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## **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)**

### **(1) CONDITIONAL GRANT OF RESTRICTED SHARE UNITS; AND (2) NON-EXEMPT CONNECTED TRANSACTION — PROPOSED GRANT OF RESTRICTED SHARE UNITS TO CONNECTED GRANTEES**

#### **CONDITIONAL GRANT OF RESTRICTED SHARE UNITS**

After approval of the annual results of the Group for the year ended December 31, 2016 on March 24, 2017, the Board approved the proposed conditional grant of an aggregate of 15,426,249 RSUs to a total of 64 Non-connected Grantees in accordance with the terms of the Post-IPO RSU Scheme. Subject to certain vesting schedules and the satisfaction of certain performance targets, the RSUs shall be vested over a period of four years at the rate of one-fourth (1/4) for each 12-month period commencing from March 31, 2017.

#### **NON-EXEMPT CONNECTED TRANSACTION — CONDITIONAL GRANT OF RESTRICTED SHARE UNITS TO CONNECTED GRANTEES**

The Board at the same time also approved the proposed conditional grant of an aggregate of 10,906,933 RSUs to the Connected Grantees, being Dr. Stephen Xiangdong Zou (the Chairman and an executive Director), Mr. Yaowen Wu (an independent non-executive Director), Mr. Robert Ralph Parks (an independent non-executive Director), Mr. Fredrick J. Barrett (an independent non-executive Director), Mr. Stephen Cheuk Kin Law (an independent non-executive Director) and Mr. Jing Li (the Chief Executive Officer and the President), in accordance with the terms of the Post-IPO RSU Scheme.

The RSU Grant to the Connected Grantees and the transactions contemplated thereunder constitute non-exempt connected transactions (including the allotment and issue of any new Shares thereunder) of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and the Independent Shareholders' approval at the EGM.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve (i) the RSU Mandate and (ii) the RSU Grant to the Connected Grantees and the transactions contemplated thereunder.

## **GRANT OF RESTRICTED SHARE UNITS**

Reference is made to the post-IPO restricted share unit scheme (the “**Post-IPO RSU Scheme**”), adopted by AAG Energy Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on June 5, 2015 and effective on June 23, 2015, to recognize the contributions by the directors of the Company (the “**Director(s)**”), senior management and employees of the Group and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group by providing them with the opportunity to own equity interests in the Company. Details of the Post-IPO RSU Scheme are set out in the prospectus of the Company dated June 11, 2015. The Post-IPO RSU Scheme is not subject to the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”).

### **Conditional Grant to Non-connected Grantees**

After approval of the annual results of the Group for the year ended December 31, 2016 on March 24, 2017, the Board approved the proposed conditional grant of an aggregate of 15,426,249 restricted share units (the “**RSU(s)**”) to a total of 64 officers and employees of the Group (the “**Non-connected Grantees**”) subject and pursuant to a specific mandate (the “**RSU Mandate**”) to be obtained in the upcoming extraordinary general meeting of the Company (the “**EGM**”) to be convened and held, among others, for the independent shareholders of the Company (the “**Independent Shareholders**”) to consider and, if thought fit, approve such RSU Mandate and the RSU Grant to the Connected Grantees (as detailed below) and in accordance with the terms of the Post-IPO RSU Scheme. An aggregate of 15,426,249 RSUs granted to the Non-connected Grantees represents an aggregate of 15,426,249 ordinary shares (the “**Share(s)**”) in nominal value of US\$0.0001 each of the Company. The underlying Shares involved by the RSUs granted to the Non-connected Grantees represent approximately 0.46% of the issued share capital of the Company as at the date of this announcement and approximately 0.46% of the enlarged total issued share capital of the Company (enlarged by the issue of the maximum number of Shares in connection with RSUs Grants (as defined below), without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the pre-IPO share option scheme of the Company (the “**Pre-IPO Share Option Scheme**”) and any Shares to be issued pursuant to any previous grant of RSUs under the Post-IPO RSU Scheme.

