



KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆侖能源有限公司

(Stock Code: 00135.HK)

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

2010

Interim Report



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Corporate Information

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Mr Lau Hak Woon

BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
 Clarendon House
 Church Street
 Hamilton HM11, Bermuda

AUDITOR

PricewaterhouseCoopers

BANKERS

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

STOCK CODE

The Stock Exchange of Hong Kong Limited
 00135.HK

WEBSITE

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

PRINCIPAL BOARD COMMITTEES

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

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

SOLICITORS

Clifford Chance
 Baker & McKenzie

REGISTERED OFFICE

Clarendon House
 Church Street
 Hamilton HM11, Bermuda

PRINCIPAL OFFICE

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 118 Connaught Road West
 Hong Kong
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 E-mail: info@kunlun.com.hk
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PRINCIPAL REGISTRARS

Bank of Bermuda Limited
 6 Front Street
 Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG

Tricor Secretaries Limited
 26/F., Tesbury Centre
 28, Queen's Road East
 Hong Kong

Chairman Statement

BUSINESS REVIEW

I would like to report to the shareholders on behalf of the Board that, for the six months ended 30 June 2010 (the "Period"), the revenue of the Group amounted to HK\$3,726.14 million, representing an increase of HK\$1,720.42 million or 85.78% compared with HK\$2,005.72 million in the corresponding period last year. The Group's unaudited profit attributable to owners of the Company for the Period was HK\$1,247.66 million, representing an increase of HK\$931.30 million or 294.39% compared with HK\$316.36 million for the corresponding period last year.

Natural Gas Business

The Group's total sales volume of natural gas was 841.11 million cubic metre for the Period, representing an increase of 290.63 million cubic metre or 52.80% compared with 550.48 million cubic metre for the corresponding period last year. The volume of natural gas transmission was 131.37 million cubic metre, representing an increase of 29.43% compared with 101.50 million cubic metre for the corresponding period in 2009. Revenue was HK\$1,486.01 million, which was an increase of HK\$611.99 million or 70.02% compared with HK\$874.02 million for the corresponding period last year. The natural gas business contributed HK\$159.97 million to the Group's profit attributable to owners for the Period, which increased by HK\$77.20 million or 93.26% compared with HK\$82.77 million for the corresponding period last year.

Revenue from natural gas business accounted for 39.90% of the Group's total revenue and its profit contribution accounted for 12.80% of the Group's profit attributable to owners for the Period, representing an increase of 70.02% and 93.26% respectively compared with the corresponding period last year. The rapid and vigorous increase in revenue and profit has provided a solid foundation for the development of the natural gas business of the Company.

Exploration and Production Business

The Group currently has nine oil fields located in seven different countries, two of them are exploration projects.

For the Period, sales volume of crude oil of the Group was 8.34 million barrels, representing an increase of 0.25 million barrels or 3.04% compared with 8.09 million barrels for the corresponding period last year. Revenue of HK\$2,240.13 million was realised, an increase of HK\$1,108.43 million or 97.94% compared with HK\$1,131.70 million for the corresponding period last year. Exploration and production business contributed HK\$1,145.72 million to the Group's profit attributable to owners for the Period, representing an increase of HK\$943.81 million or 467.45% compared with HK\$201.91 million for the corresponding period last year.

The significant increase in profit in the exploration and production business was mainly due to (1) the profit attributable to the owners from Kazakhstan CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") of HK\$452.13 million, an increase of HK\$507.06 million or 923.05% compared with the corresponding period last year; and (2) oil price surged to US\$70.38 per barrel, an increase of US\$30.48 or 76.38% compared with US\$39.90 for the corresponding period last year.

Chairman Statement

Revenue from the exploration and production business accounted for 60.10% of the Group's total revenue, and its profit contribution accounted for 91.83% of the Group's profit attributable to owners of the Company for the Period. This is an increase of 97.94% and 467.45% respectively compared with the corresponding period last year. Exploration and production business is still the Group's major source of profit and cash flow. The Group would grasp the opportunities of international oil prices increase to raise the production volume of crude oil, improve cost control and apply delicacy management to enhance efficiency.

