



**KunLun Energy Company Limited**

(incorporated in Bermuda with limited liability)

**昆侖能源有限公司**

(Stock Code: 00135.HK)



Interim Report **2015**

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr Wu Enlai (*Chairman*)  
Mr Zhao Yongqi (*Chief Executive Officer*)  
Mr Zhang Bowen (*President*)  
Mr Cheng Cheng (*Senior Vice President*)

### Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP  
Mr Li Kwok Sing Aubrey  
Dr Liu Xiao Feng

## COMPANY SECRETARY

Mr Lau Hak Woon

## BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11, Bermuda

## AUDITOR

KPMG

## BANKERS

Bank of China (Hong Kong) Limited  
Fubon Bank (Hong Kong) Limited  
Standard Chartered Bank (Hong Kong) Limited

## STOCK CODE

The Stock Exchange of Hong Kong Limited  
00135.HK

## WEBSITE

<http://www.kunlun.com.hk>  
<http://www.irasia.com/listco/hk/kunlun>

## PRINCIPAL BOARD COMMITTEES

### Audit Committee

Dr Lau Wah Sum, GBS, LLD, DBA, JP (*Chairman*)  
Mr Li Kwok Sing Aubrey  
Dr Liu Xiao Feng

### Remuneration Committee

Mr Li Kwok Sing Aubrey (*Chairman*)  
Dr Lau Wah Sum, GBS, LLD, DBA, JP  
Dr Liu Xiao Feng

### Nomination Committee

Mr Wu Enlai (*Chairman*)  
Dr Lau Wah Sum, GBS, LLD, DBA, JP  
Mr Li Kwok Sing Aubrey  
Dr Liu Xiao Feng

## SOLICITORS

Clifford Chance

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11, Bermuda

## PRINCIPAL OFFICE

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## PRINCIPAL REGISTRARS

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11, Bermuda

## REGISTRARS IN HONG KONG

Tricor Secretaries Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## BUSINESS REVIEW

I am pleased to report the 2015 interim results of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) to the shareholders on behalf of the Board.

For the six months ended 30 June 2015 (the “Period”), the revenue of the Group amounted to HK\$20,879 million, representing a decrease of HK\$1,884 million or 8.28% compared with the revenue of HK\$22,763 million for the same period of last year, and profit attributable to owners of the Company amounted to HK\$1,921 million, representing a decrease of HK\$1,250 million or 39.42% compared with the amount of HK\$3,171 million for the same period of last year. During the Period, affected by the persistently low international crude oil price, slowdown in domestic economy, significant downturn in natural gas consumption growth and other factors, the Group’s production and operation is facing greater pressure. Facing the complex environmental situations, the Group actively implemented various cost reduction and efficiency measures to speed up the adjustment on business structure and operation optimization, so as to achieve the overall smooth control of production and operation.

During the Period, the Group issued its first senior notes in the amount of US\$1 billion. They were rated A+/A1/A by Standard & Poor’s, Moody’s and Fitch respectively. To the Group, this issuance not only effectively optimized our debt financing and capital structure, but also successfully broadened our financing channels and investors’ scope.

### I. Exploration and Production

During the Period, the sales volume of crude oil in the Exploration and Production business reached 8.42 million barrels, representing an increase of 0.02 million barrels or 0.24% compared with the volume of 8.40 million barrels for the same period of last year. The revenue was HK\$1,386 million, representing a decrease of HK\$1,458 million or 51.27% as compared with the revenue of HK\$2,844 million for the same period of last year. Loss before income tax expense was HK\$159 million, representing a decrease of HK\$1,326 million or 113.62% compared with the profit before income tax expense of HK\$1,167 million for the same period of last year. The decrease in revenue and the profit before income tax expense was mainly due to the Group’s average realised crude oil selling price was only US\$47.01 per barrel for the Period, representing a substantial decrease of US\$40.79 or 46.46% compared with US\$87.80 in the same period of last year.

During the Period, the Group has faced gradual decline in oil field production, increase in exploitation cost and other adverse impact. The Group has adopted measures such as integrative optimisation and accelerating the production schedule of drilling new wells. Oil and gas production are run under scientific approach so as to keep the overall production volume stable; meanwhile, arrange the workforce on an efficient basis, propel fine management of production and operational flow and strengthen the cost control resulting the reduction of operating cost by US\$3.04 per barrel.

## II. Natural Gas Pipeline

During the Period, the transmission volume of Natural Gas Pipeline business was 16,090 million cubic metres, representing an increase of 977 million cubic metres or 6.46% compared with the volume of 15,113 million cubic metres for the same period of last year. Revenue was HK\$6,693 million, representing an increase of HK\$685 million or 11.40% as compared with the revenue of HK\$6,008 million for the same period of last year; profit before income tax expense was HK\$4,627 million, representing an increase of HK\$704 million or 17.95% as compared with the amount of HK\$3,923 million for the same period of last year.

During the Period, the transmission volume of Petrochina Beijing Gas Pipeline Co., Ltd. under the Group was 15,694 million cubic metres, representing an increase in 6.80% compared with the same period of last year. Of which, the transmission volume in Beijing region increased by 1,386 million cubic metres, representing an increase in 25.71% compared with the same period of last year, which fully supported the increase in demand from the region's citizens, public utilities and key industrial users.

## III. LNG Terminal

During the Period, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal owned by the Group amounted to 2,217 million cubic metres (approximately 1.58 million tons), representing a decrease of 784 million cubic metres (approximately 0.56 million tons) or 26.12% compared with the volume of 3,001 million cubic metres (approximately 2.14 million tons) for the same period of last year. Revenue amounted to HK\$846 million, representing a decrease of HK\$312 million or 26.94% compared with the revenue of HK\$1,158 million for the same period of last year; profit before income tax expense amounted to HK\$307 million, representing a decrease of HK\$168 million or 35.37% as compared with the amount of HK\$475 million for the same period of last year. The decrease in both revenue and profit before income tax expense was due to decline in LNG import volume of the parent company.

## IV. Sales of Natural Gas and LNG Processing

During the Period, the sales volume of the Group's natural gas was 3,517 million cubic metres, representing a decrease of 78 million cubic metres or 2.17% compared with the volume of 3,595 million cubic metres for the same period of last year. The revenue was HK\$12,487 million, representing a decrease of HK\$1,235 million or 9.00% compared with the revenue of HK\$13,722 million for the same period of last year. The loss before income tax expense was HK\$55 million, representing a decrease of profit of HK\$911 million or 106.43% compared with the amount of HK\$856 million for the same period of last year. The decrease in both revenue and profit before income tax expense was mainly due to the substantial fall in the average selling price of natural gas caused by the reduced economic advantage of natural gas under low crude oil price.

During the Period, Hainan LNG storage tank was invested and constructed by the Group and began trial operation. Its capacity of loading and unloading reaches 300,000 tons/year and 25,200 tons of LNG were successfully loaded and unloaded. The completion of Hainan storage tank immensely increased the supply of natural gas and secured the capability in emergency, which will effectively improve the insufficient supply of natural gas in the region.

During the Period, the Group's sales volume of LNG was 1,367 million cubic metres, representing an increase of 132 million cubic metres or 10.69% compared with the volume of 1,235 million for the same period of last year. There were still 12 LNG plants in operation with daily capacity of 7.18 million cubic meter. During the Period, to actively respond to unfavorable situation such as market impact of importing gas at low price and weakened downstream demand, the Group turn the situation of over-capacity around through shutting down and optimizing capacity, and strengthened the co-ordination of resources. Meanwhile, the Group actively launched import LNG business, facilitating the stable growth in the sales of LNG and providing security of resources through multiple channels to the "Gas In Substitution of Oil" business.

