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

昆 侖 能 源 有 限 公 司

(the “**Company**”, as Issuer)
(Stock Code: **00135.HK**)

**PROPOSED ISSUE OF RMB3,350,000,000 1.625% USD SETTLED
CONVERTIBLE BONDS DUE 2019**

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs (Asia) L.L.C.

CICC HK Securities

Joint Lead Managers

**BOC International
ICBC International**

**Citigroup
Morgan Stanley & Co. International plc**

On 13 July 2016 (after trading hours), the Company and the Joint Lead Managers entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Joint Bookrunners have conditionally agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds in an aggregate principal amount of RMB3,350,000,000. The Issuer granted to the Joint Bookrunners an Option to subscribe for all or any of the Option Bonds by 11:59 p.m. Hong Kong time on the date of the Subscription Agreement.

The Bonds are convertible in the circumstances set out in the Terms and Conditions into Conversion Shares at an initial Conversion Price of HK\$7.13 per Share (subject to adjustments).

The initial Conversion Price is HK\$7.13 per Share, which represents (i) a premium of approximately 15% over the last closing price of HK\$6.20 per Share as quoted on the Hong Kong Stock Exchange on 13 July 2016 (being the trading day on which the Subscription Agreement was signed); and (ii) a premium of approximately 15% over the average closing price of approximately HK\$6.20 per Share as quoted on the Hong Kong Stock Exchange for the five consecutive trading days up to and including 13 July 2016.

Assuming full conversion of the Bonds at the initial Conversion Price of HK\$7.13 per Share, the Bonds will be convertible into approximately 544,748,663 Conversion Shares, representing approximately 6.75% of the issued share capital of the Company as at the date of this announcement and approximately 6.32% of the enlarged issued share capital of the Company. The number of Conversion Shares to be issued on exercise of a Conversion Right shall be determined by dividing the RMB principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed exchange rate of RMB0.8625=HK\$1.00) by the Conversion Price in effect on the relevant Conversion Date. The Conversion Shares will be fully-paid and rank *pari passu* in all respects with the Shares then in issue on the relevant registration date.

The Bonds have not been offered or sold and may not be offered or sold in Hong Kong to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and none of the Bonds will be placed with any connected persons of the Company.

The Bonds and the Conversion Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act.

The estimated net proceeds from the issue of the Bonds, after deduction of commission and other estimated expenses payable in connection with the offering of the Bonds (including but not limited to legal fees and other out-of-pocket expenses of the Company and the Joint Lead Managers), amount to approximately US\$496 million, which will be used by the Group for general corporate purposes, including but not limited to payment for the acquisition of PetroChina Kunlun Gas Company Limited (“**Kunlun Gas**”) and working capital.

The Conversion Shares will be allotted and issued by the Company pursuant to the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 12 May 2016. The subscription of the Bonds and the issue of the Conversion Shares by the Company are not subject to further Shareholders’ approval.

The Company will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds and the Conversion Shares to be allotted and issued upon conversion of the Bonds.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the section headed “SUBSCRIPTION AGREEMENT” below for further information.

WARNING: As the Subscription Agreement may or may not be completed, the Bonds may or may not be issued or listed and/or the Conversion Shares may or may not be issued or listed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

SUBSCRIPTION AGREEMENT

Date

13 July 2016

Parties

1. The Company
2. Joint Lead Managers

Subscription

Subject to the satisfaction of the conditions set out below in the section headed “Conditions precedent”, the Joint Bookrunners severally and not jointly agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Firm Bonds in an aggregate principal amount of RMB3,350,000,000 and the Option Bonds up to an additional principal amount RMB1,000,000,000. To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, each of the Joint Lead Managers is a third party independent of the Company and is not a connected person of the Company.

The Joint Bookrunners have informed the Company that they intend to offer and sell the Bonds to no less than six independent placees (who will be independent individual, corporate and/or institutional investors). To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, each of the placees (and their respective ultimate beneficial owners) is a third party independent of the Company and will not become connected persons of the Company as a result of the subscription for the Bonds and the conversion.

