) Financial risk factors

The Group's operating activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk), liquidity risk and concentration risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2020.

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

(b) Liquidity risk

Compared to 31 December 2020, there were no material changes in the contractual undiscounted cash out flows for financial liabilities.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2021.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the six months ended 30 June 2021.

IMPORTANT EVENTS AFTER THE END OF THE SIX MONTHS ENDED 30 JUNE 2021

Save as disclosed otherwise in this announcement, there were no important events occurred after the end of the six months ended 30 June 2021 and up to the date of this announcement.

EMPLOYEES

As at 30 June 2021, the Group had 495 employees, with 7 based in Beijing (including 5 employment of the disabled), 487 based in Shanxi and 1 based in Hong Kong.

USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 23 June 2015 with net proceeds from the IPO of approximately RMB1.5069 billion, after deduction of the underwriting commission and other expenses. The Company intends to apply the proceeds from the Listing in accordance with the proposed applications as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the prospectus of the Company dated 11 June 2015.

As at 30 June 2021, the following table sets out the breakdown of the use of proceeds from the IPO:

Use of net proceeds	Percentage of net proceeds	Net proceeds allocated (RMB hundred million)	Net proceeds utilized as at 31 December 2020 (RMB hundred million)	Net proceeds utilized during the six months ended 30 June 2021 (RMB hundred million)	Remaining amount as at 30 June 2021 (RMB hundred million)
For the exploration and development of CBM in Panzhuang and Mabi concessions	60%	9.041	9.041	–	–
For the expansion of operations by acquiring interests in other CBM or other unconventional gas concessions or participating in cooperation or joint venture projects	35%	5.274	3.207	2.067	–
For working capital and general corporate purposes	5%	0.754	0.651	0.064	0.039
Total	100%	15.069	12.899	2.131	0.039

The remaining portion of the net proceeds is expected to be used on or before 31 December 2021. Depending on the identification progress of possible acquisition targets or opportunities to participate in cooperation or joint venture projects, the Company will disclose the information in its annual reports in accordance with the relevant Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code for the six months ended 30 June 2021. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all Directors of the Company, each of the Directors has confirmed that they have complied with the required standards as set out in the Model Code for the six months ended 30 June 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2021.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

For the six months ended 30 June 2021 and as of the date of this interim results announcement, Dr. Cui Guiyong has resigned as a non-executive Director and a member of the strategic development committee of the Company (the “**Strategic Development Committee**”) on 26 March 2021 with effect on the same day; Mr. Yan Danhua, an executive Director and President, has been appointed as a member of the Strategic Development Committee on 26 March 2021 with effect on the same day.

Save as disclosed above, there were no changes in the composition of the Board, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Development Committee of the Company for the six months ended 30 June 2021 and as of the date of this interim results announcement.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

For the six months ended 30 June 2021 and as of the date of disclosure of this interim results announcement, the Audit Committee of the Company (the “**Audit Committee**”) comprises two independent non-executive Directors and a non-executive Director, namely Mr. Tai Kwok Leung Alexander (Chairman), Dr. Liu Xiaofeng and Mr. Huang Min.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2021.

The Company's external auditor has reviewed the unaudited condensed consolidated interim financial information of the Group in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF THE INTERIM RESULTS AND 2021 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aagenergy.com).

The Company's 2021 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

Certain figures included in this announcement have been subject to rounding adjustments. Any discrepancies are due to rounding.

By order of the Board
AAG Energy Holdings Limited
Ming Zaiyuan
Chairman and Executive Director

Hong Kong, 27 August 2021

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