New Companies and Major Projects

Up to date, the Group established six subsidiaries with controlling interests through equity acquisition, capital injection, and the formation of new wholly owned company or joint ventures, etc.

Kunlun Energy (Qinghai) Company Limited

Established in June 2010, the Company holds 100.00% equity interest. It is mainly engaged in liquefied natural gas ("LNG") production and natural gas end users sale business in Qinghai and Tibet regions. The first phase is to build a LNG plant with 0.35 million cubic metre per day and other facilities in Golmud of Qinghai Province providing cleaner energy to the two provinces of Qinghai and Tibet.

Kunlun Energy (Shandong) Company Limited

Established in June 2010, the Company holds 51.00% equity interest. It aims at developing the scope of LNG application as power fuel in the transportation industry and focusing on developing the market of Shandong region.

PetroChina LNG Jiangsu Company Ltd ("Jiangsu LNG")

In May 2010, the Company entered into an agreement with the parent company, PetroChina Company Limited ("PetroChina"), to acquire 55.00% equity interest in Jiangsu LNG at a consideration of RMB500.21 million. Jiangsu LNG is engaged in the LNG terminal business, including the loading, storage and regasification of LNG. Upon completion of the project, the market demand for clean energy in Jiangsu Province could be satisfied. Together with the pipelines for the transmission of natural gas from Western China to the eastern part and the pipeline network of Jining, there will be multiple sources of gas supply which could ensure the safety of gas supply.

Sichuan Chuangang Gas Limited Company ("Chuangang")

In June 2010, the Company and Sichuan Petroleum Management Bureau jointly established Chuangang by injecting fund and assets of a total of RMB310.00 million. The Group holds 51.00% equity interest. Chuangang held the inauguration ceremony on 19 August. With the support of the resources and market advantages from Sichuan Southwest Oilfield Company, the Company will strive hard to develop the natural gas market in Sichuan, Chongqing, Guizhou and the surrounding areas.

Chairman Statement

PetroChina Tianjin Natural Gas Pipeline Company Limited ("Tianjin Pipeline")

On 17 August 2010, the Company entered into a joint venture agreement with Tianjin Gas Group to establish Tianjin Pipeline which the Company holds 51.00% equity interest. The joint venture company will construct and operate five high-pressure natural gas pipelines and gas storage ancillaries, ensuring the stable natural gas supply in Tianjin. At the same time, the joint venture company will also engage in the development of downstream gas market of Tianjin and the surrounding areas. The total investment for the project is expected to be RMB2,300.00 million, while RMB1,500.00 million will be invested in the initial stage.

Cangzhou China Oil and Gas Limited ("Cangzhou Gas")

On 26 August 2010, the Company entered into a joint venture agreement with China Gas Industries (Shenzhen) Limited and Hebei Bohai Investment Company Limited to establish Cangzhou Gas which the Company holds 51.00% equity interest, for the construction and operation of natural gas pipelines into the Bohai New District and natural gas sales business. The total investment for the project is expected to be RMB300.00 million. Pursuant to the gas development plan of the Bohai New District, the demand and supply of the market, as well as the development of the Company, the Company will gradually achieve an annual supply of natural gas of 0.5 to 4 billion cubic metres.

BUSINESS PROSPECTS

The Group is committed to focusing on the natural gas end users sale and comprehensive utilisation businesses. While continuing our steady development in compressed natural gas, city gas and associated gas collection, the Group's first priority is to develop the LNG business, implementing the "Replacing Oil with Gas" strategy, and seizing the high-end market of natural gas utilisation. Strategically, the Group is accelerating the construction of LNG plants in the top five gas production regions in the country while actively acquiring coastal LNG terminals from the parent company; tactically, the Group is grasping the opportunities for market expansion: building LNG refilling stations around LNG gas resources, reasonably dispersing the LNG sales network, developing the gasification of heavy-duty cargo truck, inter-city passenger transportation, river trade cargo vessels and power equipments like oilfield rigs. At present, heavy-duty cargo truck gasification is commissioned in the Port of Ningbo, rigs gasification is implemented in Hainan and Shaanxi and pilot testing of the gasification of vessels is also launched.