### *Terms of the RSUs Granted to Non-connected Grantees*

In accordance with the terms of the Post-IPO RSU Scheme and as approved by the remuneration committee (the “**Remuneration Committee**”) of the board (the “**Board**”) of Directors and the Board, the RSUs will be granted to the Non-connected Grantees under the following terms:

- the Non-connected Grantees are not required to pay for the grant of any RSUs under the Post-IPO RSU Scheme and no consideration is required from them to be allotted and issued with the Shares underlying the respective RSUs upon vesting;
- each of these RSUs to be granted to the Non-connected Grantees represents the right to receive a Share on the date it vests;
- any Share to be issued upon vesting and settlement of the RSUs will rank *pari passu* in all respects among themselves and with all the Shares in issue from time to time;
- the Non-connected Grantees may not exercise any voting rights in respect of any Shares underlying the RSUs that have not yet vested; and
- for each Non-connected Grantee, the RSUs granted to him/her shall vest as follows:
  - (1) 50% of the RSUs will be time-based and shall vest at the rate of one-fourth (1/4) for each 12-month period commencing from March 31, 2017; and
  - (2) 50% of the RSUs shall be KPI-linked (the “**KPI-linked RSUs**”) and shall be divided into three equal instalments, with each instalment being linked with one of the three KPIs (as defined below) and vested at the rate of one-fourth (1/4) for each 12-month period commencing from March 31, 2017 pursuant to the following payout schedule (“**KPI-linked RSUs Payout Schedule**”):
    - (a) 100% of the KPI-linked RSUs shall vest if 100% of the relevant KPI Target (as defined below) is met; or
    - (b) if the relevant KPI Target is not met at 100%, 50% of the KPI-linked RSUs shall vest if 80% of the Relevant KPI Target is met and an additional 2.5% of the KPI-linked RSUs shall vest for each 1% further improvement in such KPI Target; provided that if the performance rate of any KPI Target exceeds 100%, then up to 10% of the improvement of that KPI Target can be added to the performance rate of other KPI Target(s) that is not 100% accomplished.

For the purposes of the above, key performance indicators (“**KPIs**”) refer to (i) EBITDA (an acronym for earnings before interest, taxes, depreciation and amortization); (ii) reserves; and (iii) all-in-unit cost. “**KPI Target**” shall mean 95% (in the case of EBITDA and reserves) or 105% (in the case of all-in-unit cost) of the estimated number of that relevant KPI presented in (i) the annual work plan and budget of the relevant year approved by the Board; or (ii) the revised annual work plan and budget for the relevant year, which is

subsequently presented to and approved by the Board. The treatment for any unvested KPI-linked RSUs shall be determined by the Board or the Remuneration Committee as delegated by the Board.

Based on the closing price of HK\$1.28 per Share as quoted on the Stock Exchange on March 24, 2017, being the date on which the Board approved the conditional grant of RSUs to the Non-connected Grantees, the market value of the RSUs granted to the Non-connected Grantees amounts to approximately HK\$19.7 million.

## **NON-EXEMPT CONNECTED TRANSACTION — CONDITIONAL GRANT OF RESTRICTED SHARE UNITS TO CONNECTED GRANTEES**

The Board at the same time also approved the proposed conditional grant of an aggregate of 10,906,933 RSUs to Dr. Stephen Xiangdong Zou (the chairman of the Board (the “**Chairman**”)) and an executive Director), Mr. Yaowen Wu (an independent non-executive Director), Mr. Robert Ralph Parks (an independent non-executive Director), Mr. Fredrick J. Barrett (an independent non-executive Director), Mr. Stephen Cheuk Kin Law (an independent non-executive Director) and Mr. Jing Li (the chief executive officer of the Company (the “**Chief Executive Officer**”)) and the president of the Company (the “**President**”)) (collectively, the “**Connected Grantees**”) under the Post-IPO RSU Scheme, subject to the RSU Mandate and the approval of the Independent Shareholders at the EGM to approve the conditional grant of RSUs to the Connected Grantees (the “**RSU Grant to the Connected Grantees**”, together with the RSU Grant to the Non-connected Grantees, the “**RSU Grants**”) and any transactions contemplated thereunder.