### BUSINESS PROSPECTS

In the second half of the year, along with the gradual implementation of a series of steady growth policies from the Chinese Government, it is expected that the domestic energy demand will rebound compared with the first half of the year. Besides, the comprehensive management work for the purpose of improving the atmospheric environment and the continuous implementation of price reform policy on natural gas pricing will also create favorable conditions for the healthy development of the natural gas industry. The Group will closely monitor the progress of reformation, continue to maintain good communication with government departments and cooperation between enterprises, so as to actively promote the industrial upgrading and the healthy development of the natural gas industry.

In the current period and onwards, the Group will continue to focus on the three merits of "low-cost development, business restructuring and fostering of growth points", vigorously promote corporate reform and marketing efficiency with innovative approaches in an effort to maintain a steady and positive improvement of its production and operation.

Regarding low-cost development, the Group will implement precision management, investment control, cost reduction, promote saving and improve efficiency on the basis of maintaining the stable operation of the exploration and production business, natural gas pipeline business and terminal business; actively explore effective ways of cost control under low oil price, forming sustainable competitiveness.

Regarding business restructuring, the Group will further improve its business positioning and investment direction, focus on the development of natural gas business; broaden the channels of resources and actively develop the import LNG business by utilising LNG terminals; optimize the regional and customer mix, upgrade the LNG plant and terminal assets operating efficiency and overall effectiveness; accelerate the construction of integrated oil and gas stations by relying on the sales network and channels of the parent company, make more significant advancements with the end-user markets and continue to enhance the market competitiveness.

Regarding fostering of growth points, the Group will highlight the regions with advantages and efficient market development, foster growth points from the market development; fully develop the advantages of different natural gas products, provide differentiated services and cultivate potential markets; make active efforts to develop businesses of city gas, branch pipeline network and natural gas power generation, which forms a new competitive advantage.

# Chairman Statement

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Period.

By the Order of the Board

**Wu Enlai**

*Chairman*

Hong Kong, 6 August 2015

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its natural gas business segment during the six months ended 30 June 2015 (the “Period”). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 103.70% (same period of 2014: 83.05%) of the Group’s profit before income tax expense for the Period.

## OPERATING RESULTS

Profit before income tax expense of the Group for the Period was approximately HK\$4,705 million, representing a decrease of 25.62% as compared with HK\$6,326 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK\$1,921 million, representing a decrease of 39.42% as compared with HK\$3,171 million for the same period of last year.

## REVENUE

Revenue for the Period was approximately HK\$20,879 million, representing a decrease of 8.28% as compared with amount of HK\$22,763 million for the same period of last year. The decrease was mainly due to the decrease in realised crude oil selling price compared to the same period of last year.

Revenue from the Exploration and Production segment accounted for 6.64% (same period of 2014: 12.49%) of the Group’s total revenue amounting to approximately HK\$1,386 million (same period of 2014: HK\$2,844 million) while revenue from the Natural Gas Distribution business segment accounted for 93.36% (same period of 2014: 87.51%) of the Group’s total revenue amounting to approximately HK\$19,493 million (same period of 2014: HK\$19,919 million).

# Management Discussion and Analysis

The table below sets out the sales volume and revenue of different segments of the Group for the six months ended 30 June 2015 and 2014, and percentages of change during these two periods.

	Sale volume (Group's portion) for the six months ended			Revenue (Per segment information) for the six months ended		
	30 June			30 June		
	2015 ('000 Barrel)	2014 ('000 Barrel)	Change %	2015 HK\$'million	2014 HK\$'million	Change %
<b>Exploration and Production business (by geographic locations)</b>						
The People's Republic of China (the "PRC")	<b>2,594</b>	2,717	(4.53)	<b>879</b>	1,831	(51.99)
South America (note (1))	<b>310</b>	325	(4.62)	<b>285</b>	545	(47.71)
Central Asia	<b>295</b>	313	(5.75)	<b>111</b>	242	(54.13)
South East Asia (note (2))	<b>251</b>	294	(14.63)	<b>111</b>	226	(50.88)
Sub-total	<b>3,450</b>	3,649	(5.45)	<b>1,386</b>	2,844	(51.27)
Share of an associate in Central Asia	<b>2,768</b>	2,899	(4.52)	-	-	N/A
Share of a joint venture in Middle East	<b>2,200</b>	1,854	18.66	-	-	N/A
Total of Exploration and Production	<b>8,418</b>	8,402	0.19	<b>1,386</b>	2,844	(51.27)
<b>Natural Gas Distribution business (by segments)</b>						
Natural Gas Pipeline (note (3))				<b>6,693</b>	6,008	11.40
LNG Terminal				<b>846</b>	1,158	(26.94)
Natural Gas Sales				<b>11,628</b>	12,015	(3.22)
LNG Processing				<b>859</b>	1,707	(49.68)
Sub-total				<b>12,487</b>	13,722	(9.00)
Less: Inter-company adjustment				<b>(533)</b>	(969)	(44.99)
Total of Natural Gas Distribution				<b>19,493</b>	19,919	(2.14)
<b>Total revenue</b>				<b>20,879</b>	22,763	(8.28)

# Management Discussion and Analysis

## Sale/processing volume for the six months ended

	30 June		Change %
	2015 ( <sup>'000</sup> cubic metre)	2014 ( <sup>'000</sup> cubic metre)	
<b>Natural Gas Distribution business (by activities)</b>			
Natural Gas Pipeline	<b>16,089,759</b>	15,113,371	6.46
LNG Terminal	<b>2,217,389</b>	3,001,113	(26.11)
Natural Gas Sales	<b>3,271,074</b>	3,168,697	3.23
LNG Processing	<b>246,175</b>	426,276	(42.25)
Sub-total	<b>3,517,249</b>	3,594,973	(2.16)
Less: Inter-company adjustment	<b>(256,337)</b>	(433,321)	(40.84)
Total of Natural Gas Distribution	<b>21,568,060</b>	21,276,136	1.37

Notes:

- (1) Only the Group's 50% share of sales volume from an oilfield in South America is stated while its revenue is shown as 100% per consolidation requirement.
- (2) Only the Group's 96.11% share of sales volume from an oilfield in South East Asia is stated while its revenue is shown as 100% per consolidation requirement.
- (3) Under the Natural Gas Pipeline segment, it included the following natural gas sales:

	Sales volume for the six months ended 30 June			Revenue for the six months ended 30 June		
	2015 ( <sup>'000</sup> cubic metre)	2014 ( <sup>'000</sup> cubic metre)	Change %	2015 HK\$'million	2014 HK\$'million	Change %
Natural Gas Sales	<b>25,506</b>	29,135	(12.46)	<b>87</b>	91	(4.40)

# Management Discussion and Analysis

## OTHER GAINS, NET

Other gains, net for the Period was approximately HK\$488 million, representing an increase of 40.23% as compared with amount of HK\$348 million for the same period of last year. The increase was mainly due to stable exchange rate during the Period compared with the same period of last year which has exchange loss on the borrowing which were denominated in USD of HK\$87 million.

## INTEREST INCOME

Interest income for the Period was approximately HK\$103 million, representing a decrease of 1.90% as compared with amount of HK\$105 million for the same period of last year.

## PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK\$11,315 million for the Period, representing a decrease of 3.83% as compared with amount of HK\$11,766 million for the same period of last year.

## EMPLOYEE COMPENSATION COSTS

Employee compensation costs of the Group was approximately HK\$1,012 million for the Period, representing a decrease of 1.56% as compared with amount of HK\$1,028 million for the same period of last year. This decrease was mainly due to the decrease in the number of staff of the Group.

