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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kunlun Energy Company Limited (the “Company”), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)
昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



First Shanghai Capital Limited

A letter from the Board is set out on pages 7 to 36 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on page 37 of this circular. A letter from the independent financial adviser, First Shanghai Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Master Agreement and the Proposed Annual Caps is set out on pages 38 to 53 of this circular.

A notice of SGM to be held at President's Room, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 19 December 2017 (Tuesday) at 10:00 a.m., is set out on pages 60 to 62 of this circular. A proxy form for use by the shareholders of the Company at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the proxy form enclosed in accordance with the instructions printed thereon and return it to the principal office of the Company at 39th Floor, 118 Connaught Road West, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the SGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM should you so wish.

1 December 2017

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beckbury”	means Beckbury International Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Board”	means the board of directors of the Company
“CBRC”	means the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CNPC”	means 中國石油天然氣集團公司 (China National Petroleum Corporation), a state-owned enterprise established under the laws of the PRC
“CNPC Group”	means CNPC and its subsidiaries, but excluding members of the Group
“Company”	means Kunlun Energy Company Limited, a company incorporated with limited liability in Bermuda and the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	means the continuing connected transactions between the Group and the CNPC Group contemplated under the PSAs, the Master Agreement, and the New Master Agreement (where appropriate) as set out in the paragraph headed “Continuing Connected Transactions” of this circular
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	means director(s) of the Company
“Existing Caps”	means the existing maximum aggregate annual values of the Continuing Connected Transactions for each of the three years ending 31 December 2017 as set out in the announcements of the Company dated 7 November 2014 and 28 December 2015 and the circulars of the Company dated 11 November 2014 and 23 January 2016

DEFINITIONS

“Fifth Supplemental Agreement”	means the agreement dated 6 November 2014 entered into between the Company and CNPC amending certain terms of, and renewing the Master Agreement for the three years ending on 31 December 2017
“First Supplemental Agreement”	means the agreement dated 14 November 2006 entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement for the three years ended on 31 December 2009
“Fourth Supplemental Agreement”	means the agreement dated 14 November 2011 entered into between the Company and CNPC renewing the terms of the Master Agreement for the three years ended on 31 December 2014
“Group”	means the Company and its subsidiaries
“Hafnium”	means Hafnium Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	Means the independent committee of the Board, comprising Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng and Mr. Sun Patrick, being all the independent non-executive Directors of the Company, established for the purpose of, among other things, advising the Independent Shareholders in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps
“Independent Financial Adviser” or “First Shanghai”	means First Shanghai Capital Limited, a licensed corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps

DEFINITIONS

“Independent Shareholders”	means the Shareholders other than CNPC and its associates (including PetroChina)
“JingTang Co.”	means 中石油京唐液化天然氣有限公司 (PetroChina Jingtang LNG Co., Ltd.), a limited liability company incorporated in the PRC, and a subsidiary of the Company following the completion of the acquisition of 51% equity interest in JingTang Co. by Kunlun Gas as described in the announcement of the Company dated 28 September 2017
“Karamay Oilfield”	means an oilfield in Junggar basin in Xinjiang, the PRC, part of which is being developed by the Group pursuant to the Xinjiang Contract, whereas the Xinjiang Contract has been expired on 31 August 2016
“Kunlun Gas”	means 中石油昆侖燃氣有限公司 (PetroChina Kunlun Gas Co., Ltd.), a limited liability company incorporated in the PRC, and a wholly-owned subsidiary of the Company
“Kunlun Gas Acquisition”	the acquisition by the Company of the entire equity interests in Kunlun Gas from PetroChina pursuant to the terms and conditions of the acquisition agreement dated 28 December 2015 and entered into between the Company and PetroChina
“Latest Practicable Date”	28 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Leng Jiapu Entrustment Contract”	means the entrustment contract dated 21 March 1998 entered into between Beckbury and the CNPC Group concerning the operation of the Liaohe Contract, as amended or supplemented from time to time
“Leng Jiapu Oilfield”	means the Leng Jiapu Oilfield in Liaohe, Liaoning Province, the PRC, part of which is being developed by the Group pursuant to the Liaohe Contract

DEFINITIONS

“Liaohe Contract”	means the Leng Jiapu Area Petroleum Contract dated 30 December 1997 entered into between CNPC and Beckbury, and where the context requires, includes the Leng Jiapu Entrustment Contract. All the rights and obligations (other than the supervisory functions related to CNPC’s role as representative of the PRC Government) of CNPC under the Liaohe Contract were novated to PetroChina on 8 October 2001
“Listing Rules”	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Agreement”	means the master agreement dated 19 November 2003 entered into between the Company and CNPC regarding provision by the CNPC Group to the Group, of a range of products and services from time to time, as amended and supplemented by the First Supplemental Agreement dated 14 November 2006, the Second Supplemental Agreement dated 25 March 2009, the Third Supplemental Agreement dated 19 May 2010, the Fourth Supplemental Agreement dated 14 November 2011 and the Fifth Supplemental Agreement dated 6 November 2014, where the context requires, as to be expired on 31 December 2017, and to be replaced by the New Master Agreement
“NDRC”	means the National Development and Reform Commission of the PRC
“New Master Agreement”	means the new master agreement dated 29 November 2017 entered into between the Company and CNPC regarding provision by the CNPC Group to the Group and by the Group to the CNPC Group, of a range of products and services from time to time, as to be expired on 31 December 2020
“Oil and Gas Products”	means such crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products provided by the CNPC Group to the Group from time to time under the new category of additional products and services set out in the Second Supplemental Agreement

DEFINITIONS

“PBOC”	means the People’s Bank of China
“PetroChina”	means PetroChina Company Limited, a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange and the Stock Exchange with American Depositary Receipts listed on the New York Stock Exchange. PetroChina is a non-wholly owned subsidiary of CNPC and the controlling shareholder of the Company holding approximately 58.33% of its total issued share capital
“PRC”	means the People’s Republic of China, which, for the purposes of this circular only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	means the proposed respective annual caps for each of the Continuing Connected Transactions for each of the three years ending 31 December 2020
“PSAs”	means the Xinjiang Contract and the Liaohe Contract
“Relevant Market Prices”	means, collectively, the Relevant Market Price (a), the Relevant Market Price (b), the Relevant Market Price (c) and the Relevant Market Price (d) in respect of the Continuing Connected Transactions as described in the section headed “ <i>Letter from the Board – 3. Continuing Connected Transactions</i> ” in this circular
“Rental Payments”	means the rental payments payable by the Group to the CNPC Group under the New Master Agreement in respect of the properties leased from the CNPC Group
“RMB”	means Renminbi, the lawful currency of the PRC
“Second Supplemental Agreement”	means the agreement dated 25 March 2009 entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement for three years ended 31 December 2011
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	means a special general meeting of the Company proposed to be convened and held on 19 December 2017 for the Independent Shareholders to consider and, if deemed appropriate, approve, among other things, the entering into of the New Master Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps for each relevant type of the Continuing Connected Transactions under Categories (a), (b), (c) and (d)
“Shareholder(s)”	means holder(s) of the Shares
“Share(s)”	means ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Third Supplemental Agreement”	means the agreement dated 19 May 2010 entered into between the Company and CNPC amending certain terms of the Master Agreement for three years ended 31 December 2011
“Xinjiang Contract”	means the Xinjiang Oil Field Production Sharing Contract dated 1 July 1996 entered into between CNPC and Hafnium, as amended from time to time. All the rights and obligations (other than the supervisory functions related to CNPC’s role as representative of the PRC Government) of CNPC under this contract were novated to PetroChina on 8 October 2001. The Xinjiang Contract has been expired on 31 August 2016
“%”	per cent.

Notes:

- (1) For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB0.8746=HK\$1.00 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.
- (2) If there is any discrepancy or inconsistency between the Chinese names of the PRC entities and their English translations in this circular, the Chinese version shall prevail.

* *For identification purpose only*

LETTER FROM THE BOARD



KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

Executive Directors:

Mr. Huang Weihe (*Chairman*)
Mr. Wu Enlai
Mr. Zhao Yongqi (*Chief Executive Officer*)
Mr. Zhao Zhongxun
Mr. Ding Shilu
Mr. Zhang Yaoming

Independent Non-Executive Directors:

Mr. Li Kwok Sing Aubrey
Dr. Liu Xiao Feng
Mr. Sun Patrick

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal office in Hong Kong:

39th Floor
118 Connaught Road West
Hong Kong

1 December 2017

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement of the Company dated 29 November 2017 in relation to the Continuing Connected Transactions and the New Master Agreement.

The Group and CNPC entered into (i) the Xinjiang Contract and the Liaohe Contract (together the PSAs) in 1996 and 1997 respectively, and (ii) the Master Agreement in 2003, which was subsequently amended and supplemented pursuant to the First Supplemental Agreement in 2006, the Second Supplemental Agreement in 2009, the Third Supplemental Agreement in 2010, the Fourth Supplemental Agreement in 2011 and the Fifth Supplemental Agreement in 2014.

LETTER FROM THE BOARD

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. The Xinjiang Contract has been expired on 31 August 2016. The terms of the Liaohe Contract runs 20 years from the date of commencement of commercial production and will be expired on 31 December 2023. The Master Agreement, on the other hand, provides a framework for a range of products and services to be procured from the CNPC Group to the Group and vice versa, including oil and gas products, general products and services, financial services, rental services and entrustment management services. The Master Agreement will be expired on 31 December 2017.

In view of the anticipated expiration of the terms of the Master Agreement on 31 December 2017, the conditional New Master Agreement with CNPC have stipulated to renew the Continuing Connected Transactions for the three years ending on 31 December 2020. The New Master Agreement is conditional upon the approval by the Independent Shareholders in relation to (i) the entering into of the New Master Agreement and the transactions contemplated thereunder; (ii) the Continuing Connected Transactions under Categories (a), (b), (c) and (d); and (iii) the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020.

