THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

(Stock Code: 00135.HK)

(1) NEW MASTER AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS IN 2024-2026
AND
(2) NOTICE OF SPECIAL GENERAL MEETING

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

建泉融資有限公司
VBG Capital Limited

A letter from the Board is set out on pages 5 to 33 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on page 34 of this circular. A letter from the Independent Financial Adviser, VBG Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 52 of this circular.

A notice of the SGM to be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 16 November 2023 (Thursday) at 11:00 a.m., is set out on pages SGM-1 to SGM-2 of this circular. A proxy form for use by the shareholders of the Company at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the proxy form enclosed in accordance with the instructions printed thereon and return it to the principal office of the Company at 39th Floor, 118 Connaught Road West, Hong Kong or the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

13 October 2023

CONTENTS

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
"Board"	the board of directors of the Company
"Category" or "Categories"	the categories of the Continuing Connected Transaction
"CNPC"	China National Petroleum Corporation* (中國石油天然氣集團有限公司, formerly known as China National Petroleum Company* （中國石油天然氣總公司）), a state-owned enterprise established under the laws of the PRC
"CNPC Finance"	China Petroleum Finance Company Limited* （中油財務有限責任公司）, owned as to 40% by CNPC, 32% by PetroChina and 28% by CNPC Capital Company Limited* （中國石油集團資本股份有限公司） as at the Latest Practicable Date
"CNPC Group"	CNPC and its subsidiaries, but excluding members of the Group
"Company"	Kunlun Energy Company Limited, a company incorporated with limited liability in Bermuda and the shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions which have been and will continue to be entered into between the Group and the CNPC Group, details of which are set out in the Letter from the Board in this circular
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Existing Annual Caps"	the existing maximum aggregate annual values of the Continuing Connected Transactions for each of the three years ending 31 December 2023 as set out in the announcement and circular of the Company dated 11 September 2020 and 5 October 2020, respectively, and proposed to be revised as set out in the announcement of the Company dated 14 September 2023 and this circular

"Existing Master Agreement"	the master agreement dated 11 September 2020 entered into between the Company and CNPC regarding the provision by the CNPC Group to the Group and by the Group to the CNPC Group, of a range of products and services from time to time, and shall expire on 31 December 2023
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	the independent committee of the Board, comprising Dr. Liu Xiao Feng, Mr. Sun Patrick and Mr. Tsang Yok Sing Jasper, being all the independent non-executive Directors of the Company, established for the purpose of, among other things, advising the Independent Shareholders in respect of the entering into of the New Master Agreement and the transactions contemplated thereunder, the Non-Exempt Continuing Connected Transactions and the relevant Proposed Annual Caps
"Independent Financial Adviser" or "VBG Capital"	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps
"Independent Shareholders"	the Shareholders other than CNPC and its associates (including PetroChina)
"Latest Practicable Date"	9 October 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"NAFR"	National Administration of Financial Regulation of PRC
"NDRC"	National Development and Reform Commission of PRC

"New Master Agreement"	the master agreement dated 14 September 2023 entered into between the Company and CNPC regarding the provision by the CNPC Group to the Group and by the Group to the CNPC Group, of a range of products and services from time to time, which shall come into effect on 1 January 2024 for a term of three years
"Non-Exempt Continuing Connected Transactions"	the Continuing Connected Transactions apart from the financial services under Category (b)(vi), as set out in the paragraph headed "Letter from the Board – 4. Continuing Connected Transactions in 2024-2026" in this circular
"Oil and Gas Products"	such crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products provided by the CNPC Group to the Group from time to time under the New Master Agreement
"PBoC"	the People's Bank of China
"PetroChina"	PetroChina Company Limited, a joint stock limited company incorporated in the PRC, which shares are listed on the Shanghai Stock Exchange and the Stock Exchange. PetroChina is a non-wholly owned subsidiary of CNPC and the controlling shareholder of the Company holding approximately 54.38% of the total issued share capital of the Company as at the Latest Practicable Date
"PRC"	the People's Republic of China, which, for the purposes of this circular only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Proposed Annual Caps"	the proposed respective annual caps for each category of the Non-Exempt Continuing Connected Transactions for each of the three years ending 31 December 2026
"Relevant Market Prices"	collectively, the Relevant Market Price (a), the Relevant Market Price (b), the Relevant Market Price (c) and the Relevant Market Price (d) in respect of the Continuing Connected Transactions as described in the paragraph headed "Letter from the Board – 4. Continuing Connected Transactions in 2024-2026 – 4.1 Details of the Continuing Connected Transactions" in this circular
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company proposed to be convened and held on 16 November 2023 for the Independent Shareholders to consider and, if deemed appropriate, approve, among other things, the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each relevant Non-Exempt Continuing Connected Transaction
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"%"	per cent.

Notes:

1. For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB0.9181 = HK$1.00 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.

2. If there is any discrepancy or inconsistency between the Chinese names of the PRC entities and their English translations in this circular, the Chinese version shall prevail.

* *For identification purpose only*

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

(Stock Code: 00135.HK)

Executive Directors:
Mr. Fu Bin *(Chairman)*
Mr. Qian Zhijia *(Chief Executive Officer)*
Mr. Zhou Yuanhong
Mr. Gao Xiangzhong *(Chief Financial Officer)*

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

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

13 October 2023

To the Shareholders

Dear Sir or Madam,

(1) NEW MASTER AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS IN 2024-2026 AND (2) NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement of the Company dated 14 September 2023 in relation to the Continuing Connected Transactions, the New Master Agreement and the Proposed Annual Caps.

The Group and CNPC entered into, among other things, the Existing Master Agreement in 2020. The Existing Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group and vice versa, including but not limited to Oil and Gas Products, general products and services, engineering technology services, production services, logistics supply, financial services, property leasing services and entrustment management services.

In view of the anticipated expiry of the Existing Master Agreement on 31 December 2023, the Company announced in its announcement dated 14 September 2023 that it had entered into the conditional New Master Agreement with CNPC for the purpose of renewing the Continuing Connected Transactions contemplated under the Existing Master Agreement for the three years ending 31 December 2026. The New Master Agreement is conditional upon the approval by the Independent Shareholders in relation to (i) the entering into of the New Master Agreement; (ii) the Non-Exempt Continuing Connected Transactions; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2026.

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

(i) to provide you with further details of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps;

(ii) to provide you with a letter from the Independent Board Committee to the Independent Shareholders in respect of the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026;

(iii) to provide you with a letter of advice from VBG Capital containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026; and

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

2. BACKGROUND

When determining the Proposed Annual Caps under the New Master Agreement, the Board considers the following background information:

The market conditions and trend of natural gas and the Group's development plan in the next three years

The potential for development of the industry will be further unlocked. The economy in the PRC is experiencing wave-like development and tortuous progress, and the fundamentals of long–term improvement have not changed. With the continuous efforts of macro policies, the potential for development of the industry will be further unlocked under the joint promotion of industrial policies such as special rectification of urban gas safety, the integration of "One City, One Gas Supplier" for urban gas and linkage of natural gas prices.

Under the dual carbon vision, the natural gas consumption in the PRC will continue to grow rapidly in the next 10 to 15 years. Carbon neutrality will accelerate the revolutionary reshaping of the energy system in the PRC pursuant to the basic law of world energy evolution. With the target of carbon neutrality, the proportion of non-fossil energy will increase from 16% at present to more than 80% in 2060. As a long-term partner of renewable energy, natural gas will help solve the intermittent and volatile issues of new energy. It is expected that demand for natural gas consumption will continue to grow rapidly in the next 10 to 15 years, and will enter a stagnant phase of peak from 2035 to 2040, with a peak level of 620 to 650 billion m^3.

Fully leverage on the core advantages to enhance the core competitiveness. As low-carbon clean energy, natural gas plays a key supporting role in the process of energy system transformation, upgrading and iterative evolution and it is still a strategic opportunity to consolidate the natural gas business for a period of time in the future. The Group will firmly grasp the window of opportunity, continue to focus on the high-quality development of natural gas business, and continuously optimize the business structure and layout, thus improving the operating level and the profitability capability of the core business. The Group will expand and refine the gas business, deepen the development of users in the operating areas of existing urban gas projects, and vigorously promote the sales expansion and efficiency enhancement of the stock market; deepen joint venture cooperation with local gas enterprises, focus on breaking through cooperation with major companies, major cities and large projects, seize the opportunity of "One City, One Gas Supplier", and integrate regional end-user market; coordinate the development of the liquefied natural gas ("**LNG**") industrial chain, fully leverage on the advantages of integration to effectively develop the natural gas utilization business in the transportation field, build an industrial chain based on LNG terminals and factories, supported by internal and external terminal filling stations, and build a liquid sales radiation network based on vehicle and ship customers, strive to enhance the profitability capability, and build a liquid industrial chain as a new profit growth point. The Group will optimize the layout of LNG terminals, accelerate the construction of terminals in the Yangtze River Delta and southeast coastal areas and other regions at the far end of pipeline supply, complete the expansion of the third phase of LNG terminals in Jiangsu and construction of a new LNG terminal in Fujian, scientifically allocate LNG resources, and improve the operating efficiency of the terminals. The Group will accelerate the construction of supporting branch lines, fully leverage on the role of branch lines in "Expanding the Market and Driving the End-user Market", coordinate the potential for development, market competition and conditions of pipeline network, and focus on promoting the construction of branch lines in major areas in combination with the needs of end-user business planning. The Group will also actively develop conventional new energy business, deepen strategic cooperation with power enterprises and power grid enterprises, strengthen internal coordination, fully promote the acquisition of installed capacity indicators for new energy projects, and accelerate the construction of clean alternative projects such as distributed photovoltaic and differential pressure power generation. The Group will lead the trend of the industry by accelerating the cultivation of new business forms, piloting research on multi-energy supply such as wind, solar, gas, hydrogen and geothermal and energy storage in large energy-using units such as trade pilot areas, industrial parks, centralized buildings, and precise coupling with needs such as cooling, heat, electricity and heating at the user end, improving energy efficiency, and reserving cutting-edge technologies.