Save as disclosed below, the terms of the RSU Grant to the Connected Grantees, including the vesting schedules (except in the case of the RSUs conditionally granted to the independent non-executive Directors) and performance targets, are the same as those set out in the paragraph headed “Grant of Restricted Share Units — Grant to Non-connected Grantees — Terms of the RSUs Granted to Non-connected Grantees” in this announcement, except that (i) the RSU Grant to the Connected Grantees and any transactions contemplated thereunder are subject to the approval by the Independent Shareholders; and (ii) the vesting schedules for the RSUs conditionally granted to the independent non-executive Directors which are set out as follows.

- for each independent non-executive Director, the RSUs granted to him shall vest as follows:
  - (1) 25% of the RSUs will be vested immediately after the acceptance of the RSU Grant by the relevant independent non-executive Director;
  - (2) 37.5% of the RSUs will be time-based and shall vest at the rate of one-third (1/3) for each 12-month period commencing from March 31, 2017; and
  - (3) 37.5% of the RSUs shall be KPI-linked RSUs and shall be divided into three equal instalments, with each instalment being linked with one of the three KPIs (has the meaning as defined in the terms of the RSU Grant to the Non-connected Grantees) and vested at the rate of one-third (1/3) for each 12-month period commencing from March 31, 2017 pursuant to the KPI-linked RSUs Payout Schedule.

## The Connected Grantees

The particulars of the number of RSUs under the RSU Grant to the Connected Grantees are set out below:

		As at the date of this announcement			
Name of Connected Grantees	Position	Number of RSUs conditionally granted	Number of underlying Shares involved	Percentage of the Company's total issued share capital <sup>(1)</sup>	Percentage of the Company's enlarged issued share capital (enlarged by the issue of the maximum number of Shares pursuant to the RSU Grants) <sup>(1)</sup>
Stephen Xiangdong Zou	Chairman and executive Director	4,028,976	4,028,976	0.12%	0.12%
Yaowen Wu	Independent non-executive Director	450,000	450,000	0.01%	0.01%
Robert Ralph Parks	Independent non-executive Director	450,000	450,000	0.01%	0.01%
Fredrick J. Barrett	Independent non-executive Director	450,000	450,000	0.01%	0.01%
Stephen Cheuk Kin Law	Independent non-executive Director	450,000	450,000	0.01%	0.01%
Jing Li	Chief Executive Officer and President	5,077,957	5,077,957	0.15%	0.15%
<b>Total</b>		<b><u>10,906,933</u></b>	<b><u>10,906,933</u></b>	<b><u>0.33%</u></b>	<b><u>0.33%</u></b>

*Note:*

- (1) Without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any Shares to be issued pursuant to any previous grant of RSUs under the Post-IPO RSU Scheme

Save as above, none of the grantees under the RSU Grants is a Director, chief executive or a substantial shareholder (as defined in the Listing Rules) of the Company, or a connected person (as defined in the Listing Rules) or its associate (as defined in the Listing Rules) of the Group.

Based on the closing price of HK\$1.28 per Share as quoted on the Stock Exchange on March 24, 2017, being the date on which the Board approved the RSUs granted to the Connected Grantees, the market value of the RSUs in connection with the RSU Grant to the Connected Grantees amounts to approximately HK\$14.0 million.

## **CONDITIONS**

The RSU Grants shall be subject to the following conditions:

- (1) the Stock Exchange granting approval for the listing of, and permission to deal in, Shares to be issued pursuant to the vesting schedule of any RSUs granted under the Post-IPO RSU Scheme;
- (2) the RSU Mandate; and
- (3) the approval by the Independent Shareholders at the EGM in respect of the RSU Grant to the Connected Grantees and the transactions contemplated thereunder (including the allotment and issue of any new Shares thereunder).

### **Letter of Grant**

Letter of grant in respect of the RSU Grant will be given to the grantees after all the conditions mentioned under “Conditions” above have been fulfilled.

### **RSU MANDATE AND LISTING APPROVAL**

It is expected that an aggregate of 26,333,182 Shares will be allotted and issued upon the vesting of the RSUs proposed to be granted pursuant to the RSU Grants as mentioned in this announcement.

The EGM will be convened and held for the Independent Shareholders to consider, inter alia, and, if thought fit, approve the RSU Mandate for the RSU Grants and the allotment and issue Shares pursuant to the vesting of such RSUs. In addition, the Shareholders who are the Connected Grantees and Non-connected Grantees under the RSU Grants and their respective associates shall be required to abstain from voting on the RSU Mandate at the EGM.

An application will be made by the Company as soon as practicable to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be allotted and issued to satisfy the RSUs which may be granted for the RSU Grants under the Post-IPO RSU Scheme pursuant to the RSU Mandate.

### **REASONS FOR AND BENEFITS OF THE RSU GRANTS**

The RSU Grants are part of the Company’s remuneration system, the purpose of which is to closely align the interests and benefits of and risks sharing among the Shareholders, the Company and the employees in order to maximize the motivation of the Directors, senior management and employees of the Group. The RSU Grants aims to recognize the contribution to the success and development of the Group by each of them and to attract, retain and motivate them to participate in the continuing operation and long-term development of the Company, by providing them an opportunity to acquire equity interests in the Company.

In this regard, the Directors (excluding Dr. Stephen Xiangdong Zou, Mr. Yaowen Wu, Mr. Robert Ralph Parks, Mr. Fredrick J. Barrett and Mr. Stephen Cheuk Kin Law, who have abstained from voting on the Board resolution for approving the conditional grant of RSUs to them) consider that the terms of the RSU Grant to the Connected Grantees and any transactions contemplated thereunder and the RSU Mandate are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Information about the Company**

The Company is the leading independent coalbed methane (“**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 Panzhuang production sharing contract and the Mabi production sharing contract, respectively. The Group will continue to pursue further production of the Panzhuang concession and development preparation of the Mabi concession.

### **LISTING RULES IMPLICATIONS**

The Post-IPO RSU Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules because the RSUs do not carry with them any options over new shares of the Company or its subsidiaries.

As each of Dr. Stephen Xiangdong Zou, Mr. Yaowen Wu, Mr. Robert Ralph Parks, Mr. Fredrick J. Barrett and Mr. Stephen Cheuk Kin Law is a Director and as Mr. Jing Li is the Chief Executive Officer, therefore each of the Connected Grantees is a connected person of the Company. The RSU Grant to the Connected Grantees and any transactions contemplated thereunder (including the allotment and issue of any new Shares thereunder) constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and the Independent Shareholders’ approval requirements.

As all the independent non-executive Directors have a material interest in the RSU Grant to the Connected Grantees, no independent board committee of the Company will be formed to advise the Independent Shareholders in respect of the RSU Mandate and the RSU Grant to the Connected Grantees and any transactions contemplated thereunder. Akron Corporate Finance Limited has been appointed as the independent financial adviser (the “**Independent Financial Adviser**”) to advise the Independent Shareholders in respect of the RSU Mandate and the RSU Grant to the Connected Grantees and any transactions contemplated thereunder.

## GENERAL

A circular including, among others, details of the RSU Mandate and the RSU Grants with the advice of the Independent Financial Adviser on the RSU Grant to the Connected Grantees and any transactions contemplated thereunder is expected to be despatched to the Shareholders on or before April 20, 2017.

Ordinary resolutions will be proposed at the EGM to approve the RSU Mandate and the RSU Grant to the Connected Grantees and any transactions contemplated thereunder, respectively.

Computershare Hong Kong Trustees Limited, an independent third party, has been appointed as the trustee of the Post-IPO RSU Scheme to assist with the administration and vesting of RSUs granted pursuant to the Post-IPO RSU Scheme. The Shares in relation to the RSUs granted pursuant to the Post-IPO RSU Scheme will be held by Computershare Hong Kong Trustees Limited as nominee for the purpose of the Post-IPO RSU Scheme and for the benefit of the relevant participants in the Post-IPO RSU Scheme.

On behalf of the Board  
**AAG Energy Holdings Limited**  
**Stephen Xiangdong Zou**  
*Chairman*

Hong Kong, March 27, 2017

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