



KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆侖能源有限公司

(Stock Code: 00135.HK)

Interim Report
2016





	Pages
Corporate Information	2
Chairman Statement	3
Management Discussion and Analysis	8
Unaudited Consolidated Interim Statement of Comprehensive Income	21
Unaudited Consolidated Interim Statement of Financial Position	22
Unaudited Consolidated Interim Statement of Changes in Equity	24
Unaudited Consolidated Interim Condensed Statement of Cash Flows	25
Notes to the Unaudited Interim Financial Report	26
Review Report	52



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr Huang Weihe (*Chairman*)
Mr Wu Enlai
Mr Zhao Yongqi (*Chief Executive Officer*)
Mr Zhao Zhongxun
Mr Ding Shilu
Mr Zhang Yaoming

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr Cheng Cheng

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

STOCK CODE

The Stock Exchange of Hong Kong Limited
00135.HK

WEBSITE

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

PRINCIPAL BOARD COMMITTEES

Audit Committee

Mr Sun Patrick (*Chairman*)
Dr Lau Wah Sum, GBS, LLD, DBA, JP
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
Mr Sun Patrick

Nomination Committee

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

SOLICITORS

Clifford Chance

REGISTERED OFFICE

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PRINCIPAL REGISTRARS

Codan Services Limited
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Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG

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Hong Kong



BUSINESS REVIEW

I am pleased to report the 2016 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 2016 (the “Period”), the revenue of the Group amounted to HK\$39,892 million, representing a decrease of HK\$9,397 million or 19.07% compared with the revenue of HK\$49,289 million (restated) for the same period of last year, and profit attributable to owners of the Company amounted to HK\$2,890 million, representing an increase of HK\$112 million or 4.03% compared with the amount of HK\$2,778 million (restated) for the same period of last year. Among which, affected by the decrease in average exchange rate of Renminbi (“RMB”) to Hong Kong Dollar (“HK\$”) compared with that of the same period of last year, revenue in HK\$ of the Group decreased by 7%. During the Period, facing severe challenges such as the persistent low price of international crude oil, weak demand of natural gas market, etc., the Group continued to develop steadily, emphasised on quality and efficiency, implemented measures in-depth to increase revenues and decrease expenditures so as to enhance efficiency, and carried out business integration with PetroChina Kunlun Gas Co., Ltd. (“Kunlun Gas”). The group’s operation results were in line with expectation of the management and maintained its stable development momentum.

During the Period, the Group obtained necessary approvals from government authorities in respect of acquisition of entire equity interest in Kunlun Gas from PetroChina Company Limited (“PetroChina”). The relevant change of business registration and the payment of the first tranche consideration have been completed and Kunlun Gas has become the wholly-owned subsidiary of the Group. After the acquisition, the Group’s strategic positioning was more defined in that the Group will be the entity and management platform under PetroChina for the investment, financing and operation of natural gas distribution and comprehensive utilisation business, with business covering 31 provinces, autonomous regions all over China and business scope including LNG receiving, processing and storage, branch pipelines, city gas, LNG/CNG refueling station, LPG sales business etc. The Group has city gas network of over 27,000 km, branch pipeline over 2,700 km, serving over 7 million accumulative users, over 1,500 LNG/CNG filling stations, with annual sale volume of natural gas over 16,000 million cubic metres and annual sale volume of LPG near 6.30 million tons.

I. Exploration and Production

During the Period, the sales volume of crude oil in the Exploration and Production business reached 8.14 million barrels, representing a decrease of 0.28 million barrels or 3.33% compared with the volume of 8.42 million barrels for the same period of last year. The revenue was HK\$858 million, representing a decrease of HK\$528 million or 38.10% as compared with the revenue of HK\$1,386 million for the same period of last year. Loss before income tax expense was HK\$178 million, representing an increase loss of HK\$19 million or 11.95% compared with the loss before income tax expense of HK\$159 million for the same period of last year. The decreases in revenue and the profit before income tax expense were mainly due to the decline in average global crude oil prices, which led to the Group’s average crude oil selling price decreased from US\$47.01/barrel in the same period of last year to US\$29.26/barrel for the Period.

During the Period, in view of the dramatic drop of international oil price, the decreasing production under the project and the adjusting business position, the Group considered that further investment in Xinjiang project is not in the interest of the Group and its shareholders as a whole, as such, the Group has decided not to renew the contract of the Xinjiang project after the current production period expiration on 31 August 2016.

II. Natural Gas Pipeline

During the Period, the transmission volume of Natural Gas Pipeline business was 17,567 million cubic metres, representing an increase of 933 million cubic metres or 5.61% compared with the volume of 16,634 million cubic metres (restated) for the same period of last year. Revenue was HK\$6,771 million, representing an increase of HK\$78 million or 1.17% as compared with the revenue of HK\$6,693 million for the same period of last year; profit before income tax expense was HK\$4,814 million, representing an increase of HK\$187 million or 4.04% as compared with the amount of HK\$4,627 million for the same period of last year.

During the Period, the transmission volume of Petrochina Beijing Gas Pipeline Co., Ltd. under the Group (“Beijing Pipeline Company”) was 16,614 million cubic metres, representing an increase in 5.86% compared with the same period of last year. The trunkline of No. 4 Shaanxi-Beijing Pipeline, which is invested by Beijing Pipeline Company, will begin from the first station in Jingbian of Shaanxi Province, passing through Inner Mongolia and Hebei, and end at the Gaoliying terminal station in Beijing. Its total length is 1,082 km and the designed transmission volume is 25 billion cubic metres per year. The construction is scheduled to be completed by the end of 2017. Such project is an important transmission channel for the import of natural gas from central Asia and the transmission of natural gas produced domestically and will further expand the natural gas supply of the Group to Beijing, Tianjin, Hebei and surrounding areas and solidify the leading position of the Group in the regional market. At present, government approval progress of such project has basically been completed.

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 1,908 million cubic metres, representing a decrease of 309 million cubic metres or 13.94% compared with the volume of 2,217 million cubic metres for the same period of last year. Revenue amounted to HK\$682 million, representing a decrease of HK\$164 million or 19.39% compared with the revenue of HK\$846 million for the same period of last year; profit before income tax expense amounted to HK\$213 million, representing a decrease of HK\$94 million or 30.62% as compared with the amount of HK\$307 million for the same period of last year. The decreases in both revenue and profit before income tax expense were mainly due to PetroChina, the parent company, properly adjusted the import operation plan in response to market’s demands, and the gasification volume of terminals and LNG entrucking both decreased as compared with same period of last year.



IV. Sales of Natural Gas and LNG Processing

During the Period, the sales volume of the Group's natural gas was 11,711 million cubic metres, representing an increase of 406 million cubic metres or 3.59% compared with the volume of 11,305 million cubic metres (restated) for the same period of last year. The revenue was HK\$31,920 million, representing a decrease of HK\$9,104 million or 22.19% compared with the revenue of HK\$41,024 million (restated) for the same period of last year. The profit before income tax expense was HK\$1,551 million, representing a decrease of the profit before income tax expense of HK\$88 million or 5.37% compared with the amount of HK\$1,639 million (restated) for the same period of last year. The decreases in both revenue and profit before income tax expense were mainly due to persistent low price of international crude oil and the domestic price reform of non-residential natural gas, and the selling price of natural gas was lower as compared with the same period of last year.

During the Period, city gas business continued to maintain growth. As compared with the same period of last year, new developed customers increased by 54% and sales volume of city gas increased by 10.4%; sales volume of public services increased by 20.5% and sales volume of residential gas increased by 19.2%, with user structure continuously optimised. Construction work of six branch pipelines including Changsha – Liuyang have been commenced and initial designs of Jieyang and Chaozhou projects have been launched.

During the Period, operation of LNG processing business still faced great operation pressure. Since market demands declined, LNG sales volume of the Group's LNG plants amounted to 85 million cubic metres, representing a decrease of 25 million cubic metres or 22.73% as compared with 110 million cubic metres for the same period of last year. Under the guideline of "One Factory One Policy", the Group was preparing the working plans for improvement of assets operation efficiency.

During the Period, the structural adjustment of LPG sale business has progressed smoothly. Through strengthening the cooperation with retail chain, the Group promoted end-user market development, enhanced cost reduction and efficiency of storage tank and terminal. Sales volume for residential use increased by 30% and the proportion of sales volume to end-user increased by 5.6%.



Chairman Statement

BUSINESS PROSPECTS

In the second half of the year, the situation of oversupply in the international oil and gas market would continue, the growth of domestic demand for natural gas would slow down, and the market competition would further intensify. The Group will actively respond to these challenges, and to strengthen top-level design. Making use of management platform in Kunlun Gas, the Group will coordinate the subsidiaries in each region, make overall plans on city gas, LNG processing, and LNG/CNG end-user sales businesses, to optimise allocation of resources, and to reduce administration costs. The Group will also make reform on organisational and operational systems, to enhance the efficiency in its decision-making and implementation processes, and to release the enterprise vitality. The Group will also further strengthen technology innovation, implement the action plan of 'Internet + Gas', and innovate business models and processes for natural gas end-user sales and utilisation.

In respect of natural gas pipeline, the Group will engage in the construction of No. 4 Shaanxi-Beijing Pipeline so as to meet the continuously increase the natural gas consumption demand in Beijing, Tianjin and Hebei regions. Also, the Group will push forward the construction of major branch pipeline projects in Hunan and Guangdong to gain a dominant market position in the regions covered by the branch pipelines.

In respect of LNG terminal business, the Group will actively explore market to further expand the gasification volume and loading and unloading volume of the third parties and develop other liquefied natural gas businesses including consignment store and sales business. Besides, the Group will establish advantage through coordinative operation of LNG plants and terminals, dispose low-efficiency assets, improve the utilisation rate and profitability.

In respect of natural gas sales, the Group will strengthen regional cooperation with major gas companies in China while further intensify development high-end and high-profitability projects, with focus on Bohai Rim, Northeast China, Eastern China, and Southern China.

In respect of LPG sales, the Group will enhance end-user market sales, focus on the development of LPG deep processing client, expand new channels for imported resources and further increase our market share in end-user market.

In respect of natural gas power generation, the Group will track and study the state's gas and electricity policy, strengthen cooperation with power generating companies and actively participate in natural gas power generation and decentralised energy projects.

The Group will undertake the historical responsibility, change the mode of management, enhance operation system, continue to pay attention on growth and strive to enhance the enterprise value.



INTERIM DIVIDEND

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

By the Order of the Board

Huang Weihe

Chairman

Hong Kong, 18 August 2016



Management Discussion and Analysis

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its natural gas business segment during six months ended 30 June 2016 (the “Period”). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 104.23% (same period of 2015: 102.72% (restated)) of the Group’s profit before income tax expense for the Period. The acquisition of PetroChina Kunlun Gas Co. Limited (“Kunlun Gas”) was completed on 31 May 2016 and the comparative financial information in this Interim Report has been restated to reflect the effect of the acquisition of Kunlun Gas by the Group under common control. Details of which are set out in the Note 24 of the Consolidated Financial Statement.

OPERATING RESULTS

Profit before income tax expense of the Group for the Period was approximately HK\$6,311 million, representing a decrease of 1.38% as compared with amount of HK\$6,399 million (restated) for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK\$2,890 million, representing an increase of 4.03% as compared with amount of HK\$2,778 million (restated) for the same period of last year.

REVENUE

Revenue for the Period was approximately HK\$39,892 million, representing a decrease of 19.07% as compared with amount of HK\$49,289 million (restated) for the same period of last year. The decrease was mainly due to the decrease in selling price of natural gas.

Revenue from the Exploration and Production segment accounted for 2.15% (same period of 2015: 2.81% (restated)) of the Group’s total revenue amounting to approximately HK\$858 million (same period of 2015: HK\$1,386 million) while revenue from the Natural Gas Distribution business segment accounted for 97.85% (same period of 2015: 97.19% (restated)) of the Group’s total revenue amounting to approximately HK\$39,034 million (same period of 2015: HK\$47,903 million (restated)).



The table below sets out the sales volume and revenue of different segments of the Group for the six months ended 30 June 2016 and 2015, and percentages of change across these two periods.

	Sale volume (Group's portion) for the six months ended 30 June			Revenue (Per segment information) for the six months ended 30 June		
	2016	2015	Change	2016	2015	Change
	('000 Barrel)	('000 Barrel)	%	HK\$'million	HK\$'million	%
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC")	2,505	2,594	(3.43)	536	879	(39.02)
South America (note (1))	293	310	(5.48)	182	285	(36.14)
Central Asia	312	295	5.76	72	111	(35.14)
South East Asia (note (2))	264	251	5.18	68	111	(38.74)
Sub-total	3,374	3,450	(2.20)	858	1,386	(38.10)
Share of an associate in Central Asia	2,537	2,768	(8.35)	-	-	-
Share of a joint venture in Middle East	2,225	2,200	1.14	-	-	-
Total of Exploration and Production	8,136	8,418	(3.35)	858	1,386	(38.10)

Revenue (Per segment information) for the six months ended 30 June		
2016	2015	Change
HK\$'million	HK\$'million	%
	(restated)	

Natural Gas Distribution business (by segments)

Natural Gas Pipeline (note (3))	6,771	6,693	1.17
LNG Terminal	682	846	(19.39)
Natural Gas Sales	31,415	40,165	(21.79)
LNG Processing	505	859	(41.21)
Sub-total	31,920	41,024	(22.19)
Less: Inter-company adjustment	(339)	(660)	(48.64)
Total of Natural Gas Distribution	39,034	47,903	(18.51)
Total revenue	39,892	49,289	(19.07)

Management Discussion and Analysis

Sale/processing volume for the six months ended 30 June		
2016	2015	Change
('000 cubic metre)	('000 cubic metre)	%
	(restated)	

Natural Gas Distribution business (by activities)

Natural Gas Pipeline	17,567,429	16,633,942	5.61
LNG Terminal	1,907,856	2,217,389	(13.96)
Natural Gas Sales	11,533,490	11,058,730	4.29
LNG Processing	177,843	246,175	(27.76)
Sub-total	11,711,333	11,304,905	3.60
Less: Inter-company adjustment	(298,949)	(294,268)	1.59
Total of Natural Gas Distribution	30,887,669	29,861,968	3.43

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		
	2016 ('000 cubic metre)	2015 ('000 cubic metre)	Change %	2016 HK\$'million	2015 HK\$'million	Change %
Natural Gas Sales	27,753	25,506	8.81	80	87	(8.05)



OTHER GAINS, NET

Other gains, net for the Period was approximately HK\$584 million, representing a decrease of 5.04% as compared with amount of HK\$615 million (restated) for the same period of last year. The decrease was mainly due to exchange loss attributable by the fluctuation in exchange rate of HK\$ against RMB, partly offset by increase in government grants.

INTEREST INCOME

Interest income for the Period was approximately HK\$247 million, representing an increase of 24.12% as compared with amount of HK\$199 million (restated) for the same period of last year. The increase was mainly due to an increase in average balance of cash and cash equivalents.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK\$27,435 million for the Period, representing a decrease of 22.62% as compared with amount of HK\$35,456 million (restated) for the same period of last year. This was mainly due to the decrease in purchase price of natural gas.

EMPLOYEE COMPENSATION COSTS

Employee compensation costs of the Group was approximately HK\$2,113 million for the Period, representing a decrease of 10.01% as compared with amount of HK\$2,348 million (restated) for the same period of last year. This decrease was mainly due to the fluctuation in exchange rate of HK\$ against RMB during the Period.

DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period was approximately HK\$3,230 million, representing a decrease of 11.43% as compared with amount of HK\$3,647 million (restated) for the same period of last year. This was mainly due to the impairment of property, plant and equipment in PRC in 2015 which led to the decrease in depreciable base of property, plant and equipment.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period were approximately HK\$1,400 million, representing a decrease of 16.27% as compared with amount of HK\$1,672 million (restated) for the same period of last year. This was mainly due to the effective cost control and the depreciation of RMB against HK\$.



Management Discussion and Analysis

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK\$308 million, representing a decrease of 7.23% as compared with amount of HK\$332 million (restated) for the same period of last year. This was mainly due to the depreciation of RMB against HK\$.

INTEREST EXPENSES

Interest expenses for the Period was approximately HK\$231 million, representing a decrease of 21.43% as compared with amount of HK\$294 million (restated) for the same period of last year. The decrease was mainly due to the change in borrowing profile with lower effective interest rate during the Period.

Total interest expenses for the Period was approximately HK\$609 million of which HK\$378 million was capitalised under construction-in-progress.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period increased by 380.77% to profit of approximately HK\$219 million (same period of 2015: loss of HK\$78 million (restated)). The increase was mainly due to the decrease of the operating cost and the gain on disposal of a subsidiary held by an associate, China City Natural Gas Investment Group Co., Ltd..

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period was decreased by 30.08% to approximately HK\$86 million (same period of 2015: HK\$123 million (restated)). The decrease in the shared operating result from Oman project was approximately HK\$73 million due to decrease in realised crude oil selling price in 2016.



PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK\$6,311 million, representing a decrease of 1.38% as compared with amount of HK\$6,399 million (restated) for the same period of last year.

The table below sets out the profit/(loss) before income tax expense and percentage of change of different segments of the Group for the six months ended 30 June 2016 and 2015.

	(Loss)/profit before income tax expense for the six months ended 30 June		
	2016	2015	Change
	HK\$'million	HK\$'million	%
		(restated)	
Exploration and Production business			
The PRC	(256)	(146)	75.34
South America	34	124	(72.58)
Central Asia	(50)	(22)	127.27
South East Asia	(18)	(204)	(91.18)
Sub-total	(290)	(248)	16.94
Share of an associate in Central Asia	25	(71)	135.21
Share of a joint venture in Middle East	87	160	(45.63)
Total of Exploration and Production	(178)	(159)	11.95
Natural Gas Distribution business			
Natural Gas Pipeline	4,814	4,627	4.04
LNG Terminal	213	307	(30.62)
Natural Gas Sales	1,890	2,124	(11.02)
LNG Processing	(339)	(485)	(30.10)
Sub-total	1,551	1,639	(5.37)
Total of Natural Gas Distribution	6,578	6,573	0.08
	6,400	6,414	(0.22)

Management Discussion and Analysis

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK\$1,593 million, representing a decrease of 8.82% as compared with amount of HK\$1,747 million (restated) for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period decreased to 26.52% (same period of 2015: 27.49% (restated)).

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

The profit for the Period of the Group was approximately HK\$4,718 million, representing an increase of 1.42% as compared with amount of HK\$4,652 million (restated) for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK\$2,890 million, representing an increase of 4.03% as compared with amount of HK\$2,778 million (restated) for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2016, the carrying value of total assets of the Group was approximately HK\$139,424 million, representing a decrease of HK\$3,762 million or 2.63% as compared with HK\$143,186 million (restated) as at 31 December 2015.

The gearing ratio of the Group was 26.37% as at 30 June 2016 compared with 22.18% (restated) as at 31 December 2015, representing an increase of 4.19%. It is computed by dividing the sum of interest bearing borrowings and obligations under finance leases of HK\$26,115 million (31 December 2015: HK\$25,264 million (restated)) by the total equity, interest bearing borrowings and obligations under finance leases of HK\$99,036 million (31 December 2015: HK\$113,883 million (restated)).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation for the Period was approximately HK\$9,525 million, representing a decrease of 6.07% as compared with the amount of HK\$10,141 million (restated) for the same period of last year.

During 2015, the Company has issued two senior notes to improve the debt profile:

Items	Date of Issue	Nominal Amount US\$ million	Tenor year	Annual Interest %
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 websites of The Stock Exchange of Hong Kong Limited and the Company in April and May 2015.



As at 30 June 2016, the Group has total borrowings of HK\$25,438 million which will be repayable as follows:

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated)
Within one year	6,667	8,076
Between one to two years	2,399	2,892
Between two to five years	11,873	9,014
After five years	4,499	4,508
	25,438	24,490

During the Period, no share option (same period of 2015: none) has been exercised by the senior executives of the Company as the exercise price of HK\$11.730 was above the market price of HK\$6.400 on the share option expiry date and the share options were lapsed.

As at 30 June 2016, the Group had net current liabilities of HK\$13,112 million. Notwithstanding the net current liabilities of the Group at 30 June 2016, the Group's consolidated interim financial statements have been prepared on a going concern basis because the directors of the Company are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the Group has undrawn facilities provided by the Company's immediate holding company amounting to HK\$2,300 million;
- (ii) the Group has committed credit from China Petroleum Finance Company Limited amounting to RMB23 billion; and
- (iii) the Group expects to generate operating cash inflow in the future.

Consequently, the consolidated interim financial statements have been prepared on a going concern basis.

The Group paid interest of HK\$468 million (same period of 2015: HK\$686 million (restated)) during the Period.

2015 final dividend of HK6 cents per share amounting to HK\$484 million (2014: HK20 cents per share amounting to HK\$1,614 million) was distributed to owners of the Company during the Period.



Management Discussion and Analysis

PLEDGE OF ASSETS

As at 30 June 2016, pledged borrowings were secured by shareholdings held by the Group in corresponding subsidiaries with carrying value of HK\$98 million (31 December 2015: HK\$152 million (restated)).

NEW INVESTMENT IN MAJOR PROJECT

The Company entered into an acquisition agreement dated 28 December 2015 with PetroChina Company Limited (“PetroChina”), pursuant to which PetroChina has conditionally agreed to sell and the Company has conditionally agreed to purchase the entire equity interest in PetroChina Kunlun Gas Co., Ltd. (the “Acquisition”) at a consideration of approximately RMB14,827 million, subject to adjustments as defined in the agreement. The acquisition was approved by the shareholders of the Company (the “Shareholders”) in the Company’s special general meeting held on 18 February 2016. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, will generate synergies among the businesses, enhance operational efficiency and increase the market competitiveness. In the second quarter of 2016, the Company obtained all the necessary approvals of the government authorities of the Acquisition and Kunlun Gas becomes a wholly-owned subsidiary of the Company.

MATERIAL INVESTMENTS

Material investments of the Group are its investments in associates and in joint ventures.

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

There is no single material joint venture which significantly affects the results and/or net assets of the Group.

EMPLOYEE

As at 30 June 2016, the Group had approximately 39,523 staff globally (excluding the staff under entrustment contracts) (31 December 2015: 39,655 staff (restated)). 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 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 2016.



Management Discussion and Analysis

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.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2016, 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.

Name	Number of shares	Capacity and nature of interests	Percentage of issued shares
Li Kwok Sing Aubrey (Note)	1,000,000	Beneficial owner	0.012%

Note: The interests held by 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.



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 2016 '000	Granted during the Period '000	Exercised during the Period '000	Reclassified during the Period '000	Lapsed during the Period '000	Outstanding at 30 June 2016 '000
Directors (Note)	17/05/12	17/8/12-16/5/17	12.632	15,700	-	-	(15,700)	-	-
Employees	18/03/11	18/6/11-17/3/16	11.730	9,900	-	-	-	(9,900)	-
	17/05/12	17/8/12-16/5/17	12.632	-	-	-	15,700	(1,500)	14,200
				25,600	-	-	-	(11,400)	14,200

Note: During the six months ended 2016, certain directors of the Company ceased to be the directors and their share options were reclassified to share options held by employees as at 30 June 2016.

The closing price of the Company's shares immediately before the date on which the share options were lapsed was HK\$6.26.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2016, 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") ⁽¹⁾	4,708,302,133 (L)	-	58.33%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") ⁽¹⁾	-	4,708,302,133 (L)	58.33%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") ⁽¹⁾	-	4,708,302,133 (L)	58.33%
PetroChina Company Limited ("PetroChina") ⁽¹⁾	-	4,708,302,133 (L)	58.33%
China National Oil and Gas Exploration and Development Corporation ("CNODC") ⁽²⁾	-	277,432,000 (L)	3.43%
CNPC International Ltd. ("CNPCI") ⁽²⁾	-	277,432,000 (L)	3.43%
Fairy King Investments Ltd.	277,432,000 (L)	-	3.43%
China National Petroleum Corporation ("CNPC") ⁽¹⁾⁽²⁾	-	4,985,734,133 (L)	61.76%



Management Discussion and Analysis

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 86.51% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by Sun World. Mr. Huang Weihe and Mr. Zhang Bowen 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..

Save as disclosed above, as at 30 June 2016, 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 2016, 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

Zhao Yongqi

Chief Executive Officer & Executive Director

Hong Kong, 18 August 2016

Unaudited Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2016



	Note	Six months ended 30 June	
		2016 HK\$'million	2015 HK\$'million (restated) (Note 24)
Revenue	4	39,892	49,289
Other gains, net	5	584	615
Interest income		247	199
Purchases, services and others		(27,435)	(35,456)
Employee compensation costs		(2,113)	(2,348)
Depreciation, depletion and amortisation		(3,230)	(3,647)
Selling, general and administrative expenses		(1,400)	(1,672)
Taxes other than income taxes		(308)	(332)
Interest expenses	6	(231)	(294)
Share of profits less losses of:			
– Associates		219	(78)
– Joint ventures		86	123
Profit before income tax expense	7	6,311	6,399
Income tax expense	8	(1,593)	(1,747)
Profit for the period		4,718	4,652
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		(526)	(20)
– Associates		(59)	(33)
– Joint ventures		(3)	–
– Fair value (loss)/gain on available-for-sale financial assets		(272)	3
Other comprehensive income for the period, net of nil tax		(860)	(50)
Total comprehensive income for the period		3,858	4,602
Profit for the period attributable to:			
– Owners of the Company		2,890	2,778
– Non-controlling interests		1,828	1,874
		4,718	4,652
Total comprehensive income for the period attributable to:			
– Owners of the Company		2,439	2,606
– Non-controlling interests		1,419	1,996
		3,858	4,602
Earnings per share for profit attributable to owners of the Company	9		
– Basic (HK cent)		35.80	34.42
– Diluted (HK cent)		35.80	34.42

The notes on pages 26 to 51 form part of this interim financial report.



Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2016

	<i>Note</i>	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Assets			
Non-current assets			
Property, plant and equipment	11	96,352	98,878
Advanced operating lease payments		4,275	4,199
Investments in associates	12	2,902	2,814
Investments in joint ventures	13	1,397	1,371
Available-for-sale financial assets		595	870
Intangible and other non-current assets	14	1,364	1,540
Deferred tax assets		1,385	1,165
		108,270	110,837
Current assets			
Inventories		1,592	1,518
Accounts receivable	15	3,337	3,280
Prepaid expenses and other current assets	16	6,535	10,406
Cash and cash equivalents		19,690	17,145
		31,154	32,349
Total assets		139,424	143,186
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	17(a)	81	81
Retained earnings		29,897	27,580
Other reserves		14,787	34,100
		44,765	61,761
Non-controlling interests		28,156	26,858
Total equity		72,921	88,619

Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2016



	<i>Note</i>	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	19	36,431	24,539
Income tax payable		331	626
Other tax payable		636	891
Short-term borrowings	20	6,667	8,076
Obligations under finance leases		201	208
		44,266	34,340
Non-current liabilities			
Long-term borrowings	20	18,771	16,414
Deferred tax liabilities		1,095	1,040
Obligations under finance leases		476	566
Other liabilities		1,895	2,207
		22,237	20,227
Total liabilities		66,503	54,567
Total equity and liabilities		139,424	143,186
Net current liabilities		(13,112)	(1,991)
Total assets less current liabilities		95,158	108,846

The notes on pages 26 to 51 form part of this interim financial report.

Unaudited Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2016

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Retained earnings	Other reserves	Sub-total		
		HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Balance as at 31 December 2014, as previously reported		81	27,765	25,042	52,888	21,426	74,314
Business combination under common control	2, 24	-	1,946	11,463	13,409	5,298	18,707
Balance as at 1 January 2015, as restated		81	29,711	36,505	66,297	26,724	93,021
Profit for the period		-	2,778	-	2,778	1,874	4,652
Other comprehensive income		-	-	(172)	(172)	122	(50)
Total comprehensive income for the period		-	2,778	(172)	2,606	1,996	4,602
Transfer between reserves		-	(141)	141	-	-	-
Final dividend for 2014	10(a)	-	(1,614)	-	(1,614)	-	(1,614)
Lapsed share options		-	31	(31)	-	-	-
Dividend to non-controlling interests		-	-	-	-	(2,928)	(2,928)
Capital contributions from non-controlling interests		-	-	-	-	2,275	2,275
Acquisition from non-controlling interests		-	-	-	-	(280)	(280)
Disposal of subsidiaries		-	-	-	-	(8)	(8)
		-	(1,724)	110	(1,614)	(941)	(2,555)
Balance as at 30 June 2015, as restated		81	30,765	36,443	67,289	27,779	95,068
Balance as at 31 December 2015, as previously reported		81	25,680	23,362	49,123	21,201	70,324
Business combination under common control	2, 24	-	1,900	10,738	12,638	5,657	18,295
Balance as at 1 January 2016, as restated		81	27,580	34,100	61,761	26,858	88,619
Profit for the period		-	2,890	-	2,890	1,828	4,718
Other comprehensive income		-	-	(451)	(451)	(409)	(860)
Total comprehensive income for the period		-	2,890	(451)	2,439	1,419	3,858
Transfer between reserves		-	(128)	128	-	-	-
Final dividend for 2015	10(b)	-	(484)	-	(484)	-	(484)
Lapsed share options		-	39	(39)	-	-	-
Dividend to non-controlling interests		-	-	-	-	(280)	(280)
Capital contributions from non-controlling interests		-	-	-	-	160	160
Acquisition from non-controlling interests		-	-	-	-	(1)	(1)
Consideration of acquisition of PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas")	24	-	-	(18,951)	(18,951)	-	(18,951)
		-	(573)	(18,862)	(19,435)	(121)	(19,556)
Balance as at 30 June 2016		81	29,897	14,787	44,765	28,156	72,921

The notes on pages 26 to 51 form part of this interim financial report.

Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2016



	Six months ended 30 June	
	2016	2015
	HK\$'million	HK\$'million (restated) (Note 24)
Operating activities		
Cash generated from operations	8,564	10,612
Tax paid	(2,043)	(2,556)
Net cash generated from operating activities	6,521	8,056
Investing activities		
Acquisition of Kunlun Gas	(5,926)	–
Capital expenditure	(2,515)	(4,129)
Decrease/(increase) in amount due from an intermediate holding company	3,855	(700)
Other cash flows arising from investing activities	505	383
Net cash used in investing activities	(4,081)	(4,446)
Financing activities		
Dividend paid to equity shareholders of the Company	(484)	(1,614)
Dividends paid to non-controlling interests	(290)	(2,671)
Acquisition from non-controlling interests	(1)	(195)
Capital contribution from non-controlling interests	96	283
Increase in borrowings	6,152	17,466
Repayments in borrowings	(4,960)	(11,578)
Other cash flows arising from financing activities	(576)	(796)
Net cash (used in)/generated from financing activities	(63)	895
Net increase in cash and cash equivalents	2,377	4,505
Cash and cash equivalents at 1 January	17,145	15,940
Effect of foreign exchange rate changes	168	(34)
Cash and cash equivalents at 30 June	19,690	20,411

The notes on pages 26 to 51 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 2016, PetroChina indirectly owned 58.33% (31 December 2015: 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 and distribution of natural gas, liquefied natural gas (“LNG”) processing, LNG terminal business and transmission of natural gas in the PRC.

2 BASIS OF PREPARATION

This 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 of Hong Kong Limited (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 18 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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”).



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 52.

On 28 December 2015, the Group entered into the acquisition agreement with PetroChina ("Agreement"), pursuant to which, the Group has agreed to purchase, and PetroChina has agreed to sell, the entire equity interest in PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") at a cash consideration of approximately RMB14,827 million (approximately HK\$17,998 million or US\$2,322 million), subject to adjustment on gain or loss of Kunlun Gas during the transition period, as defined in the Agreement. The acquisition was completed on 31 May 2016, and Kunlun Gas has become a wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by CNPC, the acquisition of Kunlun Gas was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition has been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5, *Merger Accounting for Common Control Combinations* ("AG 5") issued by the HKICPA. The interim financial report of the Group has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The opening balance at 1 January 2015 have been restated, with consequential adjustments to comparatives for the six months ended 30 June 2015. The final consideration of HK\$18,951 million payable by the Group has been treated as an equity transaction. The details of the restated balances have been disclosed in Note 24 to this interim financial report.

As at 30 June 2016, the Group had net current liabilities of HK\$13,112 million. Notwithstanding the net current liabilities of the Group at 30 June 2016, the Group's consolidated interim financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the Group has undrawn facilities provided by the Company's immediate holding company amounting to HK\$2,300 million;
- (ii) the Group has committed credit from China Petroleum Finance Company Limited ("CP Finance") amounting to RMB23 billion; and
- (iii) the Group expects to generate operating cash inflow in the future.

Consequently, the consolidated interim financial statements have been prepared on a going concern basis.

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. Of these, the following developments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

In addition, the acquisition of Kunlun Gas is accounted for as a business combination of entities under common control, the accounting policies newly applied to align the accounting policies of the Group and Kunlun Gas are set out as below:

Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out below. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Accounts receivable". Amounts received before the related work is performed are presented as "Advances from customers" under "Accounts payable and accrued liabilities".

Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.



4 REVENUE

Revenue mainly represents revenue from the sales of crude oil, the sales and distribution of natural gas, LNG processing, LNG terminal business and transmission of natural gas. Analysis of revenue by segment is shown in Note 21.

5 OTHER GAINS, NET

	Six months ended 30 June	
	2016	2015
	HK\$'million	HK\$'million (restated) (Note 24)
Net exchange (losses)/gains	(93)	14
Rental income	49	66
Government grants	496	437
Others	132	98
	584	615

Government grants for the six months ended 30 June 2016 and 2015 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 2016, the Group has recognised related government grants of HK\$444 million (six months ended 30 June 2015: HK\$387 million).

6 INTEREST EXPENSES

	Six months ended 30 June	
	2016	2015
	HK\$'million	HK\$'million (restated) (Note 24)
Interest expenses	609	707
Less: Amounts capitalised	(378)	(413)
Total interest expenses	231	294

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 4.05% (six months ended 30 June 2015 restated: 4.38%) per annum for the six months ended 30 June 2016.

Notes to the Unaudited Interim Financial Report

7 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2016 HK\$'million	2015 HK\$'million (restated) (Note 24)
Amortisation of advanced operating lease payments and intangible assets	89	85
Cost of inventories recognised as expense	27,904	36,388
Operating lease expenses	256	281

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 HK\$'million	2015 HK\$'million (restated) (Note 24)
Current tax		
– PRC	1,761	2,010
– Overseas	9	55
	1,770	2,065
Deferred tax	(177)	(318)
	1,593	1,747

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2016 (six months ended 30 June 2015: 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 2015: 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 2015: 15% to 20%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2016 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.



9 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$2,890 million (six months ended 30 June 2015 restated: HK\$2,778 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2016 of approximately 8,072 million shares (six months ended 30 June 2015: 8,072 million shares).

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2016 and 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

10 DIVIDENDS

- (a) 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.
- (b) Final dividend attributable to owners of the Company in respect of 2015 of HK6 cents per share amounting to a total of approximately HK\$484 million were approved by the shareholders in the Annual General Meeting on 12 May 2016. The amount is based on approximately 8,072 million shares in issue as at 17 March 2016 which was paid on 17 June 2016.
- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Notes to the Unaudited Interim Financial Report

11 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June HK\$'million
Cost:	
Balance as at 31 December 2014, as previously reported	123,376
Business combination under common control	25,329
Balance as at 1 January 2015, as restated	148,705
Currency translation differences	(52)
Additions	3,584
Disposals	(124)
Balance as at 30 June 2015, as restated	152,113
Accumulated depreciation and depletion:	
Balance as at 31 December 2014, as previously reported	36,934
Business combination under common control	5,884
Balance as at 1 January 2015, as restated	42,818
Currency translation differences	(37)
Charge for the period	3,562
Disposals	(42)
Balance as at 30 June 2015, as restated	46,301
Net book value:	
Balance as at 30 June 2015, as restated	105,812
Cost:	
Balance as at 31 December 2015, as previously reported	121,854
Business combination under common control	25,259
Balance as at 1 January 2016, as restated	147,113
Currency translation differences	(1,687)
Additions	1,878
Disposals	(167)
Balance as at 30 June 2016	147,137
Accumulated depreciation and depletion:	
Balance as at 31 December 2015, as previously reported	41,464
Business combination under common control	6,771
Balance as at 1 January 2016, as restated	48,235
Currency translation differences	(499)
Charge for the period	3,141
Disposals	(92)
Balance as at 30 June 2016	50,785
Net book value:	
Balance as at 31 December 2015, as restated	98,878
Balance as at 30 June 2016	96,352



12 INVESTMENTS IN ASSOCIATES

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Share of net assets	2,489	2,396
Goodwill	413	418
	2,902	2,814

13 INVESTMENTS IN JOINT VENTURES

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Share of net assets	1,334	1,259
Loans to joint ventures	63	112
	1,397	1,371

As at 30 June 2016, included in loans to joint ventures is an amount of HK\$45 million (31 December 2015: HK\$45 million) which is unsecured, interest-free and recoverable on demand. Except as disclosed above, loans to joint ventures are unsecured, interest-bearing ranging from 4.6% to 7% per annum and recoverable within one year.

14 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Intangible assets	611	649
Prepaid construction costs	444	602
Loans to third parties	86	88
Others	223	201
	1,364	1,540

Notes to the Unaudited Interim Financial Report

15 ACCOUNTS RECEIVABLE

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2016	31 December 2015
	HK\$'million	HK\$'million (restated) (Note 24)
Within 3 months	1,712	1,589
Between 3 to 6 months	362	509
Over 6 months	1,263	1,182
	3,337	3,280

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 and distribution of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2016, accounts receivable aged over three months of approximately HK\$1,625 million (31 December 2015 restated: HK\$1,691 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.

16 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Included in prepaid expenses and other current assets are loans to third parties amounting to approximately HK\$211 million (31 December 2015: HK\$216 million).

17 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK\$'million
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2015, 30 June 2015, 31 December 2015, 1 January 2016 and 30 June 2016	16,000	160
Issued and fully paid:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2015, 30 June 2015, 31 December 2015, 1 January 2016 and 30 June 2016	8,072	81



17 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(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.

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.

During the six months ended 30 June 2016 and 2015, no share options have been exercised by the directors and employees of the Company respectively as the exercised price of the lapsed share options were above the market price of the Company’s shares, and the share options were lapsed.

Notes to the Unaudited Interim Financial Report

17 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (continued)

Details of share options lapsed and exercised during the six months ended 30 June 2016 and 2015 are as follows:

	Six months ended 30 June					
	2016			2015		
	Lapsed '000	Exercised '000	Exercise price per share HK\$	Lapsed '000	Exercised '000	Exercise price per share HK\$
Directors	–	–	10.320	5,100	–	10.320
	3,900	–	11.730	–	–	11.730
	–	–	12.632	–	–	12.632
Employees	–	–	10.320	6,000	–	10.320
	6,000	–	11.730	–	–	11.730
	1,500	–	12.632	–	–	12.632
	11,400	–		11,100	–	

Details of the options granted under the 2002 Share Option Scheme outstanding as at 30 June 2016 and 31 December 2015 are as follows:

	Date of grant	Exercise period	Exercise price per share HK\$	Number of shares subject to the options	
				30 June 2016 '000	31 December 2015 '000
Directors	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	3,900
(Note)	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	4,200
Employees	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	6,000
	17 May 2012	17 August 2012 – 16 May 2017	12.632	14,200	11,500
				14,200	25,600

Note: During the six months ended 2016, certain directors of the Company ceased to be the directors and their share options were reclassified to share options held by employees as at 30 June 2016.



18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at	Fair value measurements as at			Fair value at	Fair value measurements as at		
	30 June	30 June 2016 categorised into			31 December	31 December 2015 categorised into		
	2016	Level 1	Level 2	Level 3	2015	Level 1	Level 2	Level 3
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
					(restated)			(restated)
					(Note 24)			(Note 24)
Recurring fair value measurements								
Available-for-sale financial assets								
– Listed	495	495	–	–	775	775	–	–
– Unlisted	100	–	–	100	95	–	–	95

During the six months ended 30 June 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about fair value measurements

As at the date of the statement of financial position, all the listed equity securities are stated at fair values, which have been determined by reference to bid prices quoted in the respective stock exchanges. The equity securities in the PRC amounting to approximately HK\$100 million (31 December 2015 restated: HK\$95 million) are stated at cost. These securities do not have quoted market price in an active market and their fair values cannot be reliably measured.

Notes to the Unaudited Interim Financial Report

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) *Financial assets measured at fair value (continued)*

Information about fair value measurements (continued)

The movements during the period in the balance of the Level 3 fair value measurements are as follows:

	At 30 June HK\$'million
<hr/>	
Unlisted available-for-sale equity securities:	
At 31 December 2014, as previously reported	40
Business combination under common control	61
<hr/>	
At 1 January 2015 and 30 June 2015, as restated	101
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Unlisted available-for-sale equity securities:	
At 31 December 2015, as previously reported	37
Business combination under common control	58
<hr/>	
At 1 January 2016, as restated	95
<hr style="border-top: 1px dashed black;"/>	
Additions	6
Currency translation differences	(1)
<hr style="border-top: 1px dashed black;"/>	
At 30 June 2016	100
<hr/>	

There were no gains or losses from Level 3 fair value measurements recognised in profit or loss and other comprehensive income for the six months ended 30 June 2016 and 2015.

(b) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost as of 30 June 2016 and 31 December 2015 are short-term in nature and are not materially different from their fair values.



19 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Accounts payable	3,711	3,151
Advances from customers	7,306	7,779
Salaries and welfare payable	573	484
Accrued expenses	424	33
Dividends payable to non-controlling interests	1,578	1,608
Interest payable	166	111
Construction fee and equipment cost payables	7,859	8,579
Amounts due to related parties		
– Non-controlling interests	218	221
– Others	2	2
Consideration payable	12,501	–
Other payables	2,093	2,571
	36,431	24,539

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

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Within 3 months	2,158	2,268
Between 3 to 6 months	221	189
Over 6 months	1,332	694
	3,711	3,151

Notes to the Unaudited Interim Financial Report

20 BORROWINGS

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Short-term borrowings – unsecured	3,415	2,648
Current portion of long-term borrowings	3,252	5,428
	6,667	8,076
Long-term borrowings – secured	244	450
Long-term borrowings – unsecured	21,779	21,392
Less: Current portion of long-term borrowings	(3,252)	(5,428)
	18,771	16,414
	25,438	24,490

As at 30 June 2016 and 31 December 2015, the borrowings of the Group were repayable as follows:

	Bank loans		Loans other than bank loans	
	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Within one year	3,561	2,958	3,106	5,118
Between one to two years	774	1,088	1,625	1,804
Between two to five years	1,900	1,094	9,973	7,920
After five years	695	666	3,804	3,842
	6,930	5,806	18,508	18,684

As at 30 June 2016, 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% to 6.46% per annum (31 December 2015 restated: 2% to 6.46% per annum). As at 30 June 2016, loans other than bank loans also included senior notes issued by the Company of HK\$7,630 million (31 December 2015: HK\$7,692 million), which bore interest ranging from 2.875% to 3.750% per annum.



21 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 and distribution 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, net exchange gains/losses 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

21 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2016 and 2015 are as follows:

	Exploration and Production				Natural Gas Distribution						Corporate		Inter-company adjustment	Total
	PRC HK\$ million	Others HK\$ million	Sub-total HK\$ million	Natural Gas Sales HK\$ million	Natural Gas Sales and LNG		LNG Processing HK\$ million	Terminal HK\$ million	Pipeline HK\$ million	Sub-total HK\$ million	Sub-total HK\$ million	HK\$ million	HK\$ million	
					LNG Processing HK\$ million	Sub-total HK\$ million								
For the six months ended 30 June 2016														
Gross revenue	536	322	858	31,415	505	31,920	682	6,771	6,771	39,373	-	-	-	40,231
Less: Inter-company adjustment	-	-	-	(56)	(235)	(291)	(43)	(5)	(5)	(339)	-	-	-	(339)
Revenue from external customers	536	322	858	31,359	270	31,629	639	6,766	6,766	39,034	-	-	-	39,892
Segment results	(256)	(34)	(290)	1,694	(339)	1,355	213	4,814	4,814	6,382	(86)	-	-	6,006
Share of profits less losses of:														
- Associates	-	25	25	194	-	194	-	-	-	194	-	-	-	219
- Joint ventures	-	87	87	2	-	2	-	-	-	2	(3)	-	-	86
Profit before income tax expense	(256)	78	(178)	1,890	(339)	1,551	213	4,814	4,814	6,578	(89)	-	-	6,311
Income tax expense														(1,593)
Profit for the period														4,718
Segment results included:														
- Interest income	25	2	27	184	1	185	1	14	14	200	221	(201)	-	247
- Depreciation, depletion and amortisation	(247)	(183)	(430)	(1,262)	(186)	(1,448)	(327)	(1,023)	(1,023)	(2,798)	(2)	-	-	(3,230)
- Interest expenses	-	-	-	(18)	(144)	(162)	-	(30)	(30)	(192)	(240)	201	-	(231)
As at 30 June 2016														
Non-current assets	756	658	1,414	39,260	16,271	55,531	10,249	33,618	33,618	99,398	1,179	-	-	101,991
Current assets	1,014	443	1,457	22,547	241	22,788	630	3,755	3,755	27,173	2,477	-	-	31,107
Segment assets	1,770	1,101	2,871	61,807	16,512	78,319	10,879	37,373	37,373	126,571	3,656	-	-	133,098
Investments in associates	-	-	-	2,895	-	2,895	7	-	-	2,902	-	-	-	2,902
Investments in joint ventures	-	1,149	1,149	163	-	163	-	-	-	163	85	-	-	1,397
Sub-total	1,770	2,250	4,020	64,865	16,512	81,377	10,886	37,373	37,373	129,636	3,741	-	-	137,397
Available-for-sale financial assets														595
Deferred tax assets														1,385
Others														47
Total assets														139,424



	Exploration and Production			Natural Gas Distribution					Corporate	Inter-company adjustment	Total HK\$ million (restated) (Note 24)
				Natural Gas Sales and LNG		Natural Gas		Sub-total HK\$ million (restated) (Note 24)			
	PRC HK\$ million	Others HK\$ million	Sub-total HK\$ million	Natural Gas Sales HK\$ million (restated) (Note 24)	LNG Processing HK\$ million	LNG Processing Sub-total HK\$ million (restated) (Note 24)	LNG Terminal HK\$ million				
For the six months ended 30 June 2015											
Gross revenue	879	507	1,386	40,165	859	41,024	846	6,683	48,563	-	49,949
Less: Inter-company adjustment	-	-	-	(208)	(426)	(634)	(23)	(3)	(660)	-	(660)
Revenue from external customers	879	507	1,386	39,957	433	40,390	823	6,690	47,903	-	49,289
Segment results	(146)	(102)	(248)	2,127	(485)	1,642	307	4,627	6,576	26	6,354
Share of profits less losses of:											
- Associates	-	(71)	(71)	(7)	-	(7)	-	-	(7)	-	(78)
- Joint ventures	-	160	160	4	-	4	-	-	4	(41)	123
Profit before income tax expense	(146)	(13)	(159)	2,124	(485)	1,639	307	4,627	6,573	(15)	6,399
Income tax expense											(1,747)
Profit for the period											4,652
Segment results included:											
- Interest income	49	2	51	140	4	144	1	18	163	221	(236)
- Depreciation, depletion and amortisation	(359)	(299)	(658)	(1,432)	(123)	(1,555)	(353)	(1,080)	(2,988)	(1)	(3,647)
- Interest expenses	-	(2)	(2)	(68)	(163)	(251)	(40)	(91)	(382)	(146)	(294)
As at 31 December 2015											
Non-current assets	1,015	810	1,825	39,738	16,446	56,184	10,585	34,842	101,611	1,181	104,617
Current assets	718	416	1,134	23,368	692	24,060	250	590	24,900	6,251	32,285
Segment assets	1,733	1,226	2,959	63,106	17,138	80,244	10,835	35,432	126,511	7,432	136,902
Investments in associates	-	-	-	2,807	-	2,807	7	-	2,814	-	2,814
Investments in joint ventures	-	1,062	1,062	220	-	220	-	-	220	89	1,371
Sub-total	1,733	2,288	4,021	66,133	17,138	83,271	10,842	35,432	129,545	7,521	141,087
Available-for-sale financial assets											870
Deferred tax assets											1,165
Others											64
Total assets											143,186

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, 2016, revenue of approximately HK\$6,261 million (six months ended 30 June 2015 (restated): HK\$6,474 million) is derived from one (six months ended 30 June 2015 (restated): one) customer 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

22 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 2016 and 31 December 2015 under non-cancellable operating leases are as follows:

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Not later than one year	308	298
Later than one year and not later than five years	504	667
More than five years	480	621
	1,292	1,586

(b) Capital commitments

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Contracted but not provided for:		
– Oil field development costs	–	366
– Acquisitions of/capital contributions to investments	–	17,681
– Other property, plant and equipment	2,205	3,367
	2,205	21,414
Authorised but not contracted for:		
– Oil field development costs	336	428
– Acquisitions of/capital contributions to investments	326	720
– Other property, plant and equipment	22,767	32,667
	23,429	33,815



23 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 and any entity, of any member of a group of which it is a part, provides key management personnel services to the Group’s parent.

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. The current production period under the Xinjiang Contract will expire on 31 August 2016, and the Xinjiang Contract will not be further extended upon its expiry.

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\$1,910 million (six months ended 30 June 2015 restated: HK\$4,027 million) for the six months ended 30 June 2016 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK\$323 million (six months ended 30 June 2015 restated: HK\$560 million).

Notes to the Unaudited Interim Financial Report

23 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\$536 million (six months ended 30 June 2015: HK\$879 million) for the six months ended 30 June 2016.
 - 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\$5 million (six months ended 30 June 2015 restated: HK\$10 million) for the six months ended 30 June 2016.
 - 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\$16,920 million (six months ended 30 June 2015 restated: HK\$22,295 million) for the six months ended 30 June 2016.
 - Provision of general products and services by the Group to the CNPC Group amounted to approximately HK\$5,659 million (six months ended 30 June 2015 restated: HK\$5,550 million) for the six months ended 30 June 2016.
- (ii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK\$66 million (six months ended 30 June 2015 restated: HK\$45 million) for the six months ended 30 June 2016.

The above transactions in (i) and (ii) constituted connected transactions in accordance with Chapter 14A of the Listing Rules.

- (iii) As at 30 June 2016 and 31 December 2015, 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:

	30 June 2016 HK\$'million	31 December 2015 HK\$'million (restated) (Note 24)
Intangible and other non-current assets	27	22
Accounts receivable	296	333
Accounts payable and accrued liabilities	2,776	2,518
Borrowings	10,855	10,930
Prepaid expenses and other current assets	1,048	4,943
Obligations under finance leases	437	504



23 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\$2,871 million (six months ended 30 June 2015: HK\$3,064 million) for the six months ended 30 June 2016. 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	
	2016	2015
	HK\$'million	HK\$'million
Salaries and allowances	3	9
Retirement benefits – defined contribution scheme	1	1
	4	10

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

Apart from the aforementioned 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.

24 ACQUISITION

2016 business combination under common control

As mentioned in Note 2 to this interim financial report, the acquisition of Kunlun Gas has been accounted for based on AG 5. Accordingly, the assets and liabilities of Kunlun Gas acquired by the Group have been accounted for at historical cost and the financial statements of the Group for period prior to the combination have been restated to include the financial position and results of operation of Kunlun Gas on a combined basis. The details of the restated balances are as follows:

Notes to the Unaudited Interim Financial Report

24 ACQUISITION (CONTINUED)

2016 business combination under common control (continued)

The summarised results of operations for the six months ended 30 June 2015 and the financial position as at 31 December 2015 are set out below:

	The Group HK\$'million (as previously reported)	Kunlun Gas HK\$'million	Inter-company eliminations HK\$'million	The Group HK\$'million (restated)
Results of operations for the six months ended 30 June 2015				
Revenue	20,879	28,537	(127)	49,289
Other gains, net	488	127	–	615
Interest income	103	96	–	199
Purchases, services and others	(11,315)	(24,268)	127	(35,456)
Employee compensation costs	(1,012)	(1,336)	–	(2,348)
Depreciation, depletion and amortisation	(2,899)	(748)	–	(3,647)
Selling, general and administrative expenses	(1,145)	(527)	–	(1,672)
Taxes other than income taxes	(195)	(137)	–	(332)
Interest expenses	(258)	(36)	–	(294)
Share of profits less losses of:				
– Associates	(62)	(16)	–	(78)
– Joint ventures	121	2	–	123
Profit before income tax expense	4,705	1,694	–	6,399
Income tax expense	(1,257)	(490)	–	(1,747)
Profit for the period	3,448	1,204	–	4,652
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of:				
– Subsidiaries	(20)	–	–	(20)
– Associates	(33)	–	–	(33)
– Joint ventures	–	–	–	–
– Fair value gain on available-for-sale financial assets	3	–	–	3
Other comprehensive income for the period, net of nil tax	(50)	–	–	(50)
Total comprehensive income for the period	3,398	1,204	–	4,602



24 ACQUISITION (CONTINUED)

2016 business combination under common control (continued)

	The Group HK\$'million (as previously reported)	Kunlun Gas HK\$'million	Inter-company eliminations HK\$'million	The Group HK\$'million (restated)
Results of operations for the six months ended 30 June 2015 (Continued)				
Profit for the period attributable to:				
– Owners of the Company	1,921	857	–	2,778
– Non-controlling interests	1,527	347	–	1,874
	3,448	1,204	–	4,652
Total comprehensive income for the period attributable to:				
– Owners of the Company	1,884	722	–	2,606
– Non-controlling interests	1,514	482	–	1,996
	3,398	1,204	–	4,602
Earnings per share for profit attributable to owners of the Company				
– Basic (HK cents)	23.80	10.62	–	34.42
– Diluted (HK cents)	23.80	10.62	–	34.42
Financial position as at 31 December 2015				
Non-current assets				
Property, plant and equipment	80,390	18,488	–	98,878
Advanced operating lease payments	3,205	994	–	4,199
Investments in associates	2,266	548	–	2,814
Investments in joint ventures	1,321	50	–	1,371
Available-for-sale financial assets	812	58	–	870
Intangibles and other non-current assets	1,045	495	–	1,540
Deferred tax assets	586	579	–	1,165
	89,625	21,212	–	110,837
Current assets				
Inventories	916	602	–	1,518
Accounts receivable	1,837	1,443	–	3,280
Prepaid expenses and other current assets	3,932	6,474	–	10,406
Cash and cash equivalents	11,771	5,374	–	17,145
	18,456	13,893	–	32,349
Total assets	108,081	35,105	–	143,186

Notes to the Unaudited Interim Financial Report

24 ACQUISITION (CONTINUED)

2016 business combination under common control (continued)

	The Group HK\$'million (as previously reported)	Kunlun Gas HK\$'million	Inter-company eliminations HK\$'million	The Group HK\$'million (restated)
Financial position as at 31 December 2015 (Continued)				
Equity				
Capital and reserves attributable to owners of the Company				
Share capital	81	10,666	(10,666)	81
Retained earnings	25,680	1,900	–	27,580
Other reserves	23,362	72	10,666	34,100
	49,123	12,638	–	61,761
Non-controlling interests	21,201	5,657	–	26,858
Total equity	70,324	18,295	–	88,619
Current liabilities				
Accounts payable and accrued liabilities	11,479	13,060	–	24,539
Income tax payable	582	44	–	626
Other tax payable	248	643	–	891
Short-term borrowings	7,721	355	–	8,076
Obligations under finance leases	208	–	–	208
	20,238	14,102	–	34,340
Non-current liabilities				
Long-term borrowings	15,418	996	–	16,414
Deferred tax liabilities	941	99	–	1,040
Obligations under finance leases	566	–	–	566
Other liabilities	594	1,613	–	2,207
	17,519	2,708	–	20,227
Total liabilities	37,757	16,810	–	54,567
Total equity and liabilities	108,081	35,105	–	143,186
Net current liabilities	(1,782)	(209)	–	(1,991)
Total assets less current liabilities	87,843	21,003	–	108,846



24 ACQUISITION (CONTINUED)

2016 business combination under common control (continued)

	The Group HK\$'million (as previously reported)	Kunlun Gas HK\$'million	Inter-company eliminations HK\$'million	The Group HK\$'million (restated)
Cash flows for the six months ended 30 June 2015				
Net cash generated from operating activities	7,032	1,024	–	8,056
Net cash used in investing activities	(2,922)	(1,524)	–	(4,446)
Net cash generated from financing activities	852	43	–	895
Net increase/(decrease) in cash and cash equivalents	4,962	(457)	–	4,505
Cash and cash equivalents at 1 January 2015	10,729	5,211	–	15,940
Effect of foreign exchange rate changes	9	(43)	–	(34)
Cash and cash equivalents at 30 June 2015	15,700	4,711	–	20,411

25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 13 July 2016, the Company entered into a subscription agreement, pursuant to which the Company agreed to issue convertible bonds due in 2019 (the “Convertible Bonds”) with principal amount of RMB3,350 million to third parties. The Convertible Bonds bear interest of 1.625% and will be settled in United States dollars. The conversion price is HK\$7.13 per share (translated into HKD at the fixed RMB to HKD exchange rate of 0.8625) and is subject to anti-dilutive adjustments. The issuance of Convertible Bonds was completed on 25 July 2016.

26 COMPARATIVE FIGURES

As a result of the application of AG 5, certain comparative figures have been restated. Further details are disclosed in Note 2 and Note 24.



Review Report



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 21 to 51 which comprises the consolidated interim statement of financial position of Kunlun Energy Company Limited (the “Company”) as of 30 June 2016 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 month 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 2016 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

18 August 2016