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

(Stock Code: 00135.HK)

VERY SUBSTANTIAL DISPOSAL OF 60% EQUITY INTEREST IN BEIJING PIPELINE AND 75% EQUITY INTEREST IN DALIAN LNG

Financial Advisers to the Company

HSBC J.P.Morgan citi

INTRODUCTION

Reference is made to the announcements of the Company dated 10 December 2019 and 23 July 2020 in relation to the potential disposal of certain pipeline assets to PipeChina by the Company. The Board announces that, on 22 December 2020 (after trading hours), the Company and PipeChina entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Target Shares at a base consideration of approximately RMB40,886 million (subject to the adjustments according to the price adjustment mechanism as set out in the Equity Transfer Agreement), which all will be settled in cash by PipeChina. Upon completion of the Transaction, the Company will cease to hold any equity interests in the Target Companies.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreement exceeds 75%, the Transaction constitutes a very substantial disposal for the Company and is accordingly subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors had material interests in the Transaction and thus no Directors were required to abstain from voting on the board resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the board meeting.

THE SGM

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. As at the date of this announcement, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders have any material interests in the Transaction and as such, none of the Shareholders are required to abstain from voting at the SGM on the resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement and the Transaction; (ii) other information as required under the Listing Rules; and (iii) a notice of the SGM is expected to be despatched to the Shareholders on or before 10 February 2021 to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

The transactions contemplated under the Equity Transfer Agreement are conditional upon the satisfaction of the conditions as set out in the section headed "Equity Transfer Agreement — Conditions Precedent to Closing" in this announcement, and thus the transactions contemplated under the Equity Transfer Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

I. INTRODUCTION

Reference is made to the announcements of the Company dated 10 December 2019 and 23 July 2020 in relation to the potential disposal of certain pipeline assets to PipeChina by the Company. The Board announces that, on 22 December 2020 (after trading hours), the Company and PipeChina entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Target Shares at a base consideration of approximately RMB40,886 million (subject to the adjustments according to the price adjustment mechanism as set out in the Equity Transfer Agreement), which all will be settled in cash by PipeChina. Upon completion of the Transaction, the Company will cease to hold any equity interests in the Target Companies.

II. EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

Date

22 December 2020

Parties

(1) the transferor: the Company

(2) the transferee: PipeChina

Assets to be Disposed of

The Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Target Shares under the terms and conditions as set out in the Equity Transfer Agreement.

Consideration and Payment

The consideration of the Transaction was based on the appraised value of the Target Shares (which is approximately RMB40,886 million), and shall be determined with reference to the profit and loss of the Target Companies during the Transition Period and the subsequent adjustment items as agreed under the Equity Transfer Agreement.

The consideration of the Transaction shall be settled by PipeChina in cash and be paid to the Company in two installments:

(1) The first installment: within 20 days after the Closing Date, PipeChina shall pay to the Company in the amount equal to 85% of the appraised value of the Target Shares, together with the interest thereof as calculated at the benchmark interest rate for RMB demand deposits for financial institutions for the period from the next day following the Closing Date (inclusive) to the date on which the payment is credited.

(2) The second installment: within 15 Business Days after the completion of the Closing Audit, PipeChina shall pay to the Company the remaining part of the consideration of the Transaction (that is, the final consideration of the Transaction less the first installment), together with the interest thereof as calculated at the benchmark interest rate for RMB demand deposits for financial institutions for the period from the next day following the Closing Date (inclusive) to the date on which the payment is credited.

For reasons relating to government approvals which may cause PipeChina to fail to make the payment within the periods described above, the payment terms shall be extended accordingly provided that the extension shall not exceed five Business Days.

Profit and Loss during the Transition Period and Subsequent Adjustment Items

For the purpose of ascertaining the profit and loss corresponding to the Target Shares during the Transition Period and the subsequent adjustment items, the Company and PipeChina shall engage an accounting firm which is approved by both parties and possesses qualifications for securities and futures businesses to conduct the Closing Audit within 60 days after the Closing Date.