As at the Latest Practicable Date, CNPC, the ultimate controlling shareholder of the Company, is deemed to be interested in 4,985,734,133 Shares, representing approximately 61.76% of the issued share capital of the Company. Accordingly, CNPC is a connected person of the Company. To the best of the Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date, and is a controlling shareholder and a connected person to the Company. CNPC is a connected person of the Company and accordingly the Continuing Connected Transactions under the Liaohe Contract and the New Master Agreement constitute continuing connected transactions of the Company.

As the applicable percentage ratios based on the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) are greater than 5%, the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CNPC and its associates (including PetroChina) are required to abstain from voting on the resolutions in connection with the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020.

The purposes of this circular, among other things, are:

- (i) to provide you with further details of the New Master Agreement, the Continuing Connected Transactions and the Proposed Annual Caps;
- (ii) to provide you a letter from the Independent Board Committee to the Independent Shareholders in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020;
- (iii) to provide you a letter of advice from First Shanghai containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020; and
- (iv) to set out the notice of the SGM.

LETTER FROM THE BOARD

2. NEW MASTER AGREEMENT

The Company and CNPC entered into the New Master Agreement on 29 November 2017 for the purpose of renewing the Continuing Connected Transactions for the three years ending 31 December 2020. The principal terms of the New Master Agreement are set out below:

- Date** : 29 November 2017
- Parties** : (1) The Company
(2) CNPC
- Duration** : Three years commencing from 1 January 2018 to 31 December 2020. The Parties agreed that subject to the applicable laws and regulations, including but not limited to the Listing Rules, the term of the New Master Agreement can be further renewed upon agreement by the Parties in writing

The terms of the New Master Agreement were negotiated on an arm's length basis between the Group and the CNPC. Pursuant to the New Master Agreement, CNPC Group agreed to provide to the Group and the Group agreed to provide the CNPC Group a range of products and services including oil and gas products, general products and services, financial services, rental services and entrustment management services from time to time, as to be expired on 31 December 2020.

Further, if the term of an individual implementation agreement extends beyond 31 December 2020 (that is, the expiry date of the New Master Agreement), the Company shall re-comply with the reporting, annual review, announcement and independent shareholders' approval requirements under Rules 14A.35 to 14A.60 of the Listing Rules and/or any other applicable Listing Rules at the relevant time.

The effectiveness of the New Master Agreement is conditional upon the approval by the Independent Shareholders at the SGM in relation to (i) the entering into of the New Master Agreement and the transactions contemplated thereunder; (ii) the Continuing Connected Transactions under Categories (a), (b), (c) and (d); and (iii) the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending on 31 December 2020, and shall become effective on 1 January 2018 and expire on 31 December 2020.

LETTER FROM THE BOARD

3. CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 29 November 2017 in relation to the Continuing Connected Transactions.

The Group and CNPC entered into (i) the Xinjiang Contract and the Liaohe Contract (together the “PSAs”) in 1996 and 1997 respectively, and (ii) the Master Agreement in 2003, which was subsequently amended and supplemented pursuant to the First Supplemental Agreement in 2006, the Second Supplemental Agreement in 2009, the Third Supplemental Agreement in 2010, the Fourth Supplemental Agreement in 2011 and the Fifth Supplemental Agreement in 2014.

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. The term of the Xinjiang Contract runs from 1 September 1996 and has been expired on 31 August 2016. The term of the Liaohe Contract runs 20 years from the date of commencement of commercial production and will expire on 31 December 2023.

The Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects. The Master Agreement was amended by the First Supplemental Agreement in 2006, by the Second Supplemental Agreement in 2009, by the Third Supplemental Agreement in 2010, by the Fourth Supplemental Agreement in 2011 and by the Fifth Supplemental Agreement in 2014. Pursuant to the Master Agreement, the range of products and services to be procured from the CNPC Group to the Group and vice versa include oil and gas products, general products and services, financial services and rental services. The Master Agreement, as extended by the Fifth Supplemental Agreement, will expire on 31 December 2017.

In view of the anticipated expiration of the terms of the Master Agreement on 31 December 2017, the Company and CNPC entered the New Master Agreement on 29 November 2017 for the purpose of renewing the Continuing Connected Transactions contemplated thereunder the Master Agreement. Pursuant to the New Master Agreement and Liaohe Contract, members of the CNPC Group and members of the Group shall enter into individual implementation agreements in respect of each type of products or services setting out detailed terms and conditions for providing such products and services. The pricing shall always be subject to the New Master Agreement and Liaohe Contract and the payment terms, including the credit period and the settlement method, will be specified in each individual implementation agreement.

LETTER FROM THE BOARD

For further details of the New Master Agreement and Liaohe Contract, please refer to the paragraph 3.1.1 below.

3.1.1 Categories of Continuing Connected Transactions

(i) ***Category (a) – Provision of general products by the CNPC Group to the Group***

Nature of Transactions

The Group procures certain general products from the CNPC Group under the Liaohe Contract and the New Master Agreement.

Liaohe Contract

The Liaohe Contract was approved by the Independent Shareholders at the special general meetings of the Company held on 23 February 1998 and details of the Liaohe Contract was set out in the circular to the Shareholders dated 6 February 1998. The salient details of the Liaohe Contract are set out below:

Date	:	30 December 1997, as amended and modified from time to time
Parties	:	(1) Beekbury, a wholly-owned subsidiary of the Company; (2) PetroChina, a non-wholly-owned subsidiary of CNPC; and CNPC only in respect of the supervisory functions as representative of the PRC Government
Duration	:	20 years from the date of commencement of commercial production

LETTER FROM THE BOARD

Synopsis : The Liaohe Contract is an oil production sharing agreement in relation to the development and production of crude oil in the Leng Jiapu Oilfield, Liaoning, the PRC. Pursuant to the Liaohe Contract, the Group and the CNPC Group hold 70% and 30% participating interests respectively. The Group is responsible for 70% of the operation cost incurred in connection with oil production in certain areas within the Leng Jiapu Oilfield as specified in the Liaohe Contract (the “**Liaohe Contract Area**”). The Group is entitled to 70% of the oil production generated from the Liaohe Contract Area.

In accordance with the Liaohe Contract, the CNPC Group shall provide the Group with a variety of general products such as natural gas, refined oil products, chemical products and other relative and similar products, whereas no crude oil will be provided.

In connection with the Liaohe Contract, the Group has also entered into the Leng Jiapu Entrustment Contract with the CNPC Group, whereby the CNPC Group was entrusted to be the operator under the Liaohe Contract. Pursuant to the Leng Jiapu Entrustment Contract, the Group pays the CNPC Group a support fee representing 30% of the aggregate salary and welfare expenses paid to the personnel of the joint development department. The joint development department was established pursuant to the Leng Jiapu Entrustment Contract and is responsible for carrying out the contractual responsibilities of the CNPC Group under the Leng Jiapu Entrustment Contract.

The New Master Agreement

Pursuant to the New Master Agreement, the CNPC Group agreed to provide the following general products to the Group:

- (i) equipment, materials, supplies and other products required for petroleum and natural gas exploration and production; and

LETTER FROM THE BOARD

- (ii) crude oil, natural gas, refined oil products, chemical products and other related or similar products.

Price determination:

The pricing for such general products (other than crude oil) to be provided by the CNPC Group to the Group under the Liaohe Contract and the New Master Agreement shall be fair and reasonable and based on the following general principles: the price to be paid by the Group to the CNPC Group (the “**Relevant Market Price (a)**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (“**Best Market Price (a)**”). If the CNPC Group provides the relevant general products to the Group at a price lower than the Best Market Price (a) in such markets, such lower price shall be the Relevant Market Price (a).

The pricing for crude oil to be provided the CNPC Group to the Group under the New Master Agreement shall be determined with reference to the prevailing market price of similar grade crude oil in an arm’s length transaction with reference to the trend of the international oil prices. In 2016, the NDRC has published the Administrative Measures for Oil Prices pursuant to which the crude oil prices in the PRC shall be driven by market prices. The trend of the international oil prices is generally subject to various prevailing conditions, such as the market supply and demand, and macroeconomic conditions. The parties will take in account the benchmark crude oil assessment, including the Brent and West Texas Intermediate (WTI) benchmark prices, in determining the pricing of the crude to be supplied and purchased under the Continuing Connected Transactions.

As part of the Group’s internal approval and monitoring procedures relating to the transactions with the CNPC Group, the Group will obtain quote from, or compare the terms and conditions of the products (including the pricing terms) offered by, other independent product suppliers before it decides to engage the CNPC Group for the relevant products, taking into account various factors including the type, quantity and quality of the products, the suitability of the products for the Group’s business needs, and the expected time required for the product delivery.

LETTER FROM THE BOARD

(ii) *Category (b) – Provision of general services by the CNPC Group to the Group*

Nature of Transactions

The Group procures certain general services from the CNPC Group under the Liaohe Contract and the New Master Agreement.

Liaohe Contract

Pursuant to the Liaohe Contract, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities.

The New Master Agreement

Pursuant to the New Master Agreement, the CNPC Group agreed to provide the following general services to the Group:

- (i) engineering services including geological surveying, drilling, well cementing, logging, mud logging, well testing, downhole operations, oilfield construction (and installation), engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;
- (ii) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services;
- (iii) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services;
- (iv) property leasing services, including but not limited to office building leasing, commercial building leasing, warehouses and other related or similar services;
- (v) amenities services, including but not limited to property management, training centers, guest houses, staff canteen and other related or similar services;

LETTER FROM THE BOARD

- (vi) social and ancillary services, including but not limited to security services, education, hospitals, public transport, urban infrastructure, comprehensive social services and other related or similar services;
- (vii) financial services, including but not limited to loans and deposit services and the associated interest incomes and expenses, guarantees, entrustment services and other financial services; and
- (viii) entrustment management services, including but not limited to manage certain aspects in relation to their shareholder rights and their day-to-day management and operation and other similar management services.

