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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)

**CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE ENTRY OF THE COOPERATION
FRAMEWORK AGREEMENT**

The Board is pleased to announce that on 28 January 2021 (after trading hours), the Company entered into the Cooperation Framework Agreement with XTJG, a wholly-owned subsidiary of XTRQ (the controlling shareholder of the Company), pursuant to which, XTJG and its associates may bid for the Group's coalbed methane (the "CBM") development projects as construction contractor for the provision of construction services including drilling engineering, well site reclamation, mud solidification, color steel shed reconstruction, well site road maintenance, mechanical construction and sporadic projects (the "Construction Services") in accordance with the invited bidding or competitive negotiation procedures of the Group from time to time for a term commencing from 28 January 2021 and ending on 31 December 2021.

As at the date of this announcement, Liming Holding Limited, an indirect wholly-owned subsidiary, controlled through Sichuan Liming Energy Development Co., Ltd. (四川利明能源開發有限責任公司), of XTRQ, holds approximately 51.65% of the total issued share capital of the Company. Accordingly, XTRQ, the controlling shareholder of the Company, is a connected person of the Company. As XTRQ holds 100% equity interests in XTJG, XTJG is an associate of XTRQ. Therefore, XTRQ is a connected person of the Company and the transactions contemplated between the Group and XTJG and/or its associates under the Cooperation Framework Agreement constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Apart from the Cooperation Framework Agreement, the Group had entered into two agreements with XTJG in relation to the provision of the Construction Services in the sum of approximately RMB576,000 and RMB1.89 million on 28 October 2020 and 7 January 2021, respectively (the "Previous Agreements").

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the connected transactions under each of the Previous Agreements and the Cooperation Framework Agreement would be aggregated as all such agreements were entered into within a 12-month period, for the purpose of compliance with applicable connected transaction requirements based on the classification of the aforesaid transactions.

As one or more of the applicable percentage ratios (other than the profits ratio) calculated with reference to the transaction amounts contemplated under the Previous Agreements (on a standalone basis or aggregated) are less than 5% and the transaction amount is less than HK\$3,000,000, the connected transactions are fully exempted under Rule 14A.76(1) of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the aggregated connected transactions calculated with reference to the maximum transaction amount under the Cooperation Framework Agreement and the transaction amounts under the Previous Agreements are more than 0.1% but less than 5%, such transactions are subject to announcement, reporting and annual review requirements but exempt from the shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

BACKGROUND

The Board is pleased to announce that on 28 January 2021 (after trading hours), the Company entered into the Cooperation Framework Agreement with XTJG, a wholly-owned subsidiary of XTRQ (the controlling shareholder of the Company), pursuant to which, XTJG and its associates may bid for the Group's CBM development projects as construction contractor for the provision of the Construction Services in accordance with the invited bidding or competitive negotiation procedures of the Group from time to time for a term commencing from 28 January 2021 and ending on 31 December 2021.

THE COOPERATION FRAMEWORK AGREEMENT

Principal terms of the Cooperation Framework Agreement are summarized as follows:

Date	:	28 January 2021
Parties	:	(i) the Company; and (ii) XTJG
Term	:	The Cooperation Framework Agreement shall be valid from the date of the Cooperation Framework Agreement to 31 December 2021.
Subject Matter	:	The Company proposes to conduct its annual CBM development projects in accordance with the development plans of the Group's CBM projects approved by the Group in 2021 which will require the provision of the Construction Services.

XTJG and/or its associates may bid for the Group's CBM development projects as construction contractor for the provision of the Construction Services in accordance with the invited bidding or competitive negotiation procedures of the Group from time to time and on the same and normal terms as offered to other independent third party construction contractor.

Pricing Basis : The final price and transaction terms entered into between the Group and XTJG and/or its associates are subject to the invited bidding or competitive negotiation procedures which apply to both connected persons and independent third parties of the Group.