The Group also established certain companies in Zhejiang, Jiangsu, Inner Mongolia, Hebei and Guangdong, actively develop the local gas markets. All these have strengthened the asset base of natural gas business of the Group and improved the market distribution network. As of today, the Group's network covering key markets in mainland China is basically formed, which has built a solid foundation for further business development.

The Group will fully exploit the resources, talents and management advantages of the parent company, cooperate closely with various oilfield enterprises under the parent company to establish joint venture companies specialising in the business of developing the comprehensive utilisation of natural gas and market within the oilfields and in the surrounding areas. This would have significant contribution to the Group's realisation of forward-leaping development.

Chairman Statement

The foundation for the comprehensive utilisation project on reduction of coke oven gas emission in Wuhai City with investment amount of RMB4,000 million was laid on 17 May 2010. Regarding the participation in gasification project in Xinjiang, the Group has completed the plan for natural gas development in Xinjiang region and approval and support from the local government have been obtained. To date, the construction of the city gas project in Yili and Bozhou and the LNG project in Hotan have been started. The aforementioned projects conform to the development direction of energy-saving, emission reduction and low-carbon economy. This has created new market for the Company's own development as well as facilitated the development of the local economy, which demonstrated good economic and social benefits.

The establishment of Tianjin Pipeline and Cangzhou Gas marks the start of the investment and construction of the main and ancillary natural gas distribution pipelines, which could facilitate the effective linkage between resources and market, promote the development of the end user market and provide long-term and stable revenue for the Group in the future.

The Group aims at becoming the largest natural gas end users sale group in China. With the belief of scientific development as guidance, we would uphold the concept of "Low Carbon Economy Green Development", change the way of development, make effective use of capital in accelerating the core businesses development, raise the quality and efficiency of developments, strive hard for raising the operation scale for sustainable development of the Company's businesses and at the same time serves greater interest for shareholders.

By Order of the Board

Li Hualin
Chairman

Hong Kong, 26 August 2010

Management Discussion and Analysis

OPERATING RESULTS

The profit attributable to owners of the Company for the six month period ended 30 June 2010 (the "Period") was approximately HK\$1,247.66 million (same period 2009: HK\$316.36 million), representing an increase of HK\$931.30 million or 294.39%.

The increase of profit was mainly due to the increased profit contribution from the Kazakhstan Aktobe project and the increase of realised crude oil selling price. The weighted average realised crude oil selling price increased to US\$70.38 per barrel from US\$39.90 per barrel same period 2009. The weighted average realised compressed natural gas selling price increase to RMB1,473.32 per thousand cubic metre for the Period from RMB1,234.91 per thousand cubic metre same period 2009.

Revenue

The Group recorded a total revenue of HK\$3,726.14 million for the Period (same period 2009: HK\$2,005.72 million), representing an increase of HK\$1,720.42 million or 85.78%. The increase of the total revenue represents an increase in crude oil sale of HK\$1,108.43 million or 97.94% and natural gas sale of HK\$611.99 million or 70.02%.

Other Gains, Net

A subsidiary under the Group recorded a gain on disposal of refined oil pipeline transmission assets of HK\$48.41 million.

Interest Income

Interest income decreased by 63.13% to approximately HK\$8.93 million for the Period. This was mainly due to the decrease of placing to fixed deposit throughout the Period.

Purchases Service and Others

Purchases, service and others increased by 57.41% to approximately HK\$1,476.00 million for the Period from approximately HK\$937.70 million same period last year. This was mainly due to the increase in the lifting costs of crude oil operation and natural gas purchase.

Employee Compensation Costs

The employee compensation costs of the Group was approximately HK\$273.27 million for the Period, an increase of 70.61% (same period 2009: HK\$160.17 million). This increase was mainly due to additional costs resulted from the expansion of the Group's natural gas businesses.