## EXPLORATION EXPENSES

Exploration expenses for the Period was approximately HK\$2 million, representing a decrease of 90.00% as compared with HK\$20 million for the same period of last year. This was mainly related to the decrease in exploration activities in a small exploration area in South East Asia undertaken by the Group's exploration and production projects.

## DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period was approximately HK\$2,899 million, representing an increase of 6.86% as compared with amount of HK\$2,713 million for the same period of last year. This was mainly due to addition of property, plant and equipment during the Period and the second half of 2014.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period were approximately HK\$1,143 million, representing a decrease of 5.77% as compared with amount of HK\$1,213 million for the same period of last year. This was mainly due to the decrease in royalties in Exploration and Production business which is in line with the decrease in realised crude oil selling price.

## TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK\$195 million, representing a decrease of 48.68% as compared with amount of HK\$380 million for the same period of last year. This decrease was mainly due to the decrease in levy on petroleum which is in line with the decrease in realised crude oil selling price in the Group's Exploration and Production business.

## INTEREST EXPENSES

Interest expenses for the Period was approximately HK\$258 million, representing an increase of 16.22% as compared with amount of HK\$222 million for the same period of last year. Total interest expenses for the Period was approximately HK\$657 million of which HK\$399 million had been capitalised under construction-in-progress.

## SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period decreased by 132.98% to loss of approximately HK\$62 million (same period of 2014: profit of HK\$188 million). This was mainly due to the decrease in realised crude oil selling price during the Period which led to the decrease in the shared operating results from CNPC-Aktobemunaigas Joint Stock Company.

## SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period decreased by 54.17% to approximately HK\$121 million (same period of 2014: HK\$264 million). This was mainly due to the decrease in realised crude oil selling price during the Period which led to the decrease in the shared operating results from Oman project.

## PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK\$4,705 million, representing a decrease of 25.62% as compared with amount of HK\$6,326 million for the same period of last year.

# Management Discussion and Analysis

The table below sets out the profit before income tax expense and percentage of change of different segments of the Group for the six months ended 30 June 2015 and 2014.

	Profit before income tax expense for the six months ended 30 June		
	2015 HK\$'million	2014 HK\$'million	Change %
<b>Exploration and Production business</b>			
PRC	(146)	542	(126.94)
South America	124	252	(50.79)
Central Asia	(22)	(38)	(42.11)
South East Asia	(204)	(5)	3980.00
Sub-total	(248)	751	(133.02)
Share of an associate in Central Asia	(71)	118	(160.17)
Share of a joint venture in Middle East	160	298	(46.31)
Total of Exploration and Production	(159)	1,167	(113.62)
<b>Natural Gas Distribution business</b>			
Natural Gas Pipeline	4,627	3,923	17.95
LNG Terminal	307	475	(35.37)
Natural Gas Sales	430	913	(52.90)
LNG Processing	(485)	(57)	750.88
Sub-total	(55)	856	(106.43)
Total of Natural Gas Distribution	4,879	5,254	(7.14)
	4,720	6,421	(26.49)

## INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK\$1,257 million, representing a decrease of 16.92% as compared with amount of HK\$1,513 million for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period increased to 27.06% (same period of 2014: 25.76%).

## PROFIT FOR THE PERIOD AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit for the Period of the Group was approximately HK\$3,448 million, representing a decrease of 28.36% as compared with amount of HK\$4,813 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK\$1,921 million, representing a decrease of 39.42% as compared with amount of HK\$3,171 million for the same period of last year.

## LIQUIDITY, CAPITAL RESOURCES AND USE OF PROCEEDS

As at 30 June 2015, the carrying value of total assets of the Group was approximately HK\$122,476 million, representing an increase of HK\$4,766 million or 4.05% as compared with 31 December 2014 amount of HK\$117,710 million.

The gearing ratio of the Group was 29.55% as at 30 June 2015 compared with 25.57% as at 31 December 2014, representing an increase of 3.98%. It is computed by dividing the sum of interest bearing borrowings and obligations under finance leases of HK\$31,498 million (31 December 2014: HK\$25,532 million) by the total equity, interest bearing borrowings and obligations under finance leases of HK\$106,601 million (31 December 2014: HK\$99,846 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation ("EBITDA") for the Period was approximately HK\$7,759 million, representing a decrease of 15.26% as compared with the amount of HK\$9,156 million for the last Period.

During the Period, the Company has issued two Senior Notes to improve the debt financing structure:

Items	Date of issue	Nominal Amount US\$'million	Tenor year	Annualised Interest Rate %
Senior Notes due 2020 (Stock code: 5510)	13 May 2015	500	5	2.875
Senior Notes due 2025 (Stock code: 5511)	13 May 2015	500	10	3.750

Note: Please refer to the announcements on the issue of Senior Notes published by the Company on the website of The Stock Exchange of Hong Kong Limited and the website of the Company in April and May 2015.

# Management Discussion and Analysis

The Group raised new borrowings of HK\$17,374 million including the net amount of the Senior Notes of US\$988 million (equivalent to HK\$7,655 million) mentioned above and repaid HK\$11,479 million resulting an net increase of HK\$5,895 million during the Period.

The Group received no dividends (same period of 2014: nil) from a joint venture in Middle East and no dividends (same period of 2014: HK\$458 million) from an associate in Central Asia during the Period.

During the Period, no share option (31 December 2014: 9.9 million shares exercised and HK\$32 million received) has been exercised by the senior executives of the Company as the exercise price of HK\$10.32 was above the market price of HK\$7.36 on the share option expiry date and the share options were lapsed.

The Group paid interest of HK\$636 million (same period of 2014: HK\$763 million) during the Period excluding the accrued interest of the Senior Notes which will be paid on 12 November 2015.

2014 final dividend of HK20 cents per share amounting to HK\$1,614 million (2013: HK23 cents per share amounting to HK\$1,857 million) was distributed to owners of the Company during the Period.

## PLEDGE OF ASSETS

As at 30 June 2015 and 31 December 2014, no short-term and long-term borrowings were secured with property, plant and equipment and advanced operating lease payment.

## NEW INVESTMENT IN MAJOR PROJECTS

There is no major acquisition during the Period.

## EMPLOYEE

On 30 June 2015, the Group had approximately 20,507 staff globally (excluding the staff under entrustment contracts) (31 December 2014: 21,751 staff). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Period.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

## CORPORATE GOVERNANCE

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. The Board of Directors (the "Board") is of the view that the Company has complied with all the code provisions in the Code on Corporate Governance Practices during the Period.

## REVIEW OF INTERIM FINANCIAL INFORMATION

Pursuant to paragraph 46(6) of Appendix 16 to the Listing Rules Governing the Listing of Securities on the Stock Exchange, the Board of Directors of the Company wishes to confirm that the Audit Committee of the Company has reviewed with the management the accounting policies and standards adopted by the Company and its subsidiaries and discussed the internal control and financial reporting matters related to the preparation of the unaudited condensed financial statements for the Period.

The unaudited consolidated financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of interim financial information performed by the independent auditor of the entity*" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted written guidelines on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transaction.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2015.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

# Management Discussion and Analysis

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2015, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities Future Ordinance (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 and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below.

Ordinary shares of HK\$0.01 each of the Company.

<b>Name</b>	<b>Number of shares</b>	<b>Capacity and nature of interests</b>	<b>Percentage of issued shares</b>
Zhang Bowen (note)	15,336,000	Beneficial owner	0.190%
Cheng Cheng (note)	7,772,000	Beneficial owner	0.096%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.012%

Note: The interests held by Mr Zhang Bowen, Mr Cheng Cheng and Mr Li Kwok Sing Aubrey represent long position in the shares of the Company.