Meanwhile, pursuant to the Equity Transfer Agreement and as agreed between the Company and PipeChina, all profit or loss corresponding to the Target Shares during the Transition Period shall be enjoyed or borne by the Company. As such, any increase or decrease in the net assets of the Target Companies during the Transition Period will be shared or compensated by the Company according to its shareholding percentage and PipeChina will increase or reduce the base consideration of the Transaction by the amount equivalent to such increment or decrease. The majority of the profit and loss during the Transition Period will be distributed in the form of dividends of the Target Companies. According to the Equity Transfer Agreement, the distributable profit of the Target Shares in connection with the dividends declared during the Transition Period shall not be included in the consideration of the Transaction.

Conditions Precedent to Closing

The Closing is subject to the fulfilment of the following conditions precedent:

(1) the representations, undertakings and warranties made by the Company and PipeChina on the execution date of the Equity Transfer Agreement being true, accurate and complete and not misleading, fabricated or omissive in all material aspects as of the Closing Date;

(2) the Company having approved the transactions contemplated under the Equity Transfer Agreement in accordance with its constitutional documents and regulatory requirements of the relevant regulatory bodies (such as the Stock Exchange);

(3) PipeChina having approved the transactions contemplated under the Equity Transfer Agreement in accordance with its constitutional documents;

(4) the Target Companies having approved the transactions contemplated under the Equity Transfer Agreement respectively in accordance with their respective constitutional documents;

(5) other shareholders of the Target Companies having waived in writing their first refusal right in respect of the Target Shares;

(6) a declaration of concentration of business operators in respect of the transactions contemplated under the Equity Transfer Agreement having been filed and approved or no further examination thereon will be required after such filing;

(7) the Asset Valuation Reports on the Target Shares having been approved or filed in accordance with the PRC laws and regulations; and

(8) all other approvals, permits, filings and registrations, which are required by all known applicable competent bodies having been obtained in respect of the transactions contemplated under the Equity Transfer Agreement.

Save for condition (1) above, the conditions precedent cannot be waived by any party or both parties.

If, due to reasons unrelated to either party, the aforementioned conditions precedent are not fully fulfilled and/or waived by 31 March 2021, the Company and PipeChina shall separately discuss and agree on another closing date. If the parties fail to reach an agreement by 31 March 2022, either party shall have the right to unilaterally terminate the Equity Transfer Agreement in writing on the day following the aforementioned date without any liability.

Closing Arrangements

The corresponding rights, obligations, responsibilities and risks of the Target Shares shall be transferred from the Company to PipeChina from 24:00 on the Closing Date.

Other Terms

PipeChina undertakes that, after the completion of the handover, the Target Companies shall remain in normal operations, and the standards of service it provides shall not be lower than the existing standards. After the handover of the Target Shares, PipeChina undertakes that it will not conduct any material adverse activities or nonfeasance which will affect the Company's continued normal use of the equipment and facilities of the Target Companies for its production and operation.

If the Company fails to complete the change of registration for industry and commerce of the Target Companies within the agreed time in accordance with the requirements under the Equity Transfer Agreement, the Company shall pay an overdue penalty amounting to 0.05% of the amount already paid by PipeChina to the Company per day except where the delay is not attributed to the Company but to (including but not limited to) the force majeure, PipeChina or any other third parties.

If PipeChina fails to pay the consideration of the Transaction in accordance with the Equity Transfer Agreement, PipeChina shall pay an overdue penalty amounting to 0.05% of the unpaid amount from PipeChina to the Company per day except where the failure is not attributed to PipeChina but to (including but not limited to) the force majeure, the Company or any other third parties.

The Equity Transfer Agreement shall be established after being signed and sealed by the legal representatives or authorized representatives of the parties, and shall take effect on the date from which the following conditions have been fulfilled:

(1) the transactions contemplated under the Equity Transfer Agreement having been considered and approved at the general meeting of the Company; and

(2) the transactions contemplated under the Equity Transfer Agreement having been considered and approved by the competent internal authority of PipeChina.