Management Discussion and Analysis

Exploration Costs

Exploration costs increased by 45.55% to approximately HK\$17.62 million for the Period (same period 2009: HK\$12.11 million). This was mainly due to more exploration activities undertaken in the Group's overseas oil fields.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation increased by 60.55% to approximately HK\$404.36 million for the Period (same period 2009: HK\$251.86 million). These were primarily due to the change in oil and gas reserve estimates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 54.15% to approximately HK\$344.91 million for the Period (same period 2009: HK\$223.75 million). This was mainly due to an increase in royalty expenses following the increase of crude oil sales revenue.

Taxes other than Income Taxes

Taxes other than income taxes increased by 10,829.62% to approximately HK\$173.97 million for the Period (same period 2009: HK\$1.59 million). The increase was mainly due to the payment of the special levy as a result of the realised crude oil selling prices upsurge.

Other Expenses, Net

There was HK\$15.27 million of other expenses for the Period (same period 2009: HK\$4.51 million). This was mainly the impairment of a subsidiary's other receivables.

Interest Expenses

Interest expenses decreased by 11.69% to approximately HK\$69.04 million for the Period (same period 2009: HK\$78.18 million). This was mainly due to a decrease of interest rate for borrowings.

Management Discussion and Analysis

Share of Profits less Losses of Associates

Share of profits of associates increased by 1,788.79% to approximately HK\$999.90 million (same period 2009: losses of HK\$59.21 million). This was mainly due to the increase in share of profit from the Kazakhstan Aktobe project.

Share of Profits less Losses of jointly controlled entities

Share of profits of jointly controlled entities decreased 26.06% to approximately HK\$133.38 million for the Period (same period 2009: HK\$180.38 million), it was mainly due to the profit drop in 華油鋼管有限公司.

Profit before Income Tax Expense

Profit before income tax expense increased by 350.22% to approximately HK\$2,191.36 million for the Period (same period 2009: HK\$486.73 million).

Income Tax Expense

Income tax expense increased by 334.05% to approximately HK\$520.19 million for the Period (same period 2009: HK\$119.85 million). This was mainly due to the increase of profit before tax.

Profit for the period and profit attributable to owners of the Company

As a result of the factors discussed above, profit for the period increased by 355.50% to approximately HK\$1,671.17 million for the Period (same period 2009: HK\$366.88 million). The profit attributable to owners of the Company increased by 294.39% to approximately HK\$1,247.66 million for the Period (same period 2009: HK\$316.36 million).

Management Discussion and Analysis

The table below sets out the external sales volume and profit attributable to the Group for major products sold by the Group for the six months period ended 30 June 2010 and the same period 2009 and percentages of change during these two periods.

	Sales volume			Profits attributable to the Group		
	For the six months period ended			For the six months period ended		
	30 June			30 June		
	2010	2009	Percentage	2010	2009	Percentage
	('000 barrel)	('000 barrel)	of change	(HK\$ million)	(HK\$ million)	of change
Exploration and Production						
Liaoheleng Jiapu	1,501	1,672	-10.2%	200	6	2,998.0%
Xinjiang Karamay	1,372	1,288	6.5%	339	116	190.6%
Peru Talara	318	249	27.8%	66	31	115.8%
Azerbaijan K&K	404	422	-4.3%	-38	-5	-702.8%
Thailand Sukothai	157	201	-21.9%	16	19	-14.0%
Thailand L21/43	105	83	26.5%	8	-1	717.8%
Indonesia CGB2	N/A	N/A	N/A	-8	-20	58.9%
Oman	1,104	945	16.8%	111	114	-2.2%
Kazakhstan Aktobe	3,376	3,231	4.5%	452	-55	923.1%
Gobustan	N/A	N/A	N/A	N/A	-3	-100.0%
Total of Exploration and Production	8,337	8,091	3.0%	1,146	202	467.3%
	('000 cubic metre)	('000 cubic metre)				
Natural gas distribution	841,106	550,475	52.8%	160	83	93.3%
Other business						
Steel Pipes Factory	N/A	N/A	N/A	23	67	-65.9%
BOPP and CPP	N/A	N/A	N/A	-1	-1	0.0%
Total of other business	N/A	N/A	N/A	22	66	-66.7%

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2010, the carrying value of total assets of the Group is approximately HK\$23,031.30 million, representing an increase of HK\$1,614.54 million or 7.54% (31 December 2009: HK\$21,416.76 million).