Share options are granted to directors and chief executive under the executive share option scheme approved by the Board of Directors on 3 June 2002 ("2002 Share Option Scheme") and it expired on 2 June 2012. Details of the outstanding shares options granted under the 2002 Share Option Scheme not yet exercised are set out in the section headed "Share Options" of this report.

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries, its fellow subsidiaries and its holding companies a party to any arrangement to enable the directors and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

# Management Discussion and Analysis

## SHARE OPTIONS

The following table discloses the movements during the Period in the number of share options of the Company which have been granted to the directors and employees of the Company:

Name	Date of grant	Exercise period	Exercise price HK\$	Number of Share Options				
				Outstanding at 1 January 2015	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding at 30 June 2015
				'000	'000	'000	'000	'000
<b>Directors</b>								
Zhang Bowen	26/03/10	26/6/10-25/3/15	10.320	2,400	-	-	(2,400)	-
	18/03/11	18/6/11-17/3/16	11.730	2,400	-	-	-	2,400
	17/05/12	17/8/12-16/5/17	12.632	2,200	-	-	-	2,200
Cheng Cheng	26/03/10	26/6/10-25/3/15	10.320	1,500	-	-	(1,500)	-
	18/03/11	18/6/11-17/3/16	11.730	1,500	-	-	-	1,500
	17/05/12	17/8/12-16/5/17	12.632	2,000	-	-	-	2,000
Li Kwok Sing Aubrey	26/03/10	26/6/10-25/3/15	10.320	400	-	-	(400)	-
Liu Xiao Feng	26/03/10	26/6/10-25/3/15	10.320	400	-	-	(400)	-
Lau Wah Sum	26/03/10	26/6/10-25/3/15	10.320	400	-	-	(400)	-
				13,200	-	-	(5,100)	8,100
<b>Employees</b>								
	26/03/10	26/6/10-25/3/15	10.320	6,000	-	-	(6,000)	-
	18/03/11	18/6/11-17/3/16	11.730	6,000	-	-	-	6,000
	17/05/12	17/8/12-16/5/17	12.632	11,500	-	-	-	11,500
				23,500	-	-	(6,000)	17,500
				36,700	-	-	(11,100)	25,600

# Management Discussion and Analysis

## SHARE OPTIONS (CONTINUED)

The weighted average closing price of the Company's shares immediately before the date on which the share options were lapsed was HK\$7.41.

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2015, 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 issued shares
	Direct interest	Indirect interest	
Sun World Limited ("Sun World") <sup>(1)</sup>	4,708,302,133 (L)	–	58.33%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") <sup>(1)</sup>	–	4,708,302,133 (L)	58.33%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") <sup>(1)</sup>	–	4,708,302,133 (L)	58.33%
PetroChina Company Limited ("PetroChina") <sup>(1)</sup>	–	4,708,302,133 (L)	58.33%
China National Oil and Gas Exploration and Development Corporation ("CNODC") <sup>(2)</sup>	–	277,432,000 (L)	3.43%
CNPC International Ltd. ("CNPCI") <sup>(2)</sup>	–	277,432,000 (L)	3.43%
Fairy King Investments Ltd.	277,432,000 (L)	–	3.43%
China National Petroleum Corporation ("CNPC") <sup>(1)(2)</sup>	–	4,985,734,133 (L)	61.76%

Notes:

(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, the Chairman of the Company and Mr Zhang Bowen, the President of the Company are also 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..

## **SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES (CONTINUED)**

Save as disclosed above, as at 30 June 2015, 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 30 June 2015, the directors and the chief executive of the Company were not aware of any person (other than a directors 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.

By the Order of the Board

**Zhang Bowen**

*President & Executive Director*

Hong Kong, 6 August 2015

# Unaudited Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2015

	Note	Six months ended 30 June	
		2015 HK\$'million	2014 HK\$'million
Revenue	4	20,879	22,763
Other gains, net	5	488	348
Interest income		103	105
Purchases, services and others		(11,315)	(11,766)
Employee compensation costs		(1,012)	(1,028)
Exploration expenses		(2)	(20)
Depreciation, depletion and amortisation		(2,899)	(2,713)
Selling, general and administrative expenses		(1,143)	(1,213)
Taxes other than income taxes	6	(195)	(380)
Interest expenses	7	(258)	(222)
Share of profits less losses of:			
– Associates		(62)	188
– Joint ventures		121	264
<b>Profit before income tax expense</b>	8	<b>4,705</b>	6,326
Income tax expense	9	(1,257)	(1,513)
<b>Profit for the period</b>		<b>3,448</b>	4,813
<b>Other comprehensive income:</b>			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		(20)	(1,270)
– Associates		(33)	(481)
– Joint ventures		–	(9)
– Fair value gain/(loss) on available-for-sale financial assets		3	(8)
<b>Other comprehensive income for the period, net of nil tax</b>		<b>(50)</b>	(1,768)
<b>Total comprehensive income for the period</b>		<b>3,398</b>	3,045
<b>Profit for the period attributable to:</b>			
– Owners of the Company		1,921	3,171
– Non-controlling interests		1,527	1,642
		<b>3,448</b>	4,813
<b>Total comprehensive income for the period attributable to:</b>			
– Owners of the Company		1,884	1,973
– Non-controlling interests		1,514	1,072
		<b>3,398</b>	3,045
<b>Earnings per share for profit attributable to owners of the Company</b>	10		
– Basic (HK cent)		23.80	39.30
– Diluted (HK cent)		23.80	39.27

The notes on pages 25 to 45 form part of this interim financial report.

# Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2015

	Note	30 June 2015 HK\$'million	31 December 2014 HK\$'million
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	86,551	86,442
Advanced operating lease payments		3,348	3,379
Investments in associates	13	4,671	4,775
Investments in joint ventures	14	1,569	1,451
Available-for-sale financial assets		85	83
Intangible and other non-current assets	15	1,451	1,509
Deferred tax assets		793	456
		<b>98,468</b>	98,095
<b>Current assets</b>			
Inventories		1,630	1,157
Accounts receivable	16	2,208	1,988
Prepaid expenses and other current assets	17	4,470	5,741
Cash and cash equivalents		15,700	10,729
		<b>24,008</b>	19,615
<b>Total assets</b>		<b>122,476</b>	117,710
<b>Equity</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	18	81	81
Retained earnings		27,998	27,765
Reserves		25,079	25,042
		<b>53,158</b>	52,888
<b>Non-controlling interests</b>		<b>21,945</b>	21,426
<b>Total equity</b>		<b>75,103</b>	74,314

# Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2015

	<i>Note</i>	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	20	13,194	14,776
Income tax payable		488	805
Other tax payable		189	262
Short-term borrowings	21	9,492	8,465
Obligations under finance leases		249	194
		<b>23,612</b>	24,502
<b>Non-current liabilities</b>			
Long-term borrowings	21	21,091	16,224
Deferred tax liabilities		1,397	1,414
Obligations under finance leases		666	649
Other long-term obligations		607	607
		<b>23,761</b>	18,894
<b>Total liabilities</b>		<b>47,373</b>	43,396
<b>Total equity and liabilities</b>		<b>122,476</b>	117,710
<b>Net current assets/(liabilities)</b>		<b>396</b>	(4,887)
<b>Total assets less current liabilities</b>		<b>98,864</b>	93,208

The notes on pages 25 to 45 form part of this interim financial report.

