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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 AND CONNECTED TRANSACTION FORMATION OF JOINT VENTURE

FORMATION OF THE JV COMPANY

The Board is pleased to announce that on 23 November 2020, CCNG, an indirect non wholly-owned subsidiary of the Group, entered into the Funding Agreement with PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund and Chongqing Kaiyuan in relation to the formation of the JV Company to construct natural gas storage tanks in Chongqing City, the PRC with a registered capital of RMB2 billion.

Pursuant to the terms of the Funding Agreement, each of PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan will contribute RMB900 million, RMB380 million, RMB200 million, RMB200 million and RMB320 million, respectively, to the registered capital of the JV Company. Upon the completion of the formation of the JV Company, the equity interest of the JV Company will be owned as to 45%, 19%, 10%, 10% and 16% by PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan, respectively.

The JV Company will be principally engaged in construction, operation and leasing, and project management services of underground natural gas storage facilities, natural gas storage and transportation technology development and consulting services, oil and gas storage, and sales of natural gas. Gas company investing in the construction of gas storage facilities can improve their peak shaving capabilities and fulfill the requirements of the NDRC for the construction of gas storage facilities.

LISTING RULES IMPLICATIONS

DISCLOSEABLE TRANSACTION

As the highest percentage ratio as set out in the Listing Rules in respect of the transactions contemplated under the Funding Agreement is more than 5% but less than 25%, the transactions as contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements.

CONNECTED TRANSACTION

As at the date of the Funding Agreement, PetroChina is a substantial shareholder of an indirect non wholly-owned subsidiary of the Company, namely CCNG. Accordingly, PetroChina is a connected person at the subsidiary level of the Company pursuant to Chapter 14A of the Listing Rules. The entering into the Funding Agreement and the transactions as contemplated thereunder also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As (i) PetroChina is only a connected person at the subsidiary level of the Company; (ii) the transactions as contemplated under the Funding Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) has approved the Funding Agreement; and (iv) the independent non-executive Directors have confirmed that the terms of the Funding Agreement are fair and reasonable, the transactions as contemplated under the Funding Agreement are on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the entering into of the Funding Agreement and the transactions as contemplated thereunder are subject only to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 23 November 2020, CCNG, an indirect non wholly-owned subsidiary of the Group, entered into the Funding Agreement with PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund and Chongqing Kaiyuan in relation to the formation of the JV Company in Chongqing City, the PRC with a registered capital of RMB2 billion.

FUNDING AGREEMENT

The principal terms of the Funding Agreement are set out below:

Date: 23 November 2020

Parties: (1) PetroChina;
(2) Chongqing Gas Group;
(3) Chongqing Shale Gas Fund;
(4) CCNG, an indirect non wholly-owned subsidiary of the Group; and
(5) Chongqing Kaiyuan.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, except PetroChina is a connected person at the subsidiary level of the Company, each of Chongqing Gas Group, Chongqing Shale Gas Fund and Chongqing Kaiyuan and their respective ultimate beneficial owner(s) is an Independent Third Party.

Name of the JV Company: 重慶天然氣儲運有限公司 (Chongqing Natural Gas Storage and Transportation Co., Ltd. *) (subject to the name as confirmed and approved by 市場監督管理部門 (the market supervision and management department **))

Scope of business: The scope of business of the JV Company including construction, operation and leasing, and project management services of underground natural gas storage facilities, natural gas storage and transportation technology development and consulting services, oil and gas storage, and sales of natural gas.

The scope of business of the JV Company shall be subject to the business scope specified in the articles of association of the company as approved by 市場監督管理部門 (the market supervision and management department *).

Term of operation: The term of operation of the JV Company is 20 years.

Total registered capital: RMB2 billion

Details of contribution: Pursuant to the terms of the Funding Agreement, each of PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan will contribute RMB900 million, RMB380 million, RMB200 million, RMB200 million and RMB320 million, respectively, to the registered capital of the JV Company. Upon the completion of the formation of the JV Company, the registered capital of the JV Company will be owned as to 45%, 19%, 10%, 10% and 16% by PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan, respectively.