III. INFORMATION ON THE TARGET COMPANIES

Beijing Pipeline

Beijing Pipeline is a company established in the PRC with limited liability. As at the date of this announcement, Beijing Pipeline is held as to 60% and 40% by the Company and Beijing Gas Group Company Limited* (北京市燃氣集團有限責任公司), respectively. Beijing Pipeline is a non-wholly owned subsidiary of the Company. Beijing Pipeline is mainly responsible for the construction, operation and management of the Shaanxi-Gansu-Ningxia-Beijing Gas Transmission Pipeline Project* (陝甘寧至北京輸氣管道工程).

According to the Asset Valuation Report, based on the income approach, as at the Valuation Reference Date, the value of the entire equity interest in Beijing Pipeline was approximately RMB55,656 million.

Upon completion of the Transaction, the Company will cease to hold any equity interests in Beijing Pipeline. Accordingly, Beijing Pipeline will cease to be a subsidiary of the Company, and will no longer be consolidated into the consolidated financial statements of the Group.

Dalian LNG

Dalian LNG is a company established in the PRC with limited liability. As at the date of this announcement, Dalian LNG is held as to 75%, 20% and 5% by the Company, Dalian Port (PDA) Company Limited* (大連港股份有限公司) and Dalian Construction Investment Group Co., Ltd.* (大連市建設投資集團有限公司), respectively. Dalian LNG is a non-wholly owned subsidiary of the Company. Dalian LNG is mainly responsible for the receiving and uploading of LNG purchased abroad in Dalian area and carries out gasification, transportation and loading of LNG according to dispatching instructions.

According to the Asset Valuation Report, based on the income approach, as at the Valuation Reference Date, the value of the entire equity interest in Dalian LNG was approximately RMB9,990 million.

Upon completion of the Transaction, the Company will cease to hold any equity interests in Dalian LNG. Accordingly, Dalian LNG will cease to be a subsidiary of the Company, and will no longer be consolidated into the consolidated financial statements of the Group.

The Financial Information of the Target Companies

The following is extracted from the unaudited combined financial information of Beijing Pipeline and Dalian LNG prepared using the same accounting policies adopted by the Group in the preparation of its consolidated financial statements for the years indicated, which are in accordance with the Hong Kong Financial Reporting Standards:

In RMB million

	As at 31 December 2018	**As at 31 December 2019**	**As at 30 September 2020**
Total assets	45,486	47,111	45,247
Total liabilities	12,690	12,294	11,545
Net assets	32,796	34,817	33,702
Net assets attributable to the Company	20,185	21,418	20,717

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the nine months ended 30 September 2020**
Revenue	10,839	11,519	7,499
Profit before tax	5,751	6,471	4,244
Net profit after tax	4,307	4,860	3,192
Net profit attributable to the Company	2,684	3,023	1,979

IV. PROFIT FORECAST UNDER THE ASSET VALUATION REPORTS

According to the Asset Valuation Reports dated 26 October 2020 issued by the Valuer, in preparing the valuation of Beijing Pipeline and Dalian LNG, the Valuer applied the discounted cash flow method under the income approach and based on certain assumptions in the valuation to appraise the value of the Target Companies, which constitutes a profit forecast under Rule 14.61 of the Listing Rules and the requirements of Rule 14.60A and 14.62 of the Listing Rules are therefore applicable.

Main Assumptions

For the valuation of the market value of the entire equity interests in Beijing Pipeline and Dalian LNG, the Valuer has adopted the income approach and the following valuation assumptions:

General Assumptions

1. Transaction Assumption

The transaction assumption assumes that all assets to be appraised are already in the process of being transacted, and the Valuer simulates the market for appraisal according to the transaction conditions of the appraised assets. The transaction assumption is one of the most basic preconditional assumptions for the performance of an asset appraisal.

2. Open Market Assumption

The open market assumption assumes that, as for the subject assets transacted in the market, or the subject assets to be transacted in the market, both parties to the transaction have equal footings and have the opportunity and time to obtain sufficient market information, so as to make a rational judgment on the functions, use and transaction price of the subject assets. The open market assumption is based on the fact that the subject assets can be publicly traded in the market.

3. Going-concern Assumption

The going-concern assumption refers to such an assumption that, the subject assets will continue to be used as per its current purpose and the manner, scale, frequency and environment of use, or continue to be used on the basis of certain change therein, and the Valuer determines the method, parameters and basis for appraisal accordingly.