# Unaudited Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2015

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Retained earnings	Reserves	Sub-total		
		HK\$'million	HK\$'million	HK\$'million	HK\$'million		
<b>Balance as at 1 January 2014</b>		81	24,530	25,795	50,406	21,862	72,268
Profit for the period		-	3,171	-	3,171	1,642	4,813
Other comprehensive income		-	-	(1,198)	(1,198)	(570)	(1,768)
Total comprehensive income for the period		-	3,171	(1,198)	1,973	1,072	3,045
Transfer between reserves		-	(30)	30	-	-	-
Final dividend for 2013	11(a)	-	(1,857)	-	(1,857)	-	(1,857)
Issue of shares upon exercise of share options		-	-	32	32	-	32
Dividend to non-controlling interests		-	-	-	-	(3,460)	(3,460)
Capital contributions from non-controlling interests		-	-	-	-	684	684
		-	(1,887)	62	(1,825)	(2,776)	(4,601)
<b>Balance as at 30 June 2014</b>		81	25,814	24,659	50,554	20,158	70,712
<b>Balance as at 1 January 2015</b>		81	27,765	25,042	52,888	21,426	74,314
Profit for the period		-	1,921	-	1,921	1,527	3,448
Other comprehensive income		-	-	(37)	(37)	(13)	(50)
Total comprehensive income for the period		-	1,921	(37)	1,884	1,514	3,398
Transfer between reserves		-	(105)	105	-	-	-
Final dividend for 2014	11(b)	-	(1,614)	-	(1,614)	-	(1,614)
Lapsed share options		-	31	(31)	-	-	-
Dividend to non-controlling interests		-	-	-	-	(2,699)	(2,699)
Capital contributions from non-controlling interests		-	-	-	-	1,992	1,992
Acquisition from non-controlling interest		-	-	-	-	(280)	(280)
Disposal of subsidiaries		-	-	-	-	(8)	(8)
		-	(1,688)	74	(1,614)	(995)	(2,609)
<b>Balance as at 30 June 2015</b>		81	27,998	25,079	53,158	21,945	75,103

The notes on pages 25 to 45 form part of this interim financial report.

# Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'million	2014 HK\$'million
<b>Operating activities</b>		
Cash generated from operations	8,961	8,186
Tax paid	(1,929)	(2,100)
<b>Net cash generated from operating activities</b>	<b>7,032</b>	6,086
<b>Investing activities</b>		
Capital expenditure	(3,184)	(3,978)
Other cash flows arising from investing activities	262	602
<b>Net cash used in investing activities</b>	<b>(2,922)</b>	(3,376)
<b>Financing activities</b>		
Dividends paid to equity shareholders of the Company	(1,614)	(1,857)
Dividends paid to non-controlling interests	(2,488)	(1,613)
Acquisition from non-controlling interest	(195)	–
Capital contribution from non-controlling interests	–	684
Increase in borrowings	17,374	5,243
Repayments in borrowings	(11,479)	(7,162)
Other cash flows arising from financing activities	(746)	(731)
<b>Net cash generated from/(used in) financing activities</b>	<b>852</b>	(5,436)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,962</b>	(2,726)
<b>Cash and cash equivalents at 1 January</b>	<b>10,729</b>	14,897
<b>Effect of foreign exchange rate changes</b>	<b>9</b>	(88)
<b>Cash and cash equivalents at 30 June</b>	<b>15,700</b>	12,083

The notes on pages 25 to 45 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

## 1 GENERAL INFORMATION

Kunlun Energy Company Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is China National Petroleum Corporation (“CNPC”) which is a company established in the People’s Republic of China (the “PRC”). The immediate holding company of the Company is Sun World Limited (“Sun World”), which is a company incorporated in the British Virgin Islands. On 18 December 2008, PetroChina Company Limited (“PetroChina”), a subsidiary of CNPC, acquired 100% equity interest in Sun World. Since then, PetroChina became an intermediate holding company of the Company. As at 30 June 2015, PetroChina indirectly owned 58.33% (31 December 2014: 58.33%) equity interest in the Company.

The address of the Company’s principal office and registered office are 39/F, 118 Connaught Road West, Hong Kong and Clarendon House, 2 Church Street Hamilton HM11, Bermuda, respectively.

The Company acts as an investment holding company. The Company and its subsidiaries are collectively referred to as the “Group”. The principal activities of its subsidiaries, associates and joint ventures are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand and the Azerbaijan Republic, the sales of natural gas, liquefied natural gas (“LNG”) processing, LNG terminal business and transmission of natural gas in the PRC.

## 2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 6 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

# Notes to the Unaudited Interim Financial Report

## 2 BASIS OF PREPARATION (CONTINUED)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 46.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2015.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

# Notes to the Unaudited Interim Financial Report

## 4 REVENUE

Revenue mainly represents revenue from the sales of crude oil, the sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas. Analysis of revenue by segment is shown in Note 22.

## 5 OTHER GAINS, NET

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Net exchange gains/(losses)	10	(91)
Rental income	36	27
Government grants	414	349
Dividend income from available-for-sale financial assets	–	40
Impairment loss on available-for-sale financial assets	–	(6)
Others	28	29
	<b>488</b>	348

Government grants for the six months ended 30 June 2015 and 2014 primarily represented compensation of reduction in income due to the implementation of Value-Added-Tax Reform from the government. There were no unfulfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future. During the six months ended 30 June 2015, the Group has recognised related government grants of HK\$387 million (six months ended 30 June 2014: HK\$335 million).

## 6 TAXES OTHER THAN INCOME TAXES

There are no special levies on PRC domestic sales of crude oil included in taxes other than income taxes (six months ended 30 June 2014: HK\$192 million) for the six months ended 30 June 2015.

## 7 INTEREST EXPENSES

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Interest expenses	657	760
Less: Amounts capitalised	(399)	(538)
Total interest expenses	<b>258</b>	222

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 4.68% (six months ended 30 June 2014: 5.08%) per annum for the six months ended 30 June 2015.

# Notes to the Unaudited Interim Financial Report

## 8 PROFIT BEFORE INCOME TAX EXPENSE

Items charged in arriving at the profit before income tax expense include:

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Amortisation of advanced operating lease payments and intangible assets	43	32
Cost of inventories recognised as expense	12,224	12,771
Depreciation and depletion of property, plant and equipment	2,856	2,681
Operating lease expenses	125	121

## 9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
<b>Current tax</b>		
– PRC	1,556	1,590
– Overseas	55	379
	1,611	1,969
<b>Deferred tax</b>	(354)	(456)
	1,257	1,513

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in the PRC is principally 25% (six months ended 30 June 2014: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (six months ended 30 June 2014: 10% to 15%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2015 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

There is no withholding tax included in overseas income tax expense (six months ended 30 June 2014: HK\$217 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (six months ended 30 June 2014: 20%) on the amount of dividend received / receivable.