The registered capital of the JV Company shall be contributed by installment in the following manner:

- (1) initial capital contribution: 25% of the aggregate registered capital (representing RMB500 million, of which the initial capital contribution of CCNG amounts to RMB50 million) shall be paid by the parties on a pro rata basis to the JV Company within 30 days after the date of registration of the JV Company and the opening of a bank account;
- (2) second installment of capital contribution: 30% of the aggregate registered capital (representing RMB600 million, of which the second installment of capital contribution of CCNG amounts to RMB60 million) shall be paid by the parties on a pro rata basis to the JV Company before 30 June 2021; and
- (3) third installment of capital contribution: 45% of the aggregate registered capital (representing RMB900 million, of which the third installment of capital contribution of CCNG amounts to RMB90 million) shall be one-off paid by the parties on a pro rata basis to the JV Company within 60 days after the payment notices are issued to the parties by the JV Company in accordance with the approved investment plan and business development plan. It is expected to be paid no later than 31 December 2023.

The capital requirements of the JV Company were determined after arm's length negotiations among the parties and taking into account the development plan of the JV Company. The capital contribution of CCNG to the JV Company will use funded by the Group's internal resources.

Management of the JV Company:	The board of directors of the JV Company shall comprise nine members. Following the formation of the JV Company, each of PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan shall have right to nominate four, two, one, one and one director(s), respectively.
Investment scale of the JV Company:	The investment scale of the Construction Project is approximately RMB4.903 billion. The difference between the investment scale of the Construction Project and the registered capital of the JV Company will be funded by the JV Company through debt financing and other means.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FUNDING AGREEMENT

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 and liquefied natural gas; and development, production and sale of crude oil and natural gas and other upstream energy resources. The Group has established a total of 135 natural gas project companies in 16 provinces and autonomous regions, with 73 concession rights in the PRC.

It is expected that the JV Company will construct two natural gas storage tanks with gas storage capacity of 3.1 billion cubic meters, which can help the Group to expand its business in development, production and sales of natural gas development in the PRC. At the same time, to improve peak shaving ability and to implement 《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》（發改能源規〔2018〕637號）（“Opinions on accelerating the construction of gas storage facilities and improving the market mechanism for ancillary services for gas storage and peak shaving” (Development and Reform Energy Regulation, [2018] No. 637)*), NDRC and National Energy Administration), “Several Opinions of the State Council on Promoting the Coordinated and Stable Development of Natural Gas” (No. 31 [2018] of the State Council), 《關於加快推進天然氣儲備能力建設的實施意見》（“Implementation Opinions on Accelerating the Construction of Natural Gas Reserve Capacity”**) (No. 567 [2020] of the NDRC) the State Council. Upon completion of the Construction Project, it can benefit from the natural gas resources and the geographical location in Chongqing City, to implement the requirement of the state to improve natural gas emergency reserve, improve the lack of gas storage facilities in Chongqing City and problem on winter natural gas supply capabilities protection weaknesses, and to contribute positively into the national natural gas supply.

The Directors (including the independent non-executive Directors) are of the view that the Funding Agreement was entered into after arm's length negotiations and on normal commercial terms and the terms of the Funding Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES TO THE FUNDING AGREEMENT

CCNG, is an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding and trading of natural gas.

The equity interest of CCNG is owned as to 51% by the Group and 49% by Kunlun Energy Company Limited, which shares are listed on the main board of the Stock Exchange (stock code: 0135). PetroChina is a controlling shareholder of Kunlun Energy Company Limited, therefore, it is also regarded as a connected person of the Company.

PetroChina, a joint stock company limited by shares incorporated in the PRC, and listed its foreign shares overseas, American Depository shares, and Domestic shares are listed on the Stock Exchange (stock code: 0857), the New York Stock Exchange (stock code: PTR), and the Shanghai Stock Exchange (stock code: 601857), respectively.

PetroChina and its subsidiaries engage in a broad range of petroleum and natural gas activities including the exploration, development, production and sale of crude oil and natural gas; the refining of crude oil and petroleum products; the production and sale of basic petrochemical products, derivative petrochemical products and other petrochemical products; the sale and trading of refined products; and the transmission of natural gas, crude oil and refined products, and the sale of natural gas.

Chongqing Gas Group, is a limited liability company established in the PRC, and its shares are listed on the Shanghai Stock Exchange (stock code: 600917). It is principally engaged in pipeline gas supply, gas facilities and equipment installation services, distributed energy operation services, CNG and LNG refueling station operation services in Chongqing City.