The gearing ratio of the Group was 13.48% as at 30 June 2010 compared with 10.68% as at 31 December 2009. It is computed by dividing the total borrowings of HK\$2,734.98 million (31 December 2009: HK\$1,956.72 million) by the total equity and borrowings of HK\$20,296.76 million (31 December 2009: HK\$18,332.41 million).

PLEDGED OF ASSETS

As at 30 June 2010, no short-term borrowings were secured by property, plant and equipment, advanced operating lease payments and assets held for sale (31 December 2009: RMB32.44 million (approximately HK\$36.82 million)).

EMPLOYEE

On 30 June 2010, the Group had approximately 5,789 staff (excluding the staff under entrustment contracts) (31 December 2009: 4,587 staff) globally. 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. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, the Company has not repurchased any of its shares.

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

Management Discussion and Analysis

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles (the "Principles"), code provisions (the "Code Provisions") and certain recommended best practices (the "Recommended Best Practices") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company periodically reviews its corporate governance practices to ensure that these practices continue to meet the requirements of the CG Code, and acknowledges the important role of its Board of Directors in providing effective leadership and direction to the Company's business, and in ensuring transparency and accountability of Company's operations.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all the Code Provisions as explained in details in 2009 Annual Report.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

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 information for the six months ended 30 June 2010.

The unaudited consolidated interim condensed financial information of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee of the Company and by the Company's auditor, PricewaterhouseCoopers, 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.

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 2010.

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 fellow subsidiaries or its parent company 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

At as 30 June 2010, 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 Hualin	14,000,000	Beneficial owner	0.28%
Li Kwok Sing Aubrey	1,000,000	Beneficial owner	0.02%

Note: The interests held by Mr Li Hualin and Mr Li Kwok Sing Aubrey represent long position in the Shares of the Company.

Share options are granted to directors and chief executive under the executive share option scheme approved by the board of directors on 3 June 2002. Details are set out in the section headed "Share Options" of this report.

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

Management Discussion and Analysis

SHARE OPTIONS

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

Name	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1 Jan 2010	Number of Share Options		Outstanding at 30 June 2010
					Options granted during the Period	Exercised during the Period	
Directors							
Li Hualin	8 January 2007	8 April 2007 – 7 January 2012	4.186	25,000,000	–	–	25,000,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	3,200,000	–	–	3,200,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	3,200,000	–	–	3,200,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	3,200,000	–	3,200,000
Zhang Bowen	8 January 2007	8 April 2007 – 7 January 2012	4.186	20,000,000	–	–	20,000,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	2,400,000	–	–	2,400,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	2,400,000	–	–	2,400,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	2,400,000	–	2,400,000
Cheng Cheng	8 January 2007	8 April 2007 – 7 January 2012	4.186	10,000,000	–	–	10,000,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	1,500,000	–	–	1,500,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	1,500,000	–	–	1,500,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	1,500,000	–	1,500,000
Lau Wah Sum	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	400,000	–	400,000
Li Kwok Sing Aubrey	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	400,000	–	400,000
Liu Xiao Feng	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	400,000	–	400,000
Employees							
	27 April 2005	27 July 2005 – 26 April 2010	1.224	17,500,000	–	(17,500,000)	–
	8 January 2007	8 April 2007 – 7 January 2012	4.186	25,000,000	–	–	25,000,000
	14 September 2007	14 December 2007–13 September 2012	4.480	20,000,000	–	–	20,000,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	7,000,000	–	–	7,000,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	7,000,000	–	–	7,000,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	–	7,000,000	–	7,000,000
				145,700,000	15,300,000	(17,500,000)	143,500,000

Management Discussion and Analysis

The closing prices of the Company's shares immediately before 26 March 2010, the date of grant of the options, was HK\$10.32.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK\$11.07.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