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

# Notes to the Unaudited Interim Financial Report

## 10 BASIC AND DILUTED EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$1,921 million (six months ended 30 June 2014: HK\$3,171 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2015 of approximately 8,072 million shares (six months ended 30 June 2014: 8,068 million shares).
- (b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK\$1,921 million (six months ended 30 June 2014: HK\$3,171 million) and the weighted average number of ordinary shares of approximately 8,072 million shares (six months ended 30 June 2014: 8,075 million shares), calculated as follows:

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Weighted average number of ordinary shares as at 30 June	8,072	8,068
Effect of deemed issue of shares, under the Company's share option scheme for nil consideration (note 18(b))	-	7
Weighted average number of ordinary shares (diluted) as at 30 June	8,072	8,075

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

## 11 DIVIDENDS

- (a) Final dividend attributable to owners of the Company in respect of 2013 of HK23 cents per share amounting to a total of approximately HK\$1,854 million were approved by the shareholders in the Annual General Meeting on 12 June 2014. The amount is based on approximately 8,062 million shares in issue as at 20 March 2014. The actual final dividend for 2013 was approximately HK\$1,857 million due to additional shares issued during the period from 21 March 2014 to 19 June 2014, the date of closure of the register of members, and which was paid on 30 June 2014.
- (b) Final dividend attributable to owners of the Company in respect of 2014 of HK20 cents per share amounting to a total of approximately HK\$1,614 million were approved by the shareholders in the Annual General Meeting on 3 June 2015. The amount is based on approximately 8,072 million shares in issue as at 26 March 2015 which was paid on 19 June 2015.
- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

# Notes to the Unaudited Interim Financial Report

## 12 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2015 HK\$'million	2014 HK\$'million
<b>Cost:</b>		
Balance as at 1 January	123,376	115,257
Currency translation differences	(52)	(2,139)
Additions	3,052	3,556
Disposals	(84)	(69)
Balance as at 30 June	126,292	116,605
<b>Accumulated depreciation and depletion:</b>		
Balance as at 1 January	36,934	32,314
Currency translation differences	(37)	(537)
Charge for the period	2,856	2,681
Disposals	(12)	(6)
Balance as at 30 June	39,741	34,452
<b>Net book value:</b>		
Balance as at 30 June	86,551	82,153

## 13 INVESTMENTS IN ASSOCIATES

	30 June	31 December
	2015 HK\$'million	2014 HK\$'million
Share of net assets	4,228	4,332
Goodwill	443	443
	4,671	4,775

# Notes to the Unaudited Interim Financial Report

## 13 INVESTMENTS IN ASSOCIATES (CONTINUED)

Movements in share of net assets of associates for the six months ended 30 June 2015 and 2014 are as follows:

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Balance as at 1 January	4,332	5,255
Capital contributions	5	68
Share of profits less losses	(62)	188
Dividend income received and receivable	(13)	(1,100)
Share of exchange reserves	(34)	(471)
Balance as at 30 June	4,228	3,940

## 14 INVESTMENTS IN JOINT VENTURES

	30 June	31 December
	2015	2014
	HK\$'million	HK\$'million
Share of net assets	1,454	1,336
Loans to joint ventures	115	115
	1,569	1,451

Movements in share of net assets of joint ventures for the six months ended 30 June 2015 and 2014 are as follows:

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Balance as at 1 January	1,336	1,481
Share of profits less losses	121	264
Dividend income received and receivable	(3)	(1)
Share of exchange reserves	–	(9)
Balance as at 30 June	1,454	1,735

As at 30 June 2015, included in loans to joint ventures is an amount of HK\$45 million (31 December 2014: HK\$45 million) which is unsecured, interest-free and repayable on 31 December 2015. Except as disclosed above, loans to joint ventures are unsecured, interest-bearing at 8% per annum and repayable within one year.

# Notes to the Unaudited Interim Financial Report

## 15 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Intangible assets	492	497
Prepaid construction costs	838	814
Loans to third parties	117	178
Others	4	20
	<b>1,451</b>	1,509

## 16 ACCOUNTS RECEIVABLE

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Within 3 months	1,134	1,329
Between 3 to 6 months	324	254
Over 6 months	750	405
	<b>2,208</b>	1,988

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2015, accounts receivable of approximately HK\$1,074 million (31 December 2014: HK\$659 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group. As of 30 June 2015 and 31 December 2014, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

## 17 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Included in prepaid expenses and other current assets are loans to third parties amounting to approximately HK\$474 million (31 December 2014: HK\$525 million).

# Notes to the Unaudited Interim Financial Report

## 18 SHARE CAPITAL AND SHARE OPTION SCHEMES

### (a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK\$'million
<b>Authorised:</b>		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2014, 30 June 2014, 31 December 2014, 1 January 2015 and 30 June 2015	<b>16,000</b>	<b>160</b>
<b>Issued and fully paid:</b>		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2014	8,062	81
Issue of shares upon exercise of share options (note (i))	10	–
At 30 June 2014, 31 December 2014, 1 January 2015 and 30 June 2015	<b>8,072</b>	<b>81</b>

Notes:

- (i) During the six months ended 30 June 2015, the Company did not allot and issue any share (six months ended 30 June 2014: 9.9 million shares of HK\$0.01 each for cash with weighted average exercise price HK\$3.25). The nominal value of ordinary shares has not changed (six months ended 30 June 2014: increased by HK\$99,000).

### (b) Share option schemes

Pursuant to executive share option scheme (the “2002 Share Option Scheme”) of the Company dated 3 June 2002, the directors of the Company are authorised, at any time within ten years after the adoption of the 2002 Share Option Scheme, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for the Company’s shares at a price not less than the average of the closing prices of the Company’s shares on the five trading days immediately preceding the offer date of the options, the closing price of the Company’s shares on the offer day or the nominal value of the Company’s shares, whichever is the highest. Unless otherwise lapsed or amended, the 2002 Share Option Scheme will be valid and effective for a period of ten years from the date of adoption. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme cannot exceed 10% of the issued share capital of the Company. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other shares of the Company) shall not exceed 30% of the shares in issue from time to time.

Options granted under the 2002 Share Option Scheme must be taken up within the period as specified in the offer of the options and no amount shall be payable by the grantee to the exercising of the right to accept an offer of an option. Options granted are exercisable at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee. All of the options are vested to the option holders after 3 months from the date on which the options are granted. The exercise period of the option is 5 years from the grant date.

# Notes to the Unaudited Interim Financial Report

## 18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

### (b) Share option schemes (continued)

The 2002 Share Option Scheme expired on 2 June 2012.

No new shares option scheme was adopted after the expiration of 2002 Share Option Scheme. No new option was granted during the six months ended 30 June 2015 and 2014.

During the six months ended 30 June 2015, no share options (six months ended 30 June 2014: 3.9 million and 6.0 million) have been exercised by the directors and employees of the Company respectively as the exercised price of the lapsed share option of HK\$10.32 is above the market price of HK\$7.36 and the share options were lapsed.

The weighted average closing price of the Company's shares at the date on which the share options were lapsed for the six months ended 30 June 2015 was HK\$7.36 (the weighted average closing price of the Company's shares at the date on which the share options were exercised for six months ended 30 June 2014: HK\$12.90).

Details of share options lapsed and exercised during the six months ended 30 June 2015 and 2014 are as follows:

	Six months ended 30 June				
	2015			2014	
	Lapsed '000	Exercised '000	Exercise price per share HK\$	Exercised '000	Exercise price per share HK\$
Directors	-	-	3.250	3,900	3.250
	5,100	-	10.320	-	10.320
	-	-	11.730	-	11.730
	-	-	12.632	-	12.632
Employees	-	-	3.250	6,000	3.250
	6,000	-	10.320	-	10.320
	-	-	11.730	-	11.730
	-	-	12.632	-	12.632
	11,100	-		9,900	

# Notes to the Unaudited Interim Financial Report

## 18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

### (b) Share option schemes (continued)

Details of the options granted under the 2002 Share Option Scheme outstanding as at 30 June 2015 and 31 December 2014 are as follows:

	Date of grant	Exercise period	Exercise price per share HK\$	Number of shares subject to the options	
				30 June 2015 '000	31 December 2014 '000
Directors	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	5,100
	18 March 2011	18 June 2011 – 17 March 2016	11.730	3,900	3,900
	17 May 2012	17 August 2012 – 16 May 2017	12.632	4,200	4,200
Employees	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	6,000
	18 March 2011	18 June 2011 – 17 March 2016	11.730	6,000	6,000
	17 May 2012	17 August 2012 – 16 May 2017	12.632	11,500	11,500
				<b>25,600</b>	36,700

