THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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, 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.

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 AND NOTICE OF SPECIAL GENERAL MEETING

Financial Advisers

HSBC J.P.Morgan citi

Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 20 of this circular.

The notice convening the SGM to be held at Room 1, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on 12 March 2021 (Friday) at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the enclosed form of proxy 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 or the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please see page 1 of this circular for measures being taken to prevent and control the spread of the COVID-19 at the SGM, including:

- **compulsory body temperature checks and health declarations;**
- **wearing of surgical face masks; and**
- **no distribution of souvenir, small gift and refreshment.**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company encourages attendees to wear surgical face masks and reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the SGM as an alternative to attending the SGM in person.

10 February 2021

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The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing COVID-19 pandemic, the Company will implement the following precautionary measures at the SGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

(i) Compulsory body temperature check will be performed for every Shareholder or proxy at the entrance of the venue and anyone with a body temperature of more than 37.2 degrees Celsius will not be given access to the venue;

(ii) Every Shareholder or proxy is required to wear surgical face mask before they are permitted to attend, and during their attendance at the SGM;

(iii) No refreshment will be served;

(iv) No souvenir and small gift will be distributed; and

(v) Each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

In the interest of all stakeholders' health and safety and in accordance with recent guidelines for prevention and control of the spread of the COVID-19, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the SGM instead of attending the SGM in person, by completing and returning the form of proxy attached to this circular.

If any Shareholder chooses not to attend the SGM in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our principal place of business in Hong Kong or to our email at info@kunlun.com.hk. If any Shareholder has any question relating to the SGM, please contact Tricor Secretaries Limited, the branch share registrar and transfer office of the Company in Hong Kong as follows:

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852) 2980 1333

In this circular, 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)
"Latest Practicable Date"	3 February 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"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 the 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 circular 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 and held 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)

Notes:

(1) *For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB0.8787 = HK$1.00 or RMB6.8101 = US$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*

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. Fu Bin *(Chairman)*
Mr. Qian Zhijia *(Chief Executive Officer)*
Mr. Zhou Yuanhong
Mr. Miao Yong *(Chief Financial Officer)*

Independent Non-Executive Directors:
Dr. Liu Xiao Feng
Mr. Sun Patrick
Mr. Tsang Yok Sing Jasper

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office in Hong Kong:
39th Floor
118 Connaught Road West
Hong Kong

10 February 2021

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL OF
60% EQUITY INTEREST IN BEIJING PIPELINE
AND 75% EQUITY INTEREST IN DALIAN LNG
AND
NOTICE OF SPECIAL GENERAL MEETING**

A. INTRODUCTION

Reference is made to the announcements of the Company dated 10 December 2019, 23 July 2020 and 22 December 2020 in relation to the potential disposal of certain pipeline assets to PipeChina by the Company and the entering of the Equity Transfer Agreement between the Company and PipeChina. 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.

The purpose of this circular is to provide you with, among other things, (i) further details of the Equity Transfer Agreement and the Transaction; (ii) the financial information of the Group and the Target Companies; (iii) the unaudited pro forma financial information of the Remaining Group; and (iv) notice of the SGM at which an ordinary resolution will be proposed to seek your approval of the Equity Transfer Agreement and the transactions contemplated thereunder. A notice of the SGM containing the resolution(s) to be proposed at the SGM is set out on pages SGM-1 to SGM-2 of this circular.

B. 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.

Based on the existing timetable and circumstances, the Company and PipeChina expect that the Closing will take place on or around 31 March 2021 in accordance with the terms of the Equity Transfer Agreement.

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.

Upon completion of the Transaction, the Company will further focus on its core business which is the natural gas end-user business. As such, the Company's use of pipeline assets and demand for pipeline transmission is limited. The normal operation of the Company after the completion of the Transaction does not heavily rely on the use of pipeline assets. Therefore, as at the Latest Practicable Date, the Company has not entered into and does not plan to enter into a separate agreement with PipeChina for 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.

C. INFORMATION ON THE TARGET COMPANIES

Beijing Pipeline

Beijing Pipeline is a company established in the PRC with limited liability. As at the Latest Practicable Date, 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 Latest Practicable Date, 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

D. 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. The extract of the Asset Valuation Reports is set out in Appendix V to this circular.

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 VI to this circular 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 VII to this circular in accordance with Rule 14.62(3) of the Listing Rules (the "**Financial Adviser Letter**").

E. REASONS FOR AND BENEFITS OF THE DISPOSAL

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. In light of this view, the Company will continuously seek for investment opportunities for this coming year and will seize appropriate opportunities as they arise. However, as at the Latest Practicable Date, the Company has not materialized any future plans for material investments or capital assets for this coming year. The Company will make further announcement(s) in relation to such plans (if materialized) as and when appropriate pursuant to the regulatory requirements.

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.

F. FINANCIAL EFFECT OF THE TRANSACTION

As at 31 December 2019, based on the unaudited financial information of the Target Companies 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.

G. USE OF PROCEEDS FROM THE DISPOSAL

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.

H. INFORMATION ON THE 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, informatization 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 Latest Practicable Date, 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 Latest Practicable Date, PipeChina and its ultimate beneficial owners are Independent Third Parties.

I. 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.

J. THE SGM

The SGM

The SGM will be held at Room 1, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on 12 March 2021 (Friday) at 11:00 a.m., at which an ordinary resolution will be proposed for the Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the transactions contemplated thereunder. The notice convening the SGM is set out on pages SGM-1 to SGM-2 of this circular.

As stated in the section headed "Information on the Parties — Information on PipeChina" in this circular, as at the Latest Practicable Date, 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.

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.

Voting by poll

Pursuant to Rule 13.39(4) of the Listing Rules, any votes of the Shareholders at the SGM must be taken by poll. The chairman of the meeting will therefore demand a poll for passing the resolution(s) at the SGM pursuant to the Bye-Laws of the Company. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Closure of the Company's register of members

For the purpose of determining the Shareholders' eligibility to attend and vote at the SGM, the register of members of the Company will be closed from 8 March 2021 (Monday) to 12 March 2021 (Friday) (both dates inclusive), during which period no transfer of Shares of the Company will be registered. The record date for entitlement to attend and vote at the SGM is on 12 March 2021 (Friday). To be eligible to attend and vote at the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 5 March 2021 (Friday).

Proxy

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend and vote at the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's principal office at 39th Floor, 118 Connaught Road West, Hong Kong or the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting (as the case may be) should you so wish.

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 circular, 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.

K. RECOMMENDATION

The Directors are of the view that the terms of the Equity Transfer Agreement and the proposed transactions contemplated thereunder are fair and reasonable and the Transaction is in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the resolutions in respect of the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

L. ADDITIONAL INFORMATION

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

Yours faithfully,
On behalf of the Board of
Kunlun Energy Company Limited
Fu Bin
Chairman

A. FINANCIAL INFORMATION OF THE GROUP

(i) The unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 has been disclosed on pages 24 to 54 of the interim report of the Company for the six months ended 30 June 2020 published on 10 September 2020; the audited consolidated financial statements of the Group (ii) for the year ended 31 December 2019 has been disclosed on pages 89 to 245 of the annual report of the Company for the year ended 31 December 2019 published on 16 April 2020; (iii) for the year ended 31 December 2018 has been disclosed on pages 83 to 245 of the annual report of the Company for the year ended 31 December 2018 published on 9 April 2019; and (iv) for the year ended 31 December 2017 has been disclosed on pages 80 to 224 of the annual report of the Company for the year ended 31 December 2017 published on 10 April 2018.

Quick links to the interim report and annual reports of the Company are set out below:

1. Interim report of the Company for the six months ended 30 June 2020:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0910/2020091000308.pdf

2. Annual report of the Company for the year ended 31 December 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600333.pdf

3. Annual report of the Company for the year ended 31 December 2018:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltn20190409299.pdf

4. Annual report of the Company for the year ended 31 December 2017:
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0410/ltn20180410674.pdf

All the above interim report and annual reports are published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.kunlun.com.hk).

B. INDEBTEDNESS STATEMENT

As at 31 December 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this circular, the Group had the following indebtedness:

	RMB'million
Loans and borrowings:	
Bank loans	10,794
Senior notes	3,239
Super short-term commercial papers	1,000
Medium-term notes	1,000
Loans from China Petroleum Finance Company Limited	14,412
Loans from a fellow subsidiary	2,648
Other loans	1,080
	34,173
Lease liabilities	701
	34,874

As at 31 December 2020, the Group had bank loans, loans from China Petroleum Finance Company Limited and other loans of approximately RMB497 million, RMB211 million and RMB300 million, respectively, that were unsecured and guaranteed and a bank loan of approximately RMB780 million that was unguaranteed and secured by using certain of the Group's assets. The Group's remaining loans and borrowings of RMB32,385 million were unsecured and unguaranteed.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group had, as at 31 December 2020, no outstanding loan capital issued or agreed to be issued, bank overdrafts, other loans, other hire purchase commitment or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, bond certificates, mortgage, charges, guarantees or other material contingent liabilities.

C. WORKING CAPITAL

The Directors are of the view that, after taking into account of (i) the existing financial resources of the Group; (ii) the bank loans and other financing facilities currently available; (iii) the proceeds received from the Transaction; and (iv) the business prospects of the Group and other internal resources to be generated by future operations, the Group will have sufficient working capital for its business for at least twelve (12) months from the date of this circular in the absence of unforeseen circumstances.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group made up).

E. FINANCIAL AND OPERATING PROSPECTS OF THE GROUP

Upon the completion of the Transaction, the Company will focus more on end-market natural gas business, by capturing the market development window and concentrating on city gas and LNG utilization in transportation. Based on the Company's advantages in the end market, the Company will accelerate its integration with new energy to promote its transformation from a natural gas distributor to an integrated green energy supplier. Following the Company's strategies of market-oriented, resource-based and innovation-driven development through capital investment towards a green economy, the Company will optimize its business structures and footprints and improve operation efficiency in order to return more value to the Shareholders.

UNAUDITED COMBINED FINANCIAL INFORMATION OF THE DISPOSAL BUSINESSES

Set out below are the unaudited combined statements of financial position of the businesses operated by PetroChina Beijing Gas Pipeline Co., Ltd (“**Beijing Pipeline**”) and PetroChina Dalian LNG Co., Ltd. (“**Dalian LNG**”) (collectively referred to as the “**Disposal Businesses**”) as at 31 December 2017, 2018 and 2019 and 30 September 2020, and the related unaudited combined statements of comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020 (together, the “**Relevant Periods**”), and explanatory notes (collectively referred to as the “**Unaudited Combined Financial Information**”). The Unaudited Combined Financial Information has been prepared by the Directors of the Company in accordance with the basis of preparation set out in Note 2 below and 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The Unaudited Combined Financial Information is prepared by the Directors solely for the purpose of inclusion in this Circular in connection with the disposal of the entire equity interest in the Disposal Businesses. The Company’s auditors, KPMG, were engaged to review the Unaudited Combined Financial Information set out in pages II-2 to II-12 in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity”* and with reference to Practice Note 750 *“Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal*” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion. KPMG has issued an unmodified review report.