At at 30 June 2010, 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 Ltd. ("Sun World") ⁽¹⁾	2,513,917,342 (L)	–	50.74%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") ⁽¹⁾	–	2,513,917,342 (L)	50.74%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") ⁽¹⁾	–	2,513,917,342 (L)	50.74%
PetroChina Company Ltd. ("PetroChina") ⁽¹⁾	–	2,513,917,342 (L)	50.74%
China National Oil and Gas Exploration and Development Corporation ("CNODC") ⁽²⁾	–	266,198,000 (L)	5.37%
CNPC International Ltd. ("CNPCI") ⁽²⁾	–	266,198,000 (L)	5.37%
Fairy King Investments Ltd.	266,198,000 (L)	–	5.37%
China National Petroleum Corporation ("CNPC") ⁽¹⁾⁽²⁾	2,780,115,342 (L)	–	56.12%

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 86.42% by CNPC. Accordingly, CNPC is deemed to have interest in the 2,513,917,342 shares held by Sun World. Mr Li Hualin, the Chairman of the Company and Mr Zhang Bowen, the Chief Executive Officer of the Company are also directors of Sun World, 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 266,198,000 shares held by Fairy King Investments Ltd..

Management Discussion and Analysis

Save as disclosed above, as at 30 June 2010, 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 2010, 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 Order of the Board

Zhang Bowen
Chief Executive Officer

Hong Kong, 26 August 2010

Report on Review of Consolidated Interim Condensed Financial Information



羅兵咸永道會計師事務所

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TO THE BOARD OF DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the consolidated interim condensed financial information set out on pages 19 to 50 which comprises the consolidated interim condensed statement of financial position of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related consolidated interim condensed statement of comprehensive income, consolidated interim condensed statement of changes in equity and consolidated interim condensed statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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 of the Company are responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review 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 consolidated interim condensed financial information consists of making inquiries, 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.

Report on Review of Consolidated Interim Condensed Financial Information

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 August 2010

Unaudited Consolidated Interim Condensed Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	Unaudited	
		2010 HK\$'000	2009 HK\$'000
Revenue	4	3,726,144	2,005,725
Other gains, net	5	97,453	5,486
Interest income		8,927	24,217
Purchases, services and others		(1,475,997)	(937,697)
Employee compensation costs		(273,274)	(160,173)
Exploration expenses, including exploratory dry holes		(17,620)	(12,106)
Depreciation, depletion and amortisation		(404,355)	(251,857)
Selling, general and administrative expenses		(344,907)	(223,748)
Taxes other than income taxes	6	(173,974)	(1,592)
Other expenses		(15,273)	(4,511)
Interest expenses	7	(69,044)	(78,183)
Share of profits less (losses) of:			
– Associates		999,902	(59,208)
– Jointly controlled entities		133,377	180,376
Profit before income tax expense	8	2,191,359	486,729
Income tax expense	9	(520,191)	(119,847)
Profit for the period		1,671,168	366,882
Other comprehensive income/(loss):			
– Currency translation differences		(13,900)	(1,004,585)
– Fair value (loss)/gain on available-for-sale financial assets		(17,883)	14,710
Other comprehensive loss, net of tax		(31,783)	(989,875)
Total comprehensive income/(loss) for the period		1,639,385	(622,993)
Profit for the period attributable to:			
– Owners of the Company		1,247,663	316,356
– Non-controlling interest		423,505	50,526
		1,671,168	366,882
Total comprehensive income/(loss) for the period attributable to:			
– Owners of the Company		1,214,774	(260,381)
– Non-controlling interest		424,611	(362,612)
		1,639,385	(622,993)
Earnings per share for profit attributable to owners of the Company	10		
– Basic (HK cents)		25.23	7.11
– Diluted (HK cents)		24.81	7.05

The accompanying notes are an integral part of this interim financial information.

