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

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

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

(Stock Code: 00135)

(Formerly known as CNPC (Hong Kong) Limited

中國(香港)石油有限公司)*

(1) CONNECTED TRANSACTION IN RELATION TO THE JIANGSU LNG ACQUISITION (2) CONTINUING CONNECTED TRANSACTIONS

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



粵海證券有限公司
GUANGDONG SECURITIES LIMITED

A letter from the Board is set out on pages 6 to 26 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders of the Company, is set out on page 25 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps is set out on pages 28 to 47 of this circular.

A notice of SGM to be held at the VINSON Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 10 June 2010 at 11:15 a.m., is set out on page 86 of this circular. A proxy form for use by the Shareholders of the Company at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the proxy form enclosed in accordance with the instructions printed thereon and return it to the principal office of the Company at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the SGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM should you so wish.

* For identification purpose only

25 May 2010

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beckbury”	means Beckbury International Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Board”	means the board of directors of the Company
“China Beijing Equity Exchange”	means the China Beijing Equity Exchange (中國北京產權交易所)
“CNPC”	means 中國石油天然氣集團公司 (China National Petroleum Corporation*), a State-owned enterprise established under the laws of the PRC
“CNPC Bohai Equipment Manufacturing”	means 中國石油渤海石油裝備製造有限公司, a company established under the PRC laws
“CNPC Group”	means CNPC and its subsidiaries, but excluding members of the Group
“Company”	means Kunlun Energy Company Limited (formerly known as CNPC (Hong Kong) Limited), a company incorporated with limited liability in Bermuda and the shares of which are listed on the Stock Exchange
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	means the transactions between the Group and the CNPC Group under the PSAs and the Master Agreement as set out in the paragraph headed “Continuing Connected Transactions” of this circular
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	means directors of the Company
“Existing Caps”	means the maximum aggregate annual values of the Continuing Connected Transactions for each of the three years ending 31 December 2011 as set out in the announcement of the Company dated 6 March 2009 and approved (where required) by the Independent Shareholders on 24 March 2009

DEFINITIONS

“First Supplemental Agreement”	means the agreement dated 14 November 2006 entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement
“Group”	means the Company and its subsidiaries
“Hafnium”	means Hafnium Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Independent Financial Adviser” or “Guangdong Securities”	means Guangdong Securities Limited, a licensed corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Jiangsu LNG Acquisition, the Revision of Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps
“Independent Shareholders”	means the Shareholders other than CNPC and its associates (including PetroChina)
“Independent Board Committee”	means the independent committee of the Board, comprising Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng, being all the independent non-executive Directors of the Company, established for the purpose of, among other things, advising the Independent Shareholders in respect of the Jiangsu LNG Acquisition, the Revision of Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps
“Jiangsu LNG Acquisition”	means the acquisition of 55% shareholding interest in Jiangsu LNG Company from PetroChina by the Company
“Jiangsu LNG Acquisition Agreement”	means the agreement dated 17 May 2010 entered into between PetroChina and the Company in respect of the Jiangsu LNG Company Acquisition

DEFINITIONS

“Jiangsu LNG Company”	means 中石油江蘇液化天然氣有限公司 (PetroChina LNG Jiangsu Company Ltd*), a limited company established under the PRC laws
“Jiangsu Province Guoxin Asset Management”	means 江蘇省國信資產管理有限公司, a shareholder of Jiangsu LNG Company holding 10% of its equity interest
“Karamay Oilfield”	means an oilfield in Junggar basin in Xinjiang, the PRC, part of which is being developed by the Group pursuant to the Xinjiang Contract
“Leng Jiapu Entrustment Contract”	means the entrustment contract dated 21 March 1998 entered into between Beckbury and the CNPC Group concerning the operation of the Liaohe Contract, as amended or supplemented from time to time
“Leng Jiapu Oilfield”	means the Leng Jiapu Oilfield in Liaohe, Liaoning Province, the PRC, part of which is being developed by the Group pursuant to the Liaohe Contract
“Liaohe Contract”	means the Leng Jiapu Area Petroleum Contract dated 31 December 1997 entered into between CNPC and Beckbury, and where the context requires, includes the Leng Jiapu Entrustment Contract. All the rights and obligations (other than the supervisory functions related to CNPC’s role as representative of the PRC Government) of CNPC under the Liaohe Contract were novated to PetroChina on 8 October 2001
“Latest Practicable Date”	20 May 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Agreement”	means the master agreement dated 19 November 2003 entered into between CNPC and the Company regarding provision by the CNPC Group to the Group, of a range of products and services from time to time, as amended by the First Supplemental Agreement dated 14 November 2006 and the Second Supplemental Agreement dated 25 March 2009, where the context requires, as to be further amended by the Third Supplemental Agreement

DEFINITIONS

“Oil and Gas Products”	means such crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products to be provided by the CNPC Group to the Group from time to time under the new category of additional products and services set out in the Second Supplemental Agreement
“Pacific Ocean Oil and Gas”	means 太平洋油氣有限公司, a shareholder of Jiangsu LNG Company holding 35% of equity interest
“PetroChina”	means PetroChina Company Limited, a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange and the Stock Exchange with American Depositary Receipts listed on the New York Stock Exchange. PetroChina is a non-wholly owned subsidiary of CNPC and the controlling shareholder of the Company holding approximately 50.74% of its total issued share capital
“PRC”	means the People’s Republic of China
“PRC Oilfields”	means the Karamay Oilfield and the Leng Jiapu Oilfield
“Proposed Caps”	means the proposed caps for the continuing connected transactions under the Third Supplemental Agreement
“PSAs”	means the Xinjiang Contract and the Liaohe Contract
“Rental Payments”	means the rental payments payable by the Group to the CNPC Group under the Master Agreement in respect of the properties leased from the CNPC Group
“Revised Caps”	means the proposed revised maximum aggregate annual values of the Continuing Connected Transactions for (i) provision of general products and services by the Group to the CNPC Group and (ii) purchase of oil and gas products for each of the two years ending 31 December 2011 set out as categories (a) and (d) respectively in section 3.1.2 of this circular
“RMB”	means Renminbi, the lawful currency of the PRC
“Second Supplemental Agreement”	means the agreement dated 25 March 2009 entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement

DEFINITIONS

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	means a special general meeting of the Company to be held to consider and, if deemed appropriate, approve, among other things, the Jiangsu LNG Acquisition the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Revised Caps
“Shares”	means ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholders”	means holders of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Third Supplemental Agreement”	means the agreement dated 19 May 2010 entered into between the Company and CNPC
“Valuation Date”	means 31 December 2009
“Xinjiang Contract”	means the Xinjiang Oil Field Production Sharing Contract dated 1 July 1996 entered into between CNPC and Hafnium, as amended from time to time. All the rights and obligations (other than the supervisory functions related to CNPC’s role as representative of the PRC Government) of CNPC under this contract were novated to PetroChina on 8 October 2001
“Xinjiang Xinjie Assets Disposal”	means the disposal of the assets for the refined oil storage and transit business and refined oil pipeline transmission business owned by 新疆新捷股份有限公司 (Xinjiang Xinjie Co., Ltd.*) as announced by the Company on 18 December 2009

Note:

- (1) For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB0.8811 = HK\$1.00 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount have been, could have been or may be exchanged.
- (2) If there is any discrepancy or inconsistency between the Chinese names of the PRC entities and their English translations in this circular, the Chinese version shall prevail.

* *For identification purpose only*

LETTER FROM THE BOARD



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

(Stock Code: 00135)

(Formerly known as CNPC (Hong Kong) Limited

中國(香港)石油有限公司)*

Directors:

Mr. Li Hualin (*Chairman*)
Mr. Zhang Bowen (*Chief Executive Officer*)
Mr. Cheng Cheng
Dr. Lau Wah Sum, GBS, LLD, DBA, JP[#]
Mr. Li Kwok Sing Aubrey[#]
Dr. Liu Xiao Feng[#]

Registered office:

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Hamilton HM11
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Rooms 3907 – 3910
39th Floor
118 Connaught Road West
Hong Kong

[#] *Independent Non-executive Directors*

25 May 2010

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
THE JIANGSU LNG ACQUISITION
(2) CONTINUING CONNECTED TRANSACTIONS**

1. INTRODUCTION

1.1 Jiangsu LNG Acquisition

Reference is made to the announcement of the Company dated 17 May 2010 in relation to the connected transaction regarding the Jiangsu LNG Acquisition.

On 17 May 2010, the Company entered into the Jiangsu LNG Acquisition Agreement with PetroChina, pursuant to which the Company has conditionally agreed to acquire, and PetroChina has conditionally agreed to sell, 55% equity interest in Jiangsu LNG Company, in consideration of RMB500,206,200 (equivalent to approximately HK\$567,707,000) which is equivalent to the base price of the open tender of RMB500,206,200.

* *For identification purpose only*

LETTER FROM THE BOARD

As at the Latest Practicable Date, PetroChina was deemed to be interested in 2,513,917,342 Shares, representing approximately 50.74% of the issued share capital of the Company. CNPC, the ultimate shareholder of PetroChina and the Company, was deemed to be interested in 2,684,339,342 Shares, representing approximately 54.18% of the issued share capital of the Company. Both CNPC and PetroChina are the controlling shareholders of the Company, thus both CNPC and PetroChina are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Jiangsu LNG Acquisition constitutes a connected transaction of the Company.

The applicable percentage ratios referred to in Chapter 14A for the Jiangsu LNG Acquisition is more than 2.5%, and thus constitutes a connected transaction of the Company and is subject to, reporting, announcement and approval requirements by the Independent Shareholders at the SGM by way of poll.

1.2 Continuing Connected Transaction

Reference is made to the announcement of the Company dated 19 May 2010 in relation to the Continuing Connected Transactions.

(a) Revisions of caps for the Continuing Connected Transactions

References are made to the announcement and the circular of the Company dated 6 and 9 March 2009 respectively in relation to the Continuing Connected Transactions pursuant to the PSAs and the Master Agreement (as subsequently amended and supplemented pursuant to the First Supplemental Agreement and the Second Supplemental Agreement), all entered into between the Company and CNPC.

In the announcement of the Company dated 6 March 2009, the Company set out the Existing Caps for each relevant category of the Continuing Connected Transactions for each of the three years ending 31 December 2011. The Continuing Connected Transactions and the Existing Caps (where required) were approved by the Independent Shareholders at the special general meeting of the Company held on 24 March 2009.

The Company has closely monitored the performance of the Continuing Connected Transactions, however, owing to the expansion of the Group's business, in particular, the diversification of the Group's business into natural gas downstream distribution and application business, the Board expects that the Existing Caps as previously approved by the Independent Shareholders for certain categories of the Continuing Connected Transactions for the two years ending 31 December 2011 are likely to be exceeded. Accordingly, the Board therefore proposes that the Revised Caps for the Continuing Connected Transactions for the two years ending 31 December 2011 in order to cater for the Group's demand for the demand for the relevant years.

LETTER FROM THE BOARD

(b) New Category of Continuing Connected Transactions

In anticipation of continuing provision of products and services by the Company's subsidiaries to the CNPC Group in the future, on 19 May 2010, the Company and CNPC entered into the Third Supplemental Agreement in order to extend the scope of the co-operation between the Company and CNPC and to cater for the needs of both parties. Under the Third Supplemental Agreement, the Company agrees that the Group provide certain products and services to the CNPC Group.

As explained above, CNPC is a connected person of the Company and accordingly the transactions under the PSAs and the Master Agreement constitute continuing connected transactions of the Company. As the relevant percentage ratios (other than profit ratio) of the Revised Caps for such transactions in respect of each of the two years ending 31 December 2011 exceeds 2.5% on an annual basis, the Revised Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Listing Rules 14A.45 to 14A.48. The transactions under the Third Supplemental Agreement also constitute continuing connected transaction of the Company. As the relevant percentage ratios (other than the profit ratio) of the Proposed Caps under the Third Supplemental Agreement for such transaction in respect of each of the two years ending 31 December 2011 exceeds 2.5% on an annual basis, the transactions under the Third Supplemental Agreement and the Proposed Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Listing Rules 14A.45 to 14A.48.

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

- (i) to provide you with further details of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps;
- (ii) to set out the recommendation of the Independent Board Committee regarding the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps to the Independent Shareholders;
- (iii) to set out the letter of advice from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders on the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps;
- (iv) to set out the valuation report on the properties of Jiangsu LNG Company;
- (v) to set out the asset valuation report of Jiangsu LNG Company; and

LETTER FROM THE BOARD

(vi) to set out the notice of the SGM.

2. JIANGSU LNG ACQUISITION

2.1 Jiangsu LNG Acquisition Agreement

On 17 May 2010, the Company entered into the Jiangsu LNG Acquisition Agreement, the details of which are set out below:

(a) *Date:* 17 May 2010

(b) *Parties:*

(i) Purchaser: the Company

(ii) Vendor: PetroChina

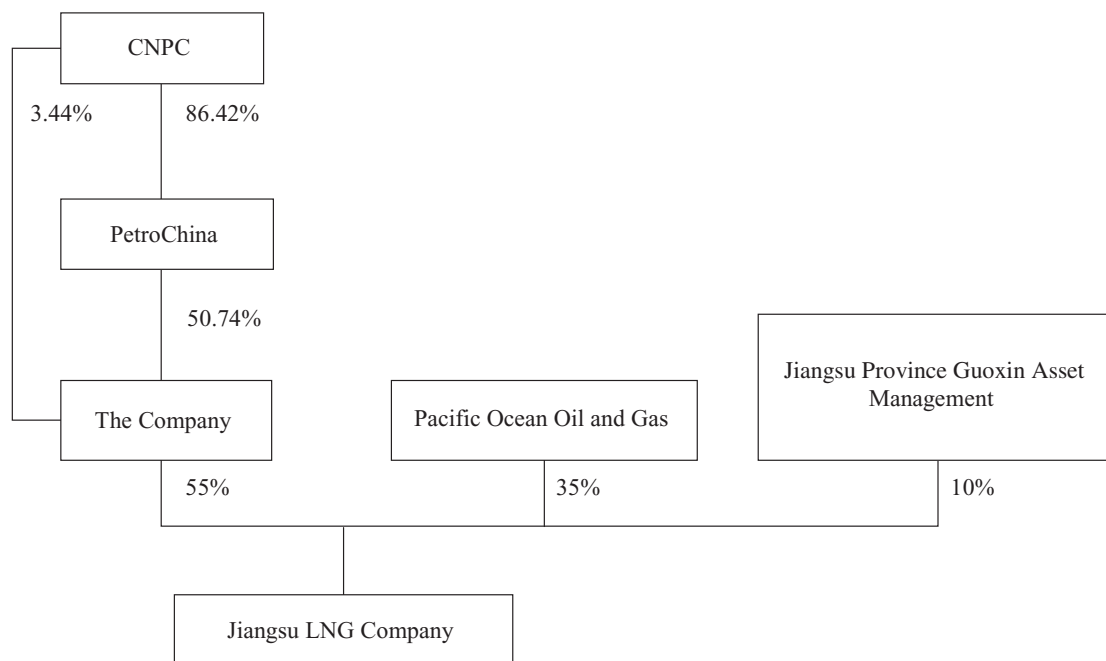
(c) *Acquisition:*

On 9 April 2010, PetroChina arranged to sell 55% equity interest in Jiangsu LNG Company through open tender on the China Beijing Equity Exchange pursuant to the relevant PRC laws and regulations governing disposal of state-owned assets. The Company submitted an application to acquire and bid for the 55% equity interest in Jiangsu LNG Company on 7 May 2010.

Subject to satisfaction or waiver of the conditions precedent under the Jiangsu LNG Acquisition Agreement, the Company has agreed to purchase, and PetroChina has agreed to sell, 55% equity interest in Jiangsu LNG Company, in consideration of RMB500,206,200 (equivalent to approximately HK\$567,707,000) in cash which is equivalent to the base price of the open tender of RMB500,206,200. The Company intends to make payment of its acquisition out of its internal resources.