UNAUDITED COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
Revenue	11,549	10,839	11,519	8,474	7,499
Other gains, net	236	23	320	233	211
Interest income	10	32	9	6	31
Purchases, services and others	(1,927)	(1,835)	(2,194)	(1,064)	(1,017)
Employee compensation costs	(223)	(343)	(391)	(218)	(260)
Depreciation, depletion and amortisation	(2,034)	(2,448)	(2,339)	(1,738)	(1,922)
Selling, general and administrative expenses	(243)	(36)	(81)	(45)	(36)
Taxes other than income taxes	(64)	(55)	(87)	(69)	(71)
Interest expenses	(86)	(426)	(285)	(214)	(191)
Profit before income tax expense	**7,218**	**5,751**	**6,471**	**5,365**	**4,244**
Income tax expense	(1,809)	(1,444)	(1,611)	(1,313)	(1,052)
Profit and total comprehensive income for the year/period	**5,409**	**4,307**	**4,860**	**4,052**	**3,192**
Profit and total comprehensive income for the year/period attributable to:					
— Owner of the Company	3,303	2,684	3,023	2,503	1,979
— Non-controlling interests	2,106	1,623	1,837	1,549	1,213
Profit and total comprehensive income for the year/period	**5,409**	**4,307**	**4,860**	**4,052**	**3,192**

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017, 2018 and 2019 and 30 September 2020
(Expressed in RMB'million)

	As at 31 December 2017 *RMB'million*	As at 31 December 2018 *RMB'million*	As at 31 December 2019 *RMB'million*	As at 30 September 2020 *RMB'million*
Assets				
Non-current assets				
Property, plant and equipment	42,542	42,722	44,356	43,209
Advanced operating lease payments	601	595	—	—
Intangible and other non-current assets	237	180	93	105
Deferred tax assets	30	36	40	40
	43,410	43,533	44,489	43,354
Current assets				
Inventories	362	306	185	194
Accounts receivable	276	56	269	108
Prepaid expenses and other current assets	726	754	1,145	1,534
Cash and cash equivalents	2,205	837	1,023	57
	3,569	1,953	2,622	1,893
Total assets	46,979	45,486	47,111	45,247
Equity				
Net parent investment	18,760	20,185	21,418	20,717
Non-controlling interests	11,741	12,611	13,399	12,985
Total equity	30,501	32,796	34,817	33,702
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	3,267	3,623	3,590	3,326
Dividend payable to the Remaining Group	—	1,000	1,345	—
Interest payable to the Remaining Group	89	83	—	—
Income tax payable	160	248	182	95
Other tax payable	29	103	30	47
Short-term borrowings	1,300	500	1,000	3,500
Lease liabilities	—	—	2	2
	4,845	5,557	6,149	6,970

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION *(Continued)*
As at 31 December 2017, 2018 and 2019 and 30 September 2020
(Expressed in RMB'million)

	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 30 September 2020
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Non-current liabilities				
Long-term borrowings	11,500	7,000	6,000	4,000
Deferred tax liabilities	133	133	132	133
Lease liabilities	—	—	13	36
Other liabilities	—	—	—	406
	11,633	7,133	6,145	4,575
Total liabilities	16,478	12,690	12,294	11,545
Total equity and liabilities	46,979	45,486	47,111	45,247
Net current liabilities	1,276	3,604	3,527	5,077
Total assets less current liabilities	42,134	39,929	40,962	38,277

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Net parent investment	Non-controlling interests	Total
	RMB'million	*RMB'million*	*RMB'million*
Balance at 1 January 2017	17,331	10,840	28,171
Profit and total comprehensive income for the year	3,303	2,106	5,409
Capital contribution from the Company	1,507	—	1,507
Capital contribution from non-controlling interests	—	1,004	1,004
Final dividend for 2016	(3,381)	—	(3,381)
Dividend to non-controlling interests	—	(2,209)	(2,209)
	(1,874)	(1,205)	(3,079)
Balance at 31 December 2017	18,760	11,741	30,501
Balance at 1 January 2018	18,760	11,741	30,501
Profit and total comprehensive income for the year	2,684	1,623	4,307
Capital contribution from the Company	659	—	659
Capital contribution from non-controlling interests	—	440	440
Final dividend for 2017	(1,918)	—	(1,918)
Dividend to non-controlling interests	—	(1,193)	(1,193)
	(1,259)	(753)	(2,012)
Balance at 31 December 2018	20,185	12,611	32,796

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY *(Continued)*
For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Net parent investment	Non-controlling interests	Total
	RMB'million	*RMB'million*	*RMB'million*
Balance at 1 January 2019	20,185	12,611	32,796
Profit and total comprehensive income for the year	3,023	1,837	4,860
Capital contribution from the Company	557	—	557
Capital contribution from non-controlling interests	—	371	371
Final dividend for 2018	(2,351)	—	(2,351)
Dividend to non-controlling interests	—	(1,416)	(1,416)
Acquisition from non-controlling interests	4	(4)	—
	(1,790)	(1,049)	(2,839)
Balance at 31 December 2019	21,418	13,399	34,817
Balance at 1 January 2020	21,418	13,399	34,817
Profit and total comprehensive income for the period	1,979	1,213	3,192
Final dividend for 2019	(2,680)	—	(2,680)
Dividend to non-controlling interests	—	(1,627)	(1,627)
	(2,680)	(1,627)	(4,307)
Balance at 30 September 2020	20,717	12,985	33,702

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY *(Continued)*
For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Net parent investment *RMB'million*	Non-controlling interests *RMB'million*	Total *RMB'million*
Balance at 1 January 2019	20,185	12,611	32,796
Profit and total comprehensive income for the period	2,503	1,549	4,052
Final dividend for 2018	(2,350)	—	(2,350)
Dividend to non-controlling interests	—	(1,417)	(1,417)
Acquisition from non-controlling interests	4	(4)	—
	(2,346)	(1,421)	(3,767)
Balance at 30 September 2019	20,342	12,739	33,081

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Year ended 31 December			Nine months ended 30 September	Nine months ended 30 September
	2017	2018	2019	2019	2020
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
Cash flows from operating activities					
Profit for the year/period	5,409	4,307	4,860	4,052	3,192
Adjustments for:					
Income tax expense	1,809	1,444	1,611	1,313	1,052
Depreciation, depletion and amortisation	2,034	2,448	2,339	1,738	1,922
Net gains on disposal of property, plant and equipment	(1)	(1)	(2)	—	—
Interest income	(10)	(32)	(9)	(6)	(31)
Interest expenses	86	426	285	214	191
Changes in working capital:					
Accounts receivable	(193)	214	(209)	33	160
Prepaid expenses and other current assets	(429)	447	(11)	(1)	32
Inventories	9	55	121	3	(9)
Accounts payable and accrued liabilities	(275)	70	11	54	63
Cash generated from operations	**8,439**	**9,378**	**8,996**	**7,400**	**6,572**
Income tax paid	(1,924)	(1,362)	(1,681)	(1,425)	(1,140)
Net cash generated from operating activities	**6,515**	**8,016**	**7,315**	**5,975**	**5,432**

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020
(Expressed in RMB'million)

	Year ended 31 December			Nine months ended 30 September	Nine months ended 30 September
	2017	2018	2019	2019	2020
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment	3	34	4	—	3
Decrease/(increase) in amount due from an intermediate holding company	3	243	(4)	(422)	(348)
Increase in amount due from a fellow subsidiary	—	(711)	(381)	(630)	(70)
Capital expenditure	(9,025)	(2,233)	(3,394)	(2,868)	(835)
Interest received	10	32	9	6	31
Net cash used in investing activities	**(9,009)**	**(2,635)**	**(3,766)**	**(3,914)**	**(1,219)**
Financing activities					
Capital contributions	2,511	1,099	—	—	—
Dividends paid	(10,566)	(2,112)	(2,494)	(1,023)	(5,493)
Increase in borrowings	12,300	1,800	1,500	—	4,000
Repayments of borrowings	(1,339)	(7,100)	(2,000)	(1,500)	(3,500)
Interest paid	(152)	(436)	(368)	(299)	(182)
Capital element of lease rental paid	—	—	(1)	—	(4)
Net cash generated from/(used in) financing activities	**2,754**	**(6,749)**	**(3,363)**	**(2,822)**	**(5,179)**
Net increase/(decrease) in cash and cash equivalents	260	(1,368)	186	(761)	(966)
Cash and cash equivalents at beginning of the year/period	1,945	2,205	837	837	1,023
Cash and cash equivalents at end of the year/period	2,205	837	1,023	76	57

NOTES TO THE UNAUDITED COMBINED FINANCIAL INFORMATION

1 GENERAL INFORMATION

On 22 December 2020, Kunlun Energy Company Limited (the "**Company**") entered into an agreement with China Oil & Gas Pipeline Network Corporation (國家石油天然氣管網集團有限公司) ("**PipeChina**"), pursuant to which the Company agreed to sell, and PipeChina agreed to acquire, the entire equity interests in PetroChina Beijing Gas Pipeline Co., Ltd. (中石油北京天然氣管道有限公司) ("**Beijing Pipeline**") and PetroChina Dalian LNG Co., Ltd. (中石油大連液化天然氣有限公司) ("Dalian LNG") held by the Company (the "**Transaction**"). Upon completion of the Transaction (the "**Completion**"), Beijing Pipeline and Dalian LNG will cease to be held by the Company. The Company and its subsidiaries, immediately after the Transaction hereinafter are referred to as the "Remaining Group".

Beijing Pipeline is a limited liability company incorporated in the People's Republic of China (the "**PRC**"). The registered office of the Beijing Pipeline is located at No. 9 Da Tun Lu, Chao Yang District, Beijing, the PRC. Beijing Pipeline is principally engaged in 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) ("**Beijing Pipeline Businesses**"). Particulars of Beijing Pipeline's principal subsidiaries at the end of the Relevant Periods are as follows:

Name of subsidiary	Place and date of establishment	Registered share capital	Proportion of ownership interest held by the Company	Principal activities
北京中油匯園燃氣技術開發有限公司 Beijing Zhongyou Huiyuan Gas Technology Development Co Limited	The PRC 15 March 1999	RMB12,000,000	100%	Sales of natural gas
北京陝京匯盛管道技術開發有限公司 Beijing Shaanjing Huisheng Pipeline Technology Development Co Limited	The PRC 4 August 2020	RMB20,000,000	100%	Development of pipeline transmission technology

Dalian LNG is a limited liability company incorporated in the PRC. The registered office of Dalian LNG is located at No. 20, Fu Yi Lu, Dalian Tariff-free Zone, Liaoning Province, the PRC. Dalian LNG is principally engaged in receiving and uploading of LNG purchased abroad in Dalian area and carries out gasification exporting and loading of LNG according to dispatching instructions ("**Dalian LNG Businesses**", and together with Beijing Pipeline Businesses, the "**Disposal Businesses**").