The Option

The Issuer granted to the Joint Bookrunners an Option to subscribe for all or any of the Option Bonds by 11:59 p.m. Hong Kong time on the date of the Subscription Agreement.

Conditions precedent

The obligations of the Joint Bookrunners to subscribe and pay for the Bonds are conditional on a number of conditions precedent, including:

1. the Joint Lead Managers being satisfied with the results of their due diligence investigations with respect to the Company and its subsidiaries and the Offering Circular shall have been prepared in form and content satisfactory to the Joint Lead Managers;
2. the execution and delivery (on or before the Closing Date) of the other Contracts, each in a form reasonably satisfactory to the Joint Bookrunners, by the respective parties;
3. China National Petroleum Corporation shall have executed a lock-up undertaking on or before the Closing Date;

4. upon the Publication Date and on the Closing Date, there having been delivered to the Joint Lead Managers letters, in form and substance satisfactory to the Joint Lead Managers, dated the Publication Date in the case of the first letter and dated the Closing Date in the case of the subsequent letters, and addressed to the Joint Lead Managers from KPMG, certified public accountants to the Company;
5. (i) the representations and warranties of the Company in the Subscription Agreement being true, accurate and correct as at each date on which they were made; (ii) Company having performed all of its obligations under the Subscription Agreement to be performed on or before the Closing Date; (iii) there has been no change (nor any development or event involving a prospective change) which is materially adverse to the condition (financial or other), prospects, results of operations or general affairs of the Company or of the Consolidated Group (as defined in the Subscription Agreement) at the Closing Date; and (iv) there having been delivered to the Joint Lead Managers a certificate in the form attached to the Subscription Agreement dated as of the Closing Date, of a duly authorised officer of the Company to such effect;
6. after the date of the Subscription Agreement or, if earlier, the dates as of which information is given in the Offering Circular up to and at the Closing Date, there not having occurred any change (nor any development or event involving a prospective change), in the condition (financial or other), prospects, results of operations or general affairs of the Company or of the Consolidated Group, which, in the opinion of the Joint Bookrunners, is material and adverse in the context of the issue and offering of the Bonds;
7. on or prior to the Closing Date there shall have been delivered to the Joint Lead Managers copies of all consents and approvals required in relation to the issue of the Bonds and the performance of the Company's obligations under the Trust Deed, the Agency Agreement and the Bonds (including any consents and approvals required from lenders);
8. on the date of the Subscription Agreement, there having been delivered to the Joint Lead Managers a certificate of no default in the form attached to the Subscription Agreement dated as of such date, of a duly authorised officer of the Company;
9. the Hong Kong Stock Exchange having agreed to list the Conversion Shares upon conversion of the Bonds and the Hong Kong Stock Exchange having agreed, subject to any conditions satisfactory to the Joint Bookrunners, to list the Bonds (or, in each case, the Joint Bookrunners being reasonably satisfied that such listing will be granted); and
10. on or before the Closing Date, there having been delivered to the Joint Bookrunners opinions, in form and substance satisfactory to the Joint Bookrunners, dated the Closing Date, of legal counsels; and such other resolutions, consents, authorities and documents relating to the issue of the Bonds, as the Joint Bookrunners may require.

The Joint Bookrunners may, at their discretion and upon such terms as they think fit, waive compliance with the whole or any part of the above conditions precedent.

As at the date of this announcement, certain of the above conditions precedent to the completion of the Subscription Agreement are yet to be satisfied and/or (as the case may be) waived. It is the intention of the Company to satisfy or procure the satisfaction of the above conditions precedent of the Subscription Agreement before the Closing Date.