## 19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2015 and 31 December 2014.

# Notes to the Unaudited Interim Financial Report

## 20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Accounts payable	1,918	1,871
Advances from customers	1,876	1,785
Salaries and welfare payable	228	374
Accrued expenses	403	40
Dividends payable to non-controlling interests	306	95
Interest payable	108	94
Construction fee and equipment cost payables	6,144	6,809
Amounts due to related parties		
– Ultimate holding company	631	631
– Non-controlling interests	–	1,991
– Others	2	2
Other payables	1,578	1,084
	<b>13,194</b>	14,776

As of the end of the reporting period, the ageing analysis of accounts payable, based on the invoice date, is as follows:

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Within 3 months	1,009	1,278
Between 3 to 6 months	269	194
Over 6 months	640	399
	<b>1,918</b>	1,871

## 21 BORROWINGS

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Short-term borrowings – unsecured	1,788	5,341
Current portion of long-term borrowings	7,704	3,124
	<b>9,492</b>	8,465
Long-term borrowings – unsecured	28,795	19,348
Less: Current portion of long-term borrowings	(7,704)	(3,124)
	<b>21,091</b>	16,224
	<b>30,583</b>	24,689

# Notes to the Unaudited Interim Financial Report

## 21 BORROWINGS (CONTINUED)

The borrowings are analysed as follows:

	Short-term borrowings		Long-term borrowings	
	30 June 2015 HK\$'million	31 December 2014 HK\$'million	30 June 2015 HK\$'million	31 December 2014 HK\$'million
Bank loans				
– Wholly repayable within five years	1,389	820	2,945	2,009
Loans other than bank loans				
– Wholly repayable within five years	399	4,521	22,032	17,339
– Not wholly repayable within five years	–	–	3,818	–
	<b>1,788</b>	<b>5,341</b>	<b>28,795</b>	<b>19,348</b>

As at 30 June 2015 and 31 December 2014, the Group's short-term borrowings are repayable within one year and the Group's long-term borrowings are repayable as follows:

	Bank loans		Loans other than bank loans	
	30 June 2015 HK\$'million	31 December 2014 HK\$'million	30 June 2015 HK\$'million	31 December 2014 HK\$'million
Within one year	870	29	6,834	3,095
Between one to two years	1,124	868	4,580	4,420
Between two to five years	951	1,112	10,618	9,824
After five years	–	–	3,818	–
	<b>2,945</b>	<b>2,009</b>	<b>25,850</b>	<b>17,339</b>

As at 30 June 2015 and 31 December 2014, included in the loans other than bank loans were unsecured borrowings from an immediate holding company, an intermediate holding company, a fellow subsidiary and CP Finance, which bore interest ranging from 2.34% to 6.52% and 2.32% to 8.00% per annum respectively. As at 30 June 2015, loans other than bank loans also included senior notes issued by the Company of HK\$7,655 million (31 December 2014: HK\$ Nil), which bore interest ranging from 2.875% to 3.750% per annum.

# Notes to the Unaudited Interim Financial Report

## 22 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker which is determined as the Executive Directors of the Company.

The Group organises its business around products and services. From the products and services perspective, the Group is engaged in a broad range of petroleum related activities and derives its revenue from its two operating segments: Exploration and Production and Natural Gas Distribution.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. It is further evaluated on a geographic basis (the PRC and other territories).

The Natural Gas Distribution segment is engaged in the sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas in the PRC. It is evaluated on a business basis, Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing, LNG Terminal and Natural Gas Pipeline.

No sales between operating segments are undertaken. The Executive Directors assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and joint ventures ("segment results").

Total assets exclude deferred and current taxes, available-for-sale financial assets, investments in associates and joint ventures, all of which are managed on a central basis ("segment assets").

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, and general and administrative expenses incurred at corporate level.

Corporate assets mainly comprise cash and cash equivalents held at corporate level.

# Notes to the Unaudited Interim Financial Report

## 22 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2015 and 2014 are as follows:

	Exploration and Production				Natural Gas Distribution				Corporate	Inter-company adjustment	Total		
	Sub-total		Natural Gas Sales and LNG		Sub-total		Natural Gas Pipeline					Sub-total	HK\$'million
	Others	Sub-total	Natural Gas Sales	LNG Processing	Sub-total	LNG Terminal	Sub-total	Natural Gas Pipeline					
HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million			
<b>For the six months ended 30 June 2015</b>													
Gross revenue	879	507	1,386	859	12,487	846	6,693	20,026	-	-	21,412		
Less: Inter-company adjustment	-	-	-	(426)	(507)	(23)	(3)	(533)	-	-	(533)		
Revenue from external customers	879	507	1,386	433	11,980	823	6,690	19,493	-	-	20,879		
Segment results	(146)	(102)	(248)	(465)	(66)	307	4,627	4,868	26	-	4,646		
Share of profits less losses of:													
- Associates	-	(71)	(71)	-	9	-	-	9	-	-	(62)		
- Joint ventures	-	160	160	-	2	-	-	2	(41)	-	121		
Profit before income tax expense	(146)	(13)	(159)	(465)	(55)	307	4,627	4,879	(15)	-	4,705		
Income tax expense											(1,257)		
Profit for the period											3,448		
Segment results included:													
- Interest income	49	2	51	4	48	1	18	67	221	(236)	103		
- Depreciation, depletion and amortisation	(359)	(299)	(658)	(123)	(807)	(353)	(1,080)	(2,240)	(1)	-	(2,899)		
- Interest expenses	-	(2)	(2)	(163)	(215)	(40)	(91)	(346)	(146)	236	(258)		
<b>As at 30 June 2015</b>													
Non-current assets	2,944	569	3,513	16,336	38,222	11,010	37,441	86,673	1,164	-	91,350		
Current assets	1,046	562	1,608	1,581	11,227	466	3,953	15,646	6,735	-	23,989		
Segment assets	3,990	1,131	5,121	17,917	49,449	11,476	41,394	102,319	7,899	-	115,339		
Investments in associates	-	2,324	2,324	-	2,340	7	-	2,347	-	-	4,671		
Investments in joint ventures	-	1,297	1,297	-	178	-	-	178	94	-	1,569		
Sub-total	3,990	4,752	8,742	17,917	51,967	11,483	41,394	104,844	7,993	-	121,579		
Available-for-sale financial assets											85		
Deferred tax assets											793		
Others											19		
Total assets											122,476		