2 BASIS OF PREPARATION AND PRESENTATION OF THE UNAUDITED COMBINED FINANCIAL INFORMATION

The Unaudited Combined Financial Information has been prepared in accordance with 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and solely for the purpose of inclusion in this circular to be issued by the Company in connection with the disposal of Disposal Businesses.

The Disposal Businesses did not form a separate legal consolidated group but were operated and controlled by the Company during the years or periods presented and as of the date of this circular. Accordingly, the Unaudited Combined Financial Information has been prepared and presented on a combined basis using the existing book values from the Company's perspective under common control.

The Unaudited Combined Financial Information has been prepared by combining the financial statements of Beijing Pipeline and Dalian LNG, which are directly derived from the historical books and records of these companies. The Unaudited Combined Financial Information is not necessarily indicative of results that would have occurred if the Disposal Businesses had operated as a single reporting group during the years or periods presented.

The Unaudited Combined Financial Information has been prepared in accordance with the same accounting policies as those adopted by the Company (together with its subsidiaries, the "**Group**") in the preparation of the consolidated financial statements of the Group, which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA, for the Relevant Periods. Details of any changes in accounting policies are set out in Note 3. The Unaudited Combined Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by HKICPA and should be read in conjunction with the relevant published annual reports and interim reports of the Group for the Relevant Periods.

As at 30 September 2020, the Disposal Businesses had net current liabilities of RMB5,077 million. Notwithstanding the net current liabilities of the Disposal Businesses at 30 September 2020, the Unaudited Combined Financial Information has been prepared on a going concern basis because the directors of the Company are of the opinion that, based on a cash flow forecast of the Disposal Businesses for the period ending 30 June 2022 prepared by the management, the Disposal Businesses would have adequate funds to meet their liabilities as and when they fall due at least twelve months from the end of the nine months ended 30 September 2020. Accordingly, the directors of the Company consider it is appropriate to prepare the Unaudited Combined Financial Information on a going concern basis.

The Unaudited Combined Financial Information for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020 (the "**Relevant Periods**") is presented in Renminbi, which is the functional currency of the Disposal Businesses. All values are rounded to the nearest million (RMB'million) except when otherwise indicated.

3 CHANGES IN ACCOUNTING POLICIES

During the Relevant Periods, the HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the Relevant Periods. Except for HKFRS 16, *Leases*, none of the developments, including HKFRS 9, *Financial instruments*, and HKFRS 15, *Revenue from contracts with customers*, have had a material effect on Unaudited Combined Financial Information.

HKFRS 16 introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The Disposal Businesses have initially applied HKFRS 16 as from 1 January 2019. The Disposal Businesses have elected to use the modified retrospective approach and have therefore recognised the cumulative effect of initial application as an adjustment to the balance of equity at 1 January 2019. Financial information for the years ended 31 December 2017 and 2018 has not been restated and continues to be reported under HKAS 17. As a result of the initial adoption of HKFRS 16, carrying amount of leasehold land of RMB595 million, which was reported under “advanced operating lease payments” as at 31 December 2018, was reclassified as “right-of-use assets” and reported under “property, plant and equipment” as at 1 January 2019. The impact of capitalisation of operating lease contracts was not material.

4 IMPACT OF THE NOVEL CORONAVIRUS

The outbreak of novel coronavirus disease (COVID-19) epidemic in early 2020 has led to a series of precautionary and control measures implemented across the globe. Pending the development of COVID-19, further changes in economic conditions for the Disposal Businesses arising thereof may have impact on the financial results of the Disposal Businesses, the extent of which could not be estimated as at the date of the Unaudited Combined Financial Information. The management of Disposal Businesses will continue to monitor the development of COVID-19 and react actively to its impact on its financial position and operating results.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. Introduction

The following is a summary of illustrative unaudited pro forma financial information of the Remaining Group, comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2020 and the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019 and related notes (collectively, the "**unaudited pro forma financial information**").

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the Remaining Group as at 30 June 2020 as if the Transaction had been completed on 30 June 2020; and (ii) the results and cash flows of the Remaining Group for the year ended 31 December 2019 as if the Transaction had been completed on 1 January 2019.

The unaudited pro forma financial information is prepared by the Directors of the Company in connection with the Transaction, which was described in the Section headed "Letter from the Board" in this circular. The unaudited pro forma financial information is prepared in accordance with Paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Transaction only and, because of its hypothetical nature, it may not give a true picture of the financial position, financial results and cash flows of the Remaining Group had the Transaction been completed as at the specified dates or any future dates.

Narrative descriptions of the unaudited pro forma adjustments that are directly attributable to the Transaction and factually supportable are summarised in the accompanying notes to the unaudited pro forma financial information.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Company for the six months ended 30 June 2020 and the published annual report of the Company for the year ended 31 December 2019, and other financial information included elsewhere in this Circular.

2. Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group as at 30 June 2020

	The Group as at 30 June 2020	**Pro forma adjustments**				**The Remaining Group as at 30 June 2020**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 2(a))*	*(Note 2(b))*	*(Note 2(c))*	*(Note 5)*	
ASSETS						
Non-current assets						
Property, plant and equipment	105,946	(44,799)				61,147
Investments in associates	5,802	—				5,802
Investments in joint ventures	3,255	—				3,255
Intangible and other non-current assets	2,653	(108)				2,545
Deferred tax assets	1,358	(40)				1,318
	119,014					74,067
Current assets						
Inventories	1,489	(194)				1,295
Accounts receivables	2,718	(17)				2,701
Prepaid expenses and other current assets	7,561	(740)			2,204	9,025
Amount due from the Remaining Group	—	(1,460)			1,460	—
Cash and cash equivalents	20,698	(56)		38,787		59,429
	32,466					72,450
Total assets	151,480					146,517
EQUITY						
Capital and reserves attributable to owners of the Company						
Share capital	71					71
Retained earnings	28,481			17,292		45,773
Other reserves	21,502					21,502
	50,054					67,346
Non-controlling interests	29,388		(12,973)			16,415
Total equity	79,442					83,761

	The Group as at 30 June 2020		Pro forma adjustments			The Remaining Group as at 30 June 2020
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 2(a))*	*(Note 2(b))*	*(Note 2(c))*	*(Note 5)*	
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	31,883	(4,630)			1,460	28,713
Dividend payable to the Remaining Group	—	(2,204)			2,204	—
Income tax payable	477	(114)				363
Other tax payable	143	(56)				87
Short-term borrowings	8,333	(500)				7,833
Lease liabilities	135	(2)				133
	40,971					37,129
Non-current liabilities						
Long-term borrowings	26,965	(4,500)				22,465
Deferred tax liabilities	1,772	(497)				1,275
Lease liabilities	473	(37)				436
Other liabilities	1,857	(406)				1,451
	31,067					25,627
Total liabilities	72,038					62,756
Total equity and liabilities	151,480					146,517
Net current (liabilities)/assets	(8,505)					35,321
Total assets less current liabilities	110,509					109,388

3. Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group for the year ended 31 December 2019

	The Group for the year ended 31 December 2019	Pro forma adjustments		The Remaining Group for the year ended 31 December 2019
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 3(a))*	*(Note 3(b))*	
Revenue	113,313	(11,519)		101,794
Other gains, net	364	(320)		44
Interest income	274	(9)		265
Purchases, services and others	(85,116)	2,194		(82,922)
Employee compensation costs	(5,134)	391		(4,743)
Depreciation, depletion and amortisation	(6,350)	2,375		(3,975)
Impairment loss on property, plant and equipment	(404)	—		(404)
Selling, general and administrative expenses	(3,112)	81		(3,031)
Taxes other than income taxes	(472)	87		(385)
Interest expenses	(988)	89		(899)
Net gain on the Transaction	—	—	18,705	18,705
Share of profits less losses of:				
— Associates	951	—		951
— Joint ventures	319	—		319
Profit before taxation	13,645			25,719
Income tax expense	(4,074)	1,669		(2,405)
Profit for the year	9,571			23,314
Profit for the year attributable to:				
Owners of the Company	5,551	(3,128)	18,705	21,128
Non-controlling interests	4,020	(1,834)		2,186
	9,571			23,314

	The Group for the year ended 31 December 2019	Pro forma adjustments		The Remaining Group for the year ended 31 December 2019
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 3(a))*	*(Note 3(b))*	
Other comprehensive income				
Item that will not be reclassified to profit or loss:				
— Fair value gain on other financial assets (non-recycling), net of tax	65	—		65
Items that may be reclassified subsequently to profit or loss:				
— Exchange differences on translation of financial statements, net of nil tax, of:				
— Subsidiaries	168	—		168
— Associates	14	—		14
— Joint ventures	20	—		20
Other comprehensive income for the year	267			267
Total comprehensive income for the year	9,838			23,581
Total comprehensive income for the year attributable to:				
Owners of the Company	5,779	(3,128)	18,705	21,356
Non-controlling interests	4,059	(1,834)		2,225
	9,838			23,581

4. Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group for the year ended 31 December 2019

	The Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	
Cash flows from operating activities					
Profit for the year	9,571	(4,962)	18,705		23,314
Adjustments for:					
Income tax expense	4,074	(1,669)			2,405
Depreciation, depletion and amortisation	6,350	(2,375)			3,975
Share of profits less losses of associates	(951)	—			(951)
Share of profits less losses of joint ventures	(319)	—			(319)
Impairment loss on property, plant and equipment	404	—			404
Impairment loss on intangible assets	16	—			16
Net gain on the Transaction	—		(18,705)		(18,705)
Net gains on disposal of property, plant and equipment	(2)	2			—
Net exchange losses	288	—			288
Interest income	(274)	9			(265)
Interest expenses	988	(89)			899
Changes in working capital:					
Accounts receivable	(244)	209			(35)
Prepaid expenses and other current assets	(358)	11			(347)
Inventories	471	(121)			350
Accounts payable and accrued liabilities	275	(83)			192
Other tax payable	(192)	72			(120)
Cash generated from operations	**20,097**				**11,101**
Income tax paid	(4,012)	1,681			(2,331)
Net cash generated from operating activities	**16,085**				**8,770**