Termination

Notwithstanding anything contained in the Subscription Agreement, the Joint Bookrunners may, by notice to the Company given at any time prior to payment of the net subscription monies for the Bonds to the Company, terminate the Subscription Agreement in any of the following circumstances:

1. if there shall have come to the notice of the Joint Bookrunners any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure to perform any of the Company's undertakings or obligations in the Subscription Agreement;
2. if any of the conditions precedent has not been satisfied or waived by the Joint Bookrunners on or prior to the Closing Date;
3. if, in the opinion of the Joint Bookrunners, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading generally on the New York Stock Exchange, the London Stock Exchange plc and/or the Hong Kong Stock Exchange; (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market; (iii) a material disruption in securities settlement, payment or clearance services in the PRC, Hong Kong, London or the United States shall have occurred; (iv) any moratorium on commercial banking activities shall have been declared by the United States, United Kingdom, Hong Kong or PRC authorities; (v) a change or development involving a prospective change in taxation affecting the Company, the Bonds or the Conversion Shares or the transfer thereof; or (vi) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the judgment of the Joint Bookrunners, is material and adverse and which, singly or together with any other event specified therein, makes it, in the judgment of the Joint Bookrunners, impracticable or inadvisable to proceed with the offer, sale or delivery of the Bonds on the terms and in the manner to be contemplated in the Offering Circular.

The Company's lock-up

The Company has undertaken to the Joint Lead Managers that neither the Company nor any person acting on its behalf will (a) issue, offer, sell, pledge, encumber, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Joint Bookrunners between the date hereof and the date which is 90 days after the Closing Date; except for the Bonds and the Conversion Shares issued on conversion of the Bonds.

Controlling shareholder's lock-up undertaking

China National Petroleum Corporation has undertaken to the Joint Lead Managers that, for a period from the date of the Subscription Agreement until 90 days from the Closing Date, in respect of an aggregate of 4,985,734,133 Shares held by it, of which 4,708,302,133 Shares are held through Petrochina Company Limited) (the “**Relevant Shares**”), (A) neither it nor its nominee nor any person acting on its behalf will (except with the prior written approval of the Joint Bookrunners) and that (B) it will procure that Petrochina Company Limited will not (a) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Relevant Shares or securities of the same class as the Relevant Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Relevant Shares or securities of the same class as the Relevant Shares or other instruments representing interests in the Relevant Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Relevant Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Relevant Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds are summarized as follows:

Issuer:	The Company
Principal amount of the Bonds:	RMB3,350,000,000
Maturity Date:	25 July 2019
Issue Price:	100% of the RMB principal amount of the Bonds.
Interest Rate:	1.625% per annum calculated by reference to the RMB principal amount of the Bonds.
US Dollar Settlement	All amounts under the Bonds will be settled in US dollar, converted from RMB at the applicable USD/RMB spot rate as of two business days before the applicable payment due date.
Status:	The Bonds constitute direct, unconditional, unsubordinated and (subject to negative pledge) unsecured obligations of the Company and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to the negative pledge, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

Form and Denomination: The Bonds will be issued in registered form in denominations of RMB1,000,000 and integral multiples thereof. Upon issue, the Bonds will be represented by a global certificate representing Bonds registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank S.A./N.V. and Clearstream Banking S.A.

Conversion Period: Subject to and upon compliance with the Terms and Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) on or after 4 September 2016 to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on the date falling 10 days prior to the Maturity Date (both days inclusive) (but, except in the circumstances where (a) the Company shall default in making payment in full in respect of any Bonds which shall have been called or put for redemption on the date fixed for redemption thereof; (b) any Bonds have become due and payable prior to the Maturity Date by reason of the occurrence of any of the events of default as provided in the Terms and Conditions; or (c) any Bonds are not redeemed on the Maturity Date in accordance with the Terms and Conditions, in no event thereafter) or, if such Bond shall have been called for redemption by the Company before the Maturity Date, then up to and including the close of business (at the place aforesaid) on a date no later than seven days (in the place aforesaid) prior to the date fixed for redemption thereof.