3. THE NEW MASTER AGREEMENT

The Company and CNPC entered into the New Master Agreement on 14 September 2023 for the purpose of renewing the Continuing Connected Transactions for the three years ending 31 December 2026. The principal terms of the New Master Agreement are set out below:

Date	:	14 September 2023
Parties	:	(1) The Company
		(2) CNPC
Duration	:	Three years commencing from 1 January 2024 to 31 December 2026. The parties agreed that subject to the applicable laws and regulations, including but not limited to the Listing Rules, the term of the New Master Agreement can be further renewed upon agreement by the parties in writing.

The terms of the New Master Agreement were negotiated on arm's length basis between the Group and CNPC. Pursuant to the New Master Agreement, the CNPC Group agreed to provide to the Group and the Group agreed to provide to the CNPC Group a range of products and services including but not limited to Oil and Gas Products, general products and services, engineering technology services, production services, logistics supply, financial services, property leasing services and entrustment management services from time to time, which shall expire on 31 December 2026.

Further, if the term of an individual implementation agreement extends beyond 31 December 2026 (being the expiry date of the New Master Agreement), the Company shall re-comply with the reporting, annual review, announcement and Independent Shareholders' approval requirements under Rules 14A.35 to 14A.60 of the Listing Rules and/or any other applicable Listing Rules at the relevant time.

The effectiveness of the New Master Agreement is conditional upon the approval by the Independent Shareholders at the SGM in relation to (i) the entering into of the New Master Agreement; (ii) the Non-Exempt Continuing Connected Transactions; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2026, and shall become effective on 1 January 2024 and expire on 31 December 2026.

4. CONTINUING CONNECTED TRANSACTIONS IN 2024-2026

The Group and CNPC entered into, among other things, the Existing Master Agreement in 2020. The Existing Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group and vice versa, including but not limited to Oil and Gas Products, general products and services, engineering technology services, production services, logistics supply, financial services, property leasing services and entrustment management services. The Existing Master Agreement will expire on 31 December 2023.

In view of the anticipated expiry of the Existing Master Agreement on 31 December 2023, the Company announced in its announcement dated 14 September 2023 that it had entered into the conditional New Master Agreement with CNPC for the purpose of renewing the Continuing Connected Transactions contemplated under the Existing Master Agreement for the three years ending 31 December 2026. Pursuant to the New Master Agreement, members of the CNPC Group and members of the Group shall enter into individual implementation agreements in respect of each type of product or service setting out detailed terms and conditions for providing such products and services. The pricing shall always be subject to the New Master Agreement and the payment terms, including the credit period and the settlement method, will be specified in each individual implementation agreement.

The Continuing Connected Transactions mainly comprise:

(a) General products to be provided by the CNPC Group to the Group;

(b) General services to be provided by the CNPC Group to the Group, including:

  (i) Engineering technology services

  (ii) Production services

  (iii) Logistics supply

  (iv) Living support services

  (v) Social services

  (vi) Financial services (including (i) Deposit Services, (ii) Loan, and (iii) Others);

(c) General products to be provided by the Group to the CNPC Group; and

(d) General services to be provided by the Group to the CNPC Group, including:

  (i) Production services

  (ii) Logistics supply

  (iii) Property leasing services

  (iv) Entrustment management services.

Financial Services

As all of the percentage ratios applicable to each category of the financial services including Category (b)(vi)(i) Deposit Services, (b)(vi)(ii) Loan and (b)(vi)(iii) Others to be provided by the CNPC Group to the Group are less than 5%, such financial services are exempted from the Independent Shareholders' approval requirement but are subject to the reporting and announcement requirements.

Financial Assistance

Pursuant to Rule 14A.90 of the Listing Rules, loans and other financial assistance to be provided by the CNPC Group to the Group, being financial assistance provided by a connected person for the benefit of the Group on normal commercial terms (or better to the listed issuer) where no security over the assets of the Group is granted in respect thereof, is fully exempt from the Independent Shareholders' approval, annual review and all disclosure requirements set out in Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions

Accordingly, save for the financial services under Category (b)(vi) to be provided by the CNPC Group to the Group, the other Continuing Connected Transactions contemplated under the New Master Agreement are Non-Exempt Continuing Connected Transactions. The applicable percentage ratios based on the Proposed Annual Caps for the respective Non-Exempt Continuing Connected Transactions are greater than 5%, as such the Non-Exempt Continuing Connected Transactions for the three years ending 31 December 2026 are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements.

4.1 Details of the Continuing Connected Transaction

Set out below are further details of the New Master Agreement:

4.1.1 Categories of Continuing Connected Transactions

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

(A) The New Master Agreement

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

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

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

(B) Pricing Policy

The pricing for such general products (other than crude oil) to be provided by the CNPC Group to the Group under the New Master Agreement shall be fair and reasonable and based on the following general principles: adopt government-prescribed prices where available, or if no government-prescribed prices are available, the price to be paid by the Group to the CNPC Group (the "**Relevant Market Price (a)**") shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price (a)**"). If the CNPC Group provides the relevant general products to the Group at a price lower than the Best Market Price (a) in such markets, such lower price shall be the Relevant Market Price (a).

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

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

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

(A) The New Master Agreement

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

(i) Engineering technology services, including geophysical prospecting, drilling, well cementing, mud logging, logging, oil testing, downhole operations, oilfield construction (including construction and installation), refinery construction (including construction and installation), engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing and research, technical services (such as patent, know-how and computer software relating to the captioned services), information services, public engineering (such as oil regions, factory roads, municipal facilities, civil construction and public facilities), risk operation services and other related or similar products or services.

(ii) Production services, including water supply, electricity supply, gas supply, heat supply, communications, fire protection, security, books information, partial filing storage, asset leasing, environmental sanitation in factory and mining areas, mechanical maintenance, machining, transportation, road maintenance and other related or similar products or services.

(iii) Logistics supply, including procurement agency, quality inspection, storage, delivery and other related or similar products or services.

(iv) Living support services, including property management, training centers, guest houses, staff canteens, bath management and other related or similar services.

(v) Social services, including community security services, hospitals, childcare services, cultural promotion (including TV stations, radio stations and newspapers), public transport, municipal facilities (including roads, cities and mining greening), retirement management, re-employment service center, integrated services and other related or similar services.

(vi) Financial services, including RMB and foreign exchange deposit and loan business, interest expenses and income, guarantee, and other financial services that CNPC engaged in through its subordinate CNPC Finance and other financial institutions according to relevant requirements.

(B) Pricing Policy

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

(i) adopt government-prescribed prices where available, or if no government-prescribed prices are available, the price to be paid by the Group to the CNPC Group (the "**Relevant Market Price (b)**") shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price (b)**"). If the CNPC Group provides the relevant general services to the Group at a price lower than the Best Market Price (b) in such markets, such lower price shall be the Relevant Market Price (b); and

(ii) in respect of Category (b)(vi), the financial services to be provided to the Group by the CNPC Group:

(a) the deposits to be placed by the Group with the CNPC Group and loans to be provided to the Group by the CNPC Group will bear interest rates which are no less favorable than the prevailing rate as prescribed by the PBoC and NAFR and/or offered by the CNPC Group, and will be on similar terms and conditions as would apply to similar deposits and loans made by other independent customers of the CNPC Group; and

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

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

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

(A) The New Master Agreement

Pursuant to the New Master Agreement, the Group agreed to provide the CNPC Group with a range of general products, including natural gas, LNG, compressed natural gas, liquefied petroleum gas, refined oil products, chemical products, other integrated energy products and other related and similar products.

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

(B) Pricing Policy

The pricing for such general products to be provided by the Group to the CNPC Group under the New Master Agreement shall be fair and reasonable and based on the following general principles: adopt government-prescribed prices where available, or if no government-prescribed prices are available, the price to be charged by the Group to the CNPC Group (the "**Relevant Market Price (c)**") shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price (c)**"). If the CNPC Group agrees to purchase from the Group the relevant general products at a price higher than the Best Market Price (c) in such markets, such higher price shall be the Relevant Market Price (c).

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

(A) The New Master Agreement

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

(i) production services including natural gas pipeline transmission services, LNG processing, LNG unloading, gasification, storage and entrucking and other services, data management and filing services, asset leasing, environmental sanitation in factory and mining areas, installation, repair and upgrade of equipment, transportation, maintenance of access roads and other related or similar services;

(ii) logistics supply including procurement agency, quality inspection, storage and delivery and other related or similar services;

(iii) lease services including leasing of certain offices, commercial building, warehouses and other related or similar services; and

(iv) entrustment management services, including but not limited to managing certain aspects in relation to their shareholders' rights and their day-to-day management and operation and other similar management services.