# Notes to the Unaudited Interim Financial Report

## 22 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production				Natural Gas Distribution				Corporate	Inter-company adjustment	Total		
	PRC		Others		Sub-total		Natural Gas Sales and LNG					Sub-total	HK\$'million
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	Natural Gas Processing	LNG Terminal					
<b>For the six months ended</b>													
<b>30 June 2014</b>													
Gross revenue	1,831	1,013	2,844	12,015	1,707	13,722	1,158	6,008	20,888	-	23,782		
Less: Inter-company adjustment	-	-	-	(86)	(831)	(917)	(46)	(6)	(969)	-	(969)		
Revenue from external customers	1,831	1,013	2,844	11,929	876	12,805	1,112	6,002	19,919	-	22,763		
Segment results	542	209	751	843	(57)	786	475	3,923	5,164	(61)	5,874		
Share of profits less losses of:													
- Associates	-	118	118	70	-	70	-	-	70	-	188		
- Joint ventures	-	298	298	-	-	-	-	-	-	(34)	264		
Profit before income tax expense	542	625	1,167	913	(57)	856	475	3,923	5,254	(95)	6,326		
Income tax expense											(1,513)		
Profit for the period											4,813		
Segment results included:													
- Interest income	80	4	84	49	3	52	1	24	77	88	(144)		
- Depreciation, depletion and amortisation	(321)	(292)	(613)	(509)	(106)	(615)	(439)	(1,045)	(2,099)	(1)	(2,713)		
- Interest expenses	-	(10)	(10)	(43)	(75)	(118)	(57)	(123)	(298)	(58)	144		
<b>As at 31 December 2014</b>													
Non-current assets	3,152	792	3,944	21,726	14,934	36,680	11,032	38,529	86,221	1,165	91,330		
Current assets	1,028	1,233	2,261	9,475	1,241	10,716	475	2,476	13,667	3,679	19,907		
Segment assets	4,180	2,025	6,205	31,201	16,175	47,376	11,507	41,005	99,888	4,844	110,937		
Investments in associates	-	2,428	2,428	2,341	-	2,341	6	-	2,347	-	4,775		
Investments in joint ventures	-	1,136	1,136	179	-	179	-	-	179	136	1,451		
Sub-total	4,180	5,589	9,769	33,721	16,175	49,896	11,513	41,005	102,414	4,980	117,163		
Available-for-sale financial assets											83		
Deferred tax assets											456		
Others											8		
Total assets											117,710		

Neither the Group's revenue is derived from nor the Group's non-current assets are located in the place of domicile of the Company.

For the six months ended 30 June 2015, revenue of approximately HK\$8,764 million (six months ended 30 June 2014: HK\$7,498 million) is derived from two (six months ended 30 June 2014: one) customers with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

# Notes to the Unaudited Interim Financial Report

## 23 COMMITMENTS

### (a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 30 June 2015 and 31 December 2014 under non-cancellable operating leases are as follows:

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
Not later than one year	179	140
Later than one year and not later than five years	367	384
More than five years	434	567
	<b>980</b>	1,091

### (b) Capital commitments

	<b>30 June 2015 HK\$'million</b>	31 December 2014 HK\$'million
<b>Contracted but not provided for:</b>		
– Oil field development costs	459	404
– Other property, plant and equipment	5,090	7,179
	<b>5,549</b>	7,583
<b>Authorised but not contracted for:</b>		
– Oil field development costs	455	623
– Acquisitions of/capital contributions to investments	1,283	5,841
– Other property, plant and equipment	32,160	–
	<b>33,898</b>	6,464

# Notes to the Unaudited Interim Financial Report

## 24 RELATED PARTY TRANSACTIONS

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include CNPC and its subsidiaries (together, the "CNPC Group"), other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over the enterprises which the Group is able to control, joint control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

In addition to the related party information shown elsewhere in the interim financial report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the period and balances arising from related party transactions at the end of the period indicated below:

### (a) Transactions with CNPC Group, associates and joint ventures

The Group has extensive transactions with other companies in the CNPC Group. Due to these relationships, it is possible that the terms of the transactions between the Group and other members of the CNPC Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

The principal related party transactions with the CNPC Group and associates and joint ventures of the Group which were carried out in the ordinary course of business, are as follows:

- (i) The Group entered into (i) the Xinjiang Contract and the Leng Jiapu Contract (together, the "PSAs") with the CNPC Group in 1996 and 1997 respectively and (ii) a master agreement in 2003, which was subsequently amended and supplemented pursuant to the first supplement agreement in 2006, the second supplemental agreement in 2009, the third supplemental agreement in 2010 and the fourth supplemental agreement in 2011.

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance. Whereas, the master agreement provides a framework for a range of products and services to be procured from the CNPC Group to the Group and vice versa including oil and gas products, general products and services, financial services and rental services. The master agreement expired on 31 December 2011. On 14 November 2011, the Group and CNPC entered into the fourth supplement agreement for the purpose of renewing the term of the master agreement for three years ended 31 December 2014. On 6 November 2014, the Group and CNPC entered into the fifth supplemental agreement for the purpose of renewing the term of the master agreement for three years ending on 31 December 2017.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK\$4,000 million (six months ended 30 June 2014: HK\$4,952 million) for the six months ended 30 June 2015 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK\$525 million (six months ended 30 June 2014: HK\$753 million).

# Notes to the Unaudited Interim Financial Report

## 24 RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Transactions with CNPC Group, associates and joint ventures (continued)

(i) (continued)

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK\$879 million (six months ended 30 June 2014: HK\$1,831 million) for the six months ended 30 June 2015.
- Rental payments by the Group for leasing of certain offices and warehouses in Hong Kong and the PRC from the CNPC Group amounted to approximately HK\$6 million (six months ended 30 June 2014: HK\$8 million) for the six months ended 30 June 2015.
- Purchase of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the Group from the CNPC Group amounted to approximately HK\$5,415 million (six months ended 30 June 2014: HK\$6,106 million) for the six months ended 30 June 2015.
- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK\$4,823 million (six months ended 30 June 2014: HK\$5,799 million) for the six months ended 30 June 2015.

(ii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK\$45 million (six months ended 30 June 2014: HK\$85 million) for the six months ended 30 June 2015. The above transactions in (i) and (ii) constituted connected transactions in accordance with Chapter 14A of the Listing Rules.

(iii) As at 30 June 2015 and 31 December 2014, amounts due from and to CNPC Group, associates and joint ventures of the Group, which are unsecured and interest free except borrowings and obligations under finance leases, are included in the following accounts captions and summarised as follows:

	<b>30 June 2015</b>	31 December 2014
	<b>HK\$'million</b>	HK\$'million
Intangible and other non-current assets	<b>55</b>	239
Accounts receivable	<b>386</b>	435
Accounts payable and accrued liabilities	<b>2,335</b>	2,769
Borrowings	<b>18,593</b>	21,860
Prepaid expenses and other current assets	<b>97</b>	1,312
Obligations under finance leases	<b>583</b>	504

# Notes to the Unaudited Interim Financial Report

## 24 RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with Beijing Enterprises Holdings Limited (“Beijing Enterprises Holdings”) and its subsidiaries (together, the “Beijing Enterprises Group”)

PetroChina Beijing Gas Pipeline Co., Ltd (“Beijing Pipeline”), a subsidiary of the Company, has entered into an agreement with PetroChina (the “Natural Gas Transmission Agreement”), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. Under the terms of Natural Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interest in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK\$3,064 million (six months ended 30 June 2014: HK\$1,752 million) for the six months ended 30 June 2015. This transaction constituted connected transactions in accordance with Chapter 14A of the Listing Rules and was accounted for in a manner similar to a uniting of interests basis.

### (c) Key management compensation

	Six months ended 30 June	
	2015	2014
	HK\$'million	HK\$'million
Salaries and allowances	9	10
Retirement benefits – defined contribution scheme	1	1
	10	11

## 24 RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Transactions with other state-controlled entities in the PRC

During the six months ended 30 June 2015, the Group acquired 49% equity interest of PetroChina Tianjin Natural Gas Pipeline Company Limited, a subsidiary of the Group, from the non-controlling interest which is also a state-controlled entity in the PRC, for an amount of HK\$280 million.

Apart from the aforementioned transaction and the transactions with the CNPC Group, associates and joint ventures, the Group has transactions with other state-controlled entities include but not limited to (i) sales and purchases of goods and services; (ii) purchases of assets; (iii) lease of assets; and (iv) bank deposits and borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.



## **TO THE BOARD OF DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial report set out on pages 20 to 45 which comprises the consolidated interim statement of financial position of Kunlun Energy Company Limited (the “Company”) as of 30 June 2015 and the related consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim condensed statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

#### **KPMG**

*Certified Public Accountants*

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

6 August 2015