	The Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	
Cash flows from investing activities					
Dividends received from associates	781	—			781
Dividends received from joint ventures	208	—			208
Acquisitions of subsidiaries	(667)	—			(667)
Acquisitions of associates	(737)	—			(737)
Capital contributions to associates	(777)	—			(777)
Capital contributions to a joint venture	(201)	—			(201)
Proceeds from disposal of associates	112	—			112
Proceeds from disposal of property, plant and equipment	594	(4)			590
Net proceeds from the Transaction	—		38,598		38,598
Decrease in amounts due from an intermediate holding company	24	4			28
Increase in amount due from the Remaining Group	—	381		(381)	—
Capital expenditure	(9,932)	3,394			(6,538)
Interest received	284	(9)			275
Loans to an associate	(59)	—			(59)
Loans repaid by a joint venture	80	—			80
Loans repaid by third parties	13	—			13
Net cash (used in)/generated from investing activities	**(10,277)**				**31,706**

	The Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
	(Note 1)	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	
Cash flows from financing activities					
Capital contributions from non-controlling interests	807	—			807
Dividends paid to owners of the Company	(1,831)	1,448		(1,448)	(1,831)
Dividends paid to non-controlling interests	(3,165)	1,046			(2,119)
Increase in borrowings from the Target Companies	—	—		381	381
Increase in borrowings	9,343	(1,500)			7,843
Repayments of borrowings	(10,986)	2,000			(8,986)
Repayment of convertible bonds	(10)	—			(10)
Interest paid	(1,558)	368			(1,190)
Capital element of lease rentals paid	(301)	1			(300)
Interest element of lease rentals paid	(31)	—			(31)
Acquisition from non-controlling interests	(73)	—			(73)
Net cash used in financing activities	**(7,805)**				**(5,509)**
(Decrease)/increase in cash and cash equivalents	(1,997)	(186)	38,598	(1,448)	34,967
Cash and cash equivalents at beginning of the year	20,474				20,474
Effect of foreign exchange rate changes	163				163
Cash and cash equivalents at end of the year	18,640				55,604

5. Notes to the Unaudited Pro Forma Financial Information of the Remaining Group:

1. The amounts are extracted from the consolidated statement of financial position of the Group as at 30 June 2020 as set out in the Company's published interim report for the six months ended 30 June 2020, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year ended 31 December 2019 as set out in the Company's published annual report for the year ended 31 December 2019.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position assuming the Transaction had taken place on 30 June 2020:

(a) The adjustment represents the exclusion of the assets and liabilities of the Target Companies as if the Transaction had taken place on 30 June 2020. The balances are extracted from the unaudited combined financial information of the Target Companies as at 30 June 2020.

(b) The adjustment represents the de-recognition of non-controlling interests in the Target Companies, amounting to RMB12,973 million as if the Transaction had taken place on 30 June 2020. The balances are extracted from the unaudited combined financial information of the Target Companies as at 30 June 2020.

(c) The adjustment represents the net gain on the Transaction as if the Transaction had taken place on 30 June 2020, which is calculated as follows:

	RMB'million
Total consideration of the Transaction *(Note (i))*	*40,197
Less:	
Net assets of the Target Companies attributable to the equity shareholders of the Company as at 30 June 2020 *(Note (ii))*	(21,495)
Estimated tax effects in relation to the gain on the Transaction calculated at the applicable tax rate *(Note (iii))*	*(1,392)
Estimated professional expenses directly attributable to the Transaction *(Note (iv))*	*(18)
Estimated net gain on the Transaction	**17,292**

*: The net cash receipt from the Transaction of RMB38,787 million represents sum of items marked with asterisks as shown above.

Notes:

(i) Pursuant to the Equity Transfer Agreement and as agreed between the Company and China Oil & Gas Pipeline Network Corporation ("**PipeChina**") as set out on page 6 of this Circular, the final consideration to be received by the Company upon the completion of the Transaction is based on:

(a) Initial consideration of approximately RMB40,886 million, being the appraised value of the Target Companies as at 31 December 2019 as set out in Appendix V of this Circular.

(b) All gains or losses of the Target Companies during the Transition Period shall be enjoyed or borne by the Company. This means that any increase or decrease in the net asset value of the Target Companies during the Transition Period will be shared or compensated by the Company according to its shareholding percentages and PipeChina will increase or reduce the initial consideration by the amount equivalent to such increase or decrease.

(c) All increase or decrease in the net asset value of the Target Companies arising from subsequent adjustment items, including decrease in net asset value arising from dividends declared by the Target Companies during the Transition Period from retained earnings as at 31 December 2019, shall be enjoyed or borne by the Company according to its shareholding percentages and PipeChina will increase or reduce the initial consideration by the amount equivalent to such increase or decrease.

(d) The total consideration of the Transaction as if the Transaction had taken place on 30 June 2020 is calculated as follow:

	RMB'million
Initial consideration *(Note 2(c)(i)(a))*	40,886
Add: Share of net profits of the Target Companies for the six months ended 30 June 2020 *(Note 2(c)(i)(b))*	1,515
Less: Share of decrease of net asset value of the Target Companies arising from dividend declared during the Transition Period *(Note 2(c)(i)(c))*	(2,204)
Total consideration of the Transaction	**40,197**

(ii) Net assets of the Target Companies attributable to the equity shareholders of the Target Companies as at 30 June 2020 is calculated as follows:

	RMB'million
Net assets of the Target Companies as at 30 June 2020 *(Note 2(a))*	34,468
Less: Non-controlling interests in the Target Companies *(Note 2(b))*	(12,973)
Net assets of the Target Companies attributable to the equity shareholders of the Target Companies	**21,495**

(iii) The tax effects in relation to the gain on the Transaction are calculated as (i) the People's Republic of China enterprise income tax ("**PRC EIT**") of approximately RMB1,262 million based on the tax rate of 10% on the total consideration of the Transaction less the Group's investment cost of the Target Companies of approximately RMB27,581 million; (ii) the People's Republic of China stamp tax ("**PRC stamp tax**") of approximately RMB20 million, estimated based on the tax rate of 0.05% on the total consideration of the Transaction in relation to the transfer of equity interest in the Target Companies; and (iii) withholding tax of approximately RMB110 million at 5% arising from share dividends received of approximately RMB2,204 million for the years ended 31 December 2019 and 2018. The amount would be paid upon the completion of Transaction.

(iv) The estimated professional fees directly attributable to the Transaction, including legal advisors, agencies and the auditor of the Company.

The actual financial effects of the Transaction are to be determined based on the consideration and the carrying amount of the net assets of the Target Companies at the completion date, which may be substantially different from the estimated amounts used in the preparation of the unaudited pro forma financial information.

3. The following pro forma adjustments have been made to the unaudited pro forma statement of comprehensive income assuming the Transaction had taken place on 1 January 2019:

(a) The adjustment represents the exclusion of operating results of the Target Companies for the year ended 31 December 2019 as if the Transaction had been completed on 1 January 2019. The amounts are extracted from the unaudited combined statements of comprehensive income of the Target Companies for the year ended 31 December 2019, as set out in Appendix II to this Circular and the consolidation adjustments at Group level on interest capitalised as property, plant and equipment which is depreciated over their useful lives.

(b) The adjustment represents the estimated gain on the Transaction assuming the Transaction had taken place on 1 January 2019.

	RMB'million
Total consideration of the Transaction *(Note (i))*	*40,886
Less:	
Net assets of the Target Companies attributable to the equity shareholders of the Company as at 1 January 2019 *(Note (ii))*	(20,730)
Estimated tax effects in relation to the gain on the Transaction calculated at the applicable tax rate *(Note (iii))*	*(1,433)
Estimated professional expenses directly attributable to the Transaction *(Note (i))*	*(18)
Estimated net gain on the Transaction	**18,705**

*: The net cash receipt from the Transaction of RMB39,435 million represents sum of items marked with asterisks as shown above.

Notes:

(i) The total consideration of the Transaction and estimated professional expenses directly attributable to the Transaction for the purpose of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows are determined on the same basis as those for the unaudited pro forma consolidated statement of financial position as set out in Note 2(c)(i) above, except for the adjustments made on total consideration as stated in Note 2(c)(i)(b) and 2(c)(i)(c).

(ii) Net assets of the Target Companies attributable to the equity shareholders of the Target Companies as at 1 January 2019 is calculated as follows:

	RMB'million
Net assets of the Target Companies as at 1 January 2019	33,438
Less: Non-controlling interests in the Target Companies	(12,708)
Net assets of the Target Companies attributable to the equity shareholders of the Target Companies	**20,730**

(iii) The tax effects in relation to the gain on the Transaction are calculated as (i) the PRC EIT of RMB1,330 million based on the tax rate of 10% on the total consideration of the Transaction less the Group's investment cost of the Target Companies of approximately RMB27,581 million; (ii) the PRC stamp tax of approximately RMB20 million, estimated based on the tax rate of 0.05% on the total consideration of the Transaction in relation to the transfer of equity interest in the Target Companies; and (iii) withholding tax of approximately RMB83 million at 5% arising from share dividends received of approximately RMB1,648 million for the year ended 31 December 2018. The amount would be paid upon the completion of Transaction.

The actual financial effects of the Transaction are to be determined based on the consideration and the carrying amount of the net assets of the Target Companies at the completion date, which may be substantially different from the estimated amounts used in the preparation of the unaudited pro forma financial information.

4. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of cash flows assuming the Transaction had taken place on 1 January 2019:

(a) The adjustment represents the exclusion of cash flows of the Target Companies for the year ended 31 December 2019 as if the Transaction had been completed on 1 January 2019. The amounts are extracted from the unaudited combined statements of cash flows of the Target Companies for the year ended 31 December 2019, as set out in Appendix II to this Circular and the consolidation adjustments at Group level on interest capitalised as property, plant and equipment which is depreciated over their useful lives.

(b) The adjustment represents the net cash flow from the Transaction as if the Transaction had taken place on 1 January 2019.

	RMB'million
Total consideration of the Transaction *(Note 3(b))*	40,886
Less:	
Estimated tax effects in relation to the gain on the Transaction calculated at the applicable tax rate	(1,433)
Estimated professional expenses directly attributable to the Transaction	(18)
Estimated net proceeds from the Transaction	**39,435**
Less:	
Cash and cash equivalents held by the Target Companies as at 1 January 2019	(837)
Net cash proceeds from completion of the Transaction	**38,598**

Note:

The actual financial effects of the Transaction are to be determined based on the consideration and the carrying amount of net assets of the Target Companies at the completion date, which may be substantially different from the estimated amounts used in the preparation of the unaudited pro forma financial information.

5. The adjustment represents the reinstatement of intra-group balances, which have been eliminated at the Group level, and the reversal of the elimination of intra-group transactions between the Target Companies and the Remaining Group when preparing the unaudited pro forma financial information of the Remaining Group.

6. All the above adjustments in respect of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows above are not expected to have a continuing effect on the Remaining Group.

7. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 30 June 2020 for the unaudited pro forma consolidated statement of financial position and 31 December 2019 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kunlun Energy Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2020 and the unaudited pro forma consolidated statement of comprehensive income and pro forma consolidated statement of cash flows for the year ended 31 December 2019 and related notes as set out in Part A of Appendix III to the circular dated 10 February 2021 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of PetroChina Beijing Gas Pipeline Co., Ltd and PetroChina Dalian LNG Co., Ltd (the "**Transaction**") on the Group's financial position as at 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Transaction had taken place at 30 June 2020 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 30 June 2020 has been extracted by the Directors from the interim financial report of the Group for the six months ended 30 June 2020, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2019 has been extracted by the Directors from the consolidated financial statements of the Group for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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 HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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 express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2020 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
10 February 2021

BUSINESS REVIEW AND THE MANAGEMENT DISCUSSIONS AND ANALYSIS

Upon completion of the Transaction, the Company will no longer hold any interest in the Target Companies and the financial results of the Target Companies will no longer be consolidated into the consolidated financial statements of the Group. Upon completion of the Transaction, the Remaining Group will continue to focus on strengthening the business segment of end-users natural gas sales as its core development. The following sets out the management discussions and analysis of the Remaining Group for each year ended 31 December 2017(“**FY 2017**”), 2018 (“**FY 2018**”) and 2019 (“**FY 2019**”) and for the six months ended 30 June 2020 (“**FH 2020**”).

A. FH 2020

1. Business Review

The sudden outbreak of the coronavirus pandemic had a huge impact on the economy and the society of the PRC. Thankfully, the PRC government gave a strong response by taking decisive actions and implementing scientific measures to prevent and control the pandemic, thereby effectively containing the spread of the virus. Also, the resumption of work and production have been promoted in an orderly manner and the economy has been recovering at a steady pace. The Remaining Group proactively adapted to the macro trend of the oil and gas system reform in the country and seized opportunities that is vital to the development of the industry during this strategic period. It sought to exchange complementary advantages with entities within the industry in both upstream and downstream and strengthen cooperation with them. The Remaining Group adhered to high-quality development, actively carried out special projects to improve the quality and efficiency of its operation, to minimize the impact caused by the pandemic and the sharp drop in international oil price with dozens of strong initiatives, including enhancement through optimization, cost reduction and enhancement of operational efficiency. The Remaining Group vigorously developed end-user projects, such as urban gas, and users. Its natural gas sales scale continued to expand, the LPG sales structure continued to be optimized, and the expansion projects of the LNG terminals and other projects progressed as scheduled. During the first half of 2020, the Remaining Group recorded revenue of approximately RMB46,714 million, representing a decrease of approximately 2.3% as compared to that for the corresponding period last year of RMB47,822 million. Profit attributable to owners of the Company was RMB741 million, representing a decrease of approximately 50.8% as compared to that for the corresponding period last year of RMB1,506 million.

2. *Segment Information*

The businesses of the Remaining Group are divided into five segments, namely, natural gas sales, LNG processing and terminal, exploration and production, the Company and inter-company adjustment. The revenue and profits or losses of each segment of the Remaining Group for the six months ended 30 June 2020 are provided as follows:

	Natural Gas Sales	LNG Processing and Terminal	Exploration and Production	The Company	Inter-company adjustment
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
For the six months ended 2020					
Revenue	43,176	2,938	600	—	—
Profit for the period	1,424	926	(161)	(575)	—

3. *Liquidity and Capital Resources*

For the six months ended 30 June 2020, the Remaining Group financed its operations and capital expenditure primarily by cash flows generated from operating activities and proceeds from fund raising.

4. *Cash Flow*

As at 30 June 2020, cash and cash equivalents amounted to RMB20,642 million, representing a net increase of RMB3,617 million during the six months then ended.

5. *Bank Balances and Cash and Bank Loans*

The Remaining Group's bank balances and cash comprise cash and cash equivalents and term deposits.

The Remaining Group had bank balances and cash of RMB20,642 million as at 30 June 2020. In addition, the Remaining Group had bank loans of RMB30,298 million as of 30 June 2020. The annual interest rate was ranging from 1.2% to 8.6%.

6. *Capital Expenditure*

For the six months ended 30 June 2020, capital expenditure of the Remaining Group was RMB3,601 million.

7. *Inventories*

Inventories include natural gas products, liquefied petroleum gas ("**LPG**") and crude oil. As at 30 June 2020, the total inventories of the Remaining Group amounted to RMB1,295 million.

8. Risks in Foreign Exchange Rate

The vast majority of the cash and cash equivalents and borrowings from banks of the Remaining Group are denominated in RMB. Apart from some bank deposits and liabilities that are denominated in Hong Kong dollars, US dollars, Thai Bahts and Nuevos Soles, most assets and liabilities of the Remaining Group are denominated in Renminbi. Since Renminbi is the functional currency of most entities in the Remaining Group, risks in foreign exchange rate mainly come from assets and liabilities denominated in Hong Kong dollars, US dollars, Thai Bahts and Nuevos Soles.

For the six months ended 30 June 2020, the Remaining Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging instruments.

9. Material Acquisitions or Disposals

The Remaining Group did not have material acquisitions and disposals in relation to subsidiaries, associates and joint ventures during the six months ended 30 June 2020.

10. Significant Investments Held and Future Plans for Material Investments or Additions of Capital Assets

The Remaining Group's major investment in associates are mainly in its exploration and production segment. The Remaining Group has invested in an associate, CNPC-Aktobemunaigas Joint Stock Company ("**Aktobe**"), located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

Save as disclosed in this circular, there were no other plans for material investments or additions of capital assets by the Remaining Group as of the Latest Practicable Date.

11. Pledge of Assets

As at 30 June 2020, certain subsidiaries of the Remaining Group had secured bank loans totaling approximately RMB880 million (31 December 2019: approximately RMB21 million). The loans were secured by plants, buildings and land use rights, etc. of the Remaining Group.

12. Gearing Ratio

For the six months ended 30 June 2020, the Remaining Group had gearing ratio (sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities divided by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities, in percentage) of 40.7%.

13. Contingent Liabilities and Guarantees

As at 30 June 2020, the Remaining Group had no material contingent liabilities or guarantees.

14. Capital Commitments

As at 30 June 2020, the capital expenditure of the Remaining Group on property, plant and equipment contracted for but not yet incurred was RMB874 million.

15. Employee and Remuneration

For the six months ended 30 June 2020, the Remaining Group had approximately 35,884 employees in the PRC and Hong Kong, with total staff costs amounting to RMB2,051 million.

Remuneration package and benefits of the Remaining Group were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

B. FY 2019

1. Business Review

During FY 2019, amid external risks and challenges including sluggish global economic growth and prolonged Sino-US trade frictions, the PRC government adhered to the general principle of maintaining the momentum of stable and sound progress while promoting quality development with supply-side structural reform as its main guideline, and emphasize the guidance related to the "Six Stabilities" to maintain a sustainable and healthy economic and social development. GDP achieved a year-on-year growth of 6.1%. Meanwhile, the overall pollution prevention and control and ecological construction on the state level would be strengthened. Investment in environmental protection would be increased and "Three-Year Action Plan for Defending the Blue Sky" would be promoted. Full coverage of Beijing-Tianjin-Hebei region and its surrounding areas and the Fenhe-Weihe Plain in respect of the heating with clean energy in northern regions was achieved. A serial of rectification measures in industrial furnace and the key industries as well as the "Dispersed, Disrupted and Polluted" enterprises had also stimulated the demand of natural gas. The national production volume and the net imported volume of natural gas was 306.7 billion cubic meters, representing a year-on-year increase of 9.4%, with its proportion in the total primary energy consumption exceeding 8% for the first time.

The Remaining Group took its responsibility seriously for its shareholders, employees and society and it would proactively comply with the nationwide oil and gas system reform and capitalize opportunities bought by high-quality development of the energy industry. The Remaining Group actively sought to exchange complementary advantages and strengthen the cooperation with entities within the industry in upstream and downstream. The Remaining Group was committed to creating an open, shared, mutually beneficial and symbiotic industrial "Ecosystem". By fully unleashing the efficacy of natural gas sales reform of PetroChina Company Limited ("**PetroChina**"), the Remaining Group continued to improve and optimize its business management structure, organizational control system and business operation model. The Remaining Group would put efforts in developing and expanding end-user market, increasing end-user sales volume and enhancing operating efficiency. With the steady growth of the newly developed urban gas and other end-users projects, the scale of natural gas sales had expanded rapidly and the sales structure of LPG had become more reasonable. LNG terminal expansion was progressing as planned, gasification and transmission capacity was further enhanced, and the LNG application in vehicle and ship business has fully rolled out. The natural gas pipeline business increased in transmission volume and growth in profits. The profits of the exploration and development business had dropped due to the decline in international crude oil price. Non-natural gas business enjoyed rapid growth, measures such as "Double Hundred Action" reform had been gradually implemented, thus the development momentum was effectively unleashed, and the overall operating results were better than expected.

During 2019, the Remaining Group recorded revenue from its main business of approximately RMB101,794 million, representing an increase of approximately 7.6% as compared to that for last year of RMB94,631 million. Profit attributable to owners of the Company was RMB2,422 million, representing an increase of approximately 33.4% as compared to that for last year of RMB1,815 million.

2. *Segment Information*

The businesses of the Remaining Group are divided into five segments, namely, natural gas sales, LNG processing and terminal, exploration and production, the Company and inter-company adjustment. The revenue and profits or losses of each segment of the Remaining Group for the financial year ended 31 December 2019 are provided as follows:

	Natural Gas Sales	LNG Processing and Terminal	Exploration and Production	The Company	Inter-company adjustment
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
For the financial year ended 31 December 2019					
Revenue	93,794	5,996	2,003	—	—
Profit for the year	2,944	1,894	897	(1,130)	—

3. Liquidity and Capital Resources

For the financial year ended 31 December 2019, the Remaining Group financed its operations and capital expenditure primarily by cash flows generated from operating activities and proceeds from fund raising.

4. Cash Flow

As at 31 December 2019, cash and cash equivalents amounted to RMB17,618 million, representing a net decrease of RMB2,020 million for the year then ended.

5. Bank Balances and Cash and Bank Loans

The Remaining Group's bank balances and cash comprise cash and cash equivalents and term deposits.

The Remaining Group had bank balances and cash of RMB17,618 million as at 31 December 2019. In addition, the Remaining Group had bank loans of RMB27,499 million as of 31 December 2019. The annual interest rate was ranging from 1.2% to 8.6%.

6. Capital Expenditure

For the financial year ended 31 December 2019, capital expenditure of the Remaining Group was RMB7,908 million.

7. Inventories

Inventories include natural gas products, liquefied petroleum gas ("**LPG**") and crude oil. As at 31 December 2019, the total inventories of the Remaining Group amounted to RMB1,213 million.

8. Risks in Foreign Exchange Rate

The vast majority of the cash and cash equivalents and borrowings from banks of the Remaining Group are denominated in RMB. Apart from some bank deposits that are denominated in Hong Kong dollars and US dollars, most assets and liabilities of the Remaining Group are denominated in Renminbi. Since Renminbi is the functional currency of most entities in the Remaining Group, risks in foreign exchange rate mainly come from assets and liabilities denominated in Hong Kong dollars and US dollars.

For the financial year ended 31 December 2019, the Remaining Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging instruments.

9. Material Acquisitions or Disposals

The Remaining Group did not have material acquisitions and disposals in relation to subsidiaries, associates and joint ventures during the financial year ended 31 December 2019.

10. Significant Investments Held and Future Plans for Material Investments or Additions of Capital Assets

PetroChina Kunlun Gas Co., Ltd. ("**Kunlun Gas**"), a wholly-owned subsidiary of the Remaining Group, entered into equity transfer agreement dated 15 August 2019 with certain indirect wholly-owned subsidiaries of Jinhong Holding Group Co., Ltd. ("**Jinhong Holding**"), in which Kunlun Gas agreed to purchase equity interests in 17 companies from Jinhong Holding at a consideration of approximately RMB1,640 million. This acquisition helped the Remaining Group to achieve rapid development in target markets, generate synergies among the Remaining Group's businesses, enhance operational efficiency and increase market competitiveness. In the third quarter of 2019, Kunlun Gas obtained all the necessary approvals of the government authorities for the equity transfer and fifteen entities had become the subsidiaries of Kunlun Gas while two entities had become the associates of Kunlun Gas.

The Remaining Group's major investment in associates are mainly in its Exploration and Production segment. The Remaining Group had invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

11. Pledge of Assets

As at 31 December 2019, certain subsidiaries of the Remaining Group had secured bank loans totaling approximately RMB21 million. The loans were secured by plants, buildings and land use rights, etc. of the Remaining Group.

12. Gearing Ratio

For the financial year ended 31 December 2019, the Remaining Group had gearing ratio (sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities divided by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities, in percentage) of 39.2%.

13. Contingent Liabilities and Guarantees

As at 31 December 2019, the Remaining Group had no material contingent liabilities or guarantees.

14. Capital Commitments

As at 31 December 2019, the capital expenditure of the Remaining Group on property, plant and equipment contracted for but not yet incurred was RMB896 million.

15. Employee and Remuneration

For the financial year ended 31 December 2019, the Remaining Group had approximately 36,875 employees in the PRC and Hong Kong, with total staff costs amounting to RMB4,742 million.

Remuneration package and benefits of the Remaining Group were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

C. FY 2018

1. Business Review

In 2018, the macro economy of the PRC remained stable and the environmental policies facilitated the rapid development of the natural gas market. The government of the PRC implemented various environmental policies, continuously propelled the air pollution prevention and control work and strengthened the coal-to-gas conversion for residential use, heating and industrial use in key areas, through which national natural gas consumption recorded rapid growth and continually maintained double-digit growth. The Remaining Group focused on quality development, grasped the favourable opportunities arising from the strong demand for natural gas, and continued to push through reforms and innovations, thus achieved remarkable operating results. During 2018, the Remaining Group recorded revenue from its main business of approximately RMB94,631 million, representing an increase of approximately 22.6% as compared to that for last year of RMB77,158 million. Profit attributable to owners of the Company was RMB1,815 million, representing an increase of approximately 28.1% as compared to that for last year of RMB1,417 million.

2. *Segment Information*

The businesses of the Remaining Group are divided into five segments, namely, natural gas sales, LNG processing and terminal, exploration and production, the Company and inter-company adjustment. The revenue and profits or losses of each segment of the Remaining Group for the financial year ended 31 December 2018 are provided as follows:

	Natural Gas Sales	LNG Processing and Terminal	Exploration and Production	The Company	Inter-company adjustment
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
For the financial year ended 31 December 2018					
Revenue	86,224	6,339	2,068	—	—
Profit for the year	1,994	2,501	1,069	(1,658)	—

3. *Liquidity and Capital Resources*

For the financial year ended 31 December 2018, the Remaining Group financed its operations and capital expenditure primarily by cash flows generated from operating activities and proceeds from fund raising.

4. *Cash Flow*

As at 31 December 2018, cash and cash equivalents amounted to RMB19,638 million, representing a net decrease of RMB8 million for the year then ended.

5. *Bank Balances and Cash and Bank Loans*

The Remaining Group's bank balances and cash comprise cash and cash equivalents and term deposits.

The Remaining Group had bank balances and cash of RMB19,638 million as at 31 December 2018. In addition, the Remaining Group had bank loans of RMB31,042 million as of 31 December 2018. The annual interest rate was ranging from 1.2% to 5.9%.

6. *Capital Expenditure*

For the financial year ended 31 December 2018, capital expenditure of the Remaining Group was RMB5,589 million.

7. Inventories

Inventories include natural gas products, LPG, compressed natural gas and crude oil. For the financial year ended 31 December 2018, the total inventories of the Remaining Group amounted to RMB1,559 million.

8. Risks in Foreign Exchange Rate

The vast majority of the cash and cash equivalents and borrowings from banks of the Remaining Group are denominated in RMB. Apart from some bank deposits that are denominated in Hong Kong dollars and US dollars, most assets and liabilities of the Remaining Group are denominated in Renminbi. Since Renminbi is the functional currency of the Remaining Group, risks in foreign exchange rate mainly come from assets and liabilities denominated in Hong Kong dollars and US dollars.

For the financial year ended 31 December 2018, the Remaining Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging instruments.

9. Material Acquisitions or Disposals

The Remaining Group did not have material acquisitions and disposals in relation to subsidiaries, associates and joint ventures during the financial year ended 31 December 2018.

10. Significant Investments Held and Future Plans for Material Investments or Additions of Capital Assets

The Remaining Group's major investment in associates are mainly in its exploration and production segment. The Remaining Group had invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

11. Pledge of Assets

As at 31 December 2018, no short-term or long-term borrowings were secured by property, plant and equipment and advanced operating lease payment by the Remaining Group.

12. Gearing Ratio

For the financial year ended 31 December 2018, the Remaining Group had gearing ratio (sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities divided by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities, in percentage) of 46.0%.

13. Contingent Liabilities and Guarantees

For the financial year ended 31 December 2018, the Remaining Group had no material contingent liabilities or guarantees.

14. Capital Commitments

As at 31 December 2018, the capital expenditure of the Remaining Group on property, plant and equipment contracted for but not yet incurred was RMB1,326 million.

15. Employee and Remuneration

For the financial year ended 31 December 2018, the Remaining Group had approximately 40,516 employees in the PRC and Hong Kong, with total staff costs amounting to RMB4,501 million.

Remuneration package and benefits of the Remaining Group were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

D. FY 2017

1. Business Review

In 2017, China's macroeconomic growth picked up, and ecological civilization construction speeded up. Natural gas consumption recorded fast growth, with annual natural gas consumption of 237.3 billion cubic meters, representing an increase of 15.3%. During the year of 2017, the Remaining Group made full use of its advantages in assets and business structure, captured market opportunities and effectively balanced market risks. The city gas sales volume recorded rapid growth. The integrated operation of LNG produced initial results, and its assets structure and business structure continued to be optimized. During 2017, the Remaining Group recorded revenue from its main business of approximately RMB77,158 million, representing an increase of approximately 34.3% as compared to that for the corresponding period last year of RMB57,454 million. Profit attributable to owners of the Company (after minority interests) was RMB1,417 million, representing an increase of approximately 145.3% as compared to losses attributable to owners of the Company for the corresponding period last year of RMB3,125 million. such significant increment in profitability was due to the impairment loss recognized in 2016.

2. *Segment Information*

The businesses of the Remaining Group are divided into five segments, namely, natural gas sales, LNG processing and terminal, exploration and production, the Company and inter-company adjustment. The revenue and profits or losses of each segment of the Remaining Group for the financial year ended 31 December 2017 are provided as follows:

	Natural Gas Sales	LNG Processing and Terminal	Exploration and Production	The Company	Inter-company adjustment
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
For the financial year ended 31 December 2017					
Revenue	71,293	4,360	1,505	—	—
Profit for the year	1,267	1,071	677	(474)	—

3. *Liquidity and Capital Resources*

For the financial year ended 31 December 2017, the Remaining Group financed its operations and capital expenditure primarily by cash flows generated from operating activities and proceeds from fund raising.

4. *Cash Flow*

As at 31 December 2017, cash and cash equivalents amounted to RMB19,646 million, representing a net increase of RMB2,427 million for the year then ended.

5. *Bank Balances and Cash and Bank Loans*

The Remaining Group's bank balances and cash comprise cash and cash equivalents and term deposits.

The Remaining Group had bank balances and cash of RMB19,646 million as at 31 December 2017. In addition, the Remaining Group had bank loans of RMB31,531 million as of 31 December 2017. The annual interest rate was ranging from 1.2% to 6.5%.

6. *Capital Expenditure*

For the financial year ended 31 December 2017, capital expenditure of the Remaining Group was RMB2,410 million.

7. Inventories

Inventories include natural gas products, LPG, compressed natural gas, crude oil and marina club debentures and wet berths held for sales. As at 31 December 2017, the total inventories of the Remaining Group amounted to RMB1,197 million.

8. Risks in Foreign Exchange Rate

The vast majority of cash and cash equivalents and borrowings from banks of the Remaining Group are denominated in RMB. Apart from some bank deposits that are denominated in Hong Kong dollars and US dollars, most assets and liabilities of the Remaining Group are denominated in Renminbi. Since Renminbi is the functional currency of the Remaining Group, risks in foreign exchange rate mainly come from assets and liabilities denominated in Hong Kong dollars and US dollars.

For the financial year ended 31 December 2017, the Remaining Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging instruments.

9. Material Acquisitions or Disposals

The Remaining Group did not have material acquisitions and disposals in relation to subsidiaries, associates and joint ventures during the financial year ended 31 December 2017.

10. Significant Investments Held and Future Plans for Material Investments or Additions of Capital Assets

Kunlun Gas, a wholly-owned subsidiary of the Remaining Group, entered into acquisition agreement dated 28 September 2017 with PetroChina, pursuant to which PetroChina has conditionally agreed to sell and Kunlun Gas has conditionally agreed to purchase 51% equity interest in PetroChina Jingtang LNG Co., Ltd ("**Jingtang Co.**") at a consideration of approximately RMB1,547 million subject to adjustment on gain or loss of Jingtang Co. during the transition period. This acquisition will help the Remaining Group avoid the horizontal competition between the Remaining Group and PetroChina, which will generate synergies among the Remaining Group's businesses, enhance operational efficiency and increase market competitiveness. In the fourth quarter of 2017, Kunlun Gas obtained all the necessary approvals of the government authorities for the acquisition and Jingtang Co. has become a non-wholly-owned subsidiary of the Remaining Group upon the completion of acquisition. The final consideration was RMB1,906 million, including the gains during the transition period amounting to approximately RMB359 million.

The Remaining Group's major investment in associates are mainly in its exploration and production segment. The Remaining Group had invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

11. Pledge of Assets

As at 31 December 2017, no short-term or long-term borrowings were secured by property, plant and equipment and advanced operating lease payment by the Remaining Group.

12. Gearing Ratio

As at 31 December 2017, the Remaining Group had gearing ratio (sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities divided by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities, in percentage) of 47.9%.

13. Contingent Liabilities and Guarantees

As at 31 December 2017, the Remaining Group had no material contingent liabilities or guarantees.

14. Capital Commitments

As at 31 December 2017, the capital expenditure of the Remaining Group on property, plant and equipment contracted for but not yet incurred was RMB395 million.

15. Employee and Remuneration

For the financial year ended 31 December 2017, the Remaining Group had approximately 38,880 employees in the PRC and Hong Kong, with total staff costs amounting to RMB4,105 million.

Remuneration package and benefits of the Remaining Group were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

KUNLUN ENERGY COMPANY LIMITED:

Under entrustment of Your Company (i.e. Kunlun Energy Company Limited), China United Assets Appraisal Group Co., Ltd. (hereinafter referred to as "**Asset Appraisal Firm**", "**Appraisal Firm**" or "**We**") followed the provisions of relevant laws and administrative regulations as well as asset appraisal standards, adhered to the principles of independence, objectivity and impartiality, adopted the asset-based method and income method, performed necessary appraisal procedures and appraised the market value of the total shareholders' equity interest of PetroChina Beijing Gas Pipeline Co., Ltd. and market value of the total shareholders' equity interest of PetroChina Dalian LNG Co., Ltd. on the Valuation Reference Date of 31 December 2019 involved in the economic behavior that Kunlun Energy Company Limited plans to transfer its equity interests in PetroChina Beijing Gas Pipeline Co., Ltd. and PetroChina Dalian LNG Co., Ltd. to China Oil & Gas Pipeline Network Corporation (國家石油天然氣管網集團有限公司).

The asset appraisal is summarized as follows:

A. Client and Subject Entities

The client of this Asset Appraisal is Kunlun Energy Company Limited, and the Subject Entities are PetroChina Beijing Gas Pipeline Co., Ltd. and PetroChina Dalian LNG Co., Ltd.

1. Client Profile

(a) Company Name: Kunlun Energy Company Limited

(b) Company's Office Address: 39th Floor,118 Connaught Road West, Hong Kong, China

(c) Legal Representative: Ling Xiao

(d) Registered Capital: HKD160,000,000.00

(e) Date of Establishment: 16 August 1991

(f) Business Scope: exploration and production of crude oil and natural gas in China, Kazakhstan, Oman, Peru, Thailand and Azerbaijan; sales of natural gas, processing of liquefied natural gas (LNG) and LNG receiving station business and transportation of natural gas in China.

2. *Overview of Subject Entity 1*

(a) Company Name: PetroChina Beijing Gas Pipeline Co., Ltd.

(b) Registered address: No.9, Datun Road, Chaoyang District, Beijing, China

(c) Legal Representative: Li Wendong

(d) Registered Capital: RMB21,870.42 million

(e) Company Type: limited liability company (joint venture established by investors from Taiwan, Hong Kong & Macao and Mainland China)

(f) Date of Establishment: 14 December 1991

(g) Business Term: From 15 January 2013 to 14 January 2043

(h) Unified Social Credit Code: 911100001011299382

2.1. Company Profile

PetroChina Beijing Gas Pipeline Co., Ltd. (hereinafter referred to as "**Beijing Pipeline**" or "**Subject Entity 1**"), formerly known as Beijing Natural Gas Gathering & Transportation Company* (北京天然氣集輸公司), which was jointly funded and established by China National Petroleum Corporation ("**CNPC**") and The People's Government of Beijing Municipal on 14 December 1991. It is a regional company of CNPC that is specialized in pipeline construction and operation management. It is mainly responsible for the construction, operation and management of the Shaanxi-Gansu-Ningxia-Beijing Gas Transmission Pipeline Project. The Company was restructured in July 2002 and renamed as Beijing Huayou Natural Gas Co., Ltd* (北京華油天然氣有限責任公司). In 2008, the Company was renamed as PetroChina Beijing Gas Pipeline Co., Ltd.

As of the Valuation Reference Date, the registered capital of Beijing Pipeline was RMB21,870.42 million. The shareholders of Beijing Pipeline and their amounts and proportions of capital contribution are as follows:

No.	Name of Shareholder	Subscribed Capital Contribution *(RMB Million)*	Proportions of Subscribed Capital Contribution *(%)*
1	Kunlun Energy Company Limited	13,122.25	60
2	Beijing Gas Group Co., Ltd.	8,748.17	40
	Total	21,870.42	100

2.2. Business Scope

Organizing and managing the implementation of planning, design and construction of natural gas pipelines into Beijing and supporting projects; coordinating, arranging and managing oil fields' gas supply to Beijing; Technical services for gathering, transportation, treatment and utilization of natural gas; technology development, technical consultation, technology transfer and technical training; engaging in export of technologies of self-produced products of the enterprise and import of machinery equipment, spare parts, raw and auxiliary materials and technologies needed by the enterprise, except for the commodities and technologies that the Chinese government restricts the enterprise to operate or prohibits its import and export. (Beijing Pipeline was changed from a domestic-funded enterprise to a foreign-invested enterprise on 15 January 2013. For business items subject to approval according to law, operating activities thereof can be carried out only after such approval has been obtained from relevant competent authorities.)

3. Overview of Subject Entity 2

(a) Company Name: PetroChina Dalian LNG Co., Ltd.

(b) Registered address: (Comprehensive Main Control Building of Dalian LNG Receiving Station) No.20-3, Fuyi Road, Dalian Free Trade Zone, Liaoning Province, China

(c) Legal Representative: Li Jun

(d) Registered Capital: RMB2,600 million

(e) Company Type: limited liability company (Sino-foreign joint venture)

(f) Date of Establishment: 31 March 2009

(g) Business Term: 31 March 2009 to 30 March 2059

(h) Unified Social Credit Code: 91210242687071824K

(i) Scope of business: compressed gas and liquefied gas: storage and operation of natural gas (methane-containing; liquefied); providing wharf facilities for ships; Engaged in LNG receiving and unloading services in the port area. (For business items subject to approval according to law, operating activities thereof can only be carried out after such approval has been obtained from relevant authorities.)

3.1. Company Profile:

PetroChina Dalian LNG Co., Ltd. ("**Dalian LNG**" or "**Subject Entity 2**") was formally established in April 2009. It is a limited liability company jointly funded by PetroChina Company Limited ("**PetroChina**"), Dalian Port (PDA) Company Limited* (大連港股份有限公司) ("**Dalian Port**") and Dalian Construction Investment Group Co., Ltd.* (大連市建設投資集團有限公司) ("**Dalian CI**"). The company's registered capital is RMB1 billion, wherein, PetroChina contributed RMB750 million, holding 75% equity interest of Dalian LNG; Dalian Port contributed RMB200 million, holding 20% equity interest of Dalian LNG; and Dalian CI contributed RMB50 million, holding 5% equity interest of Dalian LNG.

In June 2010, Subject Entity 2 increased its registered capital by RMB1.6 billion, wherein, PetroChina increased a capital contribution of RMB1.2 billion, holding 75% equity interest of Dalian LNG; Dalian Port increased a capital contribution of RMB0.32 billion, holding 20% equity interest of Dalian LNG; and Dalian CI increased a capital contribution of RMB80 million, holding 5% equity interest of Dalian LNG.

In June 2011, PetroChina transferred its 75% equity interest in Dalian LNG to Kunlun Energy Company Limited.

As of the Valuation Reference Date, the shareholders of Dalian LNG and their amounts and proportions of capital contribution are as follows:

No.	Shareholder Name	Amount of Capital Contribution *(RMB Million)*	Proportion of Capital Contribution *(%)*
1	Kunlun Energy Company Limited	1,950.00	75
2	Dalian Port (PDA) Company Limited	520.00	20
3	Dalian Construction Investment Group Co., Ltd.	130.00	5
	Total	2,600.00	100.00

3.2. Overview of Main Assets

According to PetroChina's positioning for LNG receiving station business, Dalian LNG is mainly responsible for the receiving and unloading of LNG purchased abroad by PetroChina Natural Gas Sales Branch in Dalian area, and carries out gasification, export and loading of LNG according to dispatching instructions.

B. Essential Elements of Appraisal

(a) Appraisal Subject: value of the total shareholders' equity interest of Beijing Pipeline, and value of total shareholders' equity interest of Dalian LNG

(b) Appraisal Scope: all assets and related liabilities of Beijing Pipeline and Dalian LNG (collectively, the "**Subject Entities**"), including assets (i.e. current assets and non-current assets) and corresponding liabilities

(c) Valuation Reference Date: 31 December 2019

(d) Value Type: Market Value

(e) Appraisal Methods: based on the premise of continuous use and open market, in combination with the actual situation of the Appraisal Subject and considering various influencing factors, the Appraisers adopted two methods, i.e. asset-based method and income method, to carry out overall appraisal of Beijing Pipeline and Dalian LNG and then makes verification and comparison. Considering the applicable premise of the appraisal methods and the need for meeting the appraisal purpose, the appraisal results from the income method was selected as the final appraisal results for both Subject Entities.

C. Appraisal Conclusion

After performing appraisal procedures such as inventory verification, field survey, market survey and confirmation request and appraisal estimation, based on the judgment of the property right holder and its management on the future development trends and their business planning, the Appraisal Conclusion on the value of total shareholders' equity interest of Beijing Pipeline and the value of total shareholders' equity interest of Dalian LNG on the Valuation Reference Date of 31 December 2019 was derived as follows:

Book value of the net assets of Beijing Pipeline as of the Valuation Reference Date was RMB30,902.47 million; the appraised value of total shareholders' equity interest of Beijing Pipeline was RMB55,655.61 million, the appraisal increment was RMB24,753.14 million; with an appreciation rate of 80.10%.

Book value of the net assets of Dalian LNG as of the Valuation Reference Date was RMB3,512.80 million; the appraised value of total shareholders' equity interest of Dalian LNG was RMB9,989.81 million, and the increase in value was RMB6,477.01 million, with an appreciation rate of 184.38%.

D. Appraisal Assumptions

The appraisal conclusion is reached under the following assumptions. When there is any change in the following conditions, the appraisal results will generally become invalid.