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

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

(B) Pricing Policy

The pricing for such general services to be provided by the Group to the CNPC Group under the New Master Agreement shall be fair and reasonable and based on the following general principles adopt government-prescribed prices where available or if no government-prescribed prices are available, the price to be charged by the Group to the CNPC Group (the "**Relevant Market Price (d)**") shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price (d)**"). If the CNPC Group agrees to engage the Group for the relevant general services at a price higher than the Best Market Price (d) in such markets, such higher price shall be the Relevant Market Price (d).

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

4.1.2 General Principles, Price and Terms of the Continuing Connected Transactions under the New Master Agreement

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

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

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

(iii) the Group and the CNPC Group shall enter into individual implementation agreements in relation to each type of product and service setting out detailed terms and conditions for the provision of such products and services, and shall comply with the Listing Rules; and

(iv) the Group and the CNPC Group agreed that all transactions under the New Master Agreement shall be conducted in accordance with the principles of orderly competitions, and that high quality and reasonable cost shall prevail. The Group and the CNPC Group also agreed to purchase the products and services to be provided by the other party, if the quality and relevant general products and services are of the same quality and conditions.

For further details on the internal control measures and procedures for ensuring the implementation of the relevant pricing policies, please refer to the paragraph headed "Letter from the Board – 4. Continuing Connected Transactions in 2024-2026 – 4.3 Measures of Internal Control" in this circular.

4.1.3 Other Rights and Obligations under the New Master Agreement

Other Rights

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

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

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

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

Other Obligations

The Group and the CNPC Group both have the obligations to provide products and services of quality in accordance with the requirements of New Master Agreement and the demand plan for products and services provided by the other party pursuant to the New Master Agreement.

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

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

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

4.2 Existing Annual Caps, Historical Amounts and Proposed Annual Caps

4.2.1 Background

The announcement and circular of the Company dated 11 September 2020 and 5 October 2020, respectively, set out the Existing Annual Caps for each category of the Continuing Connected Transactions for each of the three years ending 31 December 2023, which were approved (where required) by the Independent Shareholders at the special general meeting of the Company held on 27 October 2020. The Existing Annual Caps for the Continuing Connected Transactions will expire on 31 December 2023. Accordingly, the Board proposes (i) the following Proposed Annual Caps for the Non-Exempt Continuing Connected Transactions listed below which will serve as the maximum annual value of the Non-Exempt Continuing Connected Transactions for each of the three years ending 31 December 2026; and (ii) to seek the approval of the Independent Shareholders at the SGM on the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026.

The table below sets out the Existing Annual Caps, the historical amounts for the two years ended 31 December 2022 and the six months ended 30 June 2023 for each category of the Continuing Connected Transactions and the Proposed Annual Caps for the three years ending 31 December 2026:

Categories	Existing Annual Caps Note 1	Historical amount Note 1	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps Note 2
(a) Provision of products by the CNPC Group to the Group	2021: RMB97,639 million 2022: RMB117,757 million 2023: RMB141,641 million	2021: RMB73,193 million 2022: RMB109,667 million Six months ended 30 June 2023: RMB58,993 million	2024: RMB172,726 million 2025: RMB215,045 million 2026: RMB265,360 million	The Board has considered (among other things) that the Non-Exempt Continuing Connected Transactions under this Category (a) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the historical and expected level of products charges paid by the Group to the CNPC Group under the Existing Master Agreement and the New Master Agreement, the relevant pricing policy, the Relevant Market Price (a), positive macro policies have been implemented in the PRC to expand domestic demand, promote infrastructure construction, accelerate the construction of modern industrial systems in fields such as new energy and promote the green transformation of development mode, thus maintaining the economic growth in a reasonable range. The demand in the domestic natural gas market will further increase as the domestic demand for natural gas will continue to recover. With the steady recovery of the economy and the acceleration of the low-carbon transformation, the demand for natural gas will maintain steady growth in the last two years of the "14th Five-Year Plan". And the steps taken by the Company recently to expand its market share will give full play to the strengths of natural gas industrial chain integration and complete infrastructure features. The Group will continue to work diligently and pursue further business development in existing market areas to enhance natural gas utilisation rate, improve the cooperation and efficient development of the urban gas integrated market, accelerate the connection of industrial and commercial users, enlarge the scale of integrated energy business, comprehensively improve the customer service capabilities and deeply implement further improvement of quality and efficiency, thus promoting the growth in both sales volume and efficiency of natural gas. Thereby it is expected that the Group will grow and its demand for the Oil and Gas Products would increase considerably in the following years.

Categories	Existing Annual Caps Note 1	Historical amount Note 1	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps Note 2
(b) Provision of services by the CNPC Group to the Group	2021: RMB14,290 million 2022: RMB15,237 million 2023: RMB16,466 million	2021: RMB4,670 million 2022: RMB4,580 million Six months ended 30 June 2023: RMB2,005 million	2024: RMB11,932 million 2025: RMB14,534 million 2026: RMB14,972 million	The Board has considered (among other things) that the Non-Exempt Continuing Connected Transactions under this Category (b) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the historical and expected level of services charges paid by the Group to the CNPC Group under the Existing Master Agreement and the New Master Agreement, the relevant pricing policy and the Relevant Market Price (b), positive macro policies have been implemented in the PRC to expand domestic demand, promote infrastructure construction, accelerate the construction of modern industrial systems in fields such as new energy and promote the green transformation of development mode, thus maintaining the economic growth in a reasonable range. The demand in the domestic natural gas market will further increase as the domestic demand for natural gas will continue to recover. With the steady recovery of the economy and the acceleration of the low-carbon transformation, the demand for natural gas will maintain steady growth in the last two years of the "14th Five-Year Plan". And the steps taken by the Company recently to expand its market share will give full play to the strengths of natural gas industrial chain integration and complete infrastructure features. The Group will continue to work diligently and pursue further business development in existing market areas to enhance natural gas utilisation rate, improve the cooperation and efficient development of the urban gas integrated market, accelerate the connection of industrial and commercial users, enlarge the scale of integrated energy business, comprehensively improve the customer service capabilities and deeply implement further improvement of quality and efficiency, thus promoting the growth in both sales volume and efficiency of natural gas. For instance, the construction and development of the construction project of LNG Terminal in Fujian* (福建LNG接收站項目) and new energy and integrated energy projects, as well as other potential corporate activities such as potential acquisitions of gas projects in the future, the corresponding demand of the Company's capital investment and cash management would increase and the Group would have a greater demand for general services, such as engineering technology services, financial services, data management services, storage space and logistics supply, from the CNPC Group to support the Group's future business development.

Categories	Existing Annual Caps [Note 1]	Historical amount [Note 1]	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps [Note 2]
among which:				
(b)(vi)(i) Deposit services [Note 3]	2021: RMB2,828 million 2022: RMB3,219 million 2023: RMB3,610 million	2021: RMB1,803 million 2022: RMB2,440 million Six months ended 30 June 2023: RMB1,502 million	2024: RMB2,403 million 2025: RMB2,403 million 2026: RMB2,403 million	The Board has considered (among other things) that the deposit services to be provided by the CNPC Group to the Group will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the historical cash flow and levels of deposits and the competitive interest rates offered by CNPC Finance and other financial institutions. In order to optimize the cash flow management and capital efficiency of the Group and the CNPC Group, CNPC Finance and other financial institutions provide certain financial services to the Group. The Group is of the view that the Proposed Annual Cap is in line with the development of the business of the Group, and is determined based on principles of fairness and reasonableness. The interest rate of the deposits available to the Group from the CNPC Group shall not be less than (i) the minimum interest rate prescribed by PBoC; and (ii) the interest rate available to the Group from other commercial banks.
(b)(vi)(ii) Loan [Note 4]	2021: RMB1,100 million 2022: RMB1,200 million 2023: RMB1,300 million	2021: RMB373 million 2022: RMB240 million Six months ended 30 June 2023: RMB183 million	2024: RMB350 million 2025: RMB370 million 2026: RMB390 million	The Board has considered (among other things) that loans will continue to be provided by the CNPC Group to the Group in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the historical amounts and potential opportunities for corporate actions by the Group. The loans to be provided by the CNPC Group may enable the Group to have sufficient funding for possible corporate activities such as potential acquisitions of gas projects in the future. CNPC Finance provides loans and offers convenient, efficient and security which is no less favourable than other commercial banks in the market. In addition, the interest rate of the loans to be granted by the CNPC Group to the Group shall not be higher than (i) the maximum interest rate prescribed by the PBoC; and (ii) the interest rate charged against the Group by other commercial banks in respect of the same type of loans.

Categories	Existing Annual Caps [Note 1]	Historical amount [Note 1]	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps [Note 2]
(b)(vi)(iii) Others [Note 5]	2021: RMB16 million 2022: RMB16 million 2023: RMB16 million	2021: nil 2022: nil Six months ended 30 June 2023: nil	2024: RMB82 million 2025: RMB93 million 2026: RMB105 million	The Board has considered (among other things) that certain other financial services, such as guarantees and entrustment services, may be provided by the CNPC Group to the Group in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the potential opportunities for corporate actions by the Group. In addition, facing the fluctuations of the exchange rates of RMB against United States dollars during the recent years, the Group has implemented foreign exchange rate risk management plan and measures, including investing in financial derivative products such as foreign exchange hedging, cross currency swaps and forwards and investing in bonds. As financial institutions under the CNPC Group have more efficient internal settlement and can provide related services, the Group included all the possible financial services which may be provided by the CNPC Group to the Group when estimating the Proposed Annual Caps.

Categories	Existing Annual Caps Note 1	Historical amount Note 1	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps Note 2
(c) Provision of products by the Group to the CNPC Group	2021: RMB8,891 million 2022: RMB9,494 million 2023: RMB10,296 million	2021: RMB4,447 million 2022: RMB4,572 million Six months ended 30 June 2023: RMB2,234 million	2024: RMB10,399 million 2025: RMB12,496 million 2026: RMB14,900 million	The Board has considered (among other things) that the Non-Exempt Continuing Connected Transactions under this Category (c) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, the Existing Annual Caps, with reference to the historical and expected level of products provided by the Group to the CNPC Group under the Existing Master Agreement and the New Master Agreement, the relevant pricing policy, the Relevant Market Price (c), positive macro policies have been implemented in the PRC to expand domestic demand, promote infrastructure construction, accelerate the construction of modern industrial systems in fields such as new energy and promote the green transformation of development mode, thus maintaining the economic growth in a reasonable range. The demand in the domestic natural gas market will further increase as the domestic demand for natural gas will continue to recover. With the steady recovery of the economy and the acceleration of the low-carbon transformation, the demand for natural gas will maintain steady growth in the last two years of the "14th Five-Year Plan". And the steps taken by the Company recently to expand its market share will give full play to the strengths of natural gas industrial chain integration and complete infrastructure features. The Group will continue to work diligently and pursue further business development in existing market areas to enhance natural gas utilisation rate, improve the cooperation and efficient development of the urban gas integrated market, accelerate the connection of industrial and commercial users, enlarge the scale of integrated energy business, comprehensively improve the customer service capabilities and deeply implement further improvement of quality and efficiency, thus promoting the growth in both sales volume and efficiency of natural gas. With wider geographical coverage of the Group's business and implementation of focusing its core business on natural gas sales, the Group has expanded its natural gas downstream capabilities and it is expected that the supply of products (such as urban gas) by the Group to the CNPC Group will substantially increase.

Categories	Existing Annual Caps Note 1	Historical amount Note 1	Proposed Annual Caps	Bases of determination of the Proposed Annual Caps Note 2
(d) Provision of services by the Group to the CNPC Group	2021: RMB18,975 million 2022: RMB19,385 million 2023: RMB19,763 million	2021: RMB6,891 million 2022: RMB4,478 million Six months ended 30 June 2023: RMB2,032 million	2024: RMB9,644 million 2025: RMB11,524 million 2026: RMB13,645 million	The Board has considered (among other things) that the Non-Exempt Continuing Connected Transactions under this Category (d) will continue to be entered into on terms and conditions set out in the relevant implementation agreements and in the ordinary and usual course of business of the Group and on normal commercial terms, with reference to the historical and expected level of services provided by the Group to the CNPC Group under the Existing Master Agreement and the New Master Agreement, the relevant pricing policy, and the Relevant Market Price (d). In light of the continuous economic growth in the PRC, the ongoing national energy structure reform to increase consumption of natural gas in the PRC, and general business development and expansion of the CNPC Group, it is anticipated that the demand for the various services provided by the Group relating to LNG terminals and LNG processing plants will increase.

Notes:

1. The historical amounts for the two years ended 31 December 2022 represent audited figures extracted from the 2021 annual report and 2022 annual report of the Company. The historical amounts for the six months ended 30 June 2023 represent unaudited figures extracted from the management accounts of the Company.

2. The differences between the Existing Annual Caps, the historical amounts and the Proposed Annual Caps arise mainly because both the Company and the CNPC Group are large enterprises, with a large scale and transaction volumes. Since the Proposed Annual Caps for the Non-exempt Continuing Connected Transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. As such, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the relevant Proposed Annual Caps. Particularly, (1) the difference between the historical amounts and the Existing Annual Caps under Category (b) is mainly because (i) the Company disposed PetroChina Beijing Gas Pipeline Co., Ltd.*（中石油北京天然氣管道有限公司）(“**Beijing Pipeline**”) in December 2020 but the Existing Annual Caps included the then estimated amounts of services to be provided by the CNPC Group to Beijing Pipeline; and (ii) certain projects of the Group have been delayed due to the Covid-19; (2) the difference between the historical amounts and the Existing Annual Caps under Category (c) is mainly because certain projects of the CNPC Group have been delayed due to the Covid-19; and (3) the difference between the historical amounts and the Existing Annual Caps under Category (d) is mainly because the Company disposed Beijing Pipeline and PetroChina Dalian LNG Co., Ltd.*（中石油大連液化天然氣有限公司）(“**Dalian LNG**”) in December 2020 (the “**Disposal of Beijing Pipeline and Dalian LNG**”) but the Existing Annual Caps included the then estimated amounts of services to be provided by Beijing Pipeline and Dalian LNG to the CNPC Group. Please refer to the announcements of the Company dated 10 December 2019, 23 July 2020, and 22 December 2020 for details of the Disposal of Beijing Pipeline and Dalian LNG.

3. The relevant figures represent the maximum daily outstanding balance of deposits placed or to be placed by the Group with the CNPC Group (including interest accrued thereon).

4. The relevant figures of the Existing Annual Caps and historical amounts represent the interest in relation to the loans and financial products provided or to be provided by the CNPC Group to the Group that constitute or would constitute Non-Exempt Continuing Connected Transactions, such as loans and financial products provided by the CNPC Group to entities jointly held by the Group and the CNPC Group whereas the figures in respect of the Proposed Annual Caps represent only the relevant interests but exclude the principal amount. As financial assistance received by the Group from the CNPC Group is fully exempt if it is conducted on normal commercial terms or better and is not secured by assets of the Group under Rule 14A.90 of the Listing Rules, loans and financial products provided or to be provided by the CNPC Group to the Company and/or its wholly-owned subsidiaries or entities not jointly held with the CNPC Group are excluded from this table.

5. This refers to all financial services other than deposit services, loans and financial products provided or to be provided by the CNPC Group to the Group under Category (b) of the Continuing Connected Transactions. The relevant figures represent the maximum service fees and commissions for other financial products and services provided or to be provided by the CNPC Group to the Group.

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

4.3 Measures of Internal Control

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

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

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

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

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

(ii) review, from time to time, the international oil prices and the terms offered by independent third parties to ensure the terms offered by the CNPC Group are no less favourable than those offered by the independent third parties. In particular, the sales team is responsible for monitoring the international oil prices, including the Brent and WTI benchmark prices, every ten days, before the Group decides to enter into the transaction with the CNPC Group;

(iii) review, from time to time, the information of similar products, services or properties in the same regions or areas from various market reports, independent agents and/or terms applicable to the customers or tenants of the CNPC Group, including the independent third parties;

(iv) review, from time to time, the prices, deposit rates, loan rates and services charge fees quoted from the counterparties with the terms from other independent third parties to ensure that the most favourable terms are obtained, and the transactions will be reported to the head of the finance department of the Group for approval;

(v) in respect of the financial services, further consider:

(a) for deposit services, the interest rate of the deposits available to the Group from the CNPC Group shall not be less than (i) the minimum interest rate prescribed by PBoC; and (ii) the interest rate available to the Group from other commercial banks;

(b) for loan services, the interest rate of the loans to be granted by the CNPC Group to the Group shall not be higher than (i) the maximum interest rate prescribed by the PBoC; and (ii) the interest rate charged against the Group by other commercial banks in respect of the same type of loans;

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

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

(vi) the Company will impose control on the actual transaction amount of the Continuing Connected Transactions and focus on controlling the individual amount of each Category of Continuing Connected Transactions;

(vii) the Company's audit department shall regularly conduct internal assessments on the internal control measures every year to ensure that the internal control measures in respect of connected transactions remain complete and effective;

(viii) the independent non-executive Directors shall conduct annual review on the Continuing Connected Transactions and provide annual confirmations in the annual reports of the Company on whether the Continuing Connected Transactions are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; (iii) according to the relevant agreements the terms of which are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and

(ix) The external auditors of the Company shall report on the Continuing Connected Transactions every year and issue a letter to the Board in respect of the Continuing Connected Transactions in accordance with the Listing Rules.

5. REASONS FOR AND BENEFITS OF THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

The Company is an enterprise whose business operations primarily focus on investing in natural gas business as well as petroleum up-stream businesses that generate stable income. CNPC, on the other hand, is an enterprise whose business operations cover a broad spectrum of upstream and downstream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. CNPC is a major producer and supplier of petrochemical products. CNPC is also involved in the provision of operational services and technical support in such areas as geophysical prospecting, drilling, well cementing, mud logging, logging, oil-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 Group's business activities, the Board considers it to be beneficial to the Group to continue carrying out the Continuing Connected Transactions with the CNPC Group as these transactions have facilitated and are expected to continue to facilitate the operation and growth of the Group's business. The Board also notes the long smooth cooperation history between the Company and CNPC in relation to such transactions.

In particular, by receiving financial services from the CNPC Group, the Group is able to receive highly efficient financial services both domestically and abroad as:

(i) CNPC Finance is the internal settlement, fund raising and financing and capital management platform of CNPC. CNPC provides deposit and other financial services to the Group through CNPC Finance and other financial institutions;

(ii) CNPC Finance lowered the costs of the Group through various mechanisms, such as providing more efficient internal settlement, and the loan process is convenient, timely and efficient. Furthermore, CNPC Finance utilizes its status as member of the China Foreign Exchange Trade System (中國外匯交易中心) to develop businesses in the settlement, sales and conversion of foreign currency, which saved the Group a considerable amount in foreign exchange costs; and

(iii) CNPC Finance is under the supervision of the NAFR as a major domestic non-bank financial institution, and has achieved the regulatory requirements as determined by regulatory indicators over the years. As at 30 June 2023, the cash on hand and at the People's Bank of China of CNPC Finance was approximately RMB11.40 billion and the lending to banks and other financial institutions of CNPC Finance was approximately RMB236.28 billion, the total assets of CNPC Finance was approximately RMB632.64 billion. For the six months ended 30 June 2023, CNPC Finance achieved a revenue of approximately RMB4.74 billion, a net interest income of approximately RMB3.35 billion, a profit of approximately RMB3.48 billion and a net profit after tax of approximately RMB3.03 billion, which is in a leading position among domestic counterparts.

Accordingly, the Company considers that due to familiarity with the business and operation of the Group, the service provided by CNPC Finance is generally no less favourable to the market level in terms of pricing and quality, and with high efficiency, more convenience and lower transaction costs. In particular, CNPC's undertaking to act as the payer of last resort for CNPC Finance provides better security of funds as compared to external banks.

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

6. INFORMATION ON THE GROUP AND OTHER PARTIES

(a) Information on the Group

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

(b) Information on CNPC

CNPC is the controlling shareholder of the Company. CNPC is a super large 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* (中國石油天然氣總公司). CNPC is also a state-authorised investment corporation and state-owned enterprise. CNPC is an integrated energy corporation with businesses covering domestic and foreign exploration and development of oil, gas and new energy, marketing of refining, petrochemical and new materials, maintenance and service, capital and finance.

(c) Information on PetroChina

PetroChina and its subsidiaries principally engages in, among other things, the exploration, development, transmission, production and sales of crude oil and natural gas, and new energy business; the refining of crude oil and petroleum products; the production and sales of basic and derivative chemical products and other chemical products, and new material business; the marketing and trading business of refined products and non-oil products, and the transportation and sales of natural gas.

7. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CNPC, the ultimate controlling shareholder of the Company, was deemed to be interested in 4,985,734,133 Shares, representing approximately 57.58% of the issued share capital of the Company. To the best of the Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date, and is a controlling shareholder and a connected person of the Company. Accordingly, the Continuing Connected Transactions under the New Master Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios based on the Proposed Annual Caps for the Non-Exempt Continuing Connected Transactions are greater than 5%, the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026 are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements.

None of the Directors has a material interest in the entering into of the New Master Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Proposed Annual Caps. Accordingly, no Director was required to abstain from voting at the board meeting considering and approving the abovementioned matters. However, as Mr. Fu Bin is a supervisor of PetroChina, he voluntarily abstained from voting at the board meeting considering and approving the abovementioned matters.

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

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026. VBG Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CNPC and its associates (including PetroChina) are required to abstain from voting on the resolution in connection with the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026.

8. SGM

8.1 SGM

The notice convening the SGM to be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 16 November 2023 at 11:00 a.m., at which the following resolution will be proposed for the Independent Shareholders to consider, and, if thought fit, to approve, with or without modifications as ordinary resolution:

(i) the entering into of the New Master Agreement;

(ii) the Non-Exempt Continuing Connected Transactions; and

(iii) the Proposed Annual Caps,

is set out on pages SGM-1 to SGM-2 of this circular.

8.2 Closure of the Company's register of members

For the purposes of determining the Independent Shareholders' eligibility to attend and vote at the SGM, the register of members of the Company will be closed from 13 November 2023 (Monday) to 16 November 2023 (Thursday) (both days inclusive), during which period no transfer of Shares of the Company will be registered. The record date for entitlement to attend and vote at the SGM is on 16 November 2023, Thursday. To be eligible to attend and vote at the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 10 November 2023 (Friday).

8.3 Proxy

A proxy form for use at the SGM is enclosed. If you intend to appoint proxy to attend the SGM, you are requested to complete the proxy form and return it to the Company's principal office at 39th Floor, 118 Connaught Road West, Hong Kong or the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

The Company would like to inform the Independent Shareholders that the Listing Rules require any vote of the Shareholders (attending in person or by proxy) at a general meeting must be taken by poll and the chairman of the SGM will, pursuant to the Bye-laws of the Company, demand a poll vote on the resolution to be proposed at the SGM accordingly. On a poll, every Independent Shareholder who is present in person or by proxy shall have one vote for every Share of which he is a holder.

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 34 of this circular which contains its recommendation to the Independent Shareholders in relation to the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026. Your attention is also drawn to the letter of advice from VBG Capital set out on pages 35 to 52 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026, 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 VBG Capital, is of the opinion that the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and are on normal commercial terms and in the ordinary course of business of the Company. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2026 to be proposed at the SGM.

10. ADDITIONAL INFORMATION

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

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

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

(Stock Code: 00135.HK)

13 October 2023

To the Independent Shareholders

Dear Sir or Madam,

NEW MASTER AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS IN 2024-2026

We refer to the circular dated 13 October 2023 of the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the (1) the entering into of the New Master Agreement; (2) the Non-Exempt Continuing Connected Transactions; and (3) Proposed Annual Caps for each of the three years ending 31 December 2026, details of which are set out in the section headed "Letter from the Board" in the Circular to the Shareholders. VBG Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters. A copy of the letter from VBG Capital containing its advice is set out in the section headed "Letter from VBG Capital" of the Circular.

Having taken into account the advice of VBG Capital, we consider that (1) the entering into of the New Master Agreement; (2) the Non-Exempt Continuing Connected Transactions; and (3) the Proposed Annual Caps for each of the three years ending 31 December 2026 are (A) fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (B) on normal commercial terms and in the ordinary course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the entering into of the New Master Agreement, the Non-Exempt Continuing Connected Transactions, and the Proposed Annual Caps for each of the three years ending 31 December 2026 as set out in the notice of the SGM to be held on 16 November 2023.

Yours faithfully,
Independent Board Committee
Liu Xiao Feng **Sun Patrick** **Tsang Yok Sing Jasper**
Independent Non-Executive Directors

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for the purpose of inclusion in this circular.

建泉融資有限公司
VBG Capital Limited

21/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

13 October 2023

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

Dear Sirs,

NEW MASTER AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS IN 2024 – 2026

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 New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 13 October 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalized terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

The Group and CNPC entered into, among other things, the Existing Master Agreement in 2020. The Existing Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group and vice versa, including but not limited to the Oil and Gas Products, general products and services, engineering technology services, production services, logistics supply, financial services, property leasing services and entrustment management services.

In view of the anticipated expiry of the Existing Master Agreement on 31 December 2023, the Company entered into the conditional New Master Agreement with CNPC on 14 September 2023 for the purpose of renewing the Continuing Connected Transactions conducted under the Existing Master Agreement for the three years ending 31 December 2026.

According to the Letter from the Board, among the Continuing Connected Transactions, the Non-Exempt Continuing Connected Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement, circular and independent shareholders' approval requirements.

The Independent Board Committee comprising Dr. Liu Xiao Feng, Mr. Sun Patrick and Mr. Tsang Yok Sing Jasper (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the New Master Agreement and the Proposed Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-Exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps at the SGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion with regard to the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Company (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Company were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Company in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any 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 management and/or advisers, which have been provided to us.

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, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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 investigation into the business and affairs or future prospects of the Group, the CNPC Group, PetroChina or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the New Master Agreement and the Non-Exempt Continuing Connected Transactions. Our opinion is necessarily based on the market, financial, economic 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 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 of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

Shareholders should note that as the Proposed Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of revenues or costs to be recorded from the New Master Agreement and the Non-Exempt Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenues and costs to be recorded under the New Master Agreement and the Non-Exempt Continuing Connected Transactions will correspond with the Proposed Annual Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Non-Exempt Continuing Connected Transactions

Information on the Group

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

The table below depicts the key audited consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the annual report of the Company for the year ended 31 December 2022 (the "**Annual Report**"):

	For the year ended 31 December 2022 *RMB million*	**For the year ended 31 December 2021** *RMB million*
Revenue from continuing operations	171,944	138,547
– Sales of natural gas products	131,892	105,044
– Sales of LPG	29,224	24,038
– LNG processing and terminal service	8,542	7,733
– Sales of crude oil	2,286	1,732
Profit for the year from continuing operations	8,203	7,878

As depicted by the above table, the Group's revenue from continuing operations increased significantly by approximately 24.1% from approximately RMB138,547 million for the year ended 31 December 2021 to approximately RMB171,944 million for the year ended 31 December 2022, and the Group enjoyed an increase in profit from continuing operations during the same year. The Group derived higher revenue from all of its major business segments in 2022, especially from the sales of natural gas products, which is its existing largest revenue contributor.

Information on CNPC

As extracted from Letter from the Board, CNPC, the controlling shareholder of the Company, is a state-authorized investment corporation and state-owned enterprise. It is an integrated energy corporation with businesses covering domestic and foreign exploration and development of oil, gas and new energy, marketing of refining, petrochemical and new materials, maintenance and service, capital and finance.

Reasons for and possible benefits of the New Master Agreement

As demonstrated, the Company is an enterprise whose business operations primarily focus on the natural gas business as well as petroleum up-stream businesses that generate stable income. CNPC, on the other hand, is an enterprise whose business operations cover a broad spectrum of upstream and downstream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. As advised by the Directors, 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, drilling, well cementing, mud logging, logging, oil 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 the Non-Exempt Continuing Connected Transactions would bring to the Group, the Board considers it beneficial for the Group to continue carrying out the Non-Exempt Continuing Connected Transactions with the CNPC Group as these transactions have facilitated and are expected to continue to facilitate the operation and growth of the Group's business. The Board also notes the long smooth cooperation history between the Group and the CNPC Group in relation to the Non-Exempt Continuing Connected Transactions.

In view of that (i) the Group and the CNPC Group have established long cooperative relationship for mutual provision of products and services; (ii) the CNPC Group is familiar with the product and service requirements of the Group; (iii) the revenue transactions under the New Master Agreement have generated considerable income to the Group; and (iv) the Non-Exempt Continuing Connected Transactions are indispensable to the Group's principal business given the CNPC Group's wide spectrum of business activities and its leading position within the natural gas and oil industry, we are of the opinion that the Non-Exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the New Master Agreement

The Company and CNPC entered into the New Master Agreement on 14 September 2023 for the purpose of renewing the Continuing Connected Transactions for the three years ending 31 December 2026. Summarized below are the principal terms of the New Master Agreement as extracted from the Letter from the Board:

Date:	14 September 2023
Parties:	(a) CNPC; and (b) the Company.
Term:	Three years commencing from 1 January 2024 to 31 December 2026. The parties agreed that subject to the applicable laws and regulations, including but not limited to the Listing Rules, the term of the New Master Agreement can be further renewed upon agreement by the parties in writing.

Categories of the Non-Exempt Continuing Connected Transactions:

Category (a) – Provision of general products by the CNPC Group to the Group, which comprise:

(i) equipment, materials, supplies and other products required for petroleum and natural gas exploration and production; and
(ii) crude oil, natural gas, refined oil products, chemical products and other related or similar products.

Category (b) – Provision of general services by the CNPC Group to the Group, which comprise:

(i) engineering technology services;
(ii) production services;
(iii) logistics supply;
(iv) living support services;
(v) social services; and
(vi) financial services.

Category (c) – Provision of general products by the Group to the CNPC Group, which comprise:

(i) natural gas;
(ii) LNG;
(iii) compressed natural gas;
(iv) LPG;
(v) refined oil products;
(vi) chemical products; and
(vii) other integrated energy products and other related and similar products.

Category (d) – Provision of general services by the Group to the CNPC Group, which comprise:

(i) production services;
(ii) logistics supply;
(iii) lease services; and
(iv) entrustment management services.

Pricing policy:

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

The pricing for such general products (other than crude oil) to be provided by the CNPC Group to the Group shall be fair and reasonable and based on the following general principles: adopt the government-prescribed prices (the "**Government Prescribed Price(s)**") where available, or if no Government Prescribed Prices are available, the price to be paid by the Group to the CNPC Group (the "**Relevant Market Price (a)**") shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (the "**Best Market Price (a)**"). If the CNPC Group provides the relevant general products to the Group at a price lower than the Best Market Price (a) in such markets, such lower price shall be the Relevant Market Price (a).

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

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

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

(i) adopt the Government Prescribed Prices where available, or if no Government Prescribed Prices are available, the price to be paid by the Group to the CNPC Group (the "**Relevant Market Price (b)**") shall not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business (the "**Best Market Price (b)**"). If the CNPC Group provides the relevant general services to the Group at a price lower than the Best Market Price (b) in such markets, such lower price shall be the Relevant Market Price (b); and

(ii) in respect of Category (b)(vi), the financial services to be provided to the Group by the CNPC Group:

(a) the deposits to be placed by the Group with the CNPC Group and loans to be provided to the Group by the CNPC Group will bear interest rates which are no less favorable than the prevailing rate as prescribed by the PBoC and NAFR and/or offered by the CNPC Group, and will be on similar terms and conditions as would apply to similar deposits and loans made by other independent customers of the CNPC Group; and

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

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

The pricing for such general products to be provided by the Group to the CNPC Group shall be fair and reasonable and based on the following general principles: adopt the Government Prescribed Prices where available, or if no Government Prescribed Prices are available, the price to be charged by the Group to the CNPC Group (the "**Relevant Market Price (c)**") shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business (the "**Best Market Price (c)**"). If the CNPC Group agrees to purchase from the Group the relevant general products at a price higher than the Best Market Price (c) in such markets, such higher price shall be the Relevant Market Price (c).

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

The pricing for such general services to be provided by the Group to the CNPC Group shall be fair and reasonable and based on the following general principles: adopt the Government Prescribed Prices where available, or if no Government Prescribed Prices are available, the price to be charged by the Group to the CNPC Group (the "**Relevant Market Price (d)**") shall not be lower than the best price among all the prices as offered by the Group to all the independent third parties in the relevant market or nearby market in the ordinary course of business (the "**Best Market Price (d)**"). If the CNPC Group agrees to engage the Group for the relevant general services at a price higher than the Best Market Price (d) in such markets, such higher price shall be the Relevant Market Price (d).

In connection with the aforesaid pricing basis under the New Master Agreement, we noted that prices of the general products (other than crude oil) and services shall in the first place be determined based on the Government Prescribed Prices; and as for crude oil, prices shall be determined taking into account the Brent and WTI benchmark prices. In light of that the Government Prescribed Prices are statutory requirements while the Brent and WTI benchmark prices are objective market price references for the entire natural gas and oil industry, we consider such pricing basis to be fair and reasonable. In situation where no Government Prescribed Prices are available, we noted that prices of the relevant product and/or service shall not be less favourable than the prices of similar product and/or service available to other independent third parties. We also consider such pricing basis to be beneficial to the Group.

For our due diligence purpose, we have requested and obtained samples of (i) the historical invoices/contracts between the Group (as recipient) and other independent third parties (as provider); and (ii) the historical invoices/contracts between the Group (as recipient) and the CNPC Group (as provider) in respect of products and services transacted under Categories (a) & (b) from 2020 to 2022 which were similar in nature to the extent where possible; and similarly for Categories (c) & (d), we have requested and obtained samples of (i) the historical invoices/contracts between the Group (as provider) and other independent third parties (as recipient); and (ii) the historical invoices/contracts between the Group (as provider) and the CNPC Group (as recipient) for products and services transacted from 2020 to 2022 which were similar in nature to the extent where possible. Upon review and comparison of the said transaction records which we consider to be fair and representative, we noted that both principal terms such as price determination basis and payment terms were largely similar, and the price offered to the Group by the CNPC Group was no less favourable than that of the independent third parties while the price offered to the CNPC Group by the Group was also no less favourable than that of the independent third parties.

Moreover, as it is part of the internal control measures of the Group with regard to the Non-Exempt Continuing Connected Transactions that the Group shall review, from time to time, the terms offered by the independent third parties and compare with the terms of each of the Non-Exempt Continuing Connected Transactions, we have further requested and obtained samples of the historical internal comparison and tender documents of the Group for the individual transactions conducted under the Existing Master Agreement. Upon review of the said internal comparison and tender samples which we consider to be fair and representative, we noted that the Group has adhered to the relevant internal control measures as stipulated.

With the above being the case, we concur with the Directors that the terms of the New Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Proposed Annual Caps

The below table illustrates the actual transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2022 and the six months ended 30 June 2023, as well as the Proposed Annual Caps under the New Master Agreement:

	Actual transaction amounts			**The Proposed Annual Caps**		
	For the year ended 31 December 2021 *RMB million*	**For the year ended 31 December 2022** *RMB million*	**For the six months ended 30 June 2023** *RMB million*	**For the year ending 31 December 2024** *RMB million*	**For the year ending 31 December 2025** *RMB million*	**For the year ending 31 December 2026** *RMB million*
Category (a)	73,193	109,667	58,993	172,726	215,045	265,360
Category (b)	4,670	4,580	2,005	11,932	14,534	14,972
Category (c)	4,447	4,572	2,234	10,399	12,496	14,900
Category (d)	6,891	4,478	2,032	9,644	11,524	13,645

Our assessment on the Proposed Annual Caps

For our due diligence purpose, we have discussed with the Directors and obtained the following supporting information in relation to the basis of determination of the Proposed Annual Caps:

(a) with respect to the Proposed Annual Caps for Category (a):

From the above table, it is shown that the actual amounts of Category (a) transactions jumped robustly by approximately 49.8% from 2021 to 2022. As advised by the Directors, it is expected that the total amount of Category (a) transactions in 2023 would further jumped robustly by around 25.0% as compared to 2022, utilizing the relevant Existing Annual Cap almost in full. In light of the persistent robust jump of at least 25% as just mentioned, the Proposed Annual Caps for Category (a), which demonstrate a year-on-year increase of around 25%, are fair and reasonable estimation of the future transaction amounts.

(b) with respect to the Proposed Annual Caps for Category (b):

From the above table, it is noted that the Proposed Annual Caps for Category (b) represent a considerable increment as compared to the actual amounts of Category (b) transactions in 2021 and 2022. Hence, we have further enquired into the Directors and obtained breakdown of such Proposed Annual Caps' calculation. Referring to the calculation, a majority of the Proposed Annual Caps is to cater for the possible provision of engineering and construction services by the CNPC Group to the Group. Upon our enquiry with the Directors, we understand that the Group will carry out a number of large-scale upgrading, transformation and regular projects from 2023 onwards, including but not limited to the expansion and regeneration project of LNG terminals in Jiangsu（江蘇LNG接收站擴建及更新項目）, the construction project of LNG terminals in Fujian（福建LNG接收站項目）and other new energy and integrated energy projects. At present, the total planned investment amount of the large-scale projects that the Group will carry out in the coming few years is estimated to be more than RMB30 billion. We noted that the Proposed Annual Caps for the possible provision of engineering and construction services by the CNPC Group to the Group were estimated with reference to the future development plan of the Group and the expected development schedule and budgeted capital investment for the large-scale projects that the Group will carry out. Such determination basis is justifiable given the CNPC Group's wide spectrum of business activities and its leading position within the natural gas and oil industry and that the CNPC Group is familiar with the service requirements of the Group.

As also represented by the Directors, the actual amounts of Category (b) transactions were relatively low in 2021 and 2022 and this is rather exceptional owing to the Group's then business requirement and strategy under the pandemic situation. In fact, the actual amounts of Category (b) transactions were approximately RMB9,410 million and RMB6,777 million, respectively, in 2019 and 2020, which were far above the 2021 and 2022 levels. The Directors expected that there will be a distinctive expansion in the Group's demand for engineering and construction services to satisfy its development need in the coming few years. As such, the actual amounts of Category (b) transactions in 2021 and 2022 shall not be valid reference for the relevant Proposed Annual Caps in the coming few years.

(c) with respect to the Proposed Annual Caps for Category (c):

From the above table, it is noted that the Proposed Annual Caps for Category (c) represent a considerable increment as compared to the actual amounts of Category (c) transactions in 2021 and 2022. Hence, we have further enquired into the Directors and obtained breakdown of such Proposed Annual Caps' calculation. Referring to the calculation, it is expected that among the various general products to be provided by the Group to the CNPC Group, natural gas will constitute the largest proportion. In line with the continuous economic growth in the PRC, the ongoing national energy structure reform to increase consumption of natural gas in the PRC together with the expected strong business growth of the CNPC Group under the "14th Five-Year Plan", the CNPC Group's future demand for natural gas from the Group would be enlarged extensively. At the same time, the Directors also expected that prices of the Oil and Gas Products and related products and services may remain at a high level and it is necessary to reserve certain buffer for the Proposed Annual Caps for Category (c).

As illustrated under the sub-section headed "Information on the Group" of this letter of advice, sales of natural gas is the existing largest revenue contributor of the Group, and the revenue generated therefrom increased significantly by approximately 25.6% to approximately RMB131.9 million for the year ended 31 December 2022. In this relation, it is shown that the maximum Proposed Annual Cap for Category (c) of RMB14,900 million represents only 11.3% of the Group's revenue from sales of natural gas and thus the Proposed Annual Caps for Category (c) is acceptable.

(d) with respect to the Proposed Annual Caps for Category (d):

Likewise, notwithstanding that the Proposed Annual Caps for Category (d) represent a considerable increment as compared to the actual amounts of Category (d) transactions in 2021 and 2022, it is expected that the future demand for general services by the CNPC Group from the Group would be enlarged extensively due to the factors as stated in paragraph (c) above. In line with the natural gas demand by the CNPC Group, there would be a corresponding extensive enlargement in the CNPC Group's future demand for related services such as gasification services, natural gas pipeline transmission services and LNG unloading from the Group. At the same time, the Directors also expected that prices of the Oil and Gas Products and related products and services may remain at a high level and it is necessary to reserve certain buffer for the Proposed Annual Caps for Category (d).

After analyzing the basis of determination of the Proposed Annual Caps as detailed above, we noted that there are several crucial factors affecting the Company's estimation of the Proposed Annual Caps, namely (1) the existing business operation and future expansion blueprint of the Group; (ii) the latest development and prospects of the natural gas and oil industry of the PRC; and (iii) the inflation and possible rise in prices of the Oil and Gas Products and related products and services. We have therefore further studied the Group's business and researched for the related market information to assess the fairness and reasonableness of the Proposed Annual Caps:

The Group's existing operation and future expansion blueprint

As aforementioned, the principal activities of the Group are the sales of natural gas, sales of LPG and LNG processing and terminal business in the PRC, and the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, the Republic of Peru and the Kingdom of Thailand.

The natural gas sales business of the Group has been successful in raising sales by enlarging its penetration rate. In 2022, there were 18 new projects controlled by the Group, including 16 urban gas projects and two sub-pipeline projects, and five new projects in which the Group has equity interests. The new urban gas projects controlled by the Group are expected to increase the sales capacity by approximately 3.2 billion cubic metres (bcm). During 2022, the Group's natural gas sales volume was approximately 45.0 bcm, rising by approximately 7.1%, among which, retail gas sales volume was approximately 27.8 bcm, rising by approximately 8.0%. The cumulative number of natural gas users secured by the Group exceeded 14 million, representing a year-on-year increase of approximately 6.3%.

Amidst the shrink in domestic resources, the LPG sales business of the Group has steadily expanded its resource channels and increased marine import of isobutane and land import channels of resources from the Republic of Kazakhstan. Moreover, the Group has optimized its layout of sales network by building diversified LPG distribution channels and promoting the construction of its self-owned terminal management platform. A relatively stable terminal sales scale is thus maintained. In respect of the LNG processing and terminal business, the LNG terminals of the Group have achieved improved operation capacity and efficiency. In 2022, 15 LNG processing plants were put into operation with processing volume of 2.8 bcm, representing a year-on-year increase of 0.3 bcm.

As referred to in the Annual Report, the Group put equal emphasis on tapping existing markets and developing new markets. During 2022, the Group signed 62 framework agreements on cooperation, invested in 23 integrally installed suppliers, and completed consolidation of the financial statements for 20 projects. The Group also steadily expanded investment in new industry to broaden the room for industrial chain transition. To integrate into the new energy system of the PRC and align with the trend of green and low-carbon development, the Group actively promoted the use of clean energy at self-owned stations and expedited the development of integrated energy and distributed energy projects. So far, the Group has put into use a number of distributed photovoltaic projects and built 11 distributed projects with a total installed capacity of 230 kilowatts in Shandong, Guizhou, Hainan, etc. As advised by the Directors, the Group will further build a diverse business system adapted to new energies in order to drive its future business growth.

China's natural gas development

As referred to in the China Natural Gas Development Report (2022) published by the National Energy Administration in August 2022, in 2021, natural gas consumption in the PRC grew significantly by approximately 12.5% to approximately 369.0 bcm. In terms of consumption structure, gas consumption for industrial use increased by approximately 14.4% year-on-year; for power generation increased by approximately 13.4% year-on-year; for urban use increased by approximately 10.5% year-on year; and for chemical and fertilizer uses increased by approximately 5.8% year-on-year.

In 2021, the PRC's proved reserves of natural gas expanded by approximately 1,628.4 bcm, of which proved reserves of conventional gas (including tight gas), shale gas and coalbed methane expanded to approximately 805.1 bcm, 745.4 bcm and 77.9 bcm, respectively. During the same year, the PRC's natural gas output was approximately 207.6 bcm, representing a year-on-year increase of approximately 7.8% and an increase of more than 10 bcm for five consecutive years.

In 2021, the PRC imported approximately 168.0 bcm of natural gas, jumping year-on-year by approximately 19.9%. The import volume of pipeline gas was approximately 59.1 bcm, jumping year-on-year by approximately 22.9%. The import volume of LNG was approximately 108.9 bcm, jumping year-on-year by approximately 18.3%.

Construction of natural gas infrastructure has also accelerated in 2021, resulting in a swift enlargement of gas storage capacity. In 2021, the total mileage of the main natural gas pipelines in the PRC reached 116,000 kilometers. The Changling – Yongqing Pipeline, the Chenzhou – Shaoguan section of North-south Central Pipeline, the eastern ring line of Hainan Pipeline Network, and the LNG outbound pipeline in the east of Guangdong were completed and put into operation. The construction of the middle section of West-East Gas Pipeline 3 and the Yongqing – Shanghai Pipeline has commenced. The construction of West-East Gas Pipeline 4 was approved, and the construction of Sichuan-East Gas Pipeline 2 has been enhanced. In 2021, the natural gas storage capacity of the PRC was enlarged by approximately 15.8% year-on-year, doubled in just three years.

Despite a slight drop in consumption of natural gas in 2022 resulting from certain unfavourable factors such as slower economic growth and higher prices, a quick turnaround is widely expected. According to the Sinopec Economics & Development Research Institute Company Limited（中國石化集團經濟技術研究院有限公司）, domestic demand for natural gas will bottom out and bounce back to approximately 386.5 bcm in 2023 due to the following reasons: (i) amidst a stable macroeconomic growth, higher gross domestic products will inevitably trigger more demand for natural gas; (ii) as the impact of the pandemic weakened, the natural gas and oil industry is looking forward to a promising market; (iii) with the strong effort of the PRC government in promoting the "dual carbon" and other environmental protection policies, natural gas will continue to play an important role in energy transition attributable to its unique advantages of being clean, low-carbon, flexible and efficient. In terms of consumption structure, in 2023, gas consumption for industrial use is expected to increase by approximately 5.8% year-on-year; for power generation is expected to increase by approximately 4.5% year-on-year; for urban use is expected to increase by approximately 5.9% year-on year; and for chemical and fertilizer uses is expected to increase by approximately 2.0% year-on-year

The China Petroleum Enterprise Association（中國石油企業協會）("**CPEA**") also forecasted a substantial rebound in natural gas consumption in the PRC to approximately 444.1 bcm in 2023. According to CPEA, during the "14th Five-Year Plan" period, domestic consumption of natural gas will move from rapid development to medium-high growth and then to stable development. The continued advancement of industrialization and urbanization in the PRC will drive steady growth in demand for energy and natural gas. Currently, natural gas accounted for less than 10% of the PRC's primary energy consumption, which is far below the international level of 23%, proving that there is still plenty of room for future growth.

Prospects of the natural gas and oil industry leveraging on government's support

Going forward, the PRC's natural gas and oil industry is poised to grow even faster. In accordance with the "Plan for Modern Energy System during the 14th Five-Year Period" (《"十四五"現代能源體系規劃》) jointly issued by the National Development and Reform Commission and the National Energy Administration in January 2022, the development of the natural gas and oil industry will focus on reserves and regulatory capacity. The construction of underground gas storage, LNG storage tanks and interconnection pipelines is expected to be advocated to solve the problems of insufficient peak-gas adjustment capacity and create a new era of high-quality development. In addition, the "Opinion of Communist Party of China Central Committee and the State Council on Accelerating the Establishment of a National Unified Market" (《中共中央國務院關於加快建設全國統一大市場的意見》) announced by the State Council in March 2022 proposed to (i) create a sound system of oil and gas futures products and standardize the construction of oil and gas trading centres; (ii) extend the interconnection and fair usage of oil and gas pipeline facilities to all market players; and (iii) encourage the market-oriented reform of natural gas and expediate the establishment of an unified energy measurement and pricing system for natural gas, all being conducive to the future development of the natural gas and oil industry.

Additionally, it is expected that the investment scale of urban pipeline gas will be boosted rapidly. In June 2022, the General Office of the State Council published the "Implementation Plan for Aging Renovation of Urban Gas Pipelines (2022-2025)" (《城市燃氣管道等老化更新改造實施方案(2022-2025)》), which proposed the launch of a series of upgrade to the aging natural gas projects and completion of the upgrade of urban aging gas pipelines by the end of 2025. In July 2022, the Ministry of Housing and Urban-Rural Development issued the ""14th Five-Year Plan" National Urban Infrastructure Construction Plan" (《"十四五"全國城市基礎設施建設規劃》) which proposed that by 2025, the penetration rate of pipeline gas in large cities and above-scale cities should not be less than 85%, in medium cities should not be less than 75%, and in small cities should not be less than 60%. Improvement of regional and provincial pipelines will be emphasized to ensure smooth operation of the industrial chain.

Inflation and possible rise in prices of the Oil and Gas Products and related products and services

To understand the inflation and possible rise in prices of the Oil and Gas Products and related products and services, we found the following relevant data released by the National Statistics Bureau of the PRC:

Year-on-year change	**2018**	**2019**	**2020**	**2021**	**2022**
Consumer price index	2.1%	2.9%	2.5%	0.9%	2.0%
Producer price index	3.5%	(0.3)%	(1.8)%	8.1%	4.1%
Purchasing price index	4.1%	(0.7)%	(2.3)%	11.0%	6.1%

It is noted that each of the consumer price, producer price and purchase price indices had been climbing in 2018. As disrupted by the pandemic, inflation in the PRC was slightly curbed in 2020. Nonetheless, the said three price indices picked up the upward moving momentum again in 2021. The positive change in the producer price index and the purchase price index surpassed 8% and 11%, respectively, in 2022, and continued in a row in 2022. Specifically, the producer price index of mining and quarrying mounted substantially by approximately 34.4% and 16.5%, respectively, in 2021 and 2022; that of raw materials mounted substantially by approximately 15.8% and 10.3%, respectively, in 2021 and 2022; and that of production and supply of gas also mounted by approximately 5.1% and 15.9%, respectively, in 2021 and 2022. At the same time, the growth rate of the purchaser price index of fuel and power in 2021 and 2022 was approximately 20.5% and 20.9%, respectively.

Judging from the above, we are of the view that the Directors' forecast on the inflation and possible rise in prices of the Oil and Gas Products and related products and services in future is justifiable.

Taking into account all the above factors, we concur with the Directors that the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Internal control and compliance with the Listing Rules

As referred to in the Letter from the Board, the Group has adopted a series of internal control measures to supervise the Non-Exempt Continuing Connected Transactions.

In addition, the Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the total amounts of the Non-Exempt Continuing Connected Transactions must be restricted by the Proposed Annual Caps for the three years ending 31 December 2026; (ii) terms of the New Master Agreement (together with the Proposed Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the New Master Agreement (together with the Proposed Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide annually a letter to the Board confirming, among other things, that the Non-Exempt Continuing Connected Transactions are carried out in accordance with the terms under the New Master Agreement and the relevant pricing policies of the Company in all material respects, and the Proposed Annual Caps are not being exceeded. In the event that the total amounts of the Non-Exempt Continuing Connected Transactions exceed the Proposed Annual Caps, or that there is any material amendment to the terms of the New Master Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

For our due diligence purpose, we have requested and obtained (i) the annual review opinion regarding the Continuing Connected Transactions from the independent non-executive Directors; and (ii) the annual confirmation letter regarding the Continuing Connected Transactions from the auditors of the Company. We noted from the said opinion/ confirmation letter that under the internal control measures of the Group, the Non-Exempt Continuing Connected Transactions are subject to regular supervision by the senior management as well as the external auditors of the Company.

Having the internal control measures of the Group and the stipulated requirements for continuing connected transaction of the Listing Rules in place, the Non-Exempt Continuing Connected Transactions will be monitored and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the New Master Agreement and the Proposed Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-Exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the New Master Agreement, the Non-Exempt Continuing Connected Transactions and the Proposed Annual 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
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

2.1 Interests in the Company

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any 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 2022 (being the date of the Company's latest published audited accounts).

2.2 Competing Business

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

2.3 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 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

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

Name	Number of Shares		Percentage of the total number of Shares in issue
	Direct Interest	Indirect Interest	
PetroChina Hong Kong Ltd. ("**PetroChina Hong Kong**") (1)	4,708,302,133 (L)	–	54.38%
PetroChina Company Limited ("**PetroChina**") (1)	–	4,708,302,133 (L)	54.38%
Fairy King Investments Ltd. (2)	277,432,000 (L)	–	3.20%
CNPC International Ltd. ("**CNPCI**") (2)	–	277,432,000 (L)	3.20%
China National Oil and Gas Exploration and Development Corporation ("**CNODC**") (2)	–	277,432,000 (L)	3.20%
China National Petroleum Corporation ("**CNPC**") (1)(2)	–	4,985,734,133 (L)	57.58%

Notes:

(1) PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 82.62% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by PetroChina Hong Kong.

(2) Based on the Disclosure of Interests Online (DION) System of the Stock Exchange, Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly-owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 277,432,000 (L) shares held by Fairy King Investments Ltd.

Save as disclosed above, as at the Latest Practicable Date, 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 contract or proposed service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Company have been made up) and up to the Latest Practicable Date.

6. QUALIFICATION AND CONSENT OF EXPERT

VBG Capital is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. VBG Capital has given and has not withdrawn its written consent to the issue of this circular with its letter included in the form and context in which it is included. As at the Latest Practicable Date, VBG Capital 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. VBG Capital did not, directly or indirectly, have any interest in any assets which had since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

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

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) All references to times in this circular refer to Hong Kong times.

(e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published and displayed on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kunlun.com.hk) for a period of 14 days from the date of this circular (both days inclusive):

(i) the New Master Agreement.

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

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting ("**SGM**") of Kunlun Energy Company Limited (the "**Company**") will be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 16 November 2023, Thursday at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution:

To consider and approve the resolution in relation to the Continuing Connected Transactions for the three years ending 31 December 2026 and relevant authorisations, in particular:

(a) the entering into of the New Master Agreement be and is hereby approved, ratified and confirmed;

(b) the Non-Exempt Continuing Connected Transactions be and are hereby approved;

(c) the Proposed Annual Caps for the three years ending 31 December 2026 be and are hereby approved; and

(d) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to and implement the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps for the three years ending 31 December 2026.

CLOSURE OF THE COMPANY'S REGISTER OF MEMBERS

For the purposes of determining the Independent Shareholders' eligibility to attend and vote at the SGM, the register of members of the Company will be closed from 13 November 2023 (Monday) to 16 November 2023 (Thursday) (both days inclusive), during which period no transfer of Shares of the Company will be registered. The record date for entitlement to attend and vote at the SGM is on 16 November 2023, Thursday. To be eligible to attend and vote at the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 10 November 2023 (Friday).

By Order of the Board
Xie Mao
Company Secretary

Hong Kong, 13 October 2023

Notes:

1. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 13 October 2023 relating to, among other things, the New Master Agreement and the Proposed Annual Caps.

2. At the SGM, the Chairman of the Meeting will put the above resolution to the vote by way of a poll. On a poll, every Shareholder who is present in person or by proxy shall have one vote for every Share of which he is the holder.

3. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/ her stead. A proxy need not be a member of the Company. **Completion and return of the proxy form will not preclude a member from attending and voting in person at the meeting or any adjourned meeting should he so wish.**

4. To be valid, the proxy form, together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's principal office at 39th Floor, 118 Connaught Road West, Hong Kong or the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). The form of proxy must be completed strictly in accordance with the instructions set out therein.

5. CNPC and its associates (including PetroChina) will abstain from voting in respect of the resolution set out above.

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