Price determination:

The pricing for such general services to be provided by the CNPC Group to the Group under the New Master Agreement shall be fair and reasonable and based on the following general principles:

- (i) the price to be paid by the Group to the CNPC Group (the “**Relevant Market Price (b)**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (“**Best Market Price (b)**”). If the CNPC Group provides the relevant general services to the Group at a price lower than the Best Market Price (b) in such markets, such lower price shall be the Relevant Market Price (b); and
- (ii) in respect of the financial services to be provided to the Group by the CNPC Group:
 - (a) the deposits placed by the Group with the CNPC Group and loans to be provided to the Group by the CNPC Group will bear interest rate which are no less favorable than the prevailing rate as prescribed by the PBOC and CBRC and/or offered by the CNPC Group, and will be on similar terms and conditions as would apply to similar deposits and loans made by other independent customers of the CNPC Group;
 - (b) the fees and charges for other financial services and products provided by the CNPC Group will be determined by arm’s length basis negotiation between the parties and based on normal commercial terms, and shall not be higher than the rates applicable to other independent customers of the CNPC Group.

LETTER FROM THE BOARD

As part of the Group's internal approval and monitoring procedures relating to the transactions with the CNPC Group, the Group will obtain quote from, or compare the terms and conditions of the services (including the pricing terms) offered by, other independent service providers before it decides to engage the CNPC Group for the relevant services, taking into account various factors including the nature of the services, the service quality, the expected time required for the service delivery, and in terms of the financial services, the competitiveness of the rates and fees offered or charged to the Group.

(iii) Category (c) – Provision of general products by the Group to the CNPC Group

Nature of Transactions

The Group provides certain general products to the CNPC Group under the Liaohe Contract and the New Master Agreement.

Liaohe Contract

Pursuant to the Liaohe Contract, the Group has the right to sell and deliver its share of oil production from Leng Jiapu Oilfield to a destination of its choice, except for destinations which infringe the political interests of the PRC. However, given the relatively close proximity between the Leng Jiapu Oilfield and the processing plants of CNPC Group, transportation costs and prevailing oil prices, the likely purchaser of the entire share of oil production attributable to the Group from Leng Jiapu Oilfield is likely to be the CNPC Group.

Since entering into the Liaohe Contract, the Company has sold its entire share of oil production from the Leng Jiapu Oilfield to the CNPC Group and the Board intends to continue this arrangement. There is no contractual obligation upon the CNPC Group to purchase the Group's share of the oil production from the Leng Jiapu Oilfield although, from a commercial perspective, the Board expects that the CNPC Group will continue to accept all deliveries. The products provided by the Group to the CNPC Group under the Liaohe Contract primarily include crude oil.

The New Master Agreement

Pursuant to the New Master Agreement, the Group agreed to provide the CNPC Group a range of general products, including crude oil, natural gas, refined oil products, chemical products and other relative and similar products.

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The Group provides such general products to the CNPC Group primarily due to geographical consideration. The Group provide such general products to the CNPC Group in regions or areas where they do not have the necessary infrastructure/facilities to produce or supply such products, and vice versa. In view of the strengths and scope of CNPC's business activities, the Company considers that by providing products to the CNPC Group could enhance the natural gas business growth of the Group.

Price determination:

The pricing for such general products (other than crude oil) to be provided by the Group to the CNPC Group under the New Master Agreement shall be fair and reasonable and based on the following general principles: the price to be charged by the Group to the CNPC Group (the “**Relevant Market Price (c)**”) shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business (“**Best Market Price (c)**”). If the CNPC Group agrees to purchase from Group the relevant general products at a price higher than the Best Market Price (c) in such markets, such higher price shall be the Relevant Market Price (c).

The pricing for crude oil to be provided by the Group to the CNPC Group under the share of the oil production from the Leng Jiapu Oilfield under the Liaohe Contract and the New Master Agreement shall be determined by reference to the prevailing market price of similar grade crude oil in an arm's length transaction with reference to the trend of the international oil prices. In 2016, the NDRC has published the Administrative Measures for Oil Prices pursuant to which the crude oil prices in the PRC shall be driven by market prices. The trend of the international oil prices is generally subject to various prevailing conditions, such as the market supply and demand, and macroeconomic conditions. The parties will take in account the benchmark crude oil assessment, including the Brent and West Texas Intermediate (WTI) benchmark prices, in determining the pricing of the crude to be supplied and purchased under the Continuing Connected Transactions.

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(iv) Category (d) – Provision of general services by the Group to the CNPC Group

Nature of Transactions

The New Master Agreement

The Group provides certain general services to the CNPC Group under the New Master Agreement. Pursuant to the New Master Agreement, the Group agreed to provide the following general services to the CNPC Group:

- (i) engineering services including construction (including installation) of pipelines, gas-stations and other similar facilities, engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;
- (ii) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access roads and other related or similar services;
- (iii) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services;
- (iv) lease services including leasing of certain offices, commercial building, warehouses and other related or similar services; and
- (v) entrustment management services, including but not limited to manage certain aspects in relation to their shareholder rights and their day-to-day management and operation and other similar management services.

The Company confirms that there is not any material difference between the general services to be provided by the Group to the CNPC Group (Category (d)) and vice versa (Category (b)).

Each of the Group and the CNPC Group provides such general services to each other mainly due to geographical consideration. The Group provides general services to the CNPC Group in regions or areas where they do not have the necessary infrastructure/facilities to produce or supply such general services, and vice versa.

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In view of the strengths and scope of CNPC's business activities, the Company considers that by providing general services to the CNPC Group could bring a strong favourable support to the Company's business activities and facilitate the Group's business operations.

Price Determination

The pricing for such general services to be provided by the Group to the CNPC Group under the New Master Agreement shall be fair and reasonable and based on the following general principles: the price to be charged by the Group to the CNPC Group (the "**Relevant Market Price (d)**") shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price (d)**"). If the CNPC Group agrees to engage the Group for the relevant general services at a price higher than the Best Market Price (d) in such markets, such higher price shall be the Relevant Market Price (d).

The relevant market as referred to in the pricing policy of the Continuing Connected Transactions under the above categories primarily means the market comprised by a group or a category of goods or services which, so long as the market conditions allow, the Group deems to have a relatively close substitution relationship within a certain geographical area based on various factors including the origin, characteristics, competition and use of the services or goods involved.

General Principles, Price and Terms

The transactions under the New Master Agreement are subject to the following general principles:

- (i) in respect of the products and services to be provided to the Group by the CNPC Group, the products and services shall be of good quality and the price of the products and services shall be fair and reasonable and shall be no less favourable than those (i) offered by the CNPC Group to independent third parties; and (ii) offered by independent third parties to the Group, for similar products and services;

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- (ii) in respect of the products and services to be provided to the CNPC Group by the Group, the products and services shall be of good quality and the price of the products and services shall be fair and reasonable and shall be no less favourable than those (i) offered by the Group to independent third parties; and (ii) offered by independent third parties to the CNPC Group, for similar products and services;
- (iii) the Group and the CNPC Group shall enter into individual implementation agreements in relation to each type of products and services setting out detailed terms and conditions for providing such products and services; and
- (iv) the Group and the CNPC Group agreed that all transactions under the New Master Agreement shall be conducted in accordance with the principles of orderly competitions, and that high quality and reasonable cost shall prevail. The Group and the CNPC Group also agreed to purchase the products and services to be provided by the other party, if the quality and relevant general products and services are of same quality and conditions.

For further details on the internal control procedures for ensuring the implementation of the relevant pricing policies, please refer to the paragraph headed “3.3 Measures of Internal Control” below.

Other Rights and Obligations

Other Rights

The Group and the CNPC Group both have the rights to request the other party to deliver the products and services, and are entitled to receive the payments for the provision of the relevant products and services in accordance with the New Master Agreement.

The Group and the CNPC Group also have the rights to prepare detailed supply plans in accordance with the demand of such products and services of the other party pursuant to the New Master Agreement.

The Group and the CNPC Group both retain the rights to purchase such products or services under the New Master Agreement from third parties where the products or services offered by such third parties are considered by the Group or the CNPC Group to be superior to those offered by the CNPC Group or the Group.

So long as the CNPC Group or the Group is able to supply the products and services required by the Group or the CNPC Group in accordance with the New Master Agreement, the CNPC Group and the Group may supply such products and services to other third parties.

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Other Obligations

The Group and the CNPC Group both have the obligations to prepare the detailed supply plans in accordance with the demand of such products and services of the other party pursuant to the New Master Agreement.

The Group and the CNPC Group shall both procure that their respective branch companies, subsidiaries, and controlled entities shall enter into implementation agreements in accordance with the terms and conditions of the New Master Agreement. As the implementation agreements executed, and to be executed pursuant to the New Master Agreement, are simply further elaborations on the provision of products and services under the New Master Agreement, they do not constitute new categories of continuing connected transactions.

The Group and the CNPC Group shall supply the other party the products and services with high quality, and shall pay the other party for the provision of the relevant products and services in accordance with the New Master Agreement.

The Group and the CNPC Group both agreed to compensate the other party for any loss arising from any breach by the CNPC Group or the Group of the New Master Agreement or of any implementation agreements.