Chongqing Shale Gas Fund, is a limited liability company established in the PRC and the equity interest are indirectly owned as to 50% by each of 重慶兩江新區管理委員會 (The Chongqing Liangjiang New District Management Committee*) and Chongqing Municipal Finance Bureau respectively. It is principally engaged in investment in equity interests and consulting services in shale gas and related fields, mineral resources, new energy and new materials.

Chongqing Kaiyuan, is a limited liability company established in the PRC and an indirect wholly-owned subsidiary of Sichuan Huasheng Oil Industry Development Co., Ltd. (四川華盛石油實業開發總公司), which is a collectively-owned enterprise established in the PRC. It is principally engaged in gas supply, petrochemical engineering construction general contracting level 3 (with qualification certificate to undertake business), municipal public engineering construction general contracting level 3 (with qualification certificate to carry on business), sales: gas appliances, building materials (excluding hazardous chemicals), instruments and steel, sales of compressed natural gas (subject to the administrative licences being obtained for branch operations).

As of the date of the Funding Agreement, PetroChina holds 49% of the equity interest of CCNG, an indirect non wholly-owned subsidiary of the Company, and a substantial shareholder of CCNG.

LISTING RULES IMPLICATIONS

DISCLOSEABLE TRANSACTION

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CONNECTED TRANSACTION

As at the date of the Funding Agreement, PetroChina is a substantial shareholder of an indirect non wholly-owned subsidiary of the Company, namely CCNG. Accordingly, PetroChina is a connected person at the subsidiary level of the Company pursuant to Chapter 14A of the Listing Rules. The entering into the Funding Agreement and the transactions as contemplated thereunder also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As (i) PetroChina is only a connected person at the subsidiary level of the Company; (ii) the transactions as contemplated under the Funding Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) has approved the Funding Agreement; and (iv) the independent non-executive Directors have confirmed that the terms of the Funding Agreement are fair and reasonable, the transactions as contemplated under the Funding Agreement are on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the entering into of the Funding Agreement and the transactions as contemplated thereunder are subject only to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

As none of the Director has any material interest in the Funding Agreement and the transactions contemplated thereunder, none of them is required to abstain from voting on the Board resolution approving the Funding Agreement and the transactions contemplated thereunder pursuant to the Bye-Laws of the Company.

DEFINITIONS

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

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“CCNG”	China City Natural Gas Investment Group Company Limited (中油中泰燃氣投資集團有限公司), a limited liability company established in the PRC and an indirect non wholly-owned subsidiary of the Company
“Chongqing Gas Group”	Chongqing Gas Group Corporation Ltd, a limited liability company established in the PRC, its shares are listed on the Shanghai Stock Exchange (stock code: 600917)
“Chongqing Shale Gas Fund”	重慶頁岩氣產業投資基金有限責任公司 (Chongqing Shale Gas Industry Investment Fund Co., Ltd*), a limited liability company established in the PRC
“Chongqing Kaiyuan”	重慶凱源石油天然氣有限責任公司 (Chongqing Kaiyuan Petroleum and Natural Gas Co., Ltd*), a limited liability company established in the PRC
“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)
“Construction Project”	construction and operation of underground gas storage facilities in Chongqing City
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company

“Funding Agreement”	the funding agreement dated 23 November 2020 entered into between PetroChina, Chongqing Gas Group, Chongqing Shale Gas Fund, CCNG and Chongqing Kaiyuan in relation to the formation of the JV Company
“Group”	the Company and its subsidiaries
“Independent Third Party”	a party independent of the Company and the connected persons of the Company and their respective associates
“JV Company”	重慶天然氣儲運有限公司 (Chongqing Natural Gas Storage and Transportation Co., Ltd.*) (subject to the name as confirmed and approved by 市場監督管理部門 (the market supervision and management department*)), a limited liability company to be incorporated in Chongqing City, the PRC by the parties to the Funding Agreement pursuant to the Funding Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NDRC”	the National Development and Reform Commission
“PetroChina”	PetroChina Company Limited, a joint stock limited company incorporated in the PRC, and listed its foreign shares overseas, American Depository shares, and domestic shares are listed on the Stock Exchange (stock code: 0857), the New York Stock Exchange (stock code: PTR), and the Shanghai Stock Exchange (stock code: 601857), respectively.
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in the Listing Rules
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“%”	percentage

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

Hong Kong, 23 November 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*