Invited bidding or competitive negotiations procedures : To ensure that the terms of the transactions are on normal commercial terms or on terms no less favourable to the Group than terms applicable to independent third parties, the Group has adopted a series of internal approval and monitoring procedures for the invited bidding or competitive negotiations procedures. The major internal policies for invited bidding or competitive negotiations are set out below:

The Company will comprehensively assess the tender applications received based on various factors, including but not limited to construction plans, budgeting, fee scales and technologies. The invited bidding or competitive negotiations process will be monitored by the negotiation committee (members of which will not have any material interest in the transactions contemplated under the Cooperation Framework Agreement to ensure the objectiveness of the process) (the “**Negotiation Committee**”).

The invited bidding or competitive negotiation process will include (i) pre-bidding preparations and the establishment of the Negotiation Committee; (ii) invitation of contractors (generally, not less than three contractors will be invited) for the invited bidding or competitive negotiations; (iii) accepting tender applications/negotiation; (iv) close of bidding process/selection of contractor; and (v) signing of implementation agreement.

Annual Cap : The Company and XTJG agreed that the maximum transaction amount of the CBM development contracts that may be awarded by the Group to XTJG and/or its associates from 28 January 2021 and up to 31 December 2021 shall not exceed RMB24,500,800.

Should the aggregate amounts of the transactions contemplated under the Cooperation Framework Agreement shall exceed the cap, the Company will re-comply with the relevant requirements under Rule 14A.54 of the Listing Rules.

- Basis of Determination of the Annual Cap** : The maximum transaction amount is determined in accordance with (i) the historical fees paid by the Company to construction contractors for the provision of similar services; (ii) the service demand of the Group for its CBM development projects for the year ending 31 December 2021; (iii) prevailing market prices of similar services provided by independent third parties.
- Payment Arrangement** : Payments will be made in stages depending on the progress of the work done by XTJG and/or its associates.
- Such payment arrangement is made with reference to market practice and the payment arrangement of similar transactions between the parties and independent third parties to ensure that the payment arrangement is no less favourable to XTJG than those available to independent third parties.
- Implementation Agreements** : The Group will enter into, from time to time and as necessary, separate implementation agreements with XTJG and/or its associates in accordance with the terms of the bidding or competitive negotiations which are similar to the terms entered into with other contractors which are independent third parties.
- Any implementation agreement will be within the ambit of the Cooperation Framework Agreement and in accordance with the applicable laws and regulations (including but not limited to the Listing Rules).

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION FRAMEWORK AGREEMENT

The Company is the operator of the Panzhuang and Mabi concessions, having the rights to explore, develop and produce the CBM within the concessions.

With the increase in production output of the Group of both the Panzhuang and Mabi concessions in the past few years, demand for the Construction Services increased accordingly. XTJG is a reputable contractor in the industry with experience in handling various construction projects as an independent contractor for CBM projects. Based on the need of its business development, the Group intends to select contractors for its construction work through bidding or competitive negotiations. The Directors believe that, if XTJG participates in the bidding or competitive negotiations process to secure opportunities from the Group's projects, it will increase the competitiveness between other construction contractors and will accordingly allow the Group to reduce its procurement risks and ensure quality services provided by the construction contractors.

In this regard, the Directors (excluding Mr. Ming Zaiyuan and Mr. Huang Min who are required to abstain from voting on the relevant Board resolution for approving the Cooperation Framework Agreement, but including the independent non-executive Directors) are of the view that the transactions under the Cooperation Framework Agreement will be conducted on normal commercial terms, and the terms and conditions therein as well as the annual cap for the continuing connected transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

As Mr. Ming Zaiyuan, the Chairman and executive Director of the Company, is the controlling shareholder of XTRQ, and Mr. Huang Min, the non-executive Director of the Company, also serves as the Chairman of the supervisory committee of XTRQ, they are regarded as being interested in the transactions contemplated under the Cooperation Framework Agreement and thus have abstained from voting on the relevant Board resolution. Save as mentioned above, none of the Directors has any material interest in the transactions contemplated under the Cooperation Framework Agreement and thus be required to abstain from voting on the relevant Board resolution.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Liming Holding Limited, an indirect wholly-owned subsidiary, controlled through Sichuan Liming Energy Development Co., Ltd., of XTRQ, holds approximately 51.65% of the total issued share capital of the Company. Accordingly, XTRQ, the controlling shareholder of the Company, is a connected person of the Company. As XTRQ holds 100% equity interests in XTJG, XTJG is an associate of XTRQ. Therefore, XTRQ is a connected person of the Company and the transactions contemplated between the Group and XTJG and its associates under the Cooperation Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Apart from the Cooperation Framework Agreement, the Group had entered into the Previous Agreements.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the connected transactions under each of the Previous Agreements and the Cooperation Framework Agreement would be aggregated as all such agreements were entered into within a 12-month period, for the purpose of compliance with applicable connected transaction requirements based on the classification of the aforesaid transactions.