Conversion Price: The price at which Shares will be issued upon exercise of a Conversion Right will initially be HK\$7.13 per Share, but will be subject to adjustment in the circumstances, among others, (i) consolidation, subdivision or re-classification of the Shares; (ii) capitalisation of profits or reserves; (iii) distributions; (iv) rights issues of Shares or options over Shares; (v) rights issue of other securities; (vi) issues at less than current market price; (vii) other issues at less than current market price; (viii) modification of rights of conversion etc.; (ix) other offers to Shareholders entitling them to participate in arrangements to acquire securities issued, sold or distributed by the Company or any of its subsidiaries or any other company, person or entity (except where the Conversion Price falls to be adjusted under (iv), (v), (vi) and (vii) above); (x) other events determined by the Company that an adjustment should be made to the Conversion Price; and (xi) the control of the Company is changed.

In the case of (iv), (vi) and (vii) above, such adjustment will take place only where the issue price for such securities is less than 95% of the average current market price of the Shares.

Ranking of Conversion Shares: The Conversion Shares issued upon exercise of Conversion Rights will be credited as fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant registration date except for any right excluded by mandatory provisions of applicable law and except that such Conversion Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant registration date.

Redemption at Maturity: Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at the US\$ equivalent of 100% of its RMB principal amount, together with accrued but unpaid interest on the Maturity Date.

Redemption for Taxation Reasons: The Bonds may be redeemed, at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Trustee and to the Bondholders in accordance with the Terms and Conditions (which notice shall be irrevocable), on the date specified in the Tax Redemption Notice for redemption at the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest, if (a) the Company notifies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions) as a result of any change in, or amendment to, the laws or regulations of Bermuda, Hong Kong or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 13 July 2016; and (b) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

If the Company issues a Tax Redemption Notice, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed. In that case, all payments made to an electing Bondholder after the Tax Redemption Date will be made subject to the deduction of withholding of any tax required to be made and no Additional Tax Amounts will be paid with respect thereto.

Redemption at the Option of the Company: On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders and the Trustee, the Company may at any time redeem all, but not in part, of the Bonds for the time being outstanding on the date specified in the Optional Redemption Notice at the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest if, immediately prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in principal amount of the Bonds issued.

Redemption for Delisting, Suspension of Trading or Change of Control: Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's Bonds on the Relevant Event Put Date at the US\$ equivalent of their RMB principal amount, together with accrued but unpaid interest. To exercise such right, the holder of the relevant Bond must deposit, during normal business hours at the specified office of any Paying Agent, a duly completed and signed notice of redemption, in the form for the time being current, obtainable during normal business hours from the specified office of any Paying Agent, together with the certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Company in accordance with the Terms and Conditions.

"Relevant Event" occurs:

- (i) when the Shares cease to be listed or admitted to trading or are suspended for a period equal to or exceeding 15 consecutive trading days on the Hong Kong Stock Exchange or the Alternative Stock Exchange; or
- (ii) when there is a Change of Control.

Negative Pledge: So long as any Bond remains outstanding (as defined in the Trust Deed), the Company shall not, and shall procure that none of its subsidiaries will, create or permit to subsist or arise or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security interest as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity equally and rateably or such other security interest as either (a) the Trustee may in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (b) shall be approved by an Extraordinary Resolution (as defined in the Terms and Conditions).

CONVERSION PRICE AND CONVERSION SHARES

The initial Conversion Price is HK\$7.13 per Share, which represents (i) a premium of approximately 15% over the last closing price of HK\$6.20 per Share as quoted on the Hong Kong Stock Exchange on 13 July 2016 (being the trading day on which the Subscription Agreement was signed); and (ii) a premium of approximately 15% over the average closing price of approximately HK\$6.20 per Share as quoted on the Hong Kong Stock Exchange for the five consecutive trading days up to and including 13 July 2016.

The Conversion Price was determined with reference to the prevailing market price of the Shares and the Terms and Conditions (including the redemption options) and was negotiated on an arm's length basis between the Company and the Joint Lead Managers. The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Assuming full conversion of the Bonds at the initial Conversion Price of HK\$7.13 per Share, the Bonds will be convertible into approximately 544,748,663 Shares, representing approximately 6.75% of the issued share capital of the Company as at the date of this announcement and approximately 6.32% of the enlarged issued share capital of the Company. The Conversion Shares will be fully-paid and rank *pari passu* in all respects with the Shares then in issue on the relevant registration date.

EFFECT ON SHAREHOLDINGS

The table below sets out a summary of the shareholdings in the Company (i) as at the date of this announcement and (ii) upon the exercise in full of the conversion rights attached to the Bonds:

Shareholders	As at the date of this announcement		Upon full conversion of the Bonds at the initial Conversion Price of HK\$7.13 each	
	Number of Shares	Approximate % of the total issued share capital	Number of Shares	Approximate % of the total issued share capital
Sun World Limited ⁽¹⁾	4,708,302,133	58.33	4,708,302,133	54.64
PetroChina Hong Kong (BVI) Ltd. ⁽¹⁾	4,708,302,133	58.33	4,708,302,133	54.64
PetroChina Hong Kong Ltd. ⁽¹⁾	4,708,302,133	58.33	4,708,302,133	54.64
PetroChina ⁽¹⁾	4,708,302,133	58.33	4,708,302,133	54.64
CNODC ⁽²⁾	277,432,000	3.43	277,432,000	3.22
CNPC International Ltd. ⁽²⁾	277,432,000	3.43	277,432,000	3.22
Fairy King Investments Ltd. ⁽²⁾	277,432,000	3.43	277,432,000	3.22
CNPC ⁽¹⁾⁽²⁾	4,985,734,133	61.76	4,985,734,133	57.86
Bondholders	–	–	544,748,663	6.32
Other Shareholders	3,086,656,170	38.24	3,086,656,170	35.82
Total	8,072,390,303	100	8,617,138,966	100

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

USE OF PROCEEDS

The net proceeds from this offering, after the deduction of fees, commissions and expenses payable in connection with this offering, will be approximately US\$496 million. The Company intends to use the proceeds for general corporate purposes, including but not limited to payment for the acquisition of Kunlun Gas and working capital.

REASONS FOR AND BENEFITS OF THE ISSUE OF THE BONDS

The Board considers that the issue of the Bonds represents an opportunity to potentially enlarge and diversify the shareholder base of the Company, to improve the liquidity position of the Group, to reduce the financing costs of the Group and to raise further working capital for the Company. The Board currently intends to use the funds as mentioned above and considers it will facilitate the overall development and expansion of the Group.

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Subscription Agreement and the issue of the Bonds are made on normal commercial terms and are fair and reasonable as far as the Shareholders are concerned, and the issue of the Bonds is in the interests of the Company and the Shareholders as a whole.

GENERAL MANDATE FOR THE ISSUE OF THE BONDS AND THE CONVERSION SHARES

The Conversion Shares will be allotted and issued by the Company pursuant to the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 12 May 2016. The subscription of the Bonds and the issue of the Conversion Shares by the Company are not subject to further Shareholders' approval.

FUND-RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS

The Company has not raised any fund by issuing equity securities during the 12 months immediately before the date of this announcement.

APPLICATION FOR LISTING

The Company will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon conversion of the Bonds.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the section headed “SUBSCRIPTION AGREEMENT” above for further information.

WARNING: As the Subscription Agreement may or may not be completed, the Bonds may or may not be issued or listed and/or the Conversion Shares may or may not be issued or listed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Agency Agreement”	means the paying, conversion and transfer agency agreement in respect of the Bonds between the Company, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent and principal conversion agent, The Bank of New York Mellon (Luxembourg) S.A. as registrar and as transfer agent and the other paying agents, conversion agents and transfer agents appointed thereunder dated on or around the Closing Date
“Alternative Stock Exchange”	means, at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in
“Board”	means the board of Directors
“Bondholder(s)”	means holder(s) of the Bond(s) from time to time
“Bonds”	means the Firm Bonds and the Option Bonds