1. *General Assumptions*

(a) 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 asset appraisal.

(b) 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 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.

(c) 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.

2. *Special Assumptions*

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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 realized 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.

(f) 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.

(g) 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 exchange gains or losses.

(h) 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 assets, the valuation assumes that the main pipelines will no longer generate income after the expiration of the service terms.

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

E. Brief Introduction to Appraisal Methods

In this Appraisal, the results from the income method was taken as the final appraisal conclusion. The basic idea of the income method is to predict the equity capital value of the Appraisal Subject based on the audited consolidated financial statements, that is, firstly, adopting the discounted cash flow (DCF) method according to the income approach to predict the value of the operating assets of the Appraisal Subject, plus the value of other non-operating or surplus assets (liabilities) on the Valuation Reference Date, so as to obtain the enterprise value of the Appraisal Subject; then deducting the value of interest-bearing debts and minority shareholders' equity from the enterprise value, and finally deriving the value of total shareholders' equity of the Appraisal Subject. Appraisal Model is as follows:

(a) Basic Model

The basic model for this appraisal is:

$$E=B-D \tag{1}$$

Wherein:
E: Value of total shareholders' equity of the Appraisal Subject;
k: The proportion of minority shareholders' equity to owner's equity on the Appraisal Date;
B: Enterprise value of the Appraisal Subject;

$$B=P+C \tag{2}$$

P: Value of operating assets of the Appraisal Subject;

$$P=\sum_{i=1}^{n}\frac{R_i}{(1+r)^i}+\frac{R_{n+1}}{r(1+r)^n} \tag{3}$$

Wherein:
R_i: Expected income of Appraisal Subject in the i^{th} year in future (free cash flows);
r: Discount rate;
n: Future operating period of Appraisal Subject;
C: Value of surplus or non-operating assets (liabilities) of Appraised Subject existing on the appraisal date;

$$C=C_1+C_2 \tag{4}$$

C_1: Value of current surplus or non-operating assets (liabilities) of Appraised Subject existing on the appraisal date;
C_2: Value of non-current surplus or non-operating assets (liabilities) of Appraised Subject existing on the appraisal date;
D: Value of interest-bearing debts of Appraised Subject;

(b) Income Indicators

In this appraisal, the appraisers used the free cash flows of Subject Entities as the income indicator of its operating assets, which is basically defined as:

R = Net profit + Depreciation and amortization + Interest on interest-bearing debts after deducting taxes - Additional capital (5)

According to the business history and future market development of Appraisal Subject, the appraisers predict its free cash flows in the future business period. The appraisers discount and sum up the free cash flows in the future operating period, and calculate the value of operating assets of Subject Entities.

(c) Discount rate

In this appraisal, the appraisers determined the discount rate (r) by adopting the Weighted Average Cost of Capital (WACC) model:

$$r = r_d \times w_d + r_e \times w_e \tag{6}$$

Wherein:
W_d: Debt ratio of Appraisal Subject;

$$w_d = \frac{D}{(E + D)} \tag{7}$$

We: Equity ratio of Appraisal Subject;

$$w_e = \frac{E}{(E + D)} \tag{8}$$

r_d : Interest rate of interest-bearing debts after income tax;
r_e : Cost of equity capital; In this appraisal, cost of equity capital (re) is determined by the Capital Asset Pricing Model (CAPM);

$$r_e = r_f + \beta_e + (r_m - r_f) + \varepsilon \tag{9}$$

Wherein:
r_f: Risk-free rate of return;
r_m : Market-expected rate of return;
ε: Characteristic risk adjustment factor of Appraisal Subject;
β_e: Expected market risk factor of the equity capital of Appraisal Subject;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E}) \tag{10}$$

β_u : Expected unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_t}{1 + (1 - t)\dfrac{D_i}{E_i}} \tag{11}$$

βt : Expected market average risk factor of stocks (assets) of comparable companies;

$$\beta_t = 34\%K + 66\%\beta_x \tag{12}$$

Wherein:
K: Expected average risk value of stock market in the future, for which it normally assumes that K=1;
β_x: Historical market average risk factor of stocks (assets) of comparable companies;
D_i, E_i: Interest-bearing liabilities and equity capital of comparable peer companies, respectively.

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 circular.

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

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 circular.

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

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

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*

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes 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.

B. DISCLOSURE OF INTERESTS

1. Interests of Directors and Chief Executives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company or their associate had any interests or short positions in the Shares, underlying Shares of equity derivatives or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required: (i) 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/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); (ii) to be entered into the register required to be kept by the Company under section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

2. Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as the Directors were aware, the following persons (not being a Director or chief executive of the Company or their associate) had an interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Name	Number of Shares [1] Direct interest	Indirect interest	Percentage of issued Shares
PetroChina Hong Kong Ltd. (“**PetroChina Hong Kong**”)[2]	4,708,302,133 (L)	—	54.38%
PetroChina[2]	—	4,708,302,133 (L)	54.38%
Fairy King Investments Ltd.[3]	277,432,000 (L)	—	3.20%
CNPC International Ltd. (“**CNPCI**”)[3]	—	277,432,000 (L)	3.20%
China National Oil and Gas Exploration and Development Corporation (“**CNODC**”)[3]	—	277,432,000 (L)	3.20%
China National Petroleum Corporation (“**CNPC**”)[2][3]	—	4,985,734,133 (L)	57.58%

Notes:

(1) The letter “L” denotes a long position in the Shares.

(2) PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 80.80% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by PetroChina Hong Kong.

(3) Based on the Disclosure of Interests Online (DION) System of the Stock Exchange, 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, no other persons (not being a Director or chief executive of the Company or their associate) had any interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

C. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Director was in the employment of those companies which had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Director	**Positions held in specific company**
	PetroChina
Mr. Zhou Yuanhong	Deputy general manager of the capital operation department

D. DIRECTORS' INTERESTS IN SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contracts with any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

E. DIRECTORS' INTERESTS IN COMPETING INTEREST

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors and their respective close associate (as defined in the Listing Rules), were considered to have interests in the businesses (apart from the Group's business) which are considered to compete or likely to compete, either directly or indirectly, with businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

F. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACT OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

None of the Directors had any interest, directly or indirectly, in any assets which have been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date, 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.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting entered into by any member of the Group subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group.

G. MATERIAL CONTRACTS

The following contracts (being the contracts entered into outside the ordinary course of business carries on by the Company and its subsidiaries) have been entered into by members of the Group within the two years immediately preceding the date of this circular:

(a) the Equity Transfer Agreement; and

(b) the equity transfer agreements dated 15 August 2019 entered into between PetroChina Kunlun Gas Co., Ltd., a wholly-owned subsidiary of the Company, and Zhongyou Jinhong East China Investment Management Co., Ltd. (中油金鴻華東投資管理有限公司), Zhongyou Jinhong South China Investment Management Co., Ltd. (中油金鴻華南投資管理有限公司), China Infrastructure Construction (Tai'an) Co., Ltd. (中國基礎建設(泰安)有限公司) and China Infrastructure Construction (Xintai) Co. Ltd (中國基礎建設(新泰)有限公司), respectively.

Save as disclosed above, there is no material contract (not being contracts entered into in the ordinary course of business) entered into by members of the Group within the two years immediately preceding the date of this circular.

H. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claim of material important pending or threatened by or against the Company or any of its subsidiaries.

I. CONSENTS AND QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice contained in this circular:

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)

Name	Qualification
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

As at the Latest Practicable Date, The Hongkong and Shanghai Banking Corporation Limited held 10,925,287 shares of the Company (accounting for 0.13% 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.

As at the Latest Practicable Date, as far as the Directors are aware, none of the experts named above had any interest, direct or indirect, in any assets which have been since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

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

J. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Xie Mao. Mr. Xie Mao was appointed as the company secretary of the Company on 17 December 2020. Mr. Xie Mao has been appointed as the secretary to the Board since May 2016 and is the affiliated person of the Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(c) The principal office of the Company is at 39th Floor, 118 Connaught Road West, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) All references to times and dates in this circular refer to Hong Kong times and dates.

(f) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text.

K. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company at 39th Floor, 118 Connaught Road West, Hong Kong from the date of this circular up to and including 24 February 2021:

(a) the Equity Transfer Agreement;

(b) the memorandum of association and the buy-laws of the Company;

(c) the annual reports of the Company for each of the financial years ended 31 December 2017, 2018 and 2019;

(d) the interim report of the Company for the six months ended 30 June 2020;

(e) the Asset Valuation Reports, the extract of which is set out in Appendix V to this circular;

(f) the reports issued by KPMG on the discounted future cash flows in connection with the Asset Valuation Reports dated 22 December 2020, the full text of which is set out in Appendix VI to this circular;

(g) the Financial Adviser Letter dated 22 December 2020, the full text of which is set out in Appendix VII to this circular;

(h) the report on the unaudited pro forma financial information of the Remaining Group issued by KPMG, the full text of which is set out in Appendix III to this circular;

(i) the letters of consent referred to in the section headed "Consents and Qualifications of Experts" in this appendix;

(j) the material contracts referred to in the section headed "Material Contracts" in this appendix; and

(k) this circular.

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

(Stock Code: 00135.HK)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting ("**SGM**") of Kunlun Energy Company Limited (the "**Company**") will be held at Room 1, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 12 March 2021 at 11:00 a.m. (or any adjournment of such meeting) for the purpose of considering and, if thought fit, passing the following resolution, with or without modifications, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(A) the Equity Transfer Agreement (as defined in the circular of the Company dated 10 February 2021) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(B) any director of the Company be and is hereby authorized, for and on behalf of the Company, to take all steps and do all acts and things as he considers to be necessary, appropriate or expedient in connection with and to implement or give effect to the Equity Transfer Agreement and the transactions contemplated thereunder, and to execute all such other documents, instruments and agreements (including the affixation of the Company's common seal) deemed by him to be incidental to, ancillary to or in connection with the Equity Transfer Agreement and the transactions contemplated thereunder."

By Order of the Board
Kunlun Energy Company Limited
Xie Mao
Company Secretary

Hong Kong, 10 February 2021

Notes:

1. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 10 February 2021.

2. At the SGM, the chairman of the SGM will put the above resolution 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.

3. 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/she so wish.**

4. In the case of joint holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share if he/she was solely entitled thereto, but if more than one of such joint holders is present at the meeting, personally or by proxy, that one of the persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

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 or the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). The form of proxy must be completed strictly in accordance with the instruction set out therein.

6. For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 8 March 2021 to Friday, 12 March 2021 (both dates inclusive), during which period no transfer of shares will be registered. In order to be qualify for attending and voting at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 5 March 2021.

7. In the event of inconsistency, the English text of this notice shall prevail over the Chinese text.

As at the date of this notice, 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.