As one or more of the applicable percentage ratios (other than the profits ratio) calculated with reference to the transaction amounts under the Previous Agreements (on a standalone basis or aggregated) are less than 5% and the transaction amounts is less than HK\$3,000,000, the connected transactions are fully exempted under Rule 14A.76(1) of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the aggregated connected transactions calculated with reference to the maximum transaction amount under the Cooperation Framework Agreement and the transaction amounts under the Previous Agreements are more than 0.1% but less than 5%, such transactions are subject to announcement, reporting and annual review requirements but exempt from the shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

GENERAL INFORMATION

Information on the Company

The Company is the leading independent CBM producer in China. The Company focuses on the development and value optimization of unconventional gas resources to supply clean energy to the Chinese economy. The Company has production sharing contracts with two of the four state-owned enterprises authorized by the Chinese government to partner with foreign companies to explore, develop and produce China's CBM assets, namely China United Coalbed Methane Corporation Ltd. (中聯煤層氣有限責任公司) and PetroChina Company Limited (中國石油天然氣股份有限公司) (through its parent company, China National Petroleum Corporation (中國石油天然氣集團有限公司)). Pursuant to these production sharing contracts, the Company is the operator of the Panzhuang and Mabi concessions, granting it the right to explore, develop and produce the CBM within them. The Company holds 80% and 70% of the participating interests under the production sharing contract for the Panzhuang concession and the production sharing contract for the Mabi concession, respectively. The Group will continue to pursue further development of the Panzhuang concession and development preparation of the Mabi concession.

Information on XTJG

XTJG is a company established under the laws of the PRC with limited liability and is principally engaged in the municipal public work, urban gas pipeline installation, anti-corrosion and thermal insulation project and petrochemical pipeline installation project. As at the date of this announcement, XTJG is a wholly-owned subsidiary of XTRQ, the controlling shareholder of the Company who indirectly holds 51.65% of the total issued share capital of the Company and A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 603393).

DEFINITIONS

“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	board of Directors
“China” or “PRC”	People's Republic of China, except where the context requires otherwise, excluding Hong Kong, Macau Special Administrative Region and Taiwan

“Company”	AAG Energy Holdings Limited (previously known as AAG Energy Inc.), a company incorporated in the Cayman Islands with limited liability on 23 December 2014, with its Shares listed on the Main Board of the Stock Exchange (Stock Code: 2686)
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“connected transaction(s)”	has the same meaning as ascribed to it under the Listing Rules
“Cooperation Framework Agreement”	the cooperation framework agreement entered into between the Company and XTJG on 28 January 2021
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“independent third parties”	parties who are independent of, and not connected with, the Company or any of its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“RMB”	Renminbi, the lawful currency of China
“Share(s)”	ordinary share(s) of US\$0.0001 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning as ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“XTJG”	Urumqi Xintai Jingong Construction Engineering Co., Ltd (烏魯木齊鑫泰精工建設工程有限公司), a limited liability company incorporated in the PRC, and a wholly-owned subsidiary of XTRQ as at the date of this announcement

“XTRQ”

Xinjiang Xintai Natural Gas Co., Ltd. (新疆鑫泰天然氣股份有限公司), a joint stock company incorporated in the PRC and A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 603393), and the controlling shareholder of the Company as at the date of this announcement

“%”

per cent

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

Hong Kong, 28 January 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 Directors are Dr. Cui Guiyong and Mr. Huang Min; and the independent non-executive Directors are Mr. Tai Kwok Leung Alexander, Dr. Liu Xiaofeng and Dr. Yang Ruizhao.