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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTION UNDER THE 2022 COOPERATION FRAMEWORK AGREEMENT

THE 2022 COOPERATION FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 28 January 2021 in relation to, among other things, the 2021 Cooperation Framework Agreement between the Company and XTJG for a term commencing from 28 January 2021 to 31 December 2021, pursuant to which, XTJG and its associates may bid for the Group's coalbed methane development projects as construction contractor for the provision of Construction Services.

The Company intends to continue the transactions contemplated under the 2021 Cooperation Framework Agreement and to renew the agreement before its expiry date. Accordingly, the Board is pleased to announce that on 16 December 2021, the Company and XTJG entered into the 2022 Cooperation Framework Agreement, pursuant to which the parties agreed to renew the 2021 Cooperation Framework Agreement for a term of three years commencing on 1 January 2022 and ending on 31 December 2024.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, XTRQ indirectly holds approximately 56.96% 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 2022 Cooperation Framework Agreement constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) calculated with reference to the proposed annual caps under the 2022 Cooperation Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the 2022 Cooperation Framework Agreement and the proposed annual caps 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

Reference is made to the announcement of the Company dated 28 January 2021 in relation to, among other things, the 2021 Cooperation Framework Agreement between the Company and XTJG, for a term commencing from 28 January 2021 to 31 December 2021, pursuant to which, XTJG and its associates may bid for the Group's coalbed methane ("CBM") development projects as construction contractor for the provision of Construction Services.

The Company intends to continue the transactions contemplated under the 2021 Cooperation Framework Agreement and to renew the agreement before its expiry date. Accordingly, the Board is pleased to announce that on 16 December 2021, the Company and XTJG entered into the 2022 Cooperation Framework Agreement, pursuant to which the parties agreed to renew the 2021 Cooperation Framework Agreement for a term of three years commencing on 1 January 2022 and ending on 31 December 2024.

THE 2022 COOPERATION FRAMEWORK AGREEMENT

Principal terms of the 2022 Cooperation Framework Agreement are summarized as follows:

Date:	16 December 2021
Parties:	(i) the Company; and (ii) XTJG
Term:	Commencing from 1 January 2022 to 31 December 2024.
Subject Matter:	Pursuant to the 2022 Cooperation Framework Agreement, XTJG and its associates may bid for the Group's CBM development projects as construction contractor for the provision of Construction Services in accordance with the invited bidding, inquiry procurement or competitive negotiation procedures of the Group from time to time and on the same and normal terms as offered to other independent third parties.

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, inquiry procurement or competitive negotiation procedures which apply to both connected persons and independent third parties.

Invited bidding, inquiry procurement 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, inquiry procurement or competitive negotiations procedures. The major internal policies for invited bidding, inquiry procurement 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 2022 Cooperation Framework Agreement to ensure the objectiveness of the process) (the “**Negotiation Committee**”) and the process of inquiry procurement shall be confirmed by the purchasing department and monitored by the partner of the production sharing contract.

The invited bidding or competitive negotiation process will include (i) pre-bidding preparations and the establishment of the Negotiation Committee/making quotation and negotiation documents; (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.

The inquiry procurement process will include (i) preparations of inquiry sheet; (ii) invitation of contractors (generally, not less than three contractors will be invited); (iii) accepting quotations; (iv) confirming contractors (lowest bidder will be selected); and (v) signing of implementation agreement.

Payment Arrangement:

Payments will be made in stages depending on the progress of the work done by XTJG and/or its associates.

**Implementation
Agreements:**

The Group will enter into, from time to time and as necessary, separate implementation agreements with XTJG and/or its associates and independent third parties in accordance with the terms of the bidding, inquiry procurement or competitive negotiations which are in standard forms adopted by the Group.

Any implementation agreement will be within the ambit of the 2022 Cooperation Framework Agreement and in accordance with the applicable laws and regulations (including but not limited to the Listing Rules).

HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

For the nine months ended 30 September 2021, the aggregate contract value of the implementation agreements entered into by XTJG and/or its associates and the Group under the 2021 Cooperation Framework Agreement was approximately RMB7,158,620. The annual cap in respect of the value of the Construction Services provided by XTJG and/or its associates to the Group under the 2021 Cooperation Framework was RMB24,500,800.

The proposed annual caps for the three years ending 31 December 2024 under the 2022 Cooperation Framework Agreement are set out as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Excepted Caps	38,740,000	40,410,000	41,350,000

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 and the historical transaction values under the 2021 Cooperation Framework Agreement;
- (ii) the expected service demand and business outlook of the Group for its CBM development projects for the three years ending 31 December 2024; and
- (iii) the prevailing market prices of similar services provided by independent third parties.

INTERNAL CONTROL MEASURES

The Company has (i) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and also in compliance with the pricing policy; and (ii) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2022 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 and the expected increase in production output of Panzhuang and Mabi concessions, the Group intends to select contractors for its construction work through bidding or competitive negotiations. The Directors believe that, the participation of XTJG in the bidding or competitive negotiations process to secure opportunities from the Group's projects under the 2021 Cooperation Framework Agreement will continue to 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.

By entering into the 2022 Cooperation Framework Agreement, it is expected that XTJG will be able to maintain stable Construction Services to the Group. Further, XTJG has a proven track record and quality of work as demonstrated from its previous transactions with the Group. It has been able to provide its services in a timely and satisfactory manner. Accordingly, the Directors consider that it is in the interests of the Group and the Shareholders as a whole to enter into the 2022 Cooperation Framework Agreement with XTJG.

In this regard, the Directors (excluding Mr. Ming Zaiyuan and Mr. Huang Min who are required to abstain from voting on the relevant Board resolutions for approving the 2022 Cooperation Framework Agreement, but including the independent non-executive Directors) are of the view that the transactions under the 2022 Cooperation Framework Agreement will be conducted on normal commercial terms, and the terms and conditions therein as well as the annual caps 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 2022 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 2022 Cooperation Framework Agreement and thus be required to abstain from voting on the relevant Board resolutions.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, XTRQ indirectly holds approximately 56.96% 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 2022 Cooperation Framework Agreement constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profit ratio) calculated with reference to the proposed annual caps under the 2022 Cooperation Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the 2022 Cooperation Framework Agreement and the proposed annual caps 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, anticorrosion 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 56.96% 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

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“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
“Construction Services”	including drilling engineering, ecological well construction, mud solidification and site leveling, pipeline ecological restoration, greening works, reservoir project, potential risk management, well site road maintenance and mechanical construction, sporadic projects and other construction projects
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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
“2021 Cooperation Framework Agreement”	the cooperation framework agreement entered into between the Company and XTJG on 28 January 2021
“2022 Cooperation Framework Agreement”	the cooperation framework agreement entered into between the Company and XTJG on 16 December 2021
“%”	per cent.

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

Hong Kong, 16 December 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.