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2010

	Note	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Assets			
Non-current assets			
Property, plant and equipment	12	6,262,373	5,778,135
Advanced operating lease payments		142,005	106,962
Investments in jointly controlled entities	13	1,219,776	1,112,544
Investments in associates	14	4,567,057	5,231,412
Available-for-sale financial assets		93,978	105,468
Intangibles and other non-current assets		575,891	217,080
Deferred tax assets		40,757	78,598
		12,901,837	12,630,199
Current assets			
Inventories		46,325	43,574
Accounts receivable	15	486,208	242,530
Prepaid expenses and other current assets		992,463	449,341
Time deposits with maturities over three months		7,786	30,644
Cash and cash equivalents		8,590,404	7,376,882
		10,123,186	8,142,971
Assets held for sale	16	6,276	643,587
		10,129,462	8,786,558
Total assets		23,031,299	21,416,757

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2010

	Note	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital	17	49,540	49,365
Retained earnings		11,777,869	10,879,639
Reserves		3,222,233	3,281,531
Total equity attributable to owners of the Company		15,049,642	14,210,535
Non-controlling interest		2,512,130	2,165,151
Total equity		17,561,772	16,375,686
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	18	1,553,924	1,901,433
Income taxes payable		197,578	83,354
Other taxes payable		194,381	128,296
Short-term borrowings	19	942,042	163,319
		2,887,925	2,276,402
Non-current liabilities			
Long-term borrowings	19	1,792,942	1,793,401
Deferred tax liabilities		781,283	963,888
Other long-term obligations		7,377	7,380
		2,581,602	2,764,669
Total liabilities		5,469,527	5,041,071
Total equity and liabilities		23,031,299	21,416,757
Net current assets		7,241,537	6,510,156
Total assets less current liabilities		20,143,374	19,140,355

The accompanying notes are an integral part of this interim financial information.

Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2010

	Note	Unaudited	
		2010 HK\$'000	2009 HK\$'000
Cash flows from operating activities		1,247,624	206,198
Cash flows from investing activities			
Dividends received from associates		1,049,986	12,866
Acquisitions of subsidiaries		(129,604)	(39,874)
Acquisitions of available-for-sale financial assets		(8,532)	–
Capital contributions to associates		(6,502)	–
Prepayments for acquisition of subsidiaries		(79,280)	–
Purchase of non-controlling interest		(322,306)	–
Capital expenditure		(1,198,908)	(273,039)
Proceeds from disposal of assets held for sale		73,978	–
Interest received		8,927	24,217
Decrease in deposits with maturities more than three months		22,858	147,542
Net cash used in investing activities		(589,383)	(128,288)
Cash flows from financing activities			
Dividends paid to owners of the Company		(346,782)	(668,854)
Dividends paid by subsidiaries to non-controlling interest		(75,833)	(7,282)
Issue of shares		21,420	17,884
Increase in borrowings	19	907,534	1,154,211
Repayments of borrowings	19	(129,270)	(1,041,686)
Interest paid		(24,982)	(50,817)
Capital contributions from non-controlling interest		203,194	–
Net cash generated from/(used in) financing activities		555,281	(596,544)
Increase/(decrease) in cash and cash equivalents		1,213,522	(518,634)
Cash and cash equivalents at 1 January		7,376,882	4,751,176
Cash and cash equivalents at 30 June		8,590,404	4,232,542

The accompanying notes are an integral part of this interim financial information.

Unaudited Consolidated Interim Condensed Statement of Changes in Equity

For the six months ended 30 June 2010

	Note	Unaudited				Non-controlling interest	Total equity
		Attributable to owners of the Company					
		Share capital	Retained earnings	Reserves	Sub-total		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances at 1 January 2009		44,408	10,419,989	386,331	10,850,728	2,339,285	13,190,013
Total comprehensive income/(loss) for the six months ended 30 June 2009		-	316,356	(576,737)	(260,381)	(362,612)	(622,993)
Transfer between reserves		-	(30,688)	30,688	-	-	-
Dividend for 2008	11	-	(668,854)	-	(668,854)	-	(668,854)
Recognition of equity settled share-based payments	17	-	-	14,123	14,123	-	14,123
Issue of shares upon exercise of share options	17	182	-	17,702	17,884	-	17,884
Acquisition of the Natural Gas Projects		-	-	(379,049)	(379,049)	-	(379,049)
Dividends paid by subsidiaries to non-controlling interest		-	-	-	-	(8,954)	(8,954)
		182	(383,186)	(893,273)	(1,276,277)	(371,566)	(1,647,843)
Balances at 30 June 2009		44,590	10,036,803	(506,942)	9,574,451	1,967,719	11,542,170
Balances at 1 January 2010		49,365	10,879,639	3,281,531	14,210,535	2,165,151	16,375,686
Total comprehensive income for the six months ended 30 June 2010		-	1,247,663	(32,889)	1,214,774	424,611	1,639,385
Transfer between reserves		-	(2,651)	2,651	-	-	-
Dividend for 2009	11	-	(346,782)	-	(346,782)	-	(346,782)
Recognition of equity settled share-based payments	17	-	-	42,981	42,981	-	42,981
Issue of shares upon exercise of share options	17	175	-	21,245	21,420	-	21,420
Dividend paid by subsidiaries to non-controlling interest		-	-	-	-	(51,796)	(51,796)
Purchase of non-controlling interest in subsidiaries	20(ii)	-	-	(93,286)	(93,286)	(229,020)	(322,306)
Capital contributions from non-controlling interest		-	-	-	-	203,184	203,184
		175	898,230	(59,298)	839,107	346,979	1,186,086
Balances at 30 June 2010		49,540	11,777,869	3,222,233	15,049,642	2,512,130	17,561,772