Special assumptions

1. During the forecast period, there will be no significant changes in the external economic environment, national macro-economy and industrial policies, trade policies and tax policies, in which the main operating entities of the Target Companies are located.

2. There will be no significant changes in the future social and economic environment where the Target Companies are located and the policies (such as tax policies and tax rates) that have been implemented where the Target Companies are located.

3. There will be no major changes to the market environment and competitive relationship involved in/with the main business of the Target Companies and its subsidiaries since the Valuation Reference Date.

4. The future operation and management team of the Target Companies will be diligent in their duties, maintain its core composition, continue to maintain the existing operation strategies and continue to operate the Target Companies. The Target Companies will maintain their business cooperation with their current suppliers and customers, and there will be no significant impact on the business development, cost control and other operating activities of the Target Companies.

5. The future principal business, revenue and cost composition and operation strategies of the Target Companies will remain consistent with recent years without any significant changes. Profit or loss that may be realised or incurred as a result of the changes in the main business conditions, which may be caused by future changes in the management, operation strategies and business environment will not be considered.

6. For future business operations, there will be no significant changes in the expenses incurred by the Target Companies as compared to current levels, and the Target Companies will maintain their recent trend for expenses.

7. In view of the frequent changes or significant changes in a company's monetary funds or the bank deposits in the course of operation, as for the financial expenses under the Asset Valuation Reports, the Valuer neither took into account the interest income generated by the deposits nor considered the uncertain gains or losses such as the exchange gains or losses.

8. In view of the major uncertainties involved in the reconstruction, approval and related investment of the pipeline network assets after the expiration of service life, and the fact that income generated from pipeline transportation is directly related to the relevant assets, the valuation assumes that the main pipeline will no longer generate income after the expiration of the service terms.

9. It is assumed that the basic information and financial information provided by the Company and the Target Companies are true, accurate and complete.

Confirmation

The Reporting Accountants have been engaged to report on the calculations of the discounted cash flows used in the Asset Valuation Reports prepared by the Valuer. The Reporting Accountants have reported that so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material aspects in accordance with the bases and assumptions as set out in the Asset Valuation Reports. The text of the report issued by the Reporting Accountants in relation to the calculations of the discounted cash flows is set out in Appendix I to this announcement for the purpose under Rule 14.62(2) of the Listing Rules.

The Financial Advisers have (i) discussed with the relevant Directors, the senior management of the Company and the Valuer regarding the qualifications of the Valuer, the bases and assumptions upon which the profit forecast regarding the Target Companies in the Asset Valuation Reports has been prepared, the relevant work conducted by the Valuer, and the historical performance of the Target Companies; (ii) reviewed the profit forecast upon which the valuation of the Target Companies (for which the Directors are solely responsible) has been made; and (iii) reviewed the reports from the Reporting Accountants regarding the calculations of the discounted future cash flows used in the Asset Valuation Reports. On the basis of the foregoing and subject to the assumptions and qualifications set out in the Financial Adviser Letter (as defined below), the Financial Advisers are satisfied that the profit forecast regarding the Target Companies in the Asset Valuation Reports, for which the Directors are responsible, has been made after due and careful enquiries by the Directors. The relevant letter from the Financial Advisers is set out in Appendix II to this announcement in accordance with Rule 14.62(3) of the Listing Rules (the "**Financial Adviser Letter**").

V. EXPERTS

The following are the qualifications of experts who have provided opinions and/or suggestions contained in this announcement:

Name	Qualification
KPMG	Certified Public Accountants

The Hongkong and Shanghai Banking Corporation Limited	A registered institution under the SFO, registered to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
J.P. Morgan Securities (Asia Pacific) Limited	A licensed corporation permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
Citigroup Global Markets Asia Limited	A licensed corporation permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
China United Assets Appraisal Group Co., Ltd.	PRC public valuer

Each of the experts named above has given and has not withdrawn its written consent to the issue of this announcement with inclusion of its opinions, advice, letters and/or reports and the references to its name included herein in the form and context in which they respectively appear.