“Change of Control”	means(i) the government of the PRC or persons controlled by the government of the PRC ceases to own and control directly or indirectly or in combination (through controlled Subsidiaries) at least 50.1 per cent. of the voting shares of China National Petroleum Corporation; (ii) the Company ceases to be a consolidated subsidiary of China National Petroleum Corporation under PRC generally accepted accounting principles; or (iii) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. Exchange Act), directly or indirectly, of total voting power of the voting shares of the Company greater than such total voting power held beneficially by the government of the PRC, China National Petroleum Corporation or persons controlled by the government of the PRC or China National Petroleum Corporation
“Closing Date”	means the date 25 July 2016 or such later date, not being later than 8 August 2016, as the Company and the Joint Bookrunners may agree on which the Bonds are issued
“Company”	means Kunlun Energy Company Limited (Stock code: 00135HK)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Contracts”	means the Subscription Agreement, the Trust Deed and the Agency Agreement
“Conversion Price”	means the price per Conversion Share (subject to adjustments) at which the Bonds may be converted into the Shares
“Conversion Right”	means the right entitling Bondholder(s) to convert the Bonds into Shares credited as fully paid at any time during its conversion period
“Conversion Share(s)”	means the Shares to be issued upon conversion of the Bonds pursuant to the Trust Deed and the Terms and Conditions
“Directors”	means the directors of the Company
“Firm Bonds”	means the RMB3,350,000,000 1.625% USD Settled convertible bonds due 2019 to be issued by the Company
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited

“Joint Global Coordinators”	means Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited
“Joint Bookrunners”	means Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited
“Joint Lead Managers”	means Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited, BOCI Asia Limited, Citigroup Global Markets Limited, ICBC International Securities Limited and Morgan Stanley & Co. International plc
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Maturity Date”	means the date on which the Bonds will be redeemed at the US\$ equivalent of its RMB principal amount, together with accrued but unpaid interest thereon, unless previously redeemed, converted or purchased and cancelled, which is expected to be on 25 July 2019
“Offering Circular”	means the offering circular to be prepared by the Company for use in connection with the issue of the Bonds and the listing of the Bonds on the Hong Kong Stock Exchange
“Option”	means an option to subscribe for all or any of the Option Bonds by 11:59 p.m. Hong Kong time on the date of the Subscription Agreement
“Option Bonds”	means up to an additional RMB1,000,000,000 1.625 per cent. USD settled convertible bonds due 2019 issued pursuant to an option granted to the Joint Bookrunners to increase the principal amount of the Bonds
“Paying Agent”	means any person appointed as a paying agent pursuant to the Agency Agreement or any Successor Paying Agent, and includes the Principal Agent
“PRC”	means the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Publication Date”	means the publication date of the Offering Circular, which is dated no later than three business days prior to the Closing Date or such other date as may be agreed between the Company and the Joint Bookrunners
“Relevant Event Put Date”	means the fourteenth day after the expiry of the 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders of the Relevant Event

“Relevant Indebtedness”	means any present or future indebtedness incurred outside of the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money, which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market (whether or not initially distributed by way of private placement)
“Securities Act”	means the United States Securities Act of 1933 (as amended)
“Shares”	means the shares in the ordinary share capital of the Company with a nominal value of HK\$0.01 each, which are listed on the Hong Kong Stock Exchange
“Shareholders”	means the holders of Shares
“Subscription Agreement”	means the subscription agreement dated 13 July 2016 entered into between the Company and the Joint Lead Managers in connection with the issue and offering of the Bonds
“Terms and Conditions”	means the terms and conditions of the Bonds
“Trust Deed”	means the trust deed constituting the Bonds to be entered into between the Company and the Trustee on or around the Closing Date
“Trustee”	means The Bank of New York Mellon, London Branch
“United States”	means the United States of America
“US\$”	means US dollar(s), the lawful currency of the United States
“%”	means percentage

By order of the Company’s Board of Directors

Hong Kong, 14 July 2016

As at the date of this announcement, the board of directors of the Company comprises Mr. Huang Weihe as the Chairman and Executive Director, Mr. Wu Enlai as the Executive Director, Mr. Zhao Yongqi as the Chief Executive Officer and Executive Director, Mr. Zhao Zhongxun as Executive Director, Mr. Ding Shilu as Executive Director, Mr. Zhang Yaoming as Executive Director, and Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Patrick as Independent Non-Executive Directors.