The accompanying notes are an integral part of this interim financial information.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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. PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, is an intermediate holding company of the Company and indirectly owned 56.12% equity interest in the Company as at 30 June 2010.

The address of the Company's principal office and registered office are Room 3907-3910, 39/F, 118 Connaught Road West, Hong Kong and Clarendon House, Church Street, Hamilton HM11, Bermuda, respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan ("Kazakhstan"), the Sultanate of Oman ("Oman"), Peru, the Kingdom of Thailand ("Thailand"), the Azerbaijan Republic ("Azerbaijan") and the Republic of Indonesia ("Indonesia"), and the sale of natural gas and transmission of natural gas in the PRC.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated interim condensed financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited consolidated interim condensed financial information presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Company for the year ended 31 December 2009.

Except as described below, the accounting policies and methods of computation applied in the preparation of the unaudited consolidated interim condensed financial information are consistent with those of the consolidated financial statements for the year ended 31 December 2009.

The consolidated interim condensed financial information as of 30 June 2010 and for the six months ended 30 June 2010 and 2009 included herein are unaudited but reflect, in the opinion of the Board of Directors, all adjustments (which include only normal recurring adjustments) necessary to properly prepare the unaudited consolidated interim condensed financial information, in all material respects, in accordance with HKAS 34. The results of operations for the six months ended 30 June 2010 are not necessarily indicative of the results of operations expected for the year ending 31 December 2010.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Costs that are incurred unevenly during the financial year are accrued or deferred in the unaudited consolidated interim condensed financial information only if it would be also appropriate to accrue or defer such costs at the end of the financial year.

The following new amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for or their impact is not material to the Group for the six months ended 30 June 2010.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 17	Leases
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRSs (Amendment)	Second Improvements to HKFRS 2009

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's unaudited consolidated interim condensed financial information.

(a) Estimation of oil and natural gas reserves

Estimates of oil and natural gas reserves are key elements in the Group's investment decision making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms, evolution of technology or development plans.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as the future price of crude oil. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of residual values of property, plant and equipment

The Group's management determines the estimated residual values for the Group's property, plant and equipment, other than oil and gas properties. This estimate is based on the historical experience of the actual residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technological advancement and innovations in the oil and gas industry. Management will adjust the depreciation charge where residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual residual values may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation in the future periods.

4 REVENUE AND TURNOVER

Turnover represents revenue from the sale of crude oil and natural gas. Analysis of revenue by segment is shown in Note 21.

5 OTHER GAINS, NET

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Net exchange gains/(losses)	19,352	(4,919)
Gains on disposal of assets held for sale (Note 16)	52,306	–
Others	25,795	10,405
	97,453	5,486

Notes to the Interim Financial Information

For the six months ended 30 June 2010

6 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the six months ended 30 June 2010 include HK\$162,292,000 (six months ended 30 June 2009: HK\$1,592,000) special levy which were paid or payable on the portion of income realised from the sales of domestically-produced crude oil at prices above a certain level.

7 INTEREST EXPENSES

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Interest on		
Bank loans, wholly repