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中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

DISCLOSEABLE TRANSACTION

The Board announces that on 8 July 2020, China Oil and Gas Investment, a wholly-owned subsidiary of the Company, entered into the Agreement with Party B and Party C, pursuant to which China Oil and Gas Investment has conditionally agreed to the Capital Increase and acquire the capital contribution by Party C which were held by Party B3 at a total consideration of RMB153,000,000.

As at the date of this announcement, Party C holds the assets of the gas concession right business, natural gas pipeline network, etc. in Jishan, Wanrong and Ruicheng counties in Shanxi Province, China.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Agreement exceed 5% and all of such ratios are less than 25%, the transactions contemplated under the Agreement constitute a discloseable transaction of the Company under Rule 14.06 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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Set out below are the principal terms of the Agreement:

Date

8 July 2020

- (i) China Oil and Gas Investment (an indirect wholly-owned subsidiary of the Company)
- (ii) Party B1: Zheng Shejian (鄭社鑒)
- (iii) Party B2: Ning Xianguo (寧仙果)
- (iv) Party B3: Shanxi Tianfengda Energy Group Co., Ltd.* (山西天豐達能源集團有限公司)
- (v) Party C1: Jishan County Tianfengda Gas Co., Ltd.* (稷山縣天豐達燃氣有限公司)
- (vi) Party C2: Wanrong Tianfengda Gas Co., Ltd.* (萬榮縣天豐達燃氣有限公司)
- (vii) Party C3: Ruicheng County Fengde Gas Co., Ltd.* (芮城縣豐德燃氣有限公司)

Party B1, Party B2 and Party B3 are collectively referred to as “Party B”.

Party C1, Party C2 and Party C3 are collectively referred to as “Party C”.

Party C1 is beneficially owned as to 5%, 4% and 91% by Party B1 and Party B2 and Party B3 respectively.

Party C2 is beneficially owned as to 9% and 91% by Party B2 and Party B3 respectively.

Party C3 is beneficially owned as to 9% and 91% by Party B2 and Party B3 respectively.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, Party B1, Party B2, Party B3, Party C1, Party C2 and Party C3 and their respective ultimate beneficial owners are independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

Subject Matter

Pursuant to the terms of the Agreement, on the condition that Party B commits to guarantee the recovery of the accounts receivable of approximately RMB84,760,000 in the books of Party C as at 30 April 2020, China Oil and Gas Investment has conditionally agreed:

- (1) a capital increase of RMB1,480,878 to Party C1; a capital increase of RMB5,927,197 to Party C2; and a capital increase of RMB33,901,304 to Party C (the “**Capital Increase**”);
- (2) acquisition of (i) the capital contribution of RMB6,555,737 in Party C1; (ii) the capital contribution of RMB19,221,841 in Party C2; and (iii) the capital contribution of RMB10,829,609 in Party C3, which were held by Party B3,

at a total consideration of RMB153,000,000.

After the Capital Increase and the Acquisition of Capital Contribution, China Oil and Gas Investment holds 70% equity interest in Party C1, Party C2 and Party C3 respectively.

The total consideration was determined after arm's length negotiations between the parties with reference the total assets of Party C as at 30 April 2020 and the valuation of Party C of approximately RMB177,837,000 as at 30 April 2020 by an independent valuer.

Within five working days after the signing of the Agreement, the parties agreed to set up a co-managed account in the name of China Oil and Gas Investment (the "**Co-managed Account**").

As at the date of this announcement, Party C holds the assets of the gas concession right business, natural gas pipeline network, etc. in Jishan, Wanrong and Ruicheng counties in Shanxi Province, China.

Payment method of the Investment Amount

The payment of the Investment Amount shall be in four instalments. The general conditions and specific conditions for each instalment and the payment method are as follows:

- (i) the general conditions of each instalment of the Investment Amount are as follows:-
 - (1) the gas concession right of Party C is legal and valid, and has not been prohibited by the competent authority.
 - (2) there have been no circumstances in which the business of Party C has been suspended for rectification, business license has been revoked, bankruptcy has been applied for, or seizure, etc. that has prevented Party C from normal operation.
 - (3) there are no circumstances that could render the Acquisition invalid or cancelled.
 - (4) there is no third party to make any claims on the Subject Equity under the Agreement, nor is there any situation in which the Subject Equity is seized, which may cause the purpose of the Acquisition unachievable.
 - (5) Party C does not have any undisclosed (including unenforced) litigation, arbitration, claims, or any investigation by administrative institution.
 - (6) no third party has any other undisclosed rights to the assets owned by Party C; there are no potential rights controversies or disputes, and there is no proposals, notices, orders, rulings, judgments, etc. on forced acquisition, seizure, expropriation or development of these assets by any administrative or judicial departments.

- (7) the statements, commitments, and guarantees made by Party B and Party C under the Agreement are still true, accurate, complete, and effective, and no major adverse changes have occurred.
 - (8) Party B and Party C did not violate the Agreement.
- (ii) the specific conditions for the first instalment of the Investment Amount (among others) are:
- (1) Party B3 has made an effective shareholder resolution that all shareholders agree to the Acquisition;
 - (2) The shareholders' meetings of Party C2 and Party C3 has made an effective resolution that all shareholders agree to the Acquisition and the other shareholders agree to waive the pre-emptive right;
 - (3) The legal documents and seals of Party C are transferred to China Oil and Gas Investment;
 - (4) Party B3 and Party C have completed the filing of the Acquisition with the government authorities.

Within 10 working days after the satisfaction or waiver of the above conditions by China Oil and Gas Investment by written notice and within 10 working days after Party B3 has issued the first instalment notice to China Oil and Gas Investment, China Oil and Gas Investment shall pay the first instalment of the Investment Amount of RMB45,900,000 to the Co-managed Account, which is the capital contribution transfer consideration.

Three working days after the registration of the transfer of capital contribution to the name of China Oil and Gas Investment by Party C2 and Party C3, China Oil And Gas Investment and Party B shall release the Co-managed Account and Party B shall obtain the first instalment of the Investment Amount.

- (iii) the specific conditions for the second instalment of the Investment Amount (among others) are:
- (1) Party C has obtained a valid concession right for gas business and related business qualifications approved by the competent government department or other forms of consent document approved by the competent government department which have been agreed by Party A;
 - (2) the shareholders of Party C1 has made an effective resolution that all shareholders agree to the equity investment and other shareholders agree to waive the pre-emptive right;

- (3) Party B, Party C and their creditors has signed an effective debt restructuring agreement, and transfer the balance of the loans to Party B or its designated related parties;
- (4) The pledge of the Subject Equity held by Party B3 has been released and the registration of the transfer of the Capital Increase and capital contribution has been completed;
- (5) Party C has completed the handover of financial information and personnel information of Party C to Party A.

Within 10 working days after the satisfaction or waiver of the above conditions by China Oil and Gas Investment by written notice and within 10 working days after Party B3 has issued the second instalment notice to China Oil and Gas Investment, China Oil and Gas Investment shall pay the second instalment of the Investment Amount of RMB61,200,000, which is the capital increase consideration of RMB45,500,000 and the capital contribution transfer consideration of RMB15,700,000.

(iv) the specific conditions for the third instalment of the Investment Amount (among others) are:

- (1) Within 60 days after the closing date, Party B and Party C shall cooperate with China Oil and Gas Investment to complete the stock-taking (including but not limited to fixed assets, inventory, raw materials, engineering materials, construction in progress), liabilities and confirmation of financial statements;
- (2) The agreement on the gas concession rights of Fenglingdu, Yangcheng Town and Dawang Town of Ruicheng Company Yangcheng Branch was cancelled, and the gas concession rights and corresponding assets of Fenglingdu, Yangcheng Town and Dawang Town have been withdrawn;
- (3) Party C has completed the handover of all documents and archives of Party C to China Oil and Gas Investment.

Within 10 working days after the satisfaction or waiver of the above conditions by China Oil and Gas Investment by written notice and within 10 working days after Party B3 has issued the third instalment notice to China Oil and Gas Investment, China Oil and Gas Investment shall pay the third instalment of the Investment Amount of RMB30,600,000, which is the capital increase consideration of RMB19,500,000 and the capital contribution consideration of RMB11,100,000.

(v) the specific conditions for the fourth instalment of the Investment Amount (among others) are:

- (1) one year after the closing date;

- (2) When Party A pays the first, second, and third instalment, all the general and specific conditions waived by written notice have been satisfied; and
- (3) Party B and Party C have no breach of contract or have borne all liabilities for breach of contract or compensation.

Within 10 working days after the satisfaction of the above conditions and within 10 working days after Party B3 has issued the fourth instalment notice to China Oil and Gas Investment, China Oil and Gas Investment shall pay the fourth instalment of the Investment Amount of RMB15,300,000, which is the capital contribution transfer consideration.

Closing

After the completion of the Capital Increase and the registration of the transfer of the capital contribution, China Oil and Gas Investment shall hold 70% equity interest of each of Party C1, Party C2 and Party C3. Party C1, Party C2 and Party C3 will become subsidiaries of the Company and the financial results of which will be consolidated to the financial statements of the Group.

INFORMATION ON THE PARTIES

China Oil and Gas Investment is a company incorporated in the PRC with limited liability and is principally engaged in natural gas related investment business.

Party B1 and Party B2 are Chinese citizens.

Party B3 is a company incorporated in the PRC with limited liability and is principally engaged in trading and investment of gas and related equipment.

Each of Party C1, Party C2, and Party C3 is a limited liability company incorporated in the PRC. Party C holds the gas concession right business, natural gas pipeline assets, etc. in the three counties of Jishan, Wanrong, and Ruicheng, Shanxi Province, the PRC.

INFORMATION ON PARTY C1, PARTY C2 AND PARTY C3

The net assets and total assets value of Party C1 as extracted from its audited accounts as at 31 December 2019 was approximately RMB97,195,030 and RMB270,273,661 respectively.

The consolidated financial results of Party C1 as extracted from the audited accounts for the two years ended 31 December 2019 are as follows:

	<i>Year 2019</i>	<i>Year 2018</i>
	<i>RMB</i>	<i>RMB</i>
Net profit before taxation	9,323,460	13,611,989
Net profit after taxation	7,112,311	10,208,992

The net assets and total assets value of Party C2 as extracted from its audited accounts as at 31 December 2019 was approximately RMB82,285,611 and RMB169,234,692 respectively.

The financial results of Party C2 as extracted from the audited accounts for the two years ended 31 December 2019 are as follows:

	<i>Year 2019</i>	<i>Year 2018</i>
	<i>RMB</i>	<i>RMB</i>
Net profit before taxation	440,873	11,545,160
Net profit after taxation	330,655	8,658,670

The net assets and total assets value of Party C3 as extracted from its audited accounts as at 31 December 2019 was approximately RMB77,526,100 and RMB215,069,316 respectively.

The financial results of Party C3 as extracted from the audited accounts for the two financial year ended 31 December 2019 are as follows:

	<i>Year 2019</i>	<i>Year 2018</i>
	<i>RMB</i>	<i>RMB</i>
Net profit before taxation	4,654,075	5,104,056
Net profit after taxation	3,490,556	3,838,042

REASONS FOR AND BENEFITS OF THE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

The Group is principally engaged in investment in natural gas and energy related business. Operations of the Group include piped city gas business, pipeline design and construction; transportation, distribution and sale of compressed natural gas (“CNG”) and liquefied natural gas (“LNG”); and development, production and sale of crude oil and natural gas and other upstream energy resources.

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With 71 concession rights, the Group has built up city pipeline networks which offer stable and sufficient natural gas resources to local household, industrial, commercial and other users. As a non-pipeline natural gas provider, the Group has established 2 LNG plants in Qinghai Province, the PRC. Meanwhile, the Group has also built certain CNG primary stations to ensure a smooth supply of natural gas all year round. These facilities support supplies of natural gas to cities not yet covered by pipeline networks and are treated as emergency backup gas sources for the Group.

As a major national operator of natural gas stations for automobile natural gas filling, the Group has built 39 CNG stations, 10 LNG stations and 6 L/ CNG stations across the country. All kinds of automobiles, city buses and long-distance buses can be converted into natural gas operation system by paying an affordable fee. Some of the provinces will provide subsidy to automobile owners who are willing to convert their automobile into natural gas operating

system. With support from the PRC government, the Group offers inexpensive, clean and environmentally friendly natural gas to the transportation sector.

As an operator of natural gas branch pipelines, the Group has already completed 13,023 km natural gas pipelines in 16 provinces and autonomous regions. Apart from bringing in stable natural gas transmission revenue, the branch pipelines constructions will also facilitate the development of projects along the down-stream.

The Group has well established a large-scale developed natural gas transport and logistics operation in the PRC, including the set up of LNG and CNG fleets which have reinforced the mobility and coverage of our natural gas supplies.

Jishan County, Wanrong County and Ruicheng County are all counties under the jurisdiction of Yuncheng City, Shanxi Province. Among them, Jishan County has a permanent population of 360,000 and a county population of 154,000 (approximately 44,000 households), with an urbanization rate of 42.31%. In 2018, Jishan County achieved a total GDP of RMB9.3 billion and industrial added value of RMB2.2 billion. Wanrong County has a permanent population of 466,000, an urban population of 155,000 (about 44,000 households), and an urbanization rate of 33.9%. The GDP of Wanrong County in 2018 was RMB5.16 billion, and the development of the three major industries was relatively average. The primary industry is mainly fruit cultivation, the secondary industry is mainly chemical materials, pharmaceuticals and food and the tertiary industry is mainly tourism. The permanent population of Ruicheng County was 413,000, of which urban population is 212,000 (about 60,000 households), and the urbanization rate is 51.48%. The GDP of Ruicheng County in 2018 was RMB9.2 billion, and the industry was mainly concentrated on the fields of biomedicine and chemical materials.

The three counties have a total population of 1.24 million, and there are multiple industrial parks in the counties. The industrial layout involves various fields such as pharmaceuticals, chemical materials, textiles, cement additives, cartons, and food so the ability to resist cyclical risks is relatively good. The combined gas consumption of the three counties in 2019 reached 130 million cubic meters. The merger and acquisition of the gas concession right business in these three counties will help the Group's strategic deployment in Shanxi Province. Especially with the Group's superior gas source in Ji County, it will bring a strong synergy effect, which will further develop Shanxi Province and the domestic gas market for the Group. It strengthens and expands the market share of the Group in the domestic gas business and it will play a positive and important role in promoting it.

Based on the foregoing, the Directors (including the independent non-executive Directors) believe that the terms of the Agreement are fair and reasonable and are in the best interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Agreement exceed 5% and all of such ratios are less than

25%, the transactions contemplated under the Agreement constitute a discloseable transaction of the Company under Rule 14.06 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Acquisition”	the acquisition of the Subject Equity from Party B3 by China Oil and Gas Investment in accordance with the Agreement
“Acquisition of Capital Contribution”	the acquisition of the capital contribution in Party C held by Party B
“Agreement”	the Equity Investment Agreement entered into by China Oil and Gas Investment, Party B1, Party B2, Party B3, Party C1, Party C2 and Party C3 on 8 July 2020
“Board”	the board of Directors of the Company
“Company”	China Oil And Gas Group Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange (stock code: 603)
“China Oil and Gas Investment”	China Oil and Gas Investment Group Co., Ltd., a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Investment Amount”	total of the consideration for Capital Increase and Acquisition of Capital Contribution
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party B1”	Zheng Shejian
“Party B2”	Ning Xianguo
“Party B3”	山西天豐達能源集團有限公司 (Shanxi Tianfengda Energy Group Co., Ltd.*), a limited liability company established in the PRC

“Party C1”	稷山縣天豐達燃氣有限公司 (Jishan County Tianfengda Gas Co., Ltd.*), a limited liability company established in the PRC
“Party C2”	萬榮縣天豐達燃氣有限公司 (Wanrong Tianfengda Gas Co., Ltd.*), a limited liability company established in the PRC
“Party C3”	芮城縣豐德燃氣有限公司 (Ruicheng County Fengde Gas Co., Ltd.*), a limited liability company established in the PRC
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Equity”	respective 70% equity interest of Party C1, Party C2 and Party C3
“%”	percentage

By Order of the Board
China Oil And Gas Group Limited
Chan Yuen Ying, Stella
Company Secretary

Hong Kong, 8 July 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Ms. Guan Yijun and Mr. Liu Chunsun; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Wang Guangtian and Mr. Yang Jie.

** for identification purposes only*