As at 18 December 2020, The Hongkong and Shanghai Banking Corporation Limited held 5,809,971 shares of the Company (accounting for 0.07% of the total share capital of the Company). Save as disclosed above, none of the other experts named above had any interest, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not), to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

VI. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Transaction is conducted primarily based on the Company's development strategies and commercial benefits.

Firstly, to highlight core business. As one of the largest city gas companies in the PRC, the Company has long been committed to developing the natural gas end-user utilization business. In recent years, the Company's sales in natural gas end-user distribution has maintained a rapid growth. In light of the expected progress in domestic energy transformation and environmental protection measures, the domestic consumption of natural gas is expected to continue to rise during the "14th Five Year" period and more opportunities for development is expected to arise. Upon completion of the Transaction, the Company will further focus on its natural gas end-user business, seize the opportunity for end-user market development and concentrate on the development of city gas and LNG utilization in transportation sectors, in order to continuously improve market scale and operational efficiency.

Secondly, to minimize uncertainties. It is expected that more pipeline gas resources will be added in the region and market competition will become more intense, as a result of which the future earnings generated from the Group's relevant pipeline assets is expected to become uncertain. Upon completion of the Transaction, the impact from the aforementioned uncertainties will be minimized. Meanwhile, the Group's business structure will be streamlined which is expected to enable the Group to realize reasonable market return.

Thirdly, to cultivate new profit drivers. The Transaction will increase the cash flows of the Company. The Company will be better positioned in the end-user market, based on which the Company will accelerate the integration and development of new energy, cultivate the Company's new profit drivers and facilitate the Company's transformation and upgrading from a natural gas distributor to an integrated green energy supplier.

Accordingly, the Directors are of the view that the terms of the Equity Transfer Agreement and the Transaction are fair and reasonable and the Transaction was entered into on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

VII. FINANCIAL EFFECT OF THE TRANSACTION

As at 31 December 2019, based on the unaudited financial information prepared using the same accounting policies adopted by the Group in the preparation of its consolidated financial statements for the year ended 31 December 2019 which are in accordance with the Hong Kong Financial Reporting Standards, the carrying amount of net assets attributable to the Company of the Target Shares was approximately RMB21,418 million, and the appraised value of the Target Shares was approximately RMB40,886 million, as a result of which the appreciation in appraised value of the Target Shares was approximately RMB19,468 million with an appreciation rate of approximately 91% and a price-to-book ratio of approximately 1.9x. The expected gains from the Transaction will base on the appreciation in appraised value of the Target Shares, being approximately RMB19,468 million, and will be determined with reference to factors such as the value of the Target Shares on the Closing Date, the relevant taxes, costs and expenses incurred under the Transaction.

VIII. USE OF PROCEEDS FROM THE TRANSACTION

The Company expects to receive cash of approximately RMB37 billion from the Transaction, which is calculated based on the base consideration of the Transaction, being the appraised value of the Target Shares as at 31 December 2019 in the amount of approximately RMB40,886 million, after deducting the dividend distributed for the year of 2019 to the Company from the Target Companies during the Transition Period of approximately RMB2,679 million, the expected tax payables of approximately RMB1,192 million and other costs and expenses relating to the Transaction of approximately RMB18 million. The Company expects to apply such amount for the following purposes: (1) approximately 50% of the net proceeds will be used for the dividend distribution to Shareholders with reference to the Group's results in operations, capital expenditures and cash flows in 2020, and the dividend distribution plan of which is subject to the approval of the Board; (2) approximately 40% of the net proceeds will be used for developing the natural gas end-user sales business, which will further strengthen the Company's natural gas end-user business; and (3) approximately 10% of the net proceeds will be used for the repayment of existing debts and the general operations of the Group in order to improve its balance sheet structure and replenish the general working capital of the Group.

IX. INFORMATION ON PARTIES

Information on the Group

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

Information on PipeChina

PipeChina is a company with limited liability which was established in the PRC on 6 December 2019 under the PRC Company Law. PipeChina is principally engaged in pipeline transmission, storage service, equipment imports, technology imports and exports, science and technology research, informatisation research and application, technology consultation, technology service, technology transfer and technology promotion (with respect to the items subject to approval in accordance with laws, any business activity shall be carried out in accordance with the scope as approved by relevant authorities).

As at the date of this announcement, the registered capital of PipeChina is RMB500 billion, and the shareholding structure of PipeChina is as follows:

Shareholders	**Shareholding percentage (%)**
PetroChina	29.90
China Chengtong Holdings Group Ltd.	12.87
China Reform Holdings Corporation Ltd.	12.87
National Council for Social Security Fund	10.00
China Petroleum & Chemical Corporation	9.42
China Insurance Investment Fund Co., Ltd.	9.00
Sinopec Natural Gas Limited Company	4.58
SASAC	4.46
CNOOC Gas & Power Group Limited	2.90
CIC International Co., Ltd.	2.00
Silk Road Fund Co., Ltd.	2.00
Total	**100.00**

As disclosed above, PetroChina, being the controlling shareholder of the Company, holds 29.9% of the equity interest of PipeChina, and PipeChina is an associated company of PetroChina.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, PipeChina and its ultimate beneficial owners are Independent Third Parties.

X. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreement exceeds 75%, the Transaction constitutes a very substantial disposal for the Company and is accordingly subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors had material interests in the Transaction and thus no Directors were required to abstain from voting on the board resolution(s) to approve the Equity Transfer Agreement at the board meeting.

XI. THE SGM

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder.

As stated in the section headed "Information on the Parties — Information on PipeChina" to this announcement, as at the date of this announcement, PetroChina, being the controlling shareholder of the Company, holds 29.9% of the equity interest of PipeChina so that PipeChina is an associated company of PetroChina. Since 1) PetroChina is neither a party to the Transaction nor a close associate (as defined in the Listing Rules) of PipeChina, 2) PetroChina is entitled to appoint two directors out of the 11 directors of PipeChina so that the majority of the directors of PipeChina are not appointed by PetroChina; 3) as to PetroChina, the size of the Transaction is relatively small; and 4) the Transaction does not confer any benefit upon PetroChina or its close associate which is not available to the other Shareholders, the Company therefore considers that PetroChina has no material interest in the Transaction and accordingly PetroChina does not need to abstain from voting at the SGM. In summary, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholder has any material interest in the Transaction and as such, none of the Shareholders is required to abstain from voting at the SGM in respect of the resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement and the Transaction; (ii) other information as required under the Listing Rules; and (iii) the notice of SGM is expected to be despatched to the Shareholders on or before 10 February 2021 to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

The transactions contemplated under the Equity Transfer Agreement are conditional upon the satisfaction of the conditions as set out in the section headed "Equity Transfer Agreement — Conditions Precedent to Closing" in this announcement, and thus the transactions contemplated under the Equity Transfer Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

XII. DEFINITIONS

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

"Asset Valuation Report(s)"	the asset valuation report(s) dated 26 October 2020 prepared by the Valuer in respect of Beijing Pipeline and Dalian LNG
"associates"	has the meaning ascribed to it under the Listing Rules
"Beijing Pipeline"	PetroChina Beijing Gas Pipeline Co., Ltd. (中石油北京天然氣管道有限公司)
"Board"	the board of directors of the Company
"Business Day(s)"	the statutory working days other than Saturday, Sunday and statutory holidays in the PRC
"Closing"	the completion of the transaction(s) under the Equity Transfer Agreement according to the terms of such agreement

"Closing Audit"	within 60 days after the Closing Date, the Company and PipeChina shall jointly engage an accounting firm which is approved by both parties and possesses qualifications for securities and futures businesses to complete the audit and issue an audit report on the Target Companies, in order to ascertain the profit and loss in respect of the Target Shares during the Transition Period and the subsequent adjustment items
"Closing Date"	31 March 2021 or such closing date as otherwise agreed between the Company and PipeChina
"Company"	Kunlun Energy Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Dalian LNG"	PetroChina Dalian LNG Co., Ltd. (中石油大連液化天然氣有限公司)
"Director(s)"	the director(s) of the Company
"Equity Transfer Agreement"	the equity transfer agreement entered into between the Company and PipeChina on 22 December 2020 in relation to the Transaction
"Financial Adviser(s)"	The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities (Asia Pacific) Limited and Citigroup Global Markets Asia Limited
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	an independent third party who is/are independent of, and not connected with, the Company and its connected persons (as defined in the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PetroChina"	PetroChina Company Limited (中國石油天然氣股份有限公司), the controlling shareholder of the Company, a joint stock limited company established in the PRC, the H shares of which are listed on Stock Exchange, the A shares of which are listed on the Shanghai Stock Exchange and the American Depository Shares of which are listed on the New York Stock Exchange
"PipeChina"	China Oil & Gas Pipeline Network Corporation (國家石油天然氣管網集團有限公司), a limited liability company established in the PRC on 6 December 2019 under the PRC Company Law
"PRC" or "China"	the People's Republic of China (for the purposes of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
"Reporting Accountants"	KPMG
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council, a special organization directly subordinated to the State Council, and is mainly responsible for supervising the state-owned assets of enterprises under the supervision of the Central Government (excluding financial enterprises) and the reservation and increment of the value of the assets and other issues

"SFO"	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	a special general meeting of the Company proposed to be convened for the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder
"Shares"	the ordinary shares in the Company with par value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"Target Shares"	the 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG held by the Company
"Target Companies"	Beijing Pipeline and Dalian LNG
"Transaction"	the acquisition by PipeChina of the Target Shares held by the Company in cash in accordance with the terms and conditions under the Equity Transfer Agreement
"Transition Period"	the period from the Valuation Reference Date (exclusive) to the Closing Date (inclusive) or the period as otherwise agreed between the Company and PipeChina

"Valuation Reference Date"	31 December 2019
"Valuer"	China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司)

By order of the Board
KUNLUN ENERGY COMPANY LIMITED
Xie Mao
Company Secretary

Hong Kong, 22 December 2020

As at the date of this announcement, the Board of Directors comprises Mr. Fu Bin as the Chairman and Executive Director, Mr. Qian Zhijia as Chief Executive Officer and the Executive Director, Mr. Zhou Yuanhong as Executive Director, Mr. Miao Yong as Chief Financial Officer and Executive Director, and Dr. Liu Xiao Feng, Mr. Sun Patrick and Mr. Tsang Yok Sing Jasper as Independent Non-Executive Directors.

Appendix I-A Letter of comfort issued by the Reporting Accountants regarding the profit forecast

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this announcement.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTEREST IN PETROCHINA BEIJING GAS PIPELINE CO., LTD (中石油北京天然氣管道有限公司)

TO THE BOARD OF DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED

We refer to the discounted future cash flows on which the valuation ("**the Valuation**") dated 26 October 2020 prepared by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) in respect of the appraisal of the market value of 100% equity interest in PetroChina Beijing Gas Pipeline Co., Ltd (中石油北京天然氣管道有限公司) ("**Beijing Pipeline**") as at 31 December 2019 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Kunlun Energy Company Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of Beijing Pipeline or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relate to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 December 2020

Appendix I-B Letter of comfort issued by the Reporting Accountants regarding the profit forecast

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this announcement.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTEREST IN PETROCHINA DALIAN LNG CO., LTD (中石油大連液化天然氣有限公司)

TO THE BOARD OF DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED

We refer to the discounted future cash flows on which the valuation ("**the Valuation**") dated 26 October 2020 prepared by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) in respect of the appraisal of the market value of 100% equity interest in PetroChina Dalian LNG Co., Ltd (中石油大連液化天然氣有限公司) ("**Dalian LNG**") as at 31 December 2019 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Kunlun Energy Company Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of Dalian LNG or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relate to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 December 2020

Appendix II Financial Adviser Letter

The following is the text of a letter received from the Company's Financial Advisers for inclusion in this announcement.

Kunlun Energy Company Limited
39/F., 118 Connaught Road West
Hong Kong

Attention: The Board of Directors

22 December 2020

Ladies and Gentlemen:

We refer to the announcement of Kunlun Energy Company Limited (the "**Company**") dated 22 December 2020 (the "**Announcement**") in relation to the Company's proposed transaction (the "**Transaction**") which involves the disposal of 60% equity interests in PetroChina Beijing Gas Pipeline Co., Ltd. ("**Beijing Pipeline**") and 75% equity interests in PetroChina Dalian LNG Co., Ltd. ("**Dalian LNG**") by the Company to China Oil&Gas Pipeline Network Corporation in exchange for cash consideration.

The Announcement refers to the valuation of Beijing Pipeline and Dalian LNG (together, the "**Target Companies**") as at 31 December 2019 by China United Assets Appraisal Group Co., Ltd. (the "**Valuer**") which is contained in the asset valuation report dated 26 October 2020 (the "**Asset Valuation Report**") prepared by the Valuer for the purpose of the Transaction. We understand that the Asset Valuation Report and certain other documents relevant to the Transaction have been provided to you as the directors of the Company (the "**Directors**") in connection with your consideration of the Transaction. We understand that the Valuer has applied the income approach, known as the discounted cash flow method, to implement the valuation of the Target Companies. The valuation on the Target Companies using the discounted cash flow is regarded as a profit forecast (the "**Profit Forecast**") under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

For the purpose of preparing this letter, we have (i) reviewed the Profit Forecast upon which the valuation of the Target Companies (for which the Directors are solely responsible) has been made; (ii) discussed, from the perspective of financial advisers, with the relevant Directors, the senior management of the Company and the Valuer regarding the qualifications of the Valuer, the bases and assumptions upon which the Profit Forecast regarding the Target Companies in the Asset Valuation Report has been prepared, the relevant work conducted by the Valuer, and the historical performance of the Target Companies; and (iii) reviewed the reports to the Directors from KPMG dated 22 December 2020 as set forth in Appendix I to the Announcement regarding the calculations of the discounted future cash flows used in the Asset Valuation Report. We noted that in the opinion of KPMG, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Asset Valuation Report.

On the basis of the foregoing and in the absence of unforeseeable circumstances, and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Valuer, for which the Valuer and the Directors are responsible, we are satisfied that the Profit Forecast disclosed in the Announcement, has been made after due and careful enquiry by the Directors. The Directors are solely responsible for such Profit Forecast, including the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Asset Valuation Report. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Asset Valuation Report and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances. For the avoidance of doubt, this letter does not constitute an independent valuation or fairness opinion and is expressly limited to the matters described herein.

As the relevant bases and assumptions are about future events which may or may not occur, the actual business and financial performance of the business of the Target Companies may or may not achieve as expected and the variation may be material. It should be understood that subsequent developments may affect our view expressed herein and that we do not have any obligation to update, revise or reaffirm this view. We express no opinion on whether the actual cash flow would eventually be achieved in correspondence with the Profit Forecast. In addition, we have not independently verified the assumptions or computations leading to the valuation of the Target Companies. We have had no role or involvement and have not provided and will not provide any assessment of the value on the Target Companies to the Company. We have assumed that all information, materials and representations provided to us by and/or discussed with the Company and the Valuer, including all information, materials, and representations referred to or contained in the Announcement, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Announcement and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, whether express or implied, is made by us on the accuracy, truth or completeness of such

information, materials or representations. Accordingly, save as expressly stated in this letter, we accept no responsibility, whether expressly or implicitly, on the valuation of the Target Companies as determined by the Valuer and as set out in the Asset Valuation Report. For the purpose of this letter, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities (Asia Pacific) Limited and Citigroup Global Markets Asia Limited have conducted the work severally (and not jointly nor jointly and severally) and none of them shall be responsible for the work conducted or statements made by the others described above.

The work undertaken by us has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We do not accept any responsibility to any person(s) in respect of, arising out of, or in connection with the valuation of the Target Companies. This letter may not be used, referred to or reproduced (in whole or in part) for any other purposes, except with our prior written consent.

Yours faithfully,
For and on behalf of

The Hongkong and Shanghai Banking Corporation Limited	**J.P. Morgan Securities (Asia Pacific) Limited**	**Citigroup Global Markets Asia Limited**
Ivan So	**Sanjeev Malkani**	**James Teo**
Managing Director, Global Banking	*Managing Director*	*Managing Director*