LETTER FROM THE BOARD

Below illustrates a simplified structure of Jiangsu LNG Company upon the completion of the Jiangsu LNG Acquisition:



(d) Consideration

The consideration payable in respect of the Jiangsu LNG Acquisition equal to the base price of the 55% equity interest in Jiangsu LNG Company put on open tender set by PetroChina and was equivalent to the appraised net asset value of 55% equity interest in the Jiangsu LNG Company as at the Valuation Date, being 31 December 2009, of RMB500,206,200 (equivalent to approximately HK\$567,707,000). This value is based on the appraised net asset value of Jiangsu LNG Company as at the Valuation Date of approximately RMB909,466,000 (equivalent to approximately HK\$1,032,194,000) as per a valuation report of Jiangsu LNG Company prepared by Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司), an independent qualified PRC valuer. The appraised net asset value of Jiangsu LNG Company was computed based on cost approach and the Company considers that this valuation is fair and reasonable. As at the Valuation Date, the audited consolidated net assets value of Jiangsu LNG Company based on the PRC GAAP was approximately RMB795,343,000 (equivalent to approximately HK\$902,670,000). The original investment cost of the 55% interest to Jiangsu LNG Company by PetroChina was approximately RMB437,360,000, being the registered capital contributed by PetroChina in Jiangsu LNG Company. The Company shall pay the lump sum consideration to PetroChina on a mutually agreed completion date after the satisfaction of all the conditions precedent set out in the Jiangsu LNG Acquisition Agreement.

LETTER FROM THE BOARD

As of 31 December 2009, the LNG terminal to be operated by Jiangsu LNG Company was at its planning phase and had not commenced operations. Therefore, according to the audited accounts of Jiangsu LNG Company, no profit was recorded during the period from its establishment at 17 June 2009 to 31 December 2009.

(e) Conditions Precedent

Completion of the Jiangsu LNG Acquisition is subject to the satisfaction or waiver by the Company of certain conditions precedent, including:

- (i) the Company and PetroChina having obtained all necessary internal authorisations, consents and approvals;
- (ii) the remaining two shareholders of Jiangsu LNG Company, i.e. Pacific Ocean Oil and Gas and Jiangsu Province Guoxin Asset Management respectively waiving their right of first refusal and Jiangsu LNG Company having obtained all necessary internal authorizations, consents and approvals;
- (iii) all necessary consent, if any, having been obtained from the creditors and other relevant third parties of Jiangsu LNG Company in respect of the Jiangsu LNG Acquisition;
- (iv) the valuation report of Jiangsu LNG Company, on which the consideration of the Jiangsu LNG Acquisition was based, having been confirmed by the Company and PetroChina and all relevant registration procedures for the valuation report having been completed;
- (v) the sale of the equity interest in Jiangsu LNG Company having completed the open tender process in accordance with the laws and regulations of the PRC and the China Beijing Equity Exchange;
- (vi) the Jiangsu LNG Acquisition having obtained all necessary governmental approvals, including the approval from the Ministry of Commerce;
- (vii) the Company having obtained the approval at the general meeting of the Shareholders pursuant to the Listing Rules (if required); and
- (viii) the representations, warranties and undertakings given by both parties to the Jiangsu LNG Acquisition Agreement remaining true and accurate from the date of the Jiangsu LNG Acquisition Agreement to the date of completion.

As at the Latest Practicable Date, to the best of the Directors' knowledge, save for the Independent Shareholders' approval of the Jiangsu LNG Acquisition at the SGM, the Company and PetroChina have obtained all necessary internal

LETTER FROM THE BOARD

approvals and the sale of the equity interest in Jiangsu LNG Company have completed the open tender process in accordance with the laws and regulations of the PRC and the China Beijing Equity Exchange. The registrations and/ or filings required by laws in relation to the Jiangsu LNG Acquisition in the PRC can only be completed upon the Company having obtained the Independent Shareholders' approval.

(f) Completion

Completion shall take place within 30 days from the satisfaction of all of the above conditions precedent and the Company and PetroChina shall use all their reasonable endeavours to cause the completion of the Jiangsu LNG Acquisition.

2.2 Reasons for, and benefits of, the Jiangsu LNG Acquisition

The Board considers that the Jiangsu LNG Acquisition is in line with the development strategies of the Group as a whole. Jiangsu LNG Company carries the LNG terminal business, including the loading, storage and gasification of natural gas. The Board considers that the Jiangsu LNG Acquisition will enable the Company to have a direct access to natural gas supply infrastructure and enhance the Company's capability to expand the city gas, vehicle fuel gas and other related business.

The Directors, including the independent non-executive Directors are of the view that the terms of the Jiangsu LNG Acquisition are fair and reasonable and in the interest of the Shareholders and the Group as a whole.

2.3 Implication of the Listing Rules

As of the Latest Practicable Date, PetroChina was deemed to be interested in 2,513,917,342 Shares, representing approximately 50.74% of the issued share capital of the Company. CNPC, the ultimate shareholder of PetroChina and the Company, was deemed to be interested in 2,684,339,342 Shares, representing approximately 54.18% of the issued share capital of the Company. Both CNPC and PetroChina are controlling shareholders of the Company, thus both CNPC and PetroChina are the connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Jiangsu LNG Acquisition constitutes a connected transaction of the Company.

The applicable percentage ratios referred to in Chapter 14A for the Jiangsu LNG Acquisition is more than 2.5%, and thus constitutes a connected transaction of the Company and is subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll.

As each of CNPC and PetroChina is considered to have a material interest in the Jiangsu LNG Acquisition, CNPC and PetroChina and their respective associates shall abstain from voting on the resolution approving the Jiangsu LNG Acquisition.

LETTER FROM THE BOARD

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, in relation to the Jiangsu LNG Acquisition. Guangdong Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

3. CONTINUING CONNECTED TRANSACTIONS

3.1 Revisions of Caps for Continuing Connected Transactions

References are made to the announcement and the circular of the Company dated 6 and 9 March 2009 respectively in relation to the Continuing Connected Transactions pursuant to the PSAs and the Master Agreement (as subsequently amended and supplemented pursuant to the First Supplemental Agreement and the Second Supplemental Agreement), all entered into between the Company and CNPC.

In the announcement of the Company dated 6 March 2009, the Company set out the Existing Caps for each relevant category of the Continuing Connected Transactions for each of the three years ending 31 December 2011. The Continuing Connected Transactions and the Existing Caps (where required) were approved by the Independent Shareholders at the special general meeting of the Company held on 24 March 2009.

The Company has closely monitored the performance of the Continuing Connected Transactions. However, owing to the expansion of the Group's business, in particular, the diversification of the Group's business into natural gas downstream distribution and application business, the Board expects that the Existing Caps as previously approved by the Independent Shareholders for certain categories of the Continuing Connected Transactions for the two years ending 31 December 2011 are likely to be exceeded. The Board therefore proposes the Revised Caps for the Continuing Connected Transactions for the two years ending 31 December 2011 in order to cater for the Group's demand for the relevant years.

THE PSAs AND THE MASTER AGREEMENT

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

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the

LETTER FROM THE BOARD

PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016. The terms of the Liaohe Contract runs from 1 March 1998 to 28 February 2018.

The Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects. The Master Agreement was amended by the First Supplemental Agreement in 2006 and by the Second Supplemental Agreement in 2009. Pursuant to the Master Agreement (as amended), the range of products and services to be procured from the CNPC Group include Oil and Gas Products, general products and services and rental services. The Master Agreement, as extended by the Second Supplemental Agreement, will expire on 31 December 2011.

For further details of the PSAs and the Master Agreement (as amended), please refer to the announcement and the circular of the Company dated 6 March 2009 and 9 March 2009 respectively.

3.1.1 Categories of Continuing Connected Transactions

- (a) *Provision of general products and services by the CNPC Group to the Group (other than Oil and Gas Products)*

Nature of Transactions

The Group procures certain products and services from the CNPC Group under the PSAs and the Master Agreement.

The PSAs

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

The Master Agreement

Pursuant to the Master Agreement entered into between CNPC and the Company in 2003, the CNPC Group has agreed to provide the following products and services to the Group (the “**Original General Products and Services**”):

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

LETTER FROM THE BOARD

- (iii) engineering services including geological surveying, drilling, well cementing, logging, mud logging, well testing, downhole operations, oilfield construction (and installation), engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;
- (iv) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services; and
- (v) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services.

In addition, as disclosed in the announcement of the Company dated 6 March 2009, the CNPC Group and the Company entered into the Second Supplemental Agreement pursuant to which the CNPC Group agreed to provide the following additional categories of general products and services (other than the supply of Oil and Gas products) (the “**Additional General Products and Services**”):

- (i) amenities services, including but not limited to property management, staff canteen, training centres and guest houses;
- (ii) social and ancillary services, including but not limited to security services, education, hospitals, public transport; and
- (iii) financial services, including but not limited to loans and deposit services and the associated interest incomes and expenses, guarantees and entrustment services.

(b) *Purchase of the Group’s Share of Crude Oil by the CNPC Group*

Nature of Transactions

Pursuant to the PSAs, the Group has the right to sell and deliver its share of oil production from each of the PRC Oilfields to a destination of its choice, except for destinations which infringe the political interests of the PRC. However, given the transportation costs and prevailing oil prices, the likely purchaser of the entire oil production share attributable to the Group from each of the PRC Oilfields is likely to be the CNPC Group.

LETTER FROM THE BOARD

Since entering into the PSAs, the Company has sold all its share of the oil from the PRC Oilfields to the CNPC Group and the Board intends to continue this arrangement. There is no contractual obligation upon the CNPC Group to purchase the Group's share of the oil production from the PRC Oilfields although, from a commercial perspective, the Board expects that the CNPC Group will continue to accept all deliveries.

(c) *Rental Payments*

Nature of Transactions

Under the Master Agreement, the CNPC Group also agreed to lease properties to the Group. Currently, the Group leases certain offices and warehouses in Hong Kong and the PRC from the CNPC Group.

(d) *Purchase of Oil and Gas Products*

Nature of Transactions

Pursuant to the Second Supplemental Agreement, the CNPC Group agreed to supply crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products ("Oil and Gas Products") to the Group.

3.1.2 Revised Caps

Annual caps

The announcement of the Company dated 6 March 2009 set out the Existing Caps for each category of the Continuing Connected Transactions for each of the three years ending 31 December 2011, which were approved (where required) by the Independent Shareholders at a special general meeting of the Company held on 24 March 2009. Owing to the continued expansion of the Group's business, in particular, the diversification of the Group's business into natural gas downstream distribution and application business, the Board expects that the Existing Caps for categories (a) and (d) of the Continuing Connected Transactions listed below for the two years ending 31 December 2011 are likely to be exceeded. Accordingly, the Board proposes the following Revised Caps for categories (a) and (d) of the

LETTER FROM THE BOARD

Continuing Connected Transactions listed below which will serve as the maximum annual value of the Continuing Connected Transactions for each of the two years ending 31 December 2011:

Category of Continuing Connected Transactions	Historical amounts	Year ending 31st December 2010		Year ending 31 December 2011	
		Existing Caps	Revised Caps	Existing Caps	Revised Caps
(a) Provision of products and services by the CNPC Group to the Group under the PSAs, the Master Agreement, and for the avoidance of doubt including those under the Second Supplemental Agreement but excluding the Oil and Gas Products	For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, approximately HK\$1,205,518,000, HK\$989,732,000 and HK\$125,530,000 respectively.	HK\$1,498,000,000	HK\$3,544,000,000	HK\$1,669,000,000	HK\$4,093,000,000
(b) Purchase of the Group's share of crude oil by the CNPC Group under the PSAs	For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, approximately HK\$3,387,058,000, HK\$2,079,948,000 and HK\$674,181,000 respectively.	HK\$4,372,000,000	- (Note 3)	HK\$4,840,000,000	- (Note 3)
(c) Rental Payments under the Master Agreement (Note 1)	For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, approximately HK\$527,000, HK\$778,000 and HK\$187,000 respectively.	HK\$5,000,000	- (Note 3)	HK\$5,000,000	- (Note 3)
(d) Purchase of Oil and Gas Products by the Group under the Second Supplemental Agreement	For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, approximately HK\$234,707,000, HK\$643,869,000 and HK\$267,430,000 respectively. (Note 2)	HK\$1,485,000,000	HK\$2,318,000,000	HK\$1,931,000,000	HK\$5,251,000,000

Note:

- (1) As disclosed in the announcement of the Company dated 6 March 2009, as the relevant percentage ratios (other than the profit ratio) of the Existing Caps for the Rental Payments was, on an annual basis, expected to be more than 0.1% but less than 2.5%, the continuing connected transactions and the Existing Caps in respect of the Rental Payments are exempt from the Independent Shareholders' approval requirement pursuant to Listing Rule 14A.34.
- (2) As Shennan Oil, Xinjiang Xinjie and Huayou respectively became a member of Group only during the course of 2009, the amount in respect of the financial year ended 31 December 2008 are for references only.

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- (3) The Existing Caps for categories (b) and (c) of the Continuing Connected Transactions, as approved (where required), by the Independent Shareholders at a special general meeting of the Company held on 24 March 2009 shall remain unchanged.

3.1.3 Basis of determination of the Revised Caps

- (a) *Provision of general products and services by the CNPC Group to the Group (other than Oil and Gas Products)*

The Revised Caps for the provision of general products and services by the CNPC Group to the Group under the PSAs and the Master Agreement but excluding the Oil and Gas Products have been determined with reference to the historical level of products and services charges paid by the Group to the CNPC Group under the PSAs and the Master Agreement and the relevant pricing principles, the inflation rate, the development and production progress of the PRC Oilfields, the number of oil exploration and production projects that the Group will be involved in the two years ending 31 December 2011 and the expected growth of the Group in light of the restructuring of the Company and the diversification into natural gas downstream distribution and application business.

- (b) *Provision of Oil and Gas Products by the CNPC Group to the Group*

It is the Group's plan to venture into and expand its business in the city gas, vehicle fuel gas and related businesses through the organic growth of its subsidiaries, and through possible acquisitions of potential suitable target companies. Accordingly, the Company projects that its demand for Oil and Gas Products would increase in the following years. In arriving at the Revised Caps for the provision of Oil and Gas Products, the Company has also assumed that the oil price will be subject to considerable fluctuation and will gradually increase as the time spans out. The Revised Caps were arrived at by multiplying the projected volume growth and the Group's estimate of the future oil and natural gas price.

The Board is of the view that the proposed Revised Caps for the two categories of Continuing Connected Transactions are in line with the estimated development of the business of the Group, and are determined based on the principles of fairness and reasonableness.

3.2 New Category of Continuing Connected Transactions

3.2.1 Provision of general products and services by the Group to the CNPC Group

In anticipation of continuing provision of products and services by the Company's subsidiaries to the CNPC Group in the future, on 19 May 2010, the Company and CNPC entered into the Third Supplemental Agreement in order to

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extend the scope of the co-operation between the Company and CNPC and to cater for the needs of both parties. Under the Third Supplemental Agreement, the Company agrees to provide certain products and services to the CNPC Group.

The details of the Third Supplemental Agreement are set out below:

Date: 19 May 2010

Parties: (1) The Company
(2) CNPC

Synopsis:

Provision of general products and services by the Group to CNPC Group

Under the Third Supplemental Agreement, the Group agrees to provide the following products and services to the CNPC Group:

- (i) supply of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products;
- (ii) engineering services including construction (including installation) of pipelines, gas-stations and other similar facilities, engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;
- (iii) lease services including leasing of certain offices, commercial building, warehouses and other related or similar services;
- (iv) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services; and
- (v) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services.

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The transactions under the Third Supplemental Agreement shall be carried out with reference to the general principles under the Master Agreement, for avoidance of doubts, both parties agree the following:

- (i) the products and services shall be of good quality and the price of the products and services shall be fair and reasonable. The terms and conditions on which such products and services to be provided to the CNPC Group shall be no less favourable than those (a) offered by the Group to independent third parties; and (b) offered by independent third parties to the CNPC Group for similar products and services;
- (ii) the CNPC Group and the Group shall enter into individual implementation agreements in relation to each type of products and services setting out detailed terms and conditions for providing such products and services; and
- (iii) the quality, price and other terms and conditions for the provision of the products and services by the Group to the CNPC Group shall be no less favourable than those offered by independent third parties to the Group.

Price determination

The pricing for such general products and services to be provided under the Third Supplemental Agreement shall be based on the following general principles:

- (i) the price (the “**New Relevant Market Price**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (“**Best Market Price**”). If the Group provides the relevant products or services at a price lower than the Best Market Price to independent third parties in such markets, such lower price shall be the New Relevant Market Price; and
- (ii) in the absence of the New Relevant Market Price, the price shall be set at the agreed contractual price, being the aggregate value of the actual costs of all products and services to be provided under the Master Agreement which are required to be priced at agreed contractual prices during the relevant year plus an additional margin of not more than 3%. The Directors consider that such margin is reasonable to cover any administrative costs and handling charges incurred by the Group in providing such products and services and are in line with market practice.

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Other rights and obligations

The CNPC Group retains the right to purchase such products or services from independent third parties where the products or services offered by such independent third parties are considered by the CNPC Group to be superior to those offered by the Group.

CNPC has agreed to compensate the Company for any loss arising from the breach of the Third Supplemental Agreement or of any implementation agreement by any member of the CNPC Group.

Terms and termination

The Third Supplemental Agreement shall be effective on the date when the independent shareholders' approval has been obtained. The Third Supplemental shall be expired on the day when the Master Agreement expires (i.e. 31 December 2011).

3.2.2 Proposed Caps

The table below sets out the Proposed Caps for the continuing connected transactions under the Third Supplemental Agreement for the two years ending 31 December 2010 and 2011:

Category of Continuing Connected Transactions	Historical Amount	Proposed Caps for the year ending 31 December	
		2010	2011
(e) Provision of products and services by the Group to the CNPC Group under the Third Supplemental Agreement	For the three months ended 31 March 2010, approximately HK\$5,002,000	HK\$494,000,000 <i>(Note 1)</i>	HK\$1,400,000,000 <i>(Note 2)</i>

Note 1: The significant increase of the Proposed Cap for the year ending 31 December 2010 as compared with the historical amounts for the three months ended 31 March 2010 is due to the following reasons:

- (1) the Company expects that drilling rigs and trucks of various oilfield operators in the PRC, including members of the CNPC Group, currently powered by diesel, would be gradually replaced and powered by LNG, in which case the consumption of the Group's gas products by the CNPC Group would be significantly increased; and
- (2) the Company has taken into account the expected gradual increase in maintenance services required by the members of the CNPC Group after the Xinjiang Xinjie Assets Disposal (as disclosed in the announcement of the Company dated 18 December 2009).

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Note 2: The significant increase of the Proposed Cap for the year ending 31 December 2011 as compared with the year ending 31 December 2010 is due to the following reasons:

- (1) the Company has acquired the equity interest of Jiangsu LNG Company (as announced by the Company by an announcement dated 17 May 2010) and the Company expects that the operation of the LNG terminal will commence in spring 2011. The Company contemplates that there will be high demand of service from the LNG terminal (including uploading, storage and gasification of LNG) from various customers, which include members of the CNPC Group;
- (2) the Company expects that drilling rigs and trucks of various oilfield operators in the PRC, including members of the CNPC Group, currently powered by diesel, would be gradually replaced and powered by LNG, in which case the consumption of the Group's gas products by the CNPC Group would be significantly increased; and
- (3) the Company has taken into account the expected gradual increase in maintenance services required by the members of the CNPC Group after the Xinjiang Xinjie Assets Disposal (as disclosed in the announcement of the Company dated 18 December 2009).

3.2.3 Basis of determination of the Proposed Caps

With the expansion of natural gas downstream distribution and application business through subsidiaries, continuing provision of products and services by the Company's subsidiaries to the CNPC Group is expected. The Proposed Caps have been determined with reference to the historical level of products and services provided by the Group to the CNPC Group, the expected growth of the Group in light of the restructuring of the Company and the diversification into natural gas downstream distribution and application business, and projected price increases (including natural gas price increases).

3.3 Reasons for the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps

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

In view of the strengths and scope of CNPC's business activities and the strong favourable support that such Continuing Connected Transactions would bring to the Company's business activities, the Board considers that it is beneficial for the Company to carry out the Continuing Connected Transactions with the CNPC Group as these transactions have facilitated and will continue to facilitate the Group's business operations. The Continuing Connected Transactions will be conducted in the ordinary

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and usual course of business of the Group. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company.

Further, the Company contemplates that the CNPC Group will be one of the customers as the Company expands into natural gas downstream distribution and by entering into the Third Supplemental Agreement, the Group will be able to provide products and services to the CNPC Group, which will further enhance the business growth. The Directors are also of the view that expansion of the scope of the co-operation between the CNPC Group and the Group under the Third Supplemental Agreement to be beneficial to the business of the Group.

3.4 Requirements of the Listing Rules

As explained above, CNPC is a connected person of the Company. Accordingly the transactions under the PSAs and the Master Agreement constitute continuing connected transactions of the Company. As the relevant percentage ratios (other than profit ratio) of the Revised Caps for such transactions in respect of each of the two years ending 31 December 2011 exceeds 2.5% on an annual basis, the Revised Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Listing Rules 14A.45 to 14A.48. Due to the long-term relationship between the Group and the CNPC Group, the Directors, including the independent non-executive Directors, consider that: (a) it is beneficial to the Company to continue these transactions as they have facilitated and are expected to continue to facilitate the operation and growth of the Group's business; and (b) these transactions have been and will be conducted on normal commercial terms or on terms no less favourable than those available to the Group from independent third parties, under prevailing market conditions, and were and will be entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the Revised Caps are fair and reasonable.

The transactions under the Third Supplemental Agreement also constitute continuing connected transaction of the Company. As the relevant percentage ratios (other than the profit ratio) of the Proposed Caps under the Third Supplemental Agreement for such transaction in respect of each of the two years ending 31 December 2011 exceeds 2.5% on an annual basis, the transactions under the Third Supplemental Agreement and the Proposed Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Listing Rules 14A.45 to 14A.48. The Directors, including the independent non-executive Directors, consider that the terms of the Third Supplemental Agreement and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Details of the Continuing Connected Transactions and the continuing connected transactions under the Third Supplemental Agreement will be included in the annual report and accounts of the Company in accordance with Listing Rules 14A.45 and 14A.46. In the event that the PSAs or the Master Agreement are renewed or the terms

LETTER FROM THE BOARD

thereof are materially varied, the Company will re-comply with the reporting, announcement and Independent Shareholders' approval pursuant to Listing Rules 14A.45 to 14A.48.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, in relation to the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps. Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. CNPC and its associates are required to abstain from voting on the resolutions in connection with the approval of the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps.

4. INFORMATION ON THE COMPANY AND OTHER PARTIES

(a) Information on the Company

The Company is an investment holding company. The principal activities of the Group are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia. The Group is also engaged in the city gas, vehicle fuel gas and related businesses in the PRC.

(b) Information on PetroChina

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

(c) Information on CNPC

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

LETTER FROM THE BOARD

(d) Information on Jiangsu LNG Company

Jiangsu LNG Company was set up in June 2009 and was licensed to develop, construct and operate a LNG terminal in Jiangsu, including the loading, storage and gasification of natural gas. As of 31 December 2009, the development of the LNG terminal was at its planning phase.

5. SGM

The notice convening the SGM to be held at the VINSON Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 10 June 2010 at 11:15 a.m., at which ordinary resolutions will be proposed to approve, among other things, the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps is set out on page 86 of this circular.

A proxy form for use at the SGM is enclosed. If you intend to appoint proxy to attend the SGM, you are requested to complete the proxy form and return it to the Company's principal office at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the SGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the SGM if you so wish.

6. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 27 of this circular which contains its recommendation to the Independent Shareholders in relation to the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps. Your attention is also drawn to the letter of advice from Guangdong Securities set out on pages 28 to 47 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Jiangsu LNG Acquisition, the Revised Caps, the continuing connect transactions under the Third Supplemental Agreement and the Proposed Caps and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of Guangdong Securities, is of the opinion that the Jiangsu LNG Acquisition Agreement, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps to be proposed at the SGM.

The Board considers that the terms of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps are on normal commercial terms and are fair and reasonable and in the

LETTER FROM THE BOARD

interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the resolutions in respect of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connect transactions under the Third Supplemental Agreement and the Proposed Caps to be proposed at the SGM.

7. ADDITIONAL INFORMATION

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

By Order of the Board
Li Hualin
Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE



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

(Stock Code: 00135)

*(Formerly known as CNPC (Hong Kong) Limited
中國(香港)石油有限公司*)*

25 May 2010

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
THE JIANGSU LNG ACQUISITION
(2) CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 25 May 2010 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps, details of which are set out in the “Letter from the Board” in the Circular to the Shareholders.

Having taken into account the advice of Guangdong Securities, we consider that the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Jiangsu LNG Acquisition, the Revised Caps, the continuing connected transactions under the Third Supplemental Agreement and the Proposed Caps as set out in the notice of the SGM to be held on 10 June 2010.

Yours faithfully,

Independent Board Committee

Lau Wah Sum Li Kwok Sing Aubrey Liu Xiao Feng

* For identification purpose only

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Jiangsu LNG Acquisition and the Continuing Connected Transactions for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

25 May 2010

*To: The independent board committee and the independent shareholders
of Kunlun Energy Company Limited*

Dear Sirs,

(1) CONNECTED TRANSACTION IN RELATION TO THE JIANGSU LNG ACQUISITION (2) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Jiangsu LNG Acquisition and the Continuing Connected Transactions (for avoidance of doubt, including the continuing connected transactions under the Third Supplemental Agreement), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 May 2010 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Jiangsu LNG Acquisition

On 7 May 2010, the Company submitted an application to the China Beijing Equity Exchange to acquire and bid for 55% equity interest in Jiangsu LNG Company from PetroChina. The open tender was closed on 7 May 2010 and the Company was informed that it was the sole bidder. Subsequently on 17 May 2010, the Company entered into the Jiangsu LNG Acquisition Agreement with PetroChina, pursuant to which the Company has conditionally agreed to purchase, and PetroChina has conditionally agreed to sell, the 55% equity interest in Jiangsu LNG Company at a consideration of RMB500,206,200 (equivalent to approximately HK\$567,707,000) (the “**Jiangsu LNG Consideration**”) in cash, which is equivalent to the base price of the open tender of RMB500,206,200 (equivalent to approximately HK\$567,707,000).

LETTER FROM GUANGDONG SECURITIES

Each of CNPC (the ultimate shareholder of PetroChina) and PetroChina is the controlling shareholder of the Company. Accordingly, pursuant to the Listing Rules, CNPC and PetroChina are connected persons of the Company and the Jiangsu LNG Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

In addition, since the applicable percentage ratios as referred to in Chapter 14A of the Listing Rules for the Jiangsu LNG Acquisition is more than 2.5%, the Jiangsu LNG Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements at the SGM by way of poll. As each of CNPC and PetroChina is considered to have a material interest in the Jiangsu LNG Acquisition, CNPC and PetroChina and their respective associates shall be required to abstain from voting on the relevant resolution(s) approving the Jiangsu LNG Acquisition.

The Continuing Connected Transactions

References are made to the announcement of the Company dated 6 March 2009 (the "Previous Announcement") and the circular of the Company dated 9 March 2009 in relation to the Continuing Connected Transactions pursuant to the PSAs and the Master Agreement, all being entered into between the Company and CNPC.

In the Previous Announcement, the Company set out the Existing Caps for each relevant category of the Continuing Connected Transactions for each of the three years ending 31 December 2011. The Continuing Connected Transactions and the Existing Caps (where required) were approved by the then independent shareholders of the Company at the special general meeting of the Company held on 24 March 2009.

The Company has closely monitored the performance of the Continuing Connected Transactions. However, owing to the expansion of the Group's business, in particular, the diversification of the Group's business into natural gas down-stream distribution and application business, the Board expects that the Existing Caps as previously approved by the then independent shareholders of the Company for certain categories of the Continuing Connected Transactions for the two years ending 31 December 2011 are likely to be exceeded. Thus, the Board considers and proposes the Revised Caps for the Continuing Connected Transactions for the two years ending 31 December 2011 in order to cater for the demand during the relevant years.

In addition, in anticipation of continuing provision of products and services by the Company's subsidiaries to the CNPC Group in the future, on 19 May 2010, the Company and CNPC entered into the Third Supplemental Agreement in order to extend the scope of the co-operation between the Company and CNPC and to cater for the needs of both parties. Under the Third Supplemental Agreement, the Company agrees that the Group will provide certain products and services to the CNPC Group.

As aforementioned, CNPC is a connected person of the Company. Accordingly, the transactions contemplated under each of the PSAs, the Master Agreement and the Third Supplemental Agreement constitute continuing connected transactions for the Company. As the relevant percentage ratios (other than profit ratio) of the Revised Caps as well as the Proposed Caps for such transactions in respect of each of the two years ending 31 December

LETTER FROM GUANGDONG SECURITIES

2011 exceed 2.5% on an annual basis, the Revised Caps together with the Proposed Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. CNPC and its associates (including PetroChina) shall be required to abstain from voting on the resolutions in connection with the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps at the SGM.

An Independent Board Committee comprising Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the Jiangsu LNG Acquisition Agreement, the Revised Caps and the Third Supplemental Agreement (together with the Proposed Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Jiangsu LNG Acquisition and the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Jiangsu LNG Acquisition Agreement and the transactions contemplated thereunder, the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in all these respects.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the

LETTER FROM GUANGDONG SECURITIES

Company, CNPC, PetroChina and Jiangsu LNG Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Jiangsu LNG Acquisition or the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Jiangsu LNG Acquisition and the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

(A) JIANGSU LNG ACQUISITION

(1) Background of the Jiangsu LNG Acquisition

The Jiangsu LNG Acquisition Agreement

On 9 April 2010, PetroChina arranged to sell 55% equity interest in Jiangsu LNG Company through open tender on the China Beijing Equity Exchange pursuant to the relevant PRC laws and regulations governing disposal of state-owned assets. On 7 May 2010, the Company submitted an application to acquire and bid for the 55% equity interest in Jiangsu LNG Company. The open tender was closed on 7 May 2010 and the Company was informed that it was the sole bidder.

Subsequently on 17 May 2010, the Company entered into the Jiangsu LNG Acquisition Agreement with PetroChina, pursuant to which the Company has conditionally agreed to purchase, and PetroChina has conditionally agreed to sell, the 55% equity interest in Jiangsu LNG Company at the Jiangsu LNG Consideration in cash, which is equivalent to the base price of the open tender of RMB500,206,200 (equivalent to approximately HK\$567,707,000). As confirmed by the Directors, the Company intends to pay the Jiangsu LNG Consideration out of the Group's internal resources without incurring additional borrowings.

Completion of the Jiangsu LNG Acquisition Agreement is conditional upon certain conditions precedent, being satisfied or waived by the Company (as the case may be), which are detailed in the Board Letter.

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The Directors (excluding the independent non-executive Directors) confirmed that they are of the view that the terms of the Jiangsu LNG Acquisition Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Information on the Group

The Company is an investment holding company. The principal activities of the Group are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan (“**Kazakhstan**”), the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia. The Group is also engaged in the city gas, vehicle fuel gas and related businesses in the PRC.

As referred to in the annual report of the Company for the year ended 31 December 2009 (the “**2009 Annual Report**”), in 2009, the Group acquired for and made capital contribution into three operating companies, namely CNPC Shennan Oil Technology Development Co., Ltd., 新疆新捷股份有限公司 (Xinjiang Xinjie Co., Ltd.) and 華油天然氣股份有限公司 (China Natural Gas Co., Ltd.), which are engaged in natural gas distribution business (the “**Previous Acquisitions**”). According to the 2009 Annual Report, the Previous Acquisitions laid a foundation for the Group’s business transition and the development of its natural gas distribution business.

In 2009, the Company also formed new joint venture companies to further develop its natural gas distribution business in several local locations of the PRC, such as Shannxi Province and Hebei Province. As advised by the Directors, through the Previous Acquisitions and the establishment of new joint ventures, the Group has officially commenced its business transition, and will pay additional effort on the development of natural gas end users sale.

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Set out below is a summary of the audited financial information of the Group for the two years ended 31 December 2009 and 2008 as extracted from the 2009 Annual Report:

Consolidated income statement	For the year ended 31 December 2009	For the year ended 31 December 2008	Year on year change
		<i>(restated)</i>	
		<i>(Note)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Revenue	5,280,185	6,787,923	(22.21)
Profit for the year	1,463,462	4,680,501	(68.73)
Profit attributable to owners of the Company	1,203,948	3,385,208	(64.44)

Note: The financial information has been restated to give effect to the acquisitions of the natural gas distribution projects with all periods present as if the operations of the Group and the natural gas distribution projects have always been combined.

As depicted by the above table, the Group's revenue for the year ended 31 December 2009 amounted to approximately HK\$5,280.19 million, representing a decrease of approximately 22.21% as compared to the previous year. The profit attributable to owners of the Company for the year ended 31 December 2009 amounted to approximately HK\$1,203.95 million, representing a decrease of approximately 64.44% as compared to the previous year. As stated in the 2009 Annual Report, the decrease in profit was mainly due to (i) the adjustment for tax duties expense by the CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") project carried out by the Group in Kazakhstan; and (ii) a drop in oil price. As a result of an increase in levy on tax duties arising from a change in relevant policies by the Kazakhstan government, the Aktobe project is required to bear additional burden. In addition, with the drop of the international crude oil price in 2009 as compared to the previous year, the weighted average realised price of the Group's crude oil per barrel had declined by approximately 35.23% in 2009 as compared to the previous year.

With reference to the 2009 Annual Report, natural gas distribution business of the Group contributed approximately 40.32% of the Group's total revenue for the year ended 31 December 2009, as compared to approximately 23.27% for the year ended 31 December 2008. We further noted that the financial information of the Group has been restated to give effect to the acquisitions of the natural gas distribution projects with all periods present as if the operations of the Group and the natural gas distribution projects have always been combined. As advised by the Directors, the actual contribution of natural gas distribution business to the Group was nil for the year ended 31 December 2008. The aforesaid expansion demonstrates the growing importance of natural gas distribution business of the Group.

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Information on Jiangsu LNG Company

As extracted from the Board Letter, Jiangsu LNG Company was set up in June 2009 and was licensed to develop, construct and operate a LNG terminal in Jiangsu Province, the PRC, including the loading, storage and gasification of natural gas. As at the Latest Practicable Date, the development of the LNG terminal was at its planning phase. In this regard, the Directors further advised us that the development of the LNG terminal, which is expected to be completed in the first half of 2011, is consisted of two phases, and each phase would require capital injection of around RMB3.3 billion. According to the Directors, the LNG terminal will be able to commence operation after the phase I development is completed.

Upon completion of the Jiangsu LNG Acquisition, Jiangsu LNG Company will be owned as to 55%, 35% and 10% by the Company, Pacific Ocean Oil and Gas, and Jiangsu Province Guoxin Asset Management respectively.

As disclosed in the Board Letter, as of 31 December 2009, the LNG terminal to be operated by Jiangsu LNG Company was at its planning phase and had not commenced operations. Therefore, according to the audited accounts of Jiangsu LNG Company, no profit was recorded during the period from its establishment on 17 June 2009 to 31 December 2009. As at 31 December 2009, the audited net asset value of Jiangsu LNG Company based on the PRC GAAP was approximately RMB795,343,000 (equivalent to approximately HK902,670,000).

(2) Reasons for the Jiangsu LNG Acquisition

As discussed in the foregoing, it is the business strategy of the Group to explore into natural gas distribution business. The Group implemented such business strategy through the Previous Acquisitions as well as the establishment of new joint ventures for the year ended 31 December 2009.

With reference to the Board Letter, upon commencement of operations, Jiangsu LNG Company will carry out the LNG terminal business, including the loading, storage and gasification of natural gas. The Board considers that the Jiangsu LNG Acquisition will enable the Company to have a direct access to natural gas supply infrastructure and enhance the Company's capability to expand the city gas, vehicle fuel gas and other related businesses. For this reason, we consider that the Jiangsu LNG Acquisition is conducted in the ordinary and usual course of business of the Company given that the Jiangsu LNG Acquisition is in line with the business strategy of the Group.

In order for us to form a better understanding on the future outlook of the natural gas market in the PRC, we have searched and found from an article issued by the National Development and Reform Commission of the PRC dated 5 February 2007 regarding the 11th five-year plan of the PRC (*Note: as far as we are aware of, details of the 12th five-year plan has not been released by the PRC government yet*). The said article revealed that the PRC government has decided to (i) improve the efficiency of energy utilisation by the development of natural gas, hydraulic power, renewable

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energy, new energy and other forms of clean energy; and (ii) advocate additional investments in natural gas infrastructure. Furthermore, we noted that a stimulus plan to spur vehicle demand and promote new energy cars (汽車產業調整振興規劃) was announced by the State Council of the PRC in 2009 and the plan may have an indirect positive impact on the natural gas market in the PRC in long term as natural gas is one type of new energies used by the new energy cars. In view of also that natural gas is a clean and efficient source of energy which has drawn rising attention and interest from the PRC government and enterprises, and has become one of the most rapidly growing sectors in the PRC energy industry, the Directors are optimistic about the future growth of natural gas business.

Having taken into account the potential positive outlook of the natural gas market in the PRC, together with the business strategy of the Group to explore into natural gas distribution business, we consider that the Jiangsu LNG Acquisition is in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the Jiangsu LNG Acquisition Agreement

The Jiangsu LNG Consideration

The Jiangsu LNG Consideration of RMB500,206,200 (equivalent to approximately HK\$567,707,000) is equivalent to the base price of the 55% interest in Jiangsu LNG Company in the open tender on the China Beijing Equity Exchange. The Company understands that the said base price is the same as to 55% of “the appraised net asset value of Jiangsu LNG Company of approximately RMB909,466,000 (equivalent to approximately HK\$1,032,194,000)” as at 31 December 2009, as set out in a valuation report of Jiangsu LNG Company prepared by Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司), an independent qualified PRC valuer, based on the cost approach. The said valuation report, including the assumptions and basis of the valuation, is contained in Appendix II to the Circular.

We computed that the Jiangsu LNG Consideration represents an implied price to book ratio (“PBR”) of approximately 1.14 times to “55% of the audited net asset value of Jiangsu LNG Company as at 31 December 2009” of approximately RMB437.44 million.

PBR analysis for the Jiangsu LNG Consideration

For the purpose of assessing the fairness and reasonableness of the Jiangsu LNG Consideration, we have performed a PBR analysis. We have searched for companies listed on the main board of the Stock Exchange which are in similar lines of business as Jiangsu LNG Company, i.e. having business in the down-stream area of the natural gas industry in the PRC (the “**Natural Gas Comparables**”) for comparison. We have also excluded companies which recorded net liabilities during their latest financial years as per the relevant published financial information. To the best of our knowledge and endeavor, we found eight companies which met the said criteria. It should be noted that the

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businesses, operations and prospects of Jiangsu LNG Company are not exactly the same as the Natural Gas Comparables (in particular that the LNG terminal to be operated by Jiangsu LNG Company is still at its planning phase while the Natural Gas Comparables are already in operation), and we have not conducted any in-depth investigation into the businesses and operations of the Natural Gas Comparables. The Natural Gas Comparables are hence only used for illustrative purpose.

Set out below are the implied PBRs of the Natural Gas Comparables based on their closing prices as at 17 May 2010, being the date of the Jiangsu LNG Acquisition Agreement, and their latest published financial information:

Company name (Stock code)	Principal business	Year end date	Market capitalisation (HK\$ million) (Note 1)	PBR (times)
Kunlun Energy Co. Ltd. (135)	Exploration and production of crude oil and natural gas in the PRC, Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia.	2009/12/31	49,292.53	3.47
Sino Gas Group Ltd. (260)	Operation of petroleum, compressed natural gas and liquefied petroleum gas refueling stations, and trading of motor vehicles conversion parts and gas station equipment.	2009/12/31	783.69	1.68
China Gas Holdings Ltd. (384) (Note 2)	Sales of piped gas, gas connection, sales of LPG and sales of coke and gas appliances.	2009/3/31	13,042.37	3.57
China Oil And Gas Group Ltd. (603)	Investments in natural gas and energy related businesses.	2009/12/31	4,908.28	3.01
Towngas China Co. Ltd. (1083)	Sales of piped gas and gas related household appliances, and construction of gas pipeline networks under gas connection contracts.	2009/12/31	6,252.94	0.97

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Company name (Stock code)	Principal business	Year end date	Market capitalisation (HK\$ million) (Note 1)	PBR (times)
China Resources Gas Group Ltd. (1193)	City gas distribution (including natural and petroleum gas) in the PRC.	2009/12/31	14,766.57	14.32
XinAo Gas Holdings Ltd. (2688)	Investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled gas in the PRC.	2009/12/31	25,151.08	4.29
Zhengzhou Gas Co. Ltd. (3928)	Sales of natural gas, pressure control equipments and gas appliances to customers and construction of gas pipelines and the provision of renovation services of gas pipelines to local customers.	2009/12/31	1,824.69	1.90
Minimum				0.97
Maximum				14.32
Median				3.24
The Jiangsu LNG Consideration				1.14

Source: the Stock Exchange web site (www.hkex.com.hk)

Notes:

- As at 17 May 2010, being the date of the Jiangsu LNG Acquisition Agreement.
- The PBR is calculated based on the unaudited net asset value of China Gas Holdings Ltd. as at 30 September 2009.

As depicted by the above table, the implied PBRs of the Natural Gas Comparables ranged from approximately 0.97 times to approximately 14.32 times, with median of approximately 3.24 times, while the implied PBR of the Jiangsu LNG Consideration is approximately 1.14 times. We noted that (i) the implied PBR of the Jiangsu LNG Consideration is within the range of the Natural Gas Comparables; and (ii) the implied PBR of the Jiangsu LNG Consideration is below the median of the Natural Gas Comparables. As such, the Jiangsu LNG Consideration is in line with the market valuation (in terms of the premiums over book values) on listed companies with similar businesses as Jiangsu LNG Company. Taking into account that the Jiangsu LNG Consideration is equivalent to the base price of the 55% interest in Jiangsu LNG Company in the open tender which is the same as the appraised net asset value of Jiangsu LNG Company

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being attributable to the Jiangsu LNG Acquisition, we are of the opinion that the Jiangsu LNG Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Jiangsu LNG Acquisition Agreement

We have also reviewed the other major terms of the Jiangsu LNG Acquisition Agreement and are not aware of any terms which are uncommon. Consequently, we consider that the terms of the Jiangsu LNG Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(4) Possible financial effects of the Jiangsu LNG Acquisition

Jiangsu LNG Company will be owned as to 55%, 35% and 10% by the Company, Pacific Ocean Oil and Gas, and Jiangsu Province Guoxin Asset Management respectively upon completion of the Jiangsu LNG Acquisition. As confirmed by the Directors, the Group will consolidate the financial results of Jiangsu LNG Company into its financial statements.

Effect on net assets

As extracted from the 2009 Annual Report, the audited consolidated net assets of the Group (net of minority interests) were approximately HK\$14,210.54 million as at 31 December 2009. The Directors expected that the Group's net assets would not be materially affected by the Jiangsu LNG Acquisition.

Effect on earnings

Although the development of the LNG terminal is still in its planning phase and Jiangsu LNG Company will only be able to contribute profit into the Group when in operation, in light of the future business prospects of Jiangsu LNG Company as expected by the Directors, the Directors are of the view that the Jiangsu LNG Acquisition would likely to have a positive impact on the future earnings of the Group.

Effect on gearing and working capital

As at 31 December 2009, the Group's gearing level (being calculated as total borrowings divided by the total of total equity and borrowings) according to the 2009 Annual Report was approximately 10.68%. As confirmed by the Directors, the gearing level of the Group would increase since the total borrowings of the Group would increase as a result of the Jiangsu LNG Acquisition.

Regarding the working capital position of the Group, in the short run, given that the Company will satisfy the Jiangsu LNG Consideration by the internal resources of the Group without incurring additional borrowings, the Group's working capital would be reduced following the Jiangsu LNG Acquisition.

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Moreover, the Group is required to inject capital into Jiangsu LNG Company throughout the course of development of the LNG terminal. As advised by the Directors, the Group has not decided on the methods (e.g. equity and debt financing) to be used to finance such capital injection. Therefore, the Jiangsu LNG Acquisition would affect the gearing and/or working capital position of the Group in the long run.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Jiangsu LNG Acquisition.

RECOMMENDATION ON THE JIANGSU LNG ACQUISITION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Jiangsu LNG Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Jiangsu LNG Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Jiangsu LNG Acquisition Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

(B) CONTINUING CONNECTED TRANSACTIONS

(1) Background of the Continuing Connected Transactions

References are made to the Previous Announcement and the circular of the Company dated 9 March 2009 in relation to the Continuing Connected Transactions pursuant to the PSAs and the Master Agreement, all being entered into between the Company and CNPC.

In the Previous Announcement, the Company set out the Existing Caps for each relevant category of the Continuing Connected Transactions for each of the three years ending 31 December 2011. The Continuing Connected Transactions and the Existing Caps (where required) were approved by the then independent shareholders of the Company at the special general meeting of the Company held on 24 March 2009.

The Company has closely monitored the performance of the Continuing Connected Transactions. However, owing to the expansion of the Group's business, in particular, the diversification of the Group's business into natural gas down-stream distribution and application business, the Board proposes that the Existing Caps as previously approved by the then independent shareholders of the Company for certain categories of the Continuing Connected Transactions for the two years ending 31 December 2011 be revised in order to cater for the demand during the said two years.

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In addition, in anticipation of continuing provision of products and services by the Company's subsidiaries to the CNPC Group in the future, on 19 May 2010, the Company and CNPC entered into the Third Supplemental Agreement in order to extend the scope of the co-operation between the Company and CNPC and to cater for the needs of both parties. Under the Third Supplemental Agreement, the Company agrees that the Group will provide the following products and services to the CNPC Group for the two years ending 31 December 2011:

- (i) supply of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products;
- (ii) engineering services including construction (including installation) of pipelines, gas-stations and other similar facilities, engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;
- (iii) lease services including leasing of certain offices, commercial building, warehouses and other related or similar services;
- (iv) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services; and
- (v) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services.

As confirmed by the Directors, the terms of the Third Supplemental Agreement were negotiated and entered into on arm's length basis between the parties thereto and the Directors (excluding the independent non-executive Directors) are of the view that the terms and conditions of the Third Supplemental Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(2) Reasons for the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps

As advised by the Directors, there has been a long and smooth co-operation history between the Group and the CNPC Group regarding the Continuing Connected Transactions. With reference to the Board Letter, the Company is an enterprise whose business operations are in petroleum up-stream business and natural gas down-stream distribution and application business. It is also the business strategy of the Company to explore into natural gas distribution business. The business operations of CNPC, on the other hand, cover a broad spectrum of up-stream and down-stream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. CNPC is also involved in the provision of operational services and technical

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support in such areas as geophysical prospecting, well drilling, logging, well testing, downhole operations, oilfield surface facilities construction, pipeline construction, refining and petrochemical projects, and manufacturing and supply of petroleum equipment.

From our discussion with the Directors, we further understand that a substantial number of personnel engaging in the supply of products and services to the Company relating to the exploration, development, production, storage and transportation of crude oil are employees of the CNPC Group and the Group does not currently have sufficient requisite manpower, expertise and facilities to act as the sole operator of the PRC Oilfields and other overseas oilfields without the assistance from the CNPC Group and any other third parties. In addition, the natural gas distribution projects of the Company require abundant natural gas and natural gas-related services for continual operation and therefore the Group will continue to purchase natural gas and natural gas-related services from the CNPC Group in the future. As further advised by the Directors, the Group also purchases oil and gas from the CNPC Group for trading purposes. Since CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing, the Directors consider that it is essential for the Group to secure certain products and services (including the Oil and Gas Products) from the CNPC Group in the future.

Furthermore, we also noted from the 2009 Annual Report that out of the Group's total turnover of approximately HK\$5,280.19 million for the year ended 31 December 2009, approximately HK\$2,079.95 million was attributable to the sales of crude oil to the CNPC Group. In this respect, the Directors advise us that the CNPC Group has been regarded as a valuable business partner of the Group and it is important for the Group to maintain and continue its business relationship with CNPC for securing a stable source of revenue for the Group.

As stated in the Board Letter, the Company has closely monitored the performance of the Continuing Connected Transactions. However, owing to the expansion of the Group's business, in particular, the diversification of the Group's business into natural gas down-stream distribution and application business, the Board considers that the Existing Caps as previously approved by the then independent shareholders of the Company for certain categories of the Continuing Connected Transactions for the two years ending 31 December 2011 are likely to be exceeded. Accordingly, the Board proposes the Revised Caps for the Continuing Connected Transactions for the two years ending 31 December 2011 in order to cater for the Group's demand for the relevant years.

In addition, the Company contemplates that the CNPC Group will be one of its customers as the Company expands into natural gas down-stream distribution and application business and by entering into the Third Supplemental Agreement, the Group will be able to provide certain products and services to the CNPC Group for the two years ending 31 December 2011, which will further enhance the Group's business growth. The Directors are of the view that the provision of products and services by

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the Group to the CNPC Group under the Third Supplemental Agreement will facilitate the Group's business operations, and therefore is beneficial to the business of the Group.

Having taken into account the strengths and scope of CNPC's business activities and the possible strong favourable support which the Continuing Connected Transactions would bring to the Group's business activities and financial performance, we concur with the Directors that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the agreements in relation to the Continuing Connected Transactions

The PSAs and the Master Agreement

The PSAs and the Master Agreement have been approved at the special general meeting of the Company held on 24 March 2009. Shareholders may refer to the Previous Announcement and the circular of the Company dated 9 March 2009 for the principal terms of such agreements.

The Third Supplemental Agreement

The following is a summary of the principal terms of the provision of products and services under the Third Supplemental Agreement as extracted from the Board Letter:

- (i) the products and services shall be of good quality and the price of the products and services shall be fair and reasonable. The terms and conditions on which such products and services to be provided to the CNPC Group shall be no less favourable than those (i) offered by the Group to independent third parties; and (ii) offered by independent third parties to the CNPC Group for similar products and services;
- (ii) the CNPC Group and the Group shall enter into individual implementation agreements in relation to each type of products and services setting out detailed terms and conditions for providing such products and services; and
- (iii) the quality, price and other terms and conditions for the provision of the products and services by the Group to the CNPC Group shall be no less favourable than those offered by independent third parties to the Group.

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The pricing for the products and services to be provided pursuant to the Third Supplemental Agreement shall be based on the following general principles:

- (i) the price (the “**New Relevant Market Price**”) shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (the “**Best Market Price**”). If the Group provides the relevant products or services at a price lower than the Best Market Price to independent third parties in such markets, such lower price shall be the New Relevant Market Price; and
- (ii) in the absence of the New Relevant Market Price, the price shall be set at the agreed contractual price, being the aggregate value of the actual costs of all products and services to be provided under the Master Agreement which are required to be priced at agreed contractual prices during the relevant year plus an additional margin of not more than 3%. The Directors consider that such margin is reasonable to cover any administrative costs and handling charges incurred by the Group in providing such products and services and are in line with market practice.

Further information of the key terms and conditions of the Third Supplemental Agreement are set out in the section headed “Provision of general products and services by the Group to the CNPC Group (other than the Oil and Gas Products)” of the Board Letter. We have also reviewed the other major terms and conditions of the Third Supplemental Agreement and are not aware of any terms which are uncommon.

Upon our enquiry, the Directors advised us that the terms and conditions of the Third Supplemental Agreement were determined following the general principles under the Master Agreement, and the Group agreed to offer the aforesaid terms and conditions to the CNPC Group in order to maintain the long and smooth co-operation history between the Group and the CNPC Group regarding the Continuing Connected Transactions. As further represented by the Directors, the Company has seldom experienced cases in which there is the absence of the New Relevant Market Price. Although the terms and conditions of the Third Supplemental Agreement, even though would protect the interest of the CNPC Group, as balanced by the fact that (i) the terms and conditions of the Third Supplemental Agreement were determined following the general principles of the Master Agreement under which the Group acts as client of the CNPC Group; and (ii) it would be crucial for the Group to maintain good connection with the CNPC Group judging from their existing business relationship, we consider that the terms of the Third Supplemental Agreement are acceptable.

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(4) The Revised Caps and the Proposed Caps

The table below illustrates the Revised Caps and the Proposed Caps for each of the two years ending 31 December 2011 respectively:

	Year ending 31 December 2010		Year ending 31 December 2011	
	Existing Caps HK\$'000	Revised Caps HK\$'000	Existing Caps HK\$'000	Revised Caps HK\$'000
Provision of products and services by the CNPC Group to the Group under the PSAs and the Master Agreement (and for the avoidance of doubt including those under the Second Supplemental Agreement but other than the Oil and Gas Products) (the “ Products and Services Caps ”)	1,498,000	3,544,000	1,669,000	4,093,000
Purchase of the Oil and Gas Products by the Group under the Second Supplemental Agreement (the “ Oil and Gas Products Caps ”)	1,485,000	2,318,000	1,931,000	5,251,000
			Year ending 31 December 2010 Proposed Caps HK\$'000	Year ending 31 December 2011 Proposed Caps HK\$'000
Provision of products and services by the Group to the CNPC Group under the Third Supplemental Agreement			494,000	1,400,000

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In assessing the fairness and reasonableness of the Products and Services Caps, the Oil and Gas Products Caps and the Proposed Caps, we have discussed with the Directors regarding the basis and assumptions underlying the projections of those cap amounts. The Directors confirmed that the Products and Services Caps, the Oil and Gas Products Caps and the Proposed Caps were determined with reference to, among other things, the following factors:

The Products and Services Caps

- the historical level of products and services charges paid by the Group to the CNPC Group under the PSAs and the Master Agreement and the relevant pricing principles;
- the inflation rate;
- the development and production progress of the PRC Oilfields and the number of oil exploration and production projects that the Group will be involved in during the two years ending 31 December 2011; and
- the expected growth of the Group in light of the restructuring of the Company and the diversification into natural gas down-stream distribution and application business.

The Oil and Gas Products Caps

- the plan of the Group to venture into and expand its business in the city gas, vehicle fuel gas and related businesses through the organic growth of its subsidiaries as well as possible acquisitions of potential suitable target companies; and
- the future oil and natural gas price.

The Proposed Caps

- the expansion of natural gas down-stream distribution and application business through members of the Group and the continuing provision of products and services by the Company's subsidiaries; and
- the historical amount of products and services provided by the Group to the CNPC Group and projected volume and price increase (including natural gas price increase).

We have further enquired into the Directors in respect of the basis of determining the Revised Caps and the Proposed Caps. As represented by the Directors, the Revised Caps and the Proposed Caps were set by the Directors having regard to (i) the additional oil and natural gas products and services which would be triggered by the Previous Acquisitions, the Jiangsu LNG Acquisition and other possible acquisitions to be conducted by the Group under its restructuring

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plan; (ii) the potential future expansion of the Group's business into natural gas down-stream distribution and application business as well as the city gas, vehicle fuel gas and related businesses following its development strategy; and (iii) the moving trend of the oil and natural gas price. Having considered the foregoing basis in determining the Revised Caps and the Proposed Caps, we consider that the Revised Caps and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Revised Caps and the Proposed Caps are relating to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2011, they do not represent forecasts of revenue to be generated from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated and/or actual cost to be spent under the Continuing Connected Transactions will correspond with the Revised Caps and the Proposed Caps respectively.

(5) Listing Rules implication and internal control of the Group

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the Continuing Connected Transactions must be restricted by the Revised Caps and the Proposed Caps respectively for the two years ending 31 December 2011; (ii) the terms of the Continuing Connected Transactions (including the Revised Caps and the Proposed Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Continuing Connected Transactions (including the Revised Caps and the Proposed Caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and the Revised Caps and the Proposed Caps are not being exceeded. In the event that the total amount of the Continuing Connected Transactions exceeds the Revised Caps and the Proposed Caps, or that there is any material amendment to the terms of the Master Agreement and the Third Supplemental Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Continuing Connected Transactions (including the Revised Caps and the Proposed Caps) and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GUANGDONG SECURITIES

RECOMMENDATION ON THE CONTINUING CONNECTED TRANSACTIONS

Having taken into account the above factors and reasons, we are of the opinion that (i) the Revised Caps and the terms of the Third Supplemental Agreement (together with the Proposed Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Revised Caps, the entering into of the Third Supplemental Agreement and the Proposed Caps, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 March 2010 of the properties to be acquired by the Company located in the People's Republic of China.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

25 May 2010

The Directors

Kunlun Energy Company Limited

Rooms 3907-3910, 39th Floor
No. 118 Connaught Road West
Sheung Wan, Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Kunlun Energy Company Limited (formerly known as CNPC (Hong Kong) Limited) (the “Company”) for us to value the properties held/rented by PetroChina LNG Jiangsu Company Ltd. (中石油江蘇液化天然氣有限公司) (“Jiangsu LNG Company”) located in the People's Republic of China (the “PRC”). We confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 March 2010 (the “date of valuation”).

BASIS OF VALUATION

Our valuations of the properties have been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

PROPERTY CATEGORISATIONS

In the course of our valuations, the properties are categorised into the following Groups:

- Group I – Property held by Jiangsu LNG Company under construction in the PRC
- Group II – Property held by Jiangsu LNG Company under contractual rights in the PRC
- Group III – Property rented by Jiangsu LNG Company in the PRC

VALUATION METHODOLOGIES

In valuing Property No. 1 in the PRC, we have assumed that the property will be developed and completed in accordance with the provided development proposal and approvals from relevant Government departments have been obtained. In arriving at our opinion of market value of the property, we have valued it by the Comparison Approach with reference to comparable transactions in the locality and have also taken into account the construction cost, if any, already spent and the remainder to be expended to complete the development on the property.

For Property No. 2, we cannot attribute any commercial value to the property due to the absence of relevant title documents.

For Property No. 3, we are of the opinion that the property rented by Jiangsu LNG Company has no commercial value either because of its non-assignability in the open market or there are prohibitions against subletting and/or assignment contained in the tenancy agreement or the lack of marketable and substantial profit rent.

TITLE INVESTIGATION

For Property Nos. 1 and 2 in the PRC, we have been provided with extracts of title documents and have been advised by the Company that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the extracts handed to us. In the course of our valuations, we have relied upon the advice and information given by the Company and its PRC legal adviser, Kaiwen Law Firm (凱文律師事務所) regarding the title of the property. All documents have been used for reference only.

In valuing Property Nos. 1 and 2 in the PRC, we have relied on the advice given by the Company and its PRC legal adviser that Jiangsu LNG Company has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted rights to use the same, for the whole of the unexpired terms granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

In valuing the interests in the property rented by Group, we have been provided with copy of the tenancy agreement relating to the property. However, we have not searched the title of the property and have not scrutinized the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copy handed to us. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

We have inspected the properties externally and where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, completion dates of the buildings, identification of the properties and other relevant information.

Except otherwise stated, dimensions, measurements and areas included in the valuation certificates are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and we have relied on your advice that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

We hereby certify that we neither have any present nor any prospective interest in the Company or Jiangsu LNG Company Group or the appraised properties or the values reported.

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfer.

Our summary of values and the valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng

*BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ),
MHKIS, MCI Arb, AFA, SIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIIE
Managing Director*

Joannau W.F. Chan

*BSc. MSc. MRICS MHKIS RPS(GP)
Senior Director*

Notes:

Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong and over 11 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

No. Property	Market Value in existing state as at 31 March 2010 RMB
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Group I – Property held by Jiangsu LNG Company under construction in the PRC

1. Various buildings and structures under construction located at an Artificial Island in Xitaiyang Shoal, Harbour Radiation Shoal, Rudong County, Nantong City, Jiangsu Province, The PRC	18,700,000
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中國江蘇省南通市如東縣海濱幅射沙洲
西太陽沙人工島上之在建中若干建築物及構築物

Sub-total: 18,700,000

Group II – Property held by Jiangsu LNG Company under contractual rights in the PRC

2. The whole of 34 th and 35 th Floors, Nantong International Trade Centre under construction, Chong Chuan Road, Yuan Lin Road, Xincheng District, Nantong City, Jiangsu Province, The PRC	No Commercial Value
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中國江蘇省南通市新城區園林路崇川路
在建中之南通國際貿易中心34及35層

Sub-total: Nil

No. Property	Market Value in existing state as at 31 March 2010 <i>RMB</i>
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Group III – Property rented by Jingsu LNG Company in the PRC

3. The whole of 5 th Floor and portion of 2 nd Floor, Rudong International Hotel, No. 58 East Youyi Road, Rudong County, Nantong City, Jiangsu Province, The PRC	No Commercial Value
--	---------------------

中國江蘇省南通市如東縣友誼東路58號
大明國際大酒店5層及部份2層

Sub-total: _____ Nil

Grand Total: _____ 18,700,000

VALUATION CERTIFICATE

Group I – Property held by Jiangsu LNG Company under construction in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2010 RMB
1.	Various buildings and structures under construction located at an Artificial Island in Xitaiyang Shoal, Harbour Radiation Shoal, Rudong County, Nantong City, Jiangsu Province, The PRC 中國江蘇省南通市如東縣海濱幅射沙洲西太陽沙人工島上之在建中若干建築物及構築物	The property comprises a parcel of reclamation land with a site area of approximately 41.6 ha. (or about 416,000 sq.m.) upon which various buildings and structures are under construction. As advised by the Company, the total proposed gross floor area (“GFA”) of the property will be approximately 6,256.44 sq.m. (or about 67,344.32 sq.ft.) upon completion as scheduled in 2011. The sea area use rights of the property have been granted for a term expiring on 14 July 2059 for industrial sea use.	As at the date of valuation, the property was under construction.	18,700,000 (Please see Note 5 below)
<i>Notes: -</i>				
1.	Pursuant to a notice, Hai Ban Guan Zi (2008) No. 197 (海辦管字(2008)197號), dated 17 June 2008, State Oceanic Administration (國家海洋局) agreed to grant the property with a sea plot area of 41.6 ha. for reclamation to PetroChina Company Limited at a consideration of RMB18,720,000.			
2.	Pursuant to a Sea Area Use Certificate (海域使用權證書), Guo Hai Zheng No. 091100025 (國海證091100025號), issued by State Oceanic Administration (國家海洋局) dated 14 July 2009, the sea area use rights of the property with a sea plot area of 41.6 ha. have been granted to PetroChina Company Limited for a term expiring on 14 July 2059 for reclamation building land and industrial use.			
3.	As advised by the Company, the total construction cost and the construction cost expended for the development of the property are approximately RMB27,000,000 and RMB24,000,000 respectively.			
4.	For your internal reference purpose, we are of the opinion that the reference value of the Property if completed as at the date of valuation (i.e. 31 March 2010) and on the assumption that it can be freely transferred in the open market would be RMB45,700,000.			
5.	In arriving at our valuation, we cannot attribute any commercial value to the buildings and structures of the property without relevant title and planning documents as at the date of valuation.			
6.	The status of title in accordance with the information provided by the Company is as follows:			
	Sea Area Use Certificate		Yes	

7. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:
- a. PetroChina Company Limited is in possession of a proper legal title to the sea area use rights of the property;
 - b. There exist no legal impediments for the application for the transfer of the Sea Area Use Certificate from PetroChina Company Limited into Jiangsu LNG Company;
 - c. The owner of the Sea Area Use Rights should apply for the Land Use Rights Certificate within 3 months after the completion date of the proposed development of the property; and
 - d. No premium will be charged for the application of Land Use Rights Certificate.

VALUATION CERTIFICATE

Group II – Property held by Jiangsu LNG Company under contractual rights in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2010 RMB
2.	The whole of 34 th and 35 th Floors, Nantong International Trade Centre under construction, Chong Chuan Road, Yuan Lin Road, Xincheng District,, Nantong City, Jiangsu Province, The PRC 中國江蘇省南通市 新城區園林路崇川路 在建中之 南通國際貿易中心 34及35層	The property comprises the whole of 34 th and 35 th Floors of a 37-storey service apartment / office building under construction known as Nantong International Trade Centre (the “development”). The total proposed gross floor area (“GFA”) of the property will be 3,309.24 sq.m. (or about 35,620.66 sq.ft.) upon completion of the development which is scheduled to be completed in October 2010.	As at the date of valuation, the development was under construction.	No Commercial Value (Please see Note 3 below)

Notes: -

- Pursuant to 2 Commodity House Sale and Purchase Contracts (商品房買賣合同), numbered as 3401-3411 and 3501-3511 respectively both dated 2 November 2009, PYI Xingdong Properties (Jiangsu) Limited (保華興東置業(江蘇)有限公司) agreed to transfer the property with a total proposed GFA of 3,309.24 sq.m. for office use to Jiangsu LNG Company at a total consideration of RMB39,710,880.
- As advised by the Company, Jiangsu LNG Company has paid RMB19,855,440 for the deposit and the balance will be settled upon the different stages of completion of the development.
- In arriving at our valuation, we cannot attribute any commercial value to the property as the consideration of the property shown in Note 1 has not been fully settled as at the date of valuation and the relevant title document has not been obtained for the property.
- The status of title in accordance with the information provided by the Company is as follows:

Commodity House Sale and Purchase Contract	Yes
Land Use Rights Certificate	No
Building Ownership Certificate	No
- The opinion of the PRC legal adviser to the Company contains, inter alia, the following:
 - The presence of the Land Use Rights Certificate and settlement of land premium cannot be confirmed; and
 - The Commodity House Sale and Purchase Contract detailed in Note 1 may be voided if Land Use Rights Certificate cannot be obtained.

VALUATION CERTIFICATE

Group III – Property rented by Jiangsu LNG Company in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2010 RMB
3.	The whole of 5 th Floor and portion of 2 nd Floor, Rudong International Hotel, No. 58 East Youyi Road, Rudong County, Nantong City, Jiangsu Province, The PRC 中國江蘇省南通市如東縣友誼東路58號大明國際大酒店5層及部份2層	The property comprises the whole of 5 th Floor and portion of 2 nd Floor of a high-rise hotel completed in about 2004. As advised by the Company, the total gross floor area of the property is approximately 791 sq.m. (or about 8,514.32 sq.ft.). Pursuant to 2 tenancy agreements entered into between Rudong International Hotel (“Lessor”), an independent third party landlord, and Jiangsu LNG Company, the property is leased to Jiangsu LNG Company for a term of 1 year expiring on 31 March 2010 at a total monthly rent of RMB99,424 exclusive of management fee.	As at the date of valuation, the property was occupied by Jiangsu LNG Company for office use.	No Commercial Value

Note: -

The opinion given by the PRC Legal adviser to the Company contains, inter-alia, the following:

- a. The terms stipulated in the above-mentioned tenancy agreement do not violate the laws and regulations of the PRC; and
- b. The above-mentioned tenancy agreement is legally binding and enforceable on the contracting parties.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

The following is the English translation of the Asset Valuation Report prepared by Beijing China Enterprises Appraisal Co. Ltd. (北京中企華資產評估有限責任公司), an independent valuer, in connection with the valuation of Jiangsu LNG Company as at 30 April 2010 prepared for the purpose of inclusion in this circular.

Assets Valuation Report on the Proposed Acquisition by Kunlun Energy Company Limited of the Equity Interest in CNPC Jiangsu LNG Co., Ltd (中石油江蘇液化天然氣有限公司) held by PetroChina Company Limited

Zhong Qi Hua Ping Bao Zi (2010) No.166

As Kunlun Energy Company Limited intends to acquire the equity interest in CNPC Jiangsu LNG Co., Ltd held by PetroChina Company Limited, Kunlun Energy Company Limited engaged Beijing China Enterprise Appraisals Co., Ltd. to value the entire shareholders' equity of CNPC Jiangsu LNG Co., Ltd, the scope of which involves the company's entire assets and related liabilities, for the purpose of providing an advisory opinion on value in respect of the above issue.

In accordance with the relevant PRC laws and regulations, adhering to asset valuation standards and principles, and based on the necessary procedures, our valuers carried out necessary procedures such as on-site inspection, market research and enquiries.

For the purpose of this valuation and in accordance with the specific condition of the valuation subject, it is confirmed that the value to be appraised will be market value. Market value, which is selected to be used for this valuation, refers to the estimated value of the valuation subject under normal and fair transaction reasonably conducted on the valuation date for valuation between a willing buyer and a willing seller.

Cost based approach was selected as the valuation method in this valuation, the results based on which were taken as the valuation conclusion, and we arrived at the following conclusion:

Considering the entity as a going concern on the valuation date, 31 December 2009, the entity had total assets with carrying value of RMB 2,550,014,900, total liabilities of RMB 1,754,672,300 and net assets of RMB 795,342,600 (audited by the Beijing branch of PricewaterhouseCoopers Zhong Tian CPAs Limited Company); and after the valuation the total assets would be RMB 2,664,138,100, total liabilities RMB 1,754,672,300 and net assets RMB 909,465,800, representing an increase in value of RMB 114,123,200 or 14.35%.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

For the details of valuation conclusion, please see the Summary of Results of Assets Valuation and the valuation breakdown.

Summary of Results of Assets Valuation

Item		Carrying Value A	Appraised Value B	<i>Unit: RMB 0'000</i>	
				Change in Value C = B-A	Appreciation Rate (%) D = C/A x 100%
Current assets	1	4,487.55	4,487.55	0.00	0.00
Noncurrent assets	2	250,513.95	261,926.26	11,412.31	4.56
Of which: Long-term equity investment	3				
Real estate for investment	4				
Fixed assets	5				
Construction in progress	6	250,513.95	261,926.26	11,412.31	4.56
Oil and gas assets	7				
Intangible assets	8				
Of which: Land use rights	9				
Other noncurrent assets	10				
Total assets	11	255,001.49	266,413.81	11,412.32	4.48
Current liabilities	12	175,467.23	175,467.23	0.00	0.00
Noncurrent liabilities	13				
Total liabilities	14	175,467.23	175,467.23	0.00	0.00
Net Assets	15	79,534.26	90,946.58	11,412.32	14.35

The valuation conclusion shown herein is only valid for the economic activity of the proposed acquisition by Kunlun Energy Company Limited of the equity interest in CNPC Jiangsu LNG Co., Ltd held by PetroChina Company Limited as contemplated. The valid term is one year commencing from 31 December 2009. After one year, the assets shall be revalued.

Users of the valuation report shall pay attention to the impact of special issues and limitations for use on the valuation conclusion.

This valuation report is a professional conclusion issued by the valuers in accordance with PRC laws and regulations, and shall be legally binding with the signatures and seals of appraisal agency and valuers affixed in accordance with the relevant requirements of PRC laws and regulations. This valuation report shall be formally used only after filing with the State-owned assets supervision authorities.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

Assets Valuation Report on the Proposed Acquisition by Kunlun Energy Company Limited of the Equity Interest in CNPC Jiangsu LNG Co., Ltd held by PetroChina Company Limited

Zhong Qi Hua Ping Bao Zi (2010) No.166

Kunlun Energy Company Limited,

Under the commission of your company, Beijing China Enterprise Appraisals Co., Ltd. has conducted a the valuation on the market value of the entire shareholders' equity as at 31 December 2009 of the equity of CNPC Jiangsu LNG Co., Ltd (中石油江蘇液化天然氣有限公司) held by PetroChina Company Limited and proposed to be acquired by Kunlun Energy Company Limited in accordance with the relevant PRC laws and regulations, adhering to asset valuation standards and principles, using the cost based approach and following the necessary procedures. The assets valuation is now shown as follows:

1. Introduction of the Principal, Assets Owner and Other Report Users

Kunlun Energy Company Limited acts as the principal in this valuation. The equity to be valued is CNPC Jiangsu LNG Co., Ltd. PetroChina Company Limited is the controlling shareholder of CNPC Jiangsu LNG Co., Ltd.

(1) Description of the principal: Kunlun Energy Company Limited (“Kunlun Energy”)

1. Company name: Kunlun Energy Company Limited
2. Registered capital: HK\$ 80 million
3. Registered address: Room 3907-3910, 39th Floor, 118 Connaught Road West, Hong Kong
4. Corporate Type: Stated-owned Enterprise
5. Legal/ Authorized representative: Zhang Bowen
6. Business scope: The company is an investment holding company whose subsidiaries, affiliates and jointly controlled entities are primarily engaged in exploration, production and sale of crude oil and natural gas in China, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Republic of Azerbaijan and Indonesia.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

(2) *Description of the entity to be valued*

1. Company name: CNPC Jiangsu LNG Co., Ltd
2. Registered capital: RMB 2,650,688,000
3. Paid-up capital: RMB 795,342,614
4. Registered address: Yangkougang Economic Development Zone, Rudong County, Jiangsu Province
5. Corporate Type: Limited Liability Company (Taiwan, Hong Kong, Macau and domestic equity joint-venture)
6. Legal Representative: Huang Weihe
7. Business Scope: Permitted operations: Developing, constructing and operating the LNG terminal in Jiangsu (including collecting, storing and re-vaporizing LNG). General operations: Nil.
8. *Company Introduction*

Pursuant to the approval document in relation to the establishment of CNPC Jiangsu LNG Co., Ltd (Shang Zi Pi [2009] No. 155) from the Ministry of Commerce of the People's Republic of China and the document of the National Development and Reform Commission (Fa Gai Neng Yuan [2007] No. 434), the construction scale of phase 1 Suzhou LNG project would be 3.5 million tonnes/year, which is planned to be completed and start operation in 2011. The approval document (Guo Hai Guan Zi [2009] No. 134) from the State Oceanic Administration approved the request for sea use right. The approval document (Huan Shen [2007] No. 89 from the State Environmental Protection Administration agreed that the construction of the project can be carried out in accordance with the nature, size, location, environmental protection measures of such project listed on the Report of Environmental Impact. The approval document (An Jin Zong Guan Yi Han [2007] No. 166) from the State Administration of Work Safety confirmed that the facilities of the project have passed the safety examination.

The controlling shareholder of the company is PetroChina Company Limited, which is the leading enterprise in oil and gas industry within China and the largest producer and seller of oil and gas with engagement in various oil related activities. PetroChina Company Limited is among the largest companies in China in terms of sales, and according to the proved reserves of oil and gas in 2000, it is the fourth largest publicly traded listing oil and gas company in the world.

CNPC Jiangsu LNG Co., Ltd was established on 17 June 2009, as a joint venture invested by PetroChina Company Limited, Singapore Pacific Oil and Gas Company Limited (新加坡太平洋油氣有限公司), Jiangsu Guoxin Investment Group Co., Ltd, each holding 55%, 35% and 10% of its equity interest respectively.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

9. *Description of the construction of Jiangsu LNG project*

The project is located at Xi Taiyang artificial island in Haibin Fushe Shazhou in Rudong County, Jiangsu Province, mainly comprising three parts, including the artificial island, the exclusive LNG quay and scaffold bridges as well as the LNG terminal. The scale of phase 1 construction is 3.5 million tonnes/year, expected to be completed at the end of 2010; the phase 2 construction will increase the capacity by 3 million tonnes/year, thus raising the aggregate capacity to 6.5 million tonnes/year. Sufficient space will be reserved in phase 1 construction for the expansion of phase 2.

The total investment of the construction submitted for examination is approximately RMB 7,529,810,000 and the total approved investment is approximately RMB5,911,990,000.

(1) Construction of the terminal

The capacity of Phase 1 Project is 3.5 million tonnes/year, with 365 operation days and 8,760 annual operation hours. The construction includes the LNG unloading system, storage system, BOG process system, LNG transfer system, vaporizing system, exporting and measuring system, flare system and auxiliary facilities system.

(2) The exclusive LNG quay and scaffold bridges

1 LNG berth (for LNG carriers with capacity of 125,000 to 267,000 m³), 1 berth for heavy cargo and working vessels and related ancillary facilities will be constructed.

- 1 The LNG quay will comprise of 1 working platform, 4 dolphins and 6 bond cable dolphins and connected with the artificial island through a 1,970 meter-long scaffold bridge.
- 2 Heavy cargo and working vessels quay is located at the southern part of the artificial island, at which vessels can be berthed on both sides. The quay is of high pile pier structure with a platform about 180 meter-long and about 25 meter-wide. The ship turning basin of heavy cargo quay is in ellipse, whose major axis measures 438 meters and minor axis 292 meters. The quay is connected with the artificial island through a 960 meter-long scaffold bridge.

APPENDIX II ASSET VALUATION REPORT OF JIANGSU LNG COMPANY

10. Current organizational structure and personnel

The company has a board of directors and a board of supervisors, which comprises the representatives of investing parties.

The company's management office is comprised of 1 general manager and 4 deputy general managers. There are eight departments within the company, namely the general office, personnel department, planning department, financial department, technical department, production department, procurement department and quality, safety and environmental protection department.

(3) Other users (excluding the principal) of the valuation report

This valuation report is not designed for any other users other than the principal and users of the valuation report as required by PRC laws and regulations.

2. Purpose of Valuation

As Kunlun Energy Company Limited intends to acquire the equity interest in CNPC Jiangsu LNG Co., Ltd held by PetroChina Company Limited, Kunlun Energy Company Limited engaged Beijing China Enterprise Appraisals Co., Ltd. to value all the assets and related liabilities of CNPC Jiangsu LNG Co., Ltd involved in such economic activity, for the purpose of providing an advisory opinion on value in respect of the above issue.

3. Scope of Valuation and Valuation Subject

The valuation subject is the value of the entire shareholders' equity of CNPC Jiangsu LNG Co., Ltd.

The scope of valuation includes all the assets and related liabilities of CNPC Jiangsu LNG Co., Ltd as at the valuation date. The audited carrying value was RMB 2,550,014,900; total liabilities amounted to RMB 1,754,672,300; and net assets amounted to RMB 795,342,600.

Specific categories of the assets include: current assets (monetary capital, prepayments and other receivables), construction in progress and current liabilities (account payables, remuneration payables and tax payables).

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The audited carrying amounts of the above assets and liabilities before valuation are as follows:

Item	<i>Unit: RMB 0'000</i>	
		Carrying Value A
Current assets	1	4,487.55
Noncurrent assets	2	250,513.95
Of which: Long-term equity investment	3	
Real estate for investment	4	
Fixed assets	5	
Construction in progress	6	250,513.95
Oil and gas assets	7	
Intangible assets	8	
Of which: Land use rights	9	
Other noncurrent assets	10	
Total assets	11	255,001.49
Current liabilities	12	175,467.23
Noncurrent liabilities	13	
Total liabilities	14	175,467.23
Net Assets	15	79,534.26

The scope of assets reported for valuation is consistent with the scope of assets commissioned to be valued.

4. Type of Value and Definition

For the purpose of this valuation and in accordance with the specific conditions of the valuation subject, it is confirmed that the value to be appraised will be market value.

Market value, which is selected to be used for this valuation, refers to the estimated value of the valuation subject under normal and fair transaction reasonably conducted on the valuation date for valuation between a willing buyer and a willing seller.

5. Valuation Date

The valuation date for this economic activity is 31 December 2009.

All the charge standards are the effective price standards at the valuation date and all the assets are the actually existing assets at the valuation date.

The valuation date is the date most close to the actual date of the implementation of the economic activity of valuation, and shall be confirmed by the principal in accordance with its working plan.

6. Basis of Valuation

The state and local laws and regulations as well as laws and regulations of relevant governmental authorities adopted in this asset valuation, and other reference materials to the valuation mainly include:

(1) Basis of Behaviors

1. The engagement contract entered into by Kunlun Energy Company Limited and Beijing China Enterprise Appraisals Co., Ltd;
2. The board resolution of Kunlun Energy Company Limited

(2) Basis of Laws and Regulations

1. “Interim Measures for the Supervision and Administration of State-Owned Assets of Enterprises”(Order of the State Council of the People’s Republic of China (No.378));
2. ”Interim Measures for the Management of the Transfer of State-owned Property Rights of Enterprises” (Order of the State-Owned Assets Supervisory and Regulatory Commission of the State Council (No. 3));
3. “Interim Measures for the Administration of Assessment of State-Owned Assets of Enterprises” (Order of the State-Owned Assets Supervision and Administration Commission of the State Council (No. 12));
4. “Administrative Measures on the Evaluation of State-Owned Assets”(Order of the State Council of the People’s Republic of China (No. 91));
5. “Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment” ([1992] No.36 of the Office of the former National State-Owned Assets Administration Bureau);
6. “Notice of Certain Issues on Strengthening Administration on State-Owned Assets Appraisal” from State-owned Assets Supervision and Administration Commission of the State Council (Guo Zi Wei Chan Quan [2006] No. 274);
7. “Circular of the General Office of the State Council on the Transmission of the Recommendations Submitted by Ministry of Finance Concerning Assessment on the Reform of Stated Owned Assets Administration and Strengthening the Supervision and Management of Assets valuation”(Guo Fa Ban [2001] No. 102);
8. “Company Law of the People’s Republic of China” (amended at the 18th Session of the Standing Committee of the Tenth National People’s Congress of the People’s Republic of China on October 27, 2005);

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9. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (adopted at the 5th Session of the Standing Committee of the 11th National People’s Congress of the People’s Republic of China on October 28, 2008);
10. Other relevant laws, regulations and notices.

(3) Basis of Valuation Principles

1. “Notice on Publication of ‘Assets Evaluation Principles-Basic Principles’ and ‘Assets Evaluation Professional Ethics Principles-Basic Principles’” from the Ministry of Finance (Cai Qi [2004] No.20);
2. “Notice on the Publication of Seven Assets Evaluation Principles including ‘Assets Evaluation Principles-Appraisal Report’” and from the China Appraisal Society (Zhong Ping Xie [2007] No. 189);
3. “Regulatory Opinions on Operations of Assets Appraisal (Trial Implementation)” from the China Appraisal Society (Zhong Ping Xie [1996] No. 03);
4. “Guidance on Appraisal of Enterprise Value (Trial Implementation)” from the China Appraisal Society (Zhong Ping Xie [2004] No. 134);
5. “Guide lines on Enterprise State-Owned Assets Appraisal Reports” (Zhong Ping Xie [2008] No. 218);
6. “Directive Opinions of Registered Asset Valuers Giving Concern over the Legal Ownership of the Valuation Object” from the Chinese Institute of Certified Public Accountants (Hui Xie [2003] No. 18);
7. “Enterprise Accounting Standards-Basic Standards” (Order 33, issued by the Ministry of Finance in 2006);
8. “Accounting Standards for Business Enterprises 2006” from the Ministry of Finance;
9. “Manual of the Application of 2006 Accounting Standards for Business Enterprises” and “Interpretation of 2006 Accounting Standards for Business Enterprises” from the Ministry of Finance;

(4) Basis of Ownership

1. Sea use rights certificate;
2. Shang Zi [2009] No. 155 from the Ministry of Finance;

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3. Fa Gai Neng Yuan [2007] No. 434 from the National Development and Reform Commission
4. Vehicle licenses;
5. Major contracts and invoices of equipment acquisition;
6. Progress schedules for the main projects on the valuation date;
7. Related business contracts and invoices.

(5) Pricing Basis

1. Deposit rate and foreign exchange rate on the valuation date (31 December 2009).
2. “Notice on the Publication of Administrative Measures on Fee Collection of Construction Project Supervision and Related Services” from the National Development and Reform Commission and the Ministry of Construction (Fa Gai Jia Ge [2007] No. 670);
3. “Notice on the Issuance of Administrative Measures on Fee Collection of Construction Inspection and Design” from the State Planning Committee and the Ministry of Construction (Ji Jia Ge [2002] Ji Fei Zi No. 10);
4. Notice Concerning Printing and Issuance of the Interim Provisions on the Consultation Fee for Preparation Work of Construction Projects from the National Development and Reform Commission (Ji Jia Ge [1999] No. 1283);
5. Notice on Related Issues of Regulating Fee Collection of Environmental Consultancy from the National Development and Reform Commission and the Ministry of Environmental Protection of China (Ji Jia Ge [2002] No. 125)
6. “Construction and Decoration Cost Information, Jiangsu Province” (Volumes 1 and 2) issued by the Department of Construction of Jiangsu Province;
7. “Installation Cost Information, Jiangsu Province” (Volumes 1-12) issued by the Department of Construction of Jiangsu Province;
8. “Quota of Pricing on Construction Projects, Jiangsu Province” (2009) issued by the Department of Construction of Jiangsu Province (Su Jian Jia (2009) No. 107);
9. “Notice Concerning the Adjustment of the Budgeted Unit Labor Cost of the Construction, Decoration, Installation, Municipalization and Restoration of Archaic Buildings and Landscape Architecture” forwarded from Provincial Construction Department (Su Jian Jia [2008] No. 66);

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10. Prices of marketable materials in December 2009, Information of Construction Cost, Nantong City;
11. “Regulations on Estimation and Budget Drafting of Construction Engineering of Coastal Harbor” (2004, Ministry of Communications);
12. “Quota of the Hydraulic Construction Engineering of Coastal Harbor” (2004, Ministry of Communications);
13. “Reference Quota of the Hydraulic Construction Engineering of Coastal Harbor” (2004, Ministry of Communications);
14. “Charge Quota per Ship of the Machinery Installation Engineering of Hydraulic Construction and Loading and Discharging Mechanical Equipment of Coastal Harbor” (2004, Ministry of Communications);
15. “Quantity Quota of Concrete and Mortar Materials Used for the Water Transport Engineering” (2004, Ministry of Communications);
16. YHSGGYS software for estimation and budget drafting of construction engineering of coastal harbor (2005, Quota Department of Ministry of Communications);
17. “Estimation Benchmark for Oil Construction and Installation Projects of PetroChina Company Limited”(You Ji Zi [2005] No. 358);
18. “Budget Charge for Oil Construction and Installation Projects” (Zhong You Ji Zi [2005] No. 519);
19. Zhong You Ji Zi [2003] No. 71 Concerning the Publication of “Supplemental Regulations of Other Costs of the Budget Charge for Oil Construction and Installation Projects of PetroChina Company Limited” and “Supplemental Regulations of Other Costs of the Budget Charge for Oil Construction and Installation Projects” of China National Petroleum Company ([95] Zhong You Ji Zi Di No. 79);
20. “2009 Handbook of Electrical and Mechanical Products Quotation” from China Machine Press;
21. “UDC United Express” December 2009 Issue;
22. “Vehicle Information” December 2009 Issue;
23. “Interim Regulations of the People’s Republic of China on Vehicle Purchase Taxes” ([2000] Order No. 294 of the State Council);
24. A Collection of site inspection records by valuers and other valuation related information.

(6) Reference Materials and Others

1. Breakdown of assets checking provided by the units possessing such assets;
2. “Handbook of General Information and Parameters for Assets Appraisal”;
3. Data from the market research conducted by the valuers;
4. Audit reports of the corporate concerned for the preceding years and audit report as of the valuation date;
5. Statistics and technological standards issued by the relevant departments as well as other related information collected by the appraisal agency.

7. Valuation Methods

(1) Description of valuation methods

The basic assets valuation methods comprise market approach, income approach, and cost based approach. The valuer shall base on the difference between the valuation subjects, the types of the value and the collection of materials, etc. in assessing the applicability of these three approaches and choose one or more basic assets valuation methods appropriately.

Market approach is a valuation method determining the prices of assets commissioned upon an adjustment by comparing such assets with comparable assets transacted in the market with reference to the transaction prices. Market approach takes the actual market transactions as reference in determining the current fair value of the valuation subject, which is observable during the valuation process while the data for the valuation is on market-based. However, there should be an appropriate reference market transaction in applying the market approach. Since it is unable to identify any market transaction that is comparable to the case of CNPC Jiangsu LNG Co., Ltd, market approach is not applicable to this valuation.

Income approach is a valuation method that discounts the expected future revenue of the assets commissioned into present value with specific discount rates for the purpose of determining their values. The inherent value of the assets commissioned, which means future profitability is the basis of income approach in determining the values of assets which reflect the contribution of the assets commissioned to their owners.

Natural gas has become more and more welcoming as a green energy. LNG has been regarded as the preferred energy in many countries. With the rapid growth of natural gas in the proportion of energy supply and its increasing production and trading, LNG has been a new focus of the world oil and gas industry. To secure the diversity of energy supply and improve the consumption structure, certain countries with extensive energy consumption have put more emphases on the introduction of

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LNG. Large-scale LNG terminals are under construction in Japan, Korea, USA and Europe. Major international oil companies have also turned to LNG as a new source of profit.

Currently, the LNG project of CNPC Jiangsu LNG Co., Ltd is under construction. The company was established in July 2009, 5 months before the valuation date. In China, LNG projects are only carried out in three cities, namely Guangdong, Shanghai and Ningbo. This project is the first LNG project of PetroChina Company Limited.

Pursuant to the [2009] No. 59 approval document in relation to the preliminary design of Jinagsu LNG project of PetroChina Company Limited, the total construction cost is RMB 5.911 billion, of which RMB 2.5 billion has been invested as of the valuation date. The project is expected to be completed and start operation in June 2011.

China Petroleum Pipeline Engineering Corporation conducted a feasibility study report on January 2009 stating the necessity of such construction and the market analysis for the demand of natural gas, etc.. As of the valuation date, however, PetroChina Company Limited has not entered into any gas supply agreement with other countries nor identified any end customers for the gas sales. Therefore, a stable gas supply and sales channel has not yet been established.

Thus, it is difficult to precisely anticipate the market, customers, unit price, risk exposure to profit-earning and the life of income generation of natural gas by the income approach and, therefore, income approach would not be used in this valuation.

Cost based approach is an approach that determines the values of assets commissioned based on their replacement cost, net of impairment losses.

(2) Cost based approach

1. Valuation of current assets

Current assets are primarily valued by replacement cost based approach.

As for the valuation of monetary capital, through monitoring the cash on hand of the reported unit on the current valuation working day, the valuer back-calculates the value on the valuation date. As for bank deposits, a trial balance will be made by using the bank statements and bank reconciliations and after double-checking, the appraised values will be determined based on the audited carrying amounts.

As for receivables (prepayments and other receivables), the valuer analyzes the business and aging through examining the books and original vouchers and carries out procedures like spot checks and inquiring for letters and certificates in respect of the large amount business contracts, in order to analyze the existence and recoverability of the receivables.

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Prepayments include the payments made in advance for procuring construction materials, equipment and construction cost. The valuer reviews and collects a portion of procurement contracts and checks on the letters and certificates in respect of large amounts. As for projects involving clients with better credit worthiness or having security for the recoverability of related assets or related rights, the appraised value will be recognized at the carrying amount after audit.

2. *Valuation of the projects under construction*

Projects under construction refer to all not yet completed projects. The projects under construction, which can be separately regarded as a real object or interest, are valued by using cost based approach. The appraised value is mainly comprised of construction and installation cost, upfront and other costs and finance cost. To avoid the duplicate calculation of the value and omitting any asset value, the valuation method used has taken into consideration the characteristics of this project and the types and specific conditions of each project under construction as follows:

(1) Construction and installation cost

As the final accounts have not been formulated by the company, so for these projects, pursuant to the locally applied quota and related charging documents after verifying the contracts entered into by the parties and such payment methods, the construction and installation costs will be derived from civil work cost and installation cost based on the construction progress listed on the work schedule signed by the developer, constructor and supervisor. The temporary projects incurred from the construction of the subject project will be accounted for in the subject project, thus no value will be assigned to the projects under construction under this category will be zero.

(2) Upfront and Other Costs

Upfront and other costs actually incurred (including management fee for construction unit, exploration and design cost and research and testing cost), after confirming there is no duplicate calculation related to the associated asset items, will be compared to the currently applied national standards related to the documents of regulated cost. If no unreasonable fee is found, the valuation will be recognized at carrying value.

Quality control cost incurred from the construction progress and the national regulation related to regulated fee on the valuation date have been cancelled and the appraised value will be zero.

As for the sea use right fee, the valuation will be made after understanding the related regulation concerning the sea use right cost levied by the State Oceanic Administration and the information about the

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compensation and settlement involved in the area covered by the sea use right, based on the commencing date, termination date, the rank of the sea and sea use type set out on the sea use right certificate. As the procurement date of the sea use right is close to the valuation date and the sea use right fee paid basically reflects its value on the valuation date, the audited carrying amount will represent the appraised value.

(3) Finance Cost

The finance cost is determined based on the re-measured construction and installation cost as well as the upfront and other costs, taken into account the reasonable construction period of the LNG project, and calculated by evenly applying the lending rate as at the valuation date in connection to the reasonable construction period.

Finance cost = (reported carrying value – unreasonable cost) x interest rate x construction period/2. Of which:

- 1 The interest rate is determined based on interest rate of PBOC for the same duration on the valuation date;
 - 2 The construction period is determined based on the size and the physically completed percentage of the project with reference to the reasonable construction period of the project;
3. Valuation of liability

As for the valuation of account payables, other payables, remuneration payables and tax payables, the appraised value refers to the audited carrying value based on the breakdown of each project provided by the company.

8. Implementation and procedure of valuation

(1) Acceptance of engagement

In January 2010, Kunlun Energy Company Limited confirmed that Beijing China Enterprise Appraisals Co., Ltd. has been engaged as the assets appraisal agency of this project.

(2) Formulation of valuation plan

To ensure the quality and that unified valuation methods and parameters are used, we discussed with the leadership of the company and related experts, and formulated the “Working Plan for the Asset Valuation” with reference to the characteristics of this project.

(3) Formation of the valuation team

After the acceptance of engagement, we formed a leading group for the asset valuation of this equity transfer project. The team is comprised of a total of 6 members including on-site controller and other valuers.

(4) Asset Checking

On the basis that the company honestly reported its assets and conducted an overall self-check on the assets to be valued, the valuer has checked the assets within the aspects of valuation. The assets checked include cash and projects under construction. The work we carried out was mainly verification of the progress of the projects under construction, contracts and financial payments and other important factors that would affect the appraised value. The procedure of asset checking is as follows:

1. Instructing the related financial personnel and asset management of the company to register the reported assets in accordance with the requirement of the appraisal agency on the basis of asset checking.
2. The valuer would carry out asset checking with various inspection methods in accordance with the breakdown of asset inspection with reference to the nature and features of different assets. For example, the valuer would take stock and carry out on-site inspection for cash.
3. Verifying the documents of ownership

Inspecting the ownership of the equipment and vehicles under valuation as well as the approval from the related national authorities and the approval documents of the summary budget in respect of the LNG project; collecting the verification documents of the evaluated assets to confirm that the ownership is clearly established.

(5) Determining the estimations

The valuer would determine the pricing models for the assets in each category (focusing on the assets of the projects under construction) and clearly determine the parameters and pricing standards in accordance with the characteristics of this project and taking into account of the condition of the company. After unifying these determinants by the project-leading group of the company, the process of valuation will start and related data will be input into the computer, thus a preliminary result will be arrived.

(6) Compilation, review and alignment

After compiling the preliminary result, we make alignment with the reviewer, after which each team will compile a professional breakdown and the explanation of the valuation in accordance with the requirement in operational plan. Each team leader

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will finalize the compilation of the valuation breakdown, give description to the valuation and issue a valuation report. The complete valuation breakdown, description to the valuation and valuation reports and those related drafts will be submitted to the internal department of the appraisal agency for a three-level checking after a self-check.

Valuation reports will be revised by each project team in accordance with the review comments. The exposure draft of the final valuation report will be submitted to the principal.

(7) Submission of report

The report was submitted to the principal on 30 April 2010.

9. Valuation assumption

This valuation report represents a fair valuation conclusion arrived after carrying out a rational analysis, demonstration and comparison on the value of the evaluated assets by the professional valuers of the appraisal agency in accordance with the actual or similar conditions, which represents a valuation conclusion based on the following assumptions:

1. The conclusion of this report is on the basis that CNPC Jiangsu LNG Co., Ltd operates as a going concern and will fulfill its future investment obligations and operate under the current situation with a clearly established ownership;
2. The schedule of the project under construction on the valuation date is confirmed with the signature of the constructor, developer and supervisor. As the project does not have a final account, this valuation is based on the assumption that the company can complete the project on schedule. When evaluating the asset values, the effect of the quality issues that may arise, or the increase in the values or the number of category of the assets and contingent liabilities due to changes in the project design, changes in the construction condition and changes in the environmental conditions have not been taken into account;
3. It is assumed that the operator of the CNPC Jiangsu LNG Co., Ltd takes up its responsibility and the management personnel of the company are competent in their positions; and unless otherwise stated, it is assumed that CNPC Jiangsu LNG Co., Ltd fully complies with the relevant laws and regulations;
4. It is assumed that the accounting policies adopted in making up the financial information provided by the CNPC Jiangsu LNG Co., Ltd is basically consistent with those adopted in preparing this report in many important respects;
5. It is assumed that the state political, economic and social conditions are basically stable; and the domestic exchange rate, interest rate, tax liability, commodity prices and industrial policy remains relatively stable during the future business course of CNPC Jiangsu LNG Co., Ltd;

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6. It is assumed that the prospective information for the assets, financial operation and industry provided by CNPC Jiangsu LNG Co., Ltd is true, valid and complete;
7. There is no force majeure nor other unexpected factors which would bring negative effect to the company.

If any of the above assumptions cannot be established, there will be a material impact on the valuation conclusion.

10. Valuation Conclusion and Analysis

In accordance with the relevant PRC laws and regulations, in line with the standards and principle, of asset valuation and following the necessary procedures, Beijing China Enterprise Appraisals Co., Ltd. has conducted a valuation on CNPC Jiangsu LNG Co., Ltd. In this valuation, cost based approach is selected as the valuation method, and the following conclusion are produced:

Considering the entity as a going concern on the valuation date, 31 December 2009, the entity had total assets with carrying value of RMB 2,550,014,900, total liabilities of RMB 1,754,672,300 and net assets of RMB 795,342,600 (audited by the Beijing branch of PricewaterhouseCoopers Zhong Tian CPAs Limited Company); and after the valuation the total asset would be RMB 2,664,138,100, total liabilities RMB 1,754,672,300 and net assets RMB 909,465,800, representing an and increase in value of RMB 114,123,200 or 14.35%.

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For the details of valuation conclusion, please see the Summary of Results of Assets Valuation and the valuation breakdown.

Summary of Results of Assets Valuation

Item		<i>Unit: RMB 0'000</i>			
		Carrying Value A	Appraised Value B	Change in Value C = B-A	Appreciation Rate (%) D = C/A x 100%
Current assets	1	4,487.55	4,487.55	0.00	0.00
Noncurrent assets	2	250,513.95	261,926.26	11,412.31	4.56
Of which: Long-term equity investment	3				
Real estate for investment	4				
Fixed assets	5				
Construction in progress	6	250,513.95	261,926.26	11,412.31	4.56
Oil and gas assets	7				
Intangible assets	8				
Of which: Land use rights	9				
Other noncurrent assets	10				
Total assets	11	255,001.49	266,413.81	11,412.32	4.48
Current liabilities	12	175,467.23	175,467.23	0.00	0.00
Noncurrent liabilities	13				
Total liabilities	14	175,467.23	175,467.23	0.00	0.00
Net Assets	15	79,534.26	90,946.58	11,412.32	14.35

11. Explanation of Special Issues

The followings are the relevant items found during the valuation process that would affect the valuation conclusion and beyond the valuers' professional proficiency and ability to conduct the valuation estimation (including but not limited to):

- (1) The valuation conclusion presented by Beijing China Enterprise Appraisals Co., Ltd., might be affected by the professional proficiency and capacity of the valuers and others involved in this valuation.
- (2) This valuation conclusion has just reflected the existing price confirmed by the valuation subject based on the open market principle for this valuation purpose, without considering the guarantee and pledge and the impact on the valuation value caused due to higher bidding prices by other parties with special interests nor taking into account the impact on asset price due to change of macro national economic policies, or encountering natural disasters and other force majeure. In case of changes in the foregoing conditions and the principle of going concern during the valuation changing, the valuation process shall become invalid.

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- (3) All the materials relating to the valuation provided by Kunlun Energy Company Limited and CNPC Jiangsu LNG Co., Ltd form the basis for preparing the report; whereas Kunlun Energy Company Limited and CNPC Jiangsu LNG Co., Ltd shall be liable for the truthfulness, validity and completeness of the materials provided.
- (4) All information about the legal title of the valued objects should be provided by Kunlun Energy Company Limited and CNPC Jiangsu LNG Co., Ltd; whereas Kunlun Energy Company Limited and CNPC Jiangsu LNG Co., Ltd shall be liable for the truthfulness, validity and completeness of the information about the legal title of the valuation subject. The scope of practice of the registered asset valuers includes estimating the value of the valuation subject and issuing professional opinion, while confirmation of the legal title of the valuation subject or issue opinion in respect of this is beyond such scope. The valuers carried out necessary inspection on the copies and source of the information about the legal title of the valuation subject provided by Kunlun Energy Company Limited and CNPC Jiangsu LNG Co., Ltd and have made disclosure in this regard, but it shall not be liable for the truthfulness, validity and completeness of the information about the legal title of the valuation subject, which is beyond its scope of practice.
- (5) The method adopted for the technical valuation of the project under process in this valuation was visual observation and no instruments were used to test and examine the equipment or the project. The valuers, however, considered that it would not affect the accuracy of the valuation result.
- (6) Premiums or discounts caused by the factors such as shareholding interest and minority interest and the effect of the liquidity and the value of the valuation subject have not been taken into consideration in this valuation.

Users of the valuation report shall pay attention to the impact of the above special issues on the valuation conclusion.

12. Explanation of Limitation on the Use of Valuation Report

- (1) This valuation report only serves the valuation purpose referred to in this report and should not be applied to any economic activities other than the valuation purpose stated herein.
- (2) This valuation report is for the exclusive use by the users as stated in this report.
- (3) The conclusion set out in this report is only for use by the principal for the purpose of this valuation and submission to the State-owned assets supervision authorities for examination. Without our company's consent, the content of this valuation report shall not be excerpted, cited or disclosed to the media, unless stipulated by the laws, regulations and otherwise as agreed by the relevant parties.
- (4) The valuation results of this valuation report shall be valid for one year from the valuation date provided that there is no material change in market conditions or the asset condition. Where the purpose of this valuation is realized within one

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year from the valuation date, the valuation results may be used as reference in realizing this valuation purpose. After one year, revaluation on the assets shall be performed.

- (5) This valuation report is a professional conclusion issued by the valuer in accordance with PRC laws and regulations, and shall be legally binding with the signatures and seals of appraisal agency and the valuers affixed in accordance with the relevant requirements of national laws and regulations. This valuation report shall be formally used only after filing with the State-owned assets supervision authorities.

13. Date of the Valuation Report

The date of the valuation report for this project is: 30 April 2010.

*Legal Representative or
Authorizing Person:*
Quan Zhongguang
(Signature)

*Registered Certified
Asset Valuer:*
Sun Jianzhoong

*Registered Certified
Asset Valuer:*
Qi Xiaodong

REMARKS

Unless otherwise stated, all money amounts stated herein are RMB and no allowances have been made for any exchange transfer.

Beijing China Enterprise Appraisals Co., Ltd.
30 April 2010

1. RESPONSIBILITY STATEMENT

This circular includes the particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

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

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

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Li Hualin ⁽¹⁾	14,000,000	Beneficial owner	0.28%
Li Kwok Sing Aubrey ⁽¹⁾	1,000,000	Beneficial owner	0.02%

Notes:

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

2.2 Share Options

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

Name	Date of Grant	Exercise Period	Exercise Price HK\$	Outstanding	Number of Share Options		Outstanding
				at 1 January 2009	Granted	Exercised	at the Latest Practicable Date
Directors							
Li Hualin	27 Apr 2005	27 Jul 2005 – 26 Apr 2010	1.224	20,000,000	–	(20,000,000)	–
	8 Jan 2007	8 Apr 2007 – 7 Jan 2012	4.186	25,000,000	–	–	25,000,000
	26 May 2008	26 Aug 2008 – 25 May 2013	4.240	3,200,000	–	–	3,200,000
	26 Mar 2009	26 Jun 2009 – 25 Mar 2014	3.250	–	3,200,000	–	3,200,000
	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	3,200,000	–	3,200,000
Zhang Bowen	8 Jan 2007	8 Apr 2007 – 7 Jan 2012	4.186	20,000,000	–	–	20,000,000
	26 May 2008	26 Aug 2008 – 25 May 2013	4.240	2,400,000	–	–	2,400,000
	26 Mar 2009	26 Jun 2009 – 25 Mar 2014	3.250	–	2,400,000	–	2,400,000
	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	2,400,000	–	2,400,000
Cheng Cheng	25 Jun 2004	25 Sep 2004 – 24 Jun 2009	0.940	15,640,000	–	(15,640,000)	–
	8 Jan 2007	8 Apr 2007 – 7 Jan 2012	4.186	10,000,000	–	–	10,000,000
	26 May 2008	26 Aug 2008 – 25 May 2013	4.240	1,500,000	–	–	1,500,000
	26 Mar 2009	26 Jun 2009 – 25 Mar 2014	3.250	–	1,500,000	–	1,500,000
	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	1,500,000	–	1,500,000
Lau Wah Sum	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	400,000	–	400,000
Li Kwok Sing Aubrey	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	400,000	–	400,000
Liu Xiao Feng	27 Apr 2005	27 Jul 2005 – 26 Apr 2010	1.224	1,600,000	–	(1,600,000)	–
	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	400,000	–	400,000

Name	Date of Grant	Exercise Period	Exercise Price HK\$	Outstanding	Number of Share Options		Outstanding
				at 1 January 2009	Granted	Exercised	at the Latest Practicable Date
Employees	27 Apr 2005	27 Jul 2005 – 26 Apr 2010	1.224	26,000,000	–	(26,000,000)	–
	8 Jan 2007	8 Apr 2007 – 7 Jan 2012	4.186	25,000,000	–	–	25,000,000
	14 Sep 2007	14 Dec 2007 – 13 Sep 2012	4.480	20,000,000	–	–	20,000,000
	26 May 2008	26 Aug 2008 – 25 May 2013	4.240	7,000,000	–	–	7,000,000
	26 Mar 2009	26 Jun 2009 – 25 Mar 2014	3.250	–	7,000,000	–	7,000,000
	26 Mar 2010	26 Jun 2010 – 25 Mar 2015	10.320	–	7,000,000	–	7,000,000
					<u>177,340,000</u>	<u>29,400,000</u>	<u>(63,240,000)</u>

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or the chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company or the Stock Exchange, and none of the Directors, nor their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right since 31 December 2009 (being the date of the Company's latest published audited accounts).

2.3 Competing Business

As at the Latest Practicable Date, the following director of the Company had interests in the following businesses (apart from the Company's businesses) conducted through the company named below, their subsidiaries, associated corporations or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Company conducted during the year required to be disclosed pursuant to the rule 8.10 of the Listing Rules:

Name of director	Name of company	Nature of interest	Nature of competing business
Mr Li Hualin	PetroChina	Vice-President, Company Secretary and authorised representative	Exploration, development and production and marketing of crude oil and natural gas

As the Board of Directors is independent of the board of the above entity, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above business.

2.4 Additional Disclosure of Interest

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

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since 31 December 2009 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

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

Name	Number of Shares		Percentage of the total number of shares in issue
	Direct Interest	Indirect Interest	
Sun World Limited ⁽¹⁾	2,513,917,342 (L)	–	50.74%
PetroChina Hong Kong (BVI) Ltd. ⁽¹⁾	–	2,513,917,342 (L)	50.74%
PetroChina Hong Kong Ltd. ⁽¹⁾	–	2,513,917,342 (L)	50.74%
PetroChina Company Limited ⁽¹⁾	–	2,513,917,342 (L)	50.74%
China National Oil and Gas Exploration and Development Corporation (“CNODC”) ⁽²⁾	–	170,422,000 (L)	3.44%
CNPC International Ltd. (“CNPCI”) ⁽²⁾	–	170,422,000 (L)	3.44%
Fairy King Investments Ltd.	170,422,000 (L)	–	3.44%
China National Petroleum Corporation (“CNPC”) ⁽¹⁾⁽²⁾	–	2,684,339,342 (L)	54.18%

Notes:

- (1) Sun World Limited is a wholly-owned subsidiary of PetroChina Hong Kong (BVI) Ltd., which in turn is wholly owned by PetroChina Hong Kong Ltd.. PetroChina Hong Kong Ltd. is wholly owned by PetroChina, which is in turn owned as to 86.42% by CNPC. Accordingly, CNPC is deemed to have interest in the 2,513,917,342 shares held by Sun World Limited. Mr Li Hualin, the Chairman of the Company and Mr Zhang Bowen, the Chief Executive Officer of the Company are also directors of Sun World Limited, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).
- (2) Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 170,422,000 shares held by Fairy King Investments Ltd..

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

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

4. SERVICE CONTRACTS

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

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009 (being the date to which the latest published financial statements of the Company have been made up) and up to the Latest Practicable Date.

6. QUALIFICATION AND CONSENT OF EXPERTS

The followings are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
Guangdong Securities	a licensed corporation licensed for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
BMI Appraisals Limited	Independent Professional Valuer
Beijing China Enterprise Appraisals Co. Ltd.	China Certified Public Assets Valuer
Beijing Zhongfeng Assets Appraisal Co., Ltd.	China Certified Public Assets Valuer

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included.

Save as aforementioned, as at the Latest Practicable Date, the experts referred to above did not have any shareholding in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for securities in any member of the Group.

None of the experts referred to above, directly or indirectly, has had any interest in any assets which had since 31 December 2009 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. GENERAL

- (a) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (b) The Company Secretary of the Company is Mr. Lau Hak Woon, member of Hong Kong Institute of Certified Public Accountants in Hong Kong, fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada.
- (c) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the registered office of the Company at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong from the date of this circular up to and including 9 June 2010:

- (i) the Jiangsu LNG Acquisition Agreement;
- (ii) the Leng Jiapu Entrustment Contract, the Xinjiang Contract and the Liaohe Contract;
- (iii) the Master Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement; and
- (iv) this circular.

NOTICE OF THE SGM



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

(Stock Code: 00135)

(Formerly known as CNPC (Hong Kong) Limited

中國(香港)石油有限公司)*

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that the SGM of Kunlun Energy Company Limited (formerly known as CNPC (Hong Kong) Limited) (the “Company”) will be convened at the VINSON Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 10 June 2010 at 11:15 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:–

1. **“THAT:**

- (i) the transactions contemplated under the Jiangsu LNG Acquisition Agreement (as defined in the circular of the Company in respect of the Jiangsu LNG Acquisition and the Continuing Connected Transaction of the Company dated 25 May 2010 (the “**Circular**”)) (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purposes) be and are hereby generally and unconditionally approved; and
- (ii) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/ are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to the Jiangsu LNG Acquisition.”

2. **“THAT:**

- (i) the Revised Caps for each of the two financial years ending 31 December 2011 as defined and set out in the “Letter from the Board” in the Circular be and are hereby generally and unconditionally approved;
- (ii) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to the Revised Caps.”

NOTICE OF THE SGM

3. “**THAT:**

- (i) the continuing connected transactions between the Group and the CNPC Group under the Third Supplemental Agreement as set out in the “Letter from the Board” in the Circular be and are hereby generally and unconditionally approved;
- (ii) the Proposed Caps in respect of the continuing connected transactions mentioned in Resolution 3(i) above for each of the two financial years ending 2011 as defined and set out in the “Letter from the Board” in the Circular be and are hereby generally and unconditionally approved;
- (iii) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to the continuing connected transactions mentioned in Resolution 3(i) above and the Proposed Caps.”

By Order of the Board
Lau Hak Woon
Company Secretary

Hong Kong, 25 May 2010

Notes:

- 1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company. **Completion and return of the proxy form will not preclude a member from attending and voting in person at the meeting or any adjourned meeting should he so wish.**
- 2. 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 Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). The proxy form must be completed strictly in accordance with the instructions set out therein.
- 3. 中國石油天然氣股份有限公司 (China National Petroleum Corporation*) and its associates will abstain from voting in respect of Resolutions No. 1, 2 and 3.
- 4. Unless otherwise defined, terms used in this notice shall have the same meanings as those defined in the Circular.

* *For identification purpose only*