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3.1.2 Proposed Annual Caps

The announcements of the Company dated 7 November 2014 and 28 December 2015 and circulars of the Company dated 11 November 2014 and 23 January 2016 set out the Existing Caps for each category of the Continuing Connected Transactions for each of the three years ending 31 December 2017, which were approved (where required) by the Independent Shareholders at special general meetings of the Company held on 10 December 2014 and 18 February 2016. The Existing Caps for the Continuing Connected Transactions approved will be expired on 31 December 2017. Accordingly, the Board proposes the following Proposed Annual Caps for Categories (a), (b), (c) and (d) of the Continuing Connected Transactions listed below which will serve as the maximum annual value of the Continuing Connected Transactions for each of the three years ending 31 December 2020 and proposes to seek the approval of the Independent Shareholders at the SGM for each category of the Continuing Connected Transactions and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020:

(i) *Historical Amounts*

The table below sets out the annual caps for the three years ending 31 December 2017, and the historical amounts for the two years ended 31 December 2016 and the six months ended 30 June 2017 according to the categories as disclosed in the circulars of the Company dated 11 November 2014 and 23 January 2016:

Category of Continuing Connected Transactions	Annual Caps	Historical Amounts
(a) Provision of products and services by the CNPC Group to the Group under the PSAs, the Master Agreement, and for the avoidance of doubt including those under the Second Supplemental Agreement but excluding the Oil and Gas Products	For each of the three years ending 31 December 2017, approximately HK\$20,179 million, HK\$17,252 million and HK\$13,232 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$4,742 million (restated), HK\$3,586 million and HK\$3,292 million respectively (Note 1)
Out of which:		
<i>Deposit Services</i>		
Maximum daily outstanding balance of deposits to be placed by the Group with CNPC Group (including interest accrued thereon)	For each of the three years ending 31 December 2017, approximately HK\$2,949 million, HK\$5,739 million and HK\$7,174 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$1,474 million (restated), HK\$1,690 million and HK\$2,162 respectively

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The proposed annual caps for the deposit services above are determined with reference to its relevant percentage ratios on an annual basis, which are set to be less than 5%. The deposit services and the Proposed Annual Caps are therefore by themselves exempted from the Independent Shareholders' approval requirement pursuant to Rule 14A.76 of the Listing Rules.

Category of Continuing Connected Transactions	Annual Caps	Historical Amounts
(b) Purchase of the Group's share of crude oil by the CNPC Group under the PSAs	For each of the three years ending 31 December 2017, approximately HK\$3,732 million, HK\$3,605 million and HK\$3,558 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$1,648 million (restated), HK\$1,049 million and HK\$440 million respectively
(c) Rental Payments under the Master Agreement (<i>Note 2</i>)	For each of the three years ending 31 December 2017, approximately HK\$18 million, HK\$37 million and HK\$39 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$18 million (restated), HK\$11 million and HK\$3 million respectively (<i>Note 3</i>)
(d) Purchase of Oil and Gas Products by the Group under the Second Supplemental Agreement	For each of the three years ending 31 December 2017, approximately HK\$27,396 million, HK\$72,498 million and HK\$85,644 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$33,710 million (restated), HK\$32,081 million and HK\$18,785 million respectively (<i>Note 4</i>)
(e) Provision of products and services by the Group to the CNPC Group under the Third Supplemental Agreement	For each of the three years ending 31 December 2017, approximately HK\$19,439 million, HK\$25,369 million and HK\$26,080 million respectively	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately HK\$13,460 million (restated), HK\$11,738 million and HK\$6,642 million respectively (<i>Note 5</i>)

Notes:

- The historical amounts for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 for the provision of general products and services (excluding Oil and Gas Products) by the CNPC Group to the Group under the Liaohé Contract (PSAs, where appropriate) and the Master Agreement, and for the avoidance of doubt, including those under the Second Supplemental Agreement (particularly, the Company's deposit amount and interest income and expenses associated with the financial services provided by the CNPC Group), the provision of products and services by the CNPC Group to Kunlun Gas and its subsidiaries after the Kunlun Gas Acquisition but excluding the historical amount of Oil and Gas Products.

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2. As the relevant percentage ratios (other than the profit ratio) of the Proposed Annual Caps for the Rental Payments are, on an annual basis, less than 5%, the Continuing Connected Transactions and the Proposed Annual Caps in respect of the Rental Payments (i.e. Category (c)) are exempt from the Independent Shareholders' approval requirement pursuant to Listing Rule 14A.76.
3. The historical amounts for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 for Rental Payments under the Master Agreement, and for the avoidance of doubt, including the Rental Payments by Kunlun Gas and its subsidiaries to the CNPC Group after the Kunlun Gas Acquisition.
4. The historical amounts for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 for the purchase of Oil and Gas Products by the Group under the Second Supplemental Agreement and the purchase of gas by Kunlun Gas and its subsidiaries after the Kunlun Gas Acquisition.
5. The historical amounts for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 for the provision of products and services by the Group to the CNPC Group under the Third Supplemental Agreement and the provision of products and services by Kunlun Gas and its subsidiaries after the Kunlun Gas Acquisition.

The table below sets out the historical amounts for the two years ended 31 December 2016 and the six months ended 30 June 2017 according to the categories as disclosed in this circular:

Category of Continuing Connected Transactions	Historical Amounts
(a) Provision of general products by the CNPC Group to the Group under the Master Agreement and its supplemental agreements and PSAs	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately RMB26,775 million (restated), RMB27,270 million and RMB16,421 million respectively
(b) Provision of general services by the CNPC Group to the Group under the Master Agreement and its supplemental agreements and PSAs	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately RMB4,228 million (restated), RMB3,063 million and RMB2,884 million respectively
(c) Provision of general products by the Group to the CNPC Group under the Master Agreement and its supplemental agreements and PSAs	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately RMB2,835 million (restated), RMB2,940 million and RMB1,650 million respectively
(d) Provision of general services by the Group to the CNPC Group under the Master Agreement and its supplemental agreements	For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, approximately RMB9,341 million (restated), RMB7,932 million and RMB4,545 million respectively

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(ii) Proposed Annual Caps

Category of Continuing Connected Transactions		Proposed Annual Caps		
		Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020
(a)	Provision of products by the CNPC Group to the Group under the New Master Agreement and Liaohe Contract	RMB37,945 million	RMB40,958 million	RMB45,924 million
(b)	Provision of services by the CNPC Group to the Group under the Liaohe Contract and the New Master Agreement and Liaohe Contract	RMB11,495 million	RMB9,428 million	RMB8,507 million
	Out of which:			
	<i>Deposit services</i>	RMB158 million	RMB156 million	RMB155 million
	Maximum daily outstanding balance of deposits to be placed by the Group with the CNPC Group (including interest accrued thereon)			
	<i>Loans</i>	RMB1,976 million	RMB1,978 million	RMB1,979 million
	Maximum daily principal amount and interest in relation to loans and financial products to be provided to the Group by the CNPC Group			
	<i>Others</i>	RMB16 million	RMB16 million	RMB16 million
	Maximum service fees and commissions for other financial products and services to be provided to the Group by the CNPC Group			
(c)	Provision of products by the Group to the CNPC Group under the New Master Agreement and Liaohe Contract	RMB7,217 million	RMB7,959 million	RMB8,409 million
(d)	Provision of services by the Group to the CNPC Group under the New Master Agreement	RMB16,547 million	RMB18,740 million	RMB21,244 million

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3.1.3 Basis of determination of the Proposed Annual Caps

(i) Category (a) – Provision of general products by the CNPC Group to the Group

In respect of the Proposed Annual Caps for the Continuing Connected Transactions under this Category (a) for the three years ending 31 December 2020, the Board has considered (among others) that the Continuing Connected Transactions under this Category (a) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, Existing Caps of the relevant categories of Continuing Connected Transactions as approved by the Independent Shareholders previously, and with reference to the historical and expected level of products charges paid by the Group to the CNPC Group under the Liaohe Contract and the New Master Agreement, the relevant pricing principles, the Relevant Market Price, the inflation rate, the development and production progress of the Leng Jiapu Oilfield, the number of oil exploration and production projects that the Group will be involved in the three years ending 31 December 2020, the expected growth of the Group in light of the restructuring of the business of the Company in implementing its “gas in substitution of oil” strategy and transforming its core business from crude oil to natural gas and the diversification into natural gas downstream distribution and application business, and the appreciation of RMB against HK\$ and US\$. Further, it is the Group’s plan to further venture into and expand its business in the city gas, vehicle fuel gas and related businesses through organic growth of the subsidiaries of the Group and through possible acquisitions of potential suitable target companies. Accordingly, based on such expansion plans, the Company projects that its demands for oil and gas products would increase considerably in the following years.

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(ii) Category (b) – Provision of general services by the CNPC Group to the Group

In respect of the Proposed Annual Caps for the Continuing Connected Transactions under this Category (b) for the three years ending 31 December 2020, the Board has considered (among others) that the Continuing Connected Transactions under this Category (b) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, Existing Caps of the relevant categories of Continuing Connected Transactions as approved by the Independent Shareholders previously, and with reference to the historical and expected level of services charges paid by the Group to the CNPC Group under the Liaohe Contract and the New Master Agreement, the relevant pricing principles, the Relevant Market Price, the inflation rate, the development and production progress of the Leng Jiapu Oilfield, its future business development, and the appreciation of RMB against HK\$ and US\$. It is anticipated that in light of the recent acquisitions conducted by the Group (including the Group's acquisitions of interest in Kunlun Gas and JingTang Co.) and other future potential acquisitions, the Group would have a greater demand for general services, such as data management services, storage space and logistics support services, from the CNPC Group to support the Group's future business development.

(iii) Category (c) – Provision of general products by the Group to the CNPC Group

In respect of the Proposed Annual Caps for the Continuing Connected Transactions under this Category (c) for the three years ending 31 December 2020, the Board has considered (among others) that the Continuing Connected Transactions under this Category (c) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, Existing Caps of the relevant categories of Continuing Connected Transactions as approved by the Independent Shareholders previously, and with reference to the historical and expected level of products provided by the Group to the CNPC Group under the Laohe Contract and the New Master Agreement, the relevant pricing principles, the Relevant Market Price, the inflation rate, the expected growth of the Group in light of the restructuring of the business of the Company, and the appreciation of RMB against HK\$ and US\$. In particular, the Company is implementing its "gas in substitution of oil" strategy and transforming its core business from crude oil to natural gas and the diversification into natural gas downstream distribution and application business. In view of such business restructuring of the Group, the Group has expanded its natural gas downstream capabilities and it is expected that the supply of products (such as LPG) by the Group to the CNPC Group will substantially increase.

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(iv) Category (d) – Provision of general services by the Group to the CNPC Group

In respect of the Proposed Annual Caps for the Continuing Connected Transactions under this Category (d) for the three years ending 31 December 2020, the Board has considered (among others) that the Continuing Connected Transactions under this Category (d) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, Existing Caps of the relevant categories of Continuing Connected Transactions as approved by the Independent Shareholders previously, and with reference to the historical and expected level of services provided by the Group to the CNPC Group under the New Master Agreement, the relevant pricing principles, the Relevant Market Price, the inflation rate, and the appreciation of RMB against HK\$ and US\$. In addition, with the Group's recent acquisitions of interest in Kunlun Gas and JingTang Co., it is anticipated that the Group will provide various services relating to the operation and management of certain LNG receiving terminals of the CNPC Group and therefore the demand for support and other services relating to the downstream business operated by the Group will substantially increase.

As such, the Board is of the view that the Proposed Annual Caps for each category of the Continuing Connected Transactions are in line with the estimated development of the business of the Group, and are determined based on normal commercial terms in the ordinary and usual course of business of the Group, and they are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3.2 Requirements of the Listing Rules

As at the Latest Practicable Date, CNPC, the ultimate controlling shareholder of the Company, was deemed to be interested in 4,985,734,133 Shares, representing approximately 61.76% of the issued share capital of the Company. To the best of the Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date, and is a controlling shareholder and a connected person to the Company. CNPC is a connected person of the Company and accordingly the Continuing Connected Transactions under the Liaohe Contract and the New Master Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios based on the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) are greater than 5%, the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements.

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In addition, as all of the percentage ratios applicable to the financial services contemplated under Category (b) of the Continuing Connected Transactions are less than 5%, such financial services are exempt from the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps for the Continuing Connected Transactions.

Details of the Continuing Connected Transactions have been and will be included in the annual report and accounts of the Company in accordance with Listing Rules 14A.71 and 14A.72. In the event that the Liaohe Contract or the New Master Agreement are renewed or the terms thereof are materially varied, the Company will re-comply with the reporting, announcement and Independent Shareholders' approval pursuant to Listing Rules 14A.35 to 14A.60.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CNPC and its associates (including PetroChina) are required to abstain from voting on the resolutions in connection with the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for each relevant type of the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020.

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3.3 Measures of Internal Control

The Group has implemented a set of comprehensive and all-stage internal control policies to ensure the Continuing Connected Transactions and the pricing policies of the relevant products and services thereunder are proceeded on the basis of normal commercial terms in the ordinary and usual course of business of the Group, and they are fair and reasonable and in the interests of the Group and the Shareholders as a whole. In order to ensure that the actual pricing of the above products and services will be in accordance with the stated pricing policies under the Liaohe Contract and/or the New Master Agreement, prior to entering into of the individual agreements, the Group will initiate feasibility study, focus on the return rates and conduct public tender. In particular, the Group will:

- (i) review, from time to time, the terms offered by the independent third parties and compare with the terms of each of the Continuing Connected Transactions (including but not limited to the transactions under the New Master Agreement upon approval by the Independent Shareholders in the SGM) to ensure that they are no less favourable than those offered by the independent third parties.

For the purposes of ascertaining the Relevant Market Prices, in respect of the procurement of products and services from the CNPC Group, the procurement teams of the Group are mainly responsible for obtaining quotation from the independent third parties, and are required to obtain quotation from, or compare the terms and conditions offered by, at least two other independent third parties before the Group decides to enter into the relevant procurement transactions with CNPC Group. In addition, before entering into the procurement transactions, the Group will implement various measures (including on-site visits, sample tests and other quality control checks on the natural gas, refined oil products, chemical products and other related products, equipment, materials and other supplies to be supplied by the CNPC Group and the other independent third parties) to ensure such products, equipment, materials and other supplies meet the applicable national standards imposed by the PRC regulations and satisfy the Group's business needs.

Similarly, in respect of the provision of products and services by the Group, the sales teams of the Group are mainly responsible for comparing the terms and conditions (including the pricing terms, the quantity of the sales and the delivery requirements) offered by the Group to at least two other independent third parties before the Group decides to enter into the relevant product sales or service provision transactions with CNPC Group. The procurement and sales teams of the Group will not propose to enter into such transactions with the CNPC Group if the relevant terms are less favourable than those offered by independent third parties.

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Unless the aforesaid procedures and requirements have been fulfilled and approved by the relevant departmental manager, no individual agreement will be entered into between the Group and the CNPC Group;

- (ii) review, from time to time, the international oil prices and the terms offered by independent third parties to ensure the terms offered by CNPC Group are no less favourable than those offered by the independent third parties. In particular, the sales team is responsible for monitoring the international oil prices, including the Brent and WTI benchmark prices, every ten (10) days, and comparing the terms and conditions (including the pricing terms, the quantity of sales and the delivery requirements) offered by the Group to at least two other independent third parties before the Group decides to enter into the transaction with CNPC Group.
- (iii) review, from time to time, the information of similar products, services or properties in the same regions or areas from various market reports, independent agents and/or terms applicable to the customers or tenants of the CNPC Group, including the independent third parties;
- (iv) review, from time to time, the prices, deposit rates, loan rates and services charge fees quoted from the counterparties with the terms from other independent third parties to ensure that the most favourable terms are obtained, and the transactions will be reported to the head of the finance department of the Group for approval; and
- (v) in respect of the financial services, further consider:
 - (a) for deposit services, the interest rate of the deposits available to the Group from CNPC Group shall not be less than (i) the minimum interest rate prescribed by PBOC; and (ii) the interest rate available to the Group from other onshore commercial banks;
 - (b) for loan services, the interest rate of the loans to be granted by the CNPC Group to the Group shall not be higher than (i) the maximum interest rate prescribed by PBOC; and (ii) the interest rate charged against the Group by other onshore commercial banks in respect of the same type of loans; and

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- (c) for entrustment services and other financial services which CNPC Group may from time to time offer, the fee which CNPC Group will charge the Group for the further financial services (i) will comply with any requirements of PBOC and CBRC in respect of the charges for the same type of financial services; and (ii) will not exceed the fees charged by other onshore commercial banks to the Group or the fees charged by the CNPC Group to other members of the Group in respect of the same type of financial services.

The finance team is responsible for reviewing the prescribed rates published by the PBOC and CBRC on a quarterly basis, and will generally obtain quotation, or compare the terms and conditions offered by, at least two other onshore commercial banks before the Group decides to enter into the relevant financial service transactions with CNPC Group.

4. REASONS FOR, AND BENEFITS, OF THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

The Company is an enterprise whose business operations primarily focus on investing in petroleum up-stream business as well as natural gas businesses that generate stable income. CNPC, on the other hand, is an enterprise whose business operations cover a broad spectrum of upstream and downstream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. CNPC is a major producer and supplier of petrochemical products. CNPC is also involved in the provision of operational services and technical support in such areas as geophysical prospecting, well-drilling, logging, well-testing, downhole operations, oilfield surface facilities construction, pipeline construction, refining and petrochemical projects, and manufacturing and supply of petroleum equipment.

In view of the strengths and scope of CNPC's business activities and the strong favourable support that such Continuing Connected Transactions would bring to the Company's business activities, the Board considers it to be beneficial to the Company to continue to carry out the Continuing Connected Transactions with the CNPC Group as these transactions have facilitated and are expected to continue to facilitate the operation and growth of the Group's business. The Board also notes the long smooth cooperation history between the Company and CNPC in relation to such transactions.

Further, the Continuing Connected Transactions will be entered into and conducted in the ordinary and usual course of business on normal commercial terms that are fair and reasonable, and the Directors (including the independent non-executive Directors) are of the view that it is in the interests of the Company and the Shareholders as a whole to carry on the Continuing Connected Transactions. The Directors are of the view that the terms and conditions and the Proposed Annual Caps of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

5. INFORMATION ON THE GROUP AND OTHER PARTIES

(a) Information on the Group

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand and the Azerbaijan Republic, the sales and distribution of natural gas, LNG processing, LNG terminal business and transmission of natural gas in the PRC.

(b) Information on CNPC

CNPC is the controlling shareholder of the Company. CNPC is a petroleum and petrochemical conglomerate that was formed in the wake of the restructuring launched by the State Council to restructure the predecessor of CNPC, China National Petroleum Company (中國石油天然氣集團公司). CNPC is also a state-authorised investment corporation and state-owned enterprise. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing.

(c) Information on PetroChina

PetroChina and its subsidiaries mainly engage in petroleum and natural gas-related activities, including (i) the exploration, development, production and sales of crude oil and natural gas; (ii) the refining, transportation, storage and marketing of crude oil and petroleum products; (iii) the production and sales of basic petrochemical products, derivative chemical products and other petrochemical products; and (iv) the transmission of natural gas, crude oil and refined oil, and the sales of natural gas.

6. SGM

The notice convening the SGM to be held at President's Room, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 19 December 2017 at 10:00 a.m., at which ordinary resolutions will be proposed for the Independent Shareholders to consider, and if think fit, to approve, among other things:

- (1) the entering into of the New Master Agreement and the transactions contemplated thereunder;
- (2) the Continuing Connected Transactions under Categories (a), (b), (c) and (d); and
- (3) the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d),

is set out on pages 60 to 62 of this circular.

LETTER FROM THE BOARD

A proxy form for use at the SGM is enclosed. If you intend to appoint proxy to attend the SGM, you are requested to complete the proxy form and return it to the Company's principal office at 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the SGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the SGM if you so wish.

7. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 37 of this circular which contains its recommendation to the Independent Shareholders in relation to the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020. Your attention is also drawn to the letter of advice from First Shanghai set out on pages 38 to 53 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020, and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of First Shanghai, is of the opinion that the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and that the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 to be proposed at the SGM.

LETTER FROM THE BOARD

8. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Kunlun Energy Company Limited
Huang Weihe
Chairman and Executive Director

LETTER FROM INDEPENDENT BOARD COMMITTEE



KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

1 December 2017

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 1 December 2017 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the (1) the entering into of the New Master Agreement and the transactions contemplated thereunder, (2) the Continuing Connected Transactions under Categories (a), (b), (c) and (d), and (3) Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020, details of which are set out in the section headed “Letter from the Board” in the Circular to the Shareholders. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters. A copy of the letter from First Shanghai containing its advice is set out in the section headed “Letter from First Shanghai” of the Circular.

Having taken into account the advice of First Shanghai, we consider that (1) the entering into of the New Master Agreement and the transactions contemplated thereunder, (2) the Continuing Connected Transaction under Categories (a), (b), (c) and (d); and (3) the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 are (A) fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (B) on normal commercial terms and in the ordinary course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions under Categories (a), (b), (c) and (d), and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for each of the three years ending 31 December 2020 as set out in the notice of the SGM to be held on 19 December 2017.

Yours faithfully,

Independent Board Committee

Li Kwok Sing Aubrey

Liu Xiao Feng

Sun Patrick

Independent Non-Executive Directors

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps for inclusion in this circular.



First Shanghai Capital Limited

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

1 December 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps, details of which are set out in the circular of the Company to the Shareholders dated 1 December 2017 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Group has been conducting and is expected to continue to conduct the Continuing Connected Transactions with the CNPC Group from time to time. Nonetheless, in view of (i) the expiration of the Master Agreement on 31 December 2017; and (ii) the anticipated continuation of the Continuing Connected Transaction in the coming years, the Company has entered into the New Master Agreement with CNPC to replace the Master Agreement. The Company has also proposed the Proposed Annual Caps for each of the three years ending 31 December 2020.

LETTER FROM FIRST SHANGHAI

CNPC is the controlling shareholder of the Company. Accordingly, CNPC is a connected person of the Company and the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules. As stated in the letter from the Board in the Circular, the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps are subject to approval by the Independent Shareholders at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Patrick, has been established to advise the Independent Shareholders in respect of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Apart from the existing engagement in respect of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps, we did not have any business relationship with the Company within the past two years from the Latest Practicable Date. We consider ourselves independent to form our opinion in respect of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group were true at the time they were made and continued to be true up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and the CNPC Group.

LETTER FROM FIRST SHANGHAI

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into account the following principal factors and reasons:–

1. Background to and reasons for the New Master Agreement, the Continuing Connected Transactions and the Proposed Annual Caps

The principal activities of the Company (including subsidiaries, associates and joint ventures) are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand and the Azerbaijan Republic, the sales and distribution of natural gas, liquefied natural gas (“LNG”) processing, LNG terminal business and transmission of natural gas in the PRC. We have reviewed the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”), where we noted that the majority of the revenue of the Group for the year ended 31 December 2016 was derived from the natural gas business in the PRC.

CNPC is a state-authorised investment corporation and state-owned enterprise and is the controlling shareholder of the Company. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing. We have reviewed the annual report of CNPC for the year ended 31 December 2016, where we note that, for the year ended 31 December 2016, CNPC (i) operated approximately 69% of the crude oil pipeline mileage of the PRC; and (ii) operated approximately 76% of the natural gas pipeline mileage of the PRC.

The Group and CNPC entered into (i) the Xinjiang Contract and the Liaohe Contract (i.e. the PSAs) in 1996 and 1997, which had expired in 2016 and will expire in 2023, respectively; and (ii) the Master Agreement in 2003, which was subsequently amended and supplemented pursuant to the First Supplemental Agreement in 2006, the Second Supplemental Agreement in 2009, the Third Supplemental Agreement in 2010, the Fourth Supplemental Agreement in 2011 and the Fifth Supplemental Agreement in 2014 and will expire on 31 December 2017. In light of the strengths and scope of the business activities of the CNPC Group, the Group has been conducting and is expected to continue to conduct the Continuing Connected Transactions with the CNPC Group from time to time.

LETTER FROM FIRST SHANGHAI

In view of (i) the expiration of the Master Agreement on 31 December 2017; and (ii) the anticipated continuation of the Continuing Connected Transaction in the coming years, the Company has entered into the New Master Agreement with CNPC to replace the Master Agreement. The Company has also proposed the Proposed Annual Caps for the Continuing Connected Transactions.

The nature of the Continuing Connected Transactions, which is set out in detail in the letter from the Board in the Circular, is summarised as follows:–

Principal nature

- | | |
|-----------------------|---|
| “Category (a)” | Provision of general products by the CNPC Group to the Group under the Liaohe Contract and the New Master Agreement, including (i) equipment, materials, supplies and other products required for petroleum and natural gas exploration and production; and (ii) crude oil, natural gas, refined oil products, chemical products and other related or similar products. |
| “Category (b)” | Provision of general services by the CNPC Group to the Group under the Liaohe Contract and the New Master Agreement, including but not limited to engineering services, production services and financial services. |
| “Category (c)” | Provision of general products by the Group to the CNPC Group under the Liaohe Contract and the New Master Agreement, including crude oil, natural gas, refined oil products, chemical products and other relative and similar products. |
| “Category (d)” | Provision of general services by the Group to the CNPC Group under the New Master Agreement, including but not limited to engineering services, production services and logistics support services. |

LETTER FROM FIRST SHANGHAI

Taking into account, in particular, (i) the Group can leverage on the strengths of the CNPC Group to develop its business; (ii) the long cooperation history between the Group and the CNPC Group; (iii) the Master Agreement will expire on 31 December 2017 and the New Master Agreement replaces the Master Agreement for the three years ending 31 December 2020; and (iv) the terms of the New Master Agreement and the transactions contemplated thereunder and the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable as discussed below, we are of the view that the entering into of the New Master Agreement and the transactions contemplated thereunder and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the New Master Agreement and the Continuing Connected Transactions

The bases of determining the principal terms of the Continuing Connected Transactions, which are set out in detail in the letter from the Board in the Circular, are summarised in the following table.

General principles of the New Master Agreement	– in respect of the products and services to be provided to the Group by the CNPC Group, the products and services shall be of good quality and the price of the products and services shall be fair and reasonable and shall be no less favourable than those (i) offered by the CNPC Group to independent third parties; and (ii) offered by independent third parties to the Group, for similar products and services; – in respect of the products and services to be provided to the CNPC Group by the Group, the products and services shall be of good quality and the price of the products and services shall be fair and reasonable and shall be no less favourable than those (i) offered by the Group to independent third parties; and (ii) offered by independent third parties to the CNPC Group, for similar products and services;
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LETTER FROM FIRST SHANGHAI

- the Group and the CNPC Group shall enter into individual implementation agreements in relation to each type of products and services setting out detailed terms and conditions for providing such products and services; and
- the Group and the CNPC Group agreed that all transactions under the New Master Agreement shall be conducted in accordance with the principles of orderly competitions, and that high quality and reasonable cost shall prevail. The Group and the CNPC Group also agreed to purchase the products and services to be provided by the other party, if the quality and relevant general products and services are of same quality and conditions.

Category (a)

In respect of general products (other than crude oil):–

- the price (the “**Relevant Market Price (a)**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (the “**Best Market Price (a)**”). If the CNPC Group provides the relevant general products to the Group at a price lower than the Best Market Price (a) in such markets, such lower price shall be the Relevant Market Price (a).

LETTER FROM FIRST SHANGHAI

In respect of crude oil:–

- the price shall be determined with reference to the prevailing market price of similar grade crude oil in an arm's length transaction with reference to the trend of the international oil prices. In 2016, the NDRC has published the Administrative Measures for Oil Prices pursuant to which the crude oil prices in the PRC shall be driven by market prices. The trend of the international oil prices is generally subject to various prevailing conditions, such as the market supply and demand, and macroeconomic conditions. The parties will take in account the benchmark crude oil assessment, including the Brent and West Texas Intermediate (WTI) benchmark prices, in determining the pricing of the crude to be supplied and purchased under the Continuing Connected Transactions.

Category (b)

In respect of general services:–

- the price (the “**Relevant Market Price (b)**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (the “**Best Market Price (b)**”). If the CNPC Group provides the relevant general services to the Group at a price lower than the Best Market Price (b) in such markets, such lower price shall be the Relevant Market Price (b); and
- in respect of the financial services to be provided to the Group by the CNPC Group:
 - (a) the deposits placed by the Group with the CNPC Group and loans to be provided to the Group by the CNPC Group will bear interest rate which are no less favorable than the prevailing rate as prescribed by the PBOC and CBRC and/or offered by the CNPC Group, and will be on similar terms and conditions as would apply to similar deposits and loans made by other independent customers of the CNPC Group; and

LETTER FROM FIRST SHANGHAI

- (b) the fees and charges for other financial services and products provided by the CNPC Group will be determined by arm's length basis negotiation between the parties and based on normal commercial terms, and shall not be higher than the rates applicable to other independent customers of the CNPC Group.

Category (c)

In respect of general products (other than crude oil):–

- the price (the “**Relevant Market Price (c)**”) shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business (the “**Best Market Price (c)**”). If the CNPC Group agrees to purchase from the Group the relevant general products at a price higher than the Best Market Price (c) in such markets, such higher price shall be the Relevant Market Price (c).

In respect of crude oil:–

- the price shall be determined with reference to the prevailing market price of similar grade crude oil in an arm's length transaction with reference to the trend of the international oil prices. In 2016, the NDRC has published the Administrative Measures for Oil Prices pursuant to which the crude oil prices in the PRC shall be driven by market prices. The trend of the international oil prices is generally subject to various prevailing conditions, such as the market supply and demand, and macroeconomic conditions. The parties will take in account the benchmark crude oil assessment, including the Brent and West Texas Intermediate (WTI) benchmark prices, in determining the pricing of the crude to be supplied and purchased under the Continuing Connected Transactions.

LETTER FROM FIRST SHANGHAI

Category (d)

In respect of general services:–

- the price (the “**Relevant Market Price (d)**”) shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business (the “**Best Market Price (d)**”). If the CNPC Group agrees to engage the Group for the relevant general services at a price higher than the Best Market Price (d) in such markets, such higher price shall be the Relevant Market Price (d).

With reference to the above table concerning the principal terms of the Continuing Connected Transactions, we understand, generally, (i) in respect of general products and services other than crude oil, the prices with connected parties shall be based on market price which shall be no less favourable than those with independent third parties, being the Relevant Market Prices; and (ii) in respect of crude oil, the prices with connected parties shall be determined with reference to the benchmark crude oil assessment, including the Brent and West Texas Intermediate (WTI) benchmark prices (the “**Oil Benchmarks**”). We have reviewed several annual reports of Hong Kong listed companies related to the oil and petroleum industry and we note that the Oil Benchmarks are quoted as references in these reports, therefore we consider the Oil Benchmarks are recognised in the industry.

In respect of the internal control measures for the Continuing Connected Transactions, we note that the Group will, include but not limited to, where applicable, (i) review the terms with independent third parties and compare with the terms of each of the Continuing Connected Transactions to ensure that they are no favourable than those with independent third parties; and (ii) review the international oil prices, including the Oil Benchmarks, in respect of crude oil transactions. In addition, the independent auditor and the independent non-executive Directors of the Company have been and will continue to review the Continuing Connected Transactions in accordance with the Listing Rules. Further details of the internal control measures are set out in the letter from the Board in the Circular.

LETTER FROM FIRST SHANGHAI

We have reviewed two sets of sample documents in connection with each category of the Continuing Connected Transactions. We understand that these reviewed transactions have principally taken into consideration the aforementioned pricing bases, for instance, the pricing terms with the connected parties were no less favourable than those with independent third parties.

We also note from the annual reports of the Company for each of the years ended 31 December 2015 and 2016 that, in accordance with the Listing Rules, (i) the independent auditor of the Company was engaged to report on the continuing connected transactions of the Group for each of the years ended 31 December 2015 and 2016 and the independent auditor had issued its unqualified letters in respect of such transactions; and (ii) the independent non-executive Directors had reviewed the continuing connected transactions of the Group for each of the years ended 31 December 2015 and 2016 and had confirmed that such transactions were, among other things, on normal commercial terms or better and on terms that are fair and reasonable.

Taking into account, in particular, (i) our review of the pricing terms of the Continuing Connected Transactions, which shall primarily make reference to market prices which are no less favourable than those with independent third parties; (ii) the market position of the CNPC Group; (iii) the internal control measures of the Group, particularly the review of the terms with independent third parties to determine the Relevant Market Prices and to ensure the terms of each of the Continuing Connected Transactions are no less favourable than those with independent third parties; and (iv) the track record of compliance where the independent auditor of the Company had issued unqualified letters in respect of the continuing connected transactions of the Group, we are of the view that (i) the Group has internal control measures to ensure that the prices would be in accordance with the stated pricing policies; and (ii) the terms of the New Master Agreement and the transactions contemplated thereunder and the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM FIRST SHANGHAI

3. Proposed Annual Caps

The following table sets out the actual transaction amounts of the Continuing Connected Transactions for the year ended 31 December 2016 and the six months ended 30 June 2017 as well as the Proposed Annual Caps for each of the three years ending 31 December 2020.

(RMB million)	Actual transaction amounts		Proposed Annual Caps		
	For the year ended 31 December 2016	For the six months ended 30 June 2017	For the year ending 31 December		
			2018	2019	2020
Category (a)	27,270	16,421	37,945	40,958	45,924
Category (b)	3,063	2,884	11,495	9,428	8,507
Category (c)	2,940	1,650	7,217	7,959	8,409
Category (d)	7,932	4,545	16,547	18,740	21,244

(i) Proposed Annual Caps for Category (a)

In respect of Category (a), we note that (i) the Proposed Annual Cap for the year ending 31 December 2018 represents an annual growth of approximately 16% as compared with, on a pro rata basis, the actual transaction amount for the six months ended 30 June 2017; and (ii) the Proposed Annual Cap for each of the years ending 31 December 2019 and 2020 represents an annual growth of approximately 8% and 12% as compared with that for the preceding year, respectively. For these Proposed Annual Caps, we were advised by the management of the Group that:–

- the transaction amounts under this category mainly relate to natural gas related products in the PRC; and
- the aforementioned growths of the Proposed Annual Caps are mainly driven by the growth of the PRC natural gas business of the project companies of the Group, which are in turn driven by factors including the prospects of the industry.

LETTER FROM FIRST SHANGHAI

Accordingly, we have reviewed information in respect of the natural gas industry in the PRC, in particular, those (i) published by the PRC government; and (ii) contained in the industry report titled *Gas 2017 – Analysis and forecasts to 2022* dated July 2017 published by the International Energy Agency, which is an international autonomous agency with 29 member countries (the “**Gas Industry Report**”). Based on our review, we note the following:–

- according to the information published by 中國國家統計局 (National Bureau of Statistics of the PRC), for the year ended 31 December 2016, (i) the ratio of the volume of natural gas produced in the PRC to the volume of natural gas imported to the PRC was approximately 2 to 1; and (ii) approximately 6% of the energy consumption in the PRC in 2016 was from natural gas;
- the PRC government has been supporting the natural gas industry, to, among other things, improve air pollution. For instance, 《加快推進天然氣利用的意見》 (Opinions on Accelerating the Utilisation of Natural Gas) was promulgated in June 2017 by, among other authorities, 中國國家發展和改革委員會 (National Development and Reform Commission of the PRC) and 中國國家能源局 (National Energy Administration of the PRC) (the “**Policy**”). The Policy (i) aimed to enhance the utilisation of natural gas in the PRC through various means, including but not limited to encouraging the construction of facilities, fine tuning industry mechanisms and providing better financial support; and (ii) stated that natural gas was targeted to account for approximately 10% of the energy consumption in the PRC in 2020; and
- according to the Gas Industry Report, (i) replacing coal in power generation, household heating and industrial applications has the potential to substantially boost the use of natural gas in the PRC; and (ii) the gas demand in the PRC is projected to rise by approximately 9% per year from 2016 to 2022, assisted by the policy drive to improve air quality (the “**Projected Industry Growth Rate**”).

In addition, we have reviewed the historical actual transaction amounts and were advised by the management of the Group that the historical actual transaction amount of Category (a) for the six months ended 30 June 2017 represented a year on year growth rate of approximately 15% (the “**Recent Achieved Growth Rate**”).

LETTER FROM FIRST SHANGHAI

Taking into account, in particular, (i) our review of the Proposed Annual Caps and relevant industry information, particularly the PRC government has been supporting the PRC natural gas industry; and (ii) the annual growths represented by the Proposed Annual Caps are around the level of the Recent Achieved Growth Rate and the Projected Industry Growth Rate, we consider the Proposed Annual Caps for Category (a) to be fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Proposed Annual Caps for Category (b)

In respect of Category (b), we note that (i) the Proposed Annual Cap for the year ending 31 December 2018 represents an annual growth of approximately 99% as compared with, on a pro rata basis, the actual transaction amount for the six months ended 30 June 2017; and (ii) the Proposed Annual Cap for each of the years ending 31 December 2019 and 2020 represents an annual decline of approximately 18% and 10% as compared with that for the preceding year, respectively. For these Proposed Annual Caps, we have reviewed and were advised by the management of the Group that:–

- for the upcoming years, the transaction amounts under this category mainly relate to construction and maintenance services regarding the natural gas projects of the Group in the PRC;
- the annual growth of the Proposed Annual Cap for the year ending 31 December 2018 is mainly attributable to various construction and maintenance projects related to its natural gas business, including but not limited to 陝京四線輸氣管道工程項目 (No.4 Shaanxi-Beijing Pipeline Construction Project) (the “**Shaanxi-Beijing Pipeline Project**”); and
- while the Group anticipates several new natural gas related construction projects in the Jiangsu Province in the upcoming years, the Proposed Annual Caps for each of the years ending 31 December 2019 and 2020 are lower than that for the year ending 31 December 2018 mainly because of the expected reduction in demand of construction service payments in view of the completion of construction of the Shaanxi-Beijing Pipeline Project.

LETTER FROM FIRST SHANGHAI

We have further reviewed the website of 中國國家發展和改革委員會 (National Development and Reform Commission of the PRC), from which we understand the Shaanxi-Beijing Pipeline Project involves the construction of a natural gas pipeline with length of 1,114 kilometers that connects Shaanxi Province, Inner Mongolia Autonomous Region, Hebei Province and Beijing Municipality. We are advised by the management of the Group that, in respect of the Shaanxi-Beijing Pipeline Project, (i) the construction of the key pipeline had primarily been completed in late 2017; and (ii) the construction related expenses are to be incurred in 2017 and also in 2018.

In addition, we have reviewed the historical actual transaction amounts and were advised by the management of the Group that the historical actual transaction amount of Category (b) for the six months ended 30 June 2017 represented a year on year growth rate of approximately 78%.

Taking into account, in particular, (i) our review of the Proposed Annual Caps; (ii) the achieved year on year growth rate of the actual transaction amount for the six months ended 30 June 2017; and (iii) the construction projects of the Group, including the Shaanxi-Beijing Pipeline Project, we consider the Proposed Annual Caps for Category (b) to be fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Proposed Annual Caps for Category (c)

In respect of Category (c), we note that (i) the Proposed Annual Cap for the year ending 31 December 2018 represents an annual growth of approximately 119% as compared with, on a pro rata basis, the actual transaction amount for the six months ended 30 June 2017; and (ii) the Proposed Annual Cap for each of the years ending 31 December 2019 and 2020 represents an annual increase of approximately 10% and 6% as compared with that for the preceding year, respectively. For these Proposed Annual Caps, we have reviewed and were advised by the management of the Group that:–

- the transaction amounts under this category mainly relate to the sale of natural gas by the Group;
- the annual growth of the Proposed Annual Cap for the year ending 31 December 2018 is mainly attributable to (i) the expected transaction amount generated by Kunlun Gas, which the Company completed its acquisition in May 2016; and (ii) the anticipated reoperation of 湖北黃岡LNG工廠 (Hubei Huanggang LNG Processing Plant) (the “**Hubei Plant**”) in 2018; and

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- the annual growth rates for the years ending 31 December 2019 and 2020 are mainly driven by the organic growth of the PRC natural gas business of the project companies of the Group and the industry.

Taking into account, in particular, (i) our review of the Proposed Annual Caps; (ii) our review of the key factors for the growth of the Proposed Annual Cap for the year ending 31 December 2018, in particular those related to Kunlun Gas and the Hubei Plant; and (iii) the annual growth rates for the years ending 31 December 2019 and 2020 are around the level of the Projected Industry Growth Rate, we consider the Proposed Annual Caps for Category (c) to be fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Proposed Annual Caps for Category (d)

In respect of Category (d), we note that (i) the Proposed Annual Cap for the year ending 31 December 2018 represents an annual growth of approximately 82% as compared with, on a pro rata basis, the actual transaction amount for the six months ended 30 June 2017; and (ii) the Proposed Annual Cap for each of the years ending 31 December 2019 and 2020 represents an annual increase of approximately 13% and 13% as compared with that for the preceding year, respectively. For these Proposed Annual Caps, we have reviewed and were advised by the management of the Group that:–

- the transaction amounts under this category mainly relate to the natural gas pipeline transmission service provided by the Group;
- the annual growth of the Proposed Annual Cap for the year ending 31 December 2018 is mainly attributable to (i) the operation of the new pipeline of the Group, namely the Shaanxi-Beijing Pipeline Project; and (ii) the amount to be generated by JingTang Co., which the Company announced the acquisition of its 51% equity interests in the announcement of the Company dated 28 September 2017; and
- the annual growth rates for the years ending 31 December 2019 and 2020 are mainly driven by the organic growth of the PRC natural gas business of the Group and the industry.

LETTER FROM FIRST SHANGHAI

Taking into account, in particular, (i) our review of the Proposed Annual Caps; (ii) our review of the key factors for the growth of the Proposed Annual Cap for the year ending 31 December 2018, in particular those related to the Shaanxi-Beijing Pipeline Project and JingTang Co.; and (iii) the annual growth rates for the years ending 31 December 2019 and 2020 are around the level of the Projected Industry Growth Rate, we consider the Proposed Annual Caps for Category (d) to be fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above, we are of the opinion that the entering into of the New Master Agreement and the transactions contemplated thereunder and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the terms of the New Master Agreement and the transactions contemplated thereunder and the Continuing Connected Transactions are on normal commercial terms and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps at the SGM.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Allen Wang

Managing Director

Note: Mr. Allen Wang has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since 2014. He has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company; or which (c) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange are set out below.

2.1 Ordinary Shares of HK\$0.01 Each of the Company

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Li Kwok Sing Aubrey ⁽¹⁾	1,000,000	Beneficial owner	0.012%

Notes:

- (1) The interests held by Mr. Li Kwok Sing Aubrey represent long position in the Shares of the Company.

2.2 Share Options

Shares options were granted to the Directors, chief executives and employees of the Company under the executive share option scheme approved by the Board on 3 June 2002, details of which are set out below:

Name	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1 January 2017 '000	Number of Granted '000	Share Options Exercised '000	Outstanding At the Latest Practicable Date '000
Directors	-	-	-	-	-	-	-
Employees	26 March 2009	26 June 2009 to 25 March 2014	3.250	-	-	-	-
	26 March 2010	26 June 2010 to 25 March 2015	10.320	-	-	-	-
	18 March 2011	18 June 2011 to 17 March 2016	11.730	-	-	-	-
	17 May 2012	17 August 2012 to 16 May 2017	12.632	14,200	-	(14,200)	-
				<u>14,200</u>	<u>-</u>	<u>(14,200)</u>	<u>-</u>
				<u>14,200</u>	<u>-</u>	<u>(14,200)</u>	<u>-</u>

Note: During the year ended 31 December 2016, Mr. Zhang Bowen and Mr. Cheng Cheng ceased to be the directors and their share options were reclassified to share options held by employees as at 31 December 2016.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or the chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company or the Stock Exchange, and none of the Directors, nor their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right since 31 December 2016 (being the date of the Company's latest published audited accounts).

2.3 Competing Business

Save as otherwise disclosed in this circular, as at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a businesses which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

2.4 Additional Disclosure of Interest

There was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group.

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Name	Number of Shares		Percentage of the total number of Shares in issue
	Direct Interest	Indirect Interest	
Sun World Limited ("Sun World") ⁽¹⁾	4,708,302,133 (L)	–	58.33%
PetroChina Hong Kong (BVI)Ltd. ("PetroChina (BVI)") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
PetroChina Company Limited ("PetroChina") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
Fairy King Investments Ltd.	277,432,000 (L)	–	3.43%
CNPC International Ltd. ("CNPCI") ⁽²⁾	–	277,432,000 (L)	3.43%
China National Oil and Gas Exploration and Development Corporation ("CNODC") ⁽²⁾	–	277,432,000 (L)	3.43%
China National Petroleum Corporation ("CNPC") ⁽¹⁾⁽²⁾	–	4,985,734,133 (L)	61.76%

Notes:

- (1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly-owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 86.47% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by Sun World. Mr. Huang Weihe, Executive Director of the Company, is also director of Sun World, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).
- (2) Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly-owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 277,432,000 (L) shares held by Fairy King Investments Ltd..

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors or proposed directors had any existing service contract or proposed service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016 (being the date to which the latest published audited financial statements of the Company have been made up) and up to the Latest Practicable Date.

6. QUALIFICATION AND CONSENT OF EXPERTS

First Shanghai is a licensed corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO.

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with its letter included in the form and context in which it is included.

As at the Latest Practicable Date, First Shanghai did not have any shareholding in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for securities in any member of the Group.

First Shanghai did not, directly or indirectly, have any interest in any assets which had since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Cheng Cheng. Mr. Cheng Cheng was appointed as the Company Secretary in July 2016. He served as an Executive Director from June 2004 to May 2016 and is currently a Vice President of the Company.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183, Queen's Road East, Hong Kong.
- (d) All references to times in this circular refer to Hong Kong times.
- (e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at 39th Floor, 118 Connaught Road West, and Hong Kong from the date of this circular up to and including 17 December 2017:

- (i) the Master Agreement, the First Supplemental Agreement, the Second Supplemental Agreement, the Third Supplemental Agreement, the Fourth Supplemental Agreement and the Fifth Supplemental Agreement;
- (ii) the New Master Agreement;
- (iii) the Leng Jiapu Entrustment Contract;
- (iv) the Liaohe Contract;
- (v) the Xinjiang Contract;
- (vi) the "Letter from the Independent Board Committee" as set out in this circular;
- (vii) the "Letter from First Shanghai" as set out in this circular;
- (viii) the written consent of First Shanghai referred to in the section headed "General Information – Qualification and Consent of Experts" in this circular; and
- (ix) this circular.

NOTICE OF THE SGM



KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

NOTICE IS HEREBY GIVEN that the SGM of Kunlun Energy Company Limited (the “**Company**”) will be convened at the President’s Room, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 19 December 2017, Tuesday at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions.

Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 1 December 2017 relating to, amongst other things, the New Master Agreement and the Proposed Annual Caps (the “**Circular**”).

1. “**THAT:**

- (a) the entering into of the New Master Agreement and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed; and
- (b) the Board be and is hereby authorised to implement the transactions under the New Master Agreement.

- 2. (a) the Continuing Connected Transactions under Categories (a), (b), (c) and (d) as set out in the “Letter from the Board” in the Circular be and are hereby approved;
- (b) the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for the three financial years commencing on 1 January 2018 to 31 December 2020 as set out in the “Letter from the Board” in the Circular be and are hereby approved; and

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- (c) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to and implement the Continuing Connected Transaction under Categories (a), (b), (c) and (d) and the Proposed Annual Caps for the Continuing Connected Transactions under Categories (a), (b), (c) and (d) for the three financial years commencing from 1 January 2018 to 31 December 2020.

By Order of the Board
Kunlun Energy Company Limited
Cheng Cheng
Company Secretary

Hong Kong, 1 December 2017

Notes:

1. Unless otherwise defined, terms used in this notice shall have the same meanings as those defined in the Circular.
2. The register of members of the Company will be closed for registration of transfer of shares from Thursday, 14 December 2017 to Tuesday, 19 December 2017, both days inclusive. In order to qualify for attending and voting at the SGM, all transfer documents shall be lodged for registration with Tricor Secretaries Limited, the Company's branch share registrar and transfer office in Hong Kong, at Level 22 Hopewell Centre 183 Queen's Road East Hong Kong before the close of business day on Wednesday, 13 December 2017.
3. At the SGM, the Chairman of the Meeting will put each of the above resolutions to the vote by way of a poll. On a poll, every Shareholder who is present in person or by proxy shall have one vote for every Share of which he is the holder.
4. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. **A proxy need not be a member of the Company. Completion and return of the proxy form will not preclude a member from attending and voting in person at the meeting or any adjourned meeting should he so wish.**

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5. To be valid, the proxy form, together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's principal office at 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). The proxy form must be completed strictly in accordance with the instructions set out therein.
6. CNPC and its associates (including PetroChina) will abstain from voting in respect of all the resolutions set out above.

As at the date of this notice, the Board comprises of Mr. Huang Weihe as the Chairman and Executive Director, Mr. Wu Enlai as the Executive Director, Mr. Zhao Yongqi as the Chief Executive Officer and Executive Director, Mr. Zhao Zhongxun as Executive Director, Mr. Ding Shilu as Executive Director, Mr. Zhang Yaoming as Executive Director, and Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Partick as Independent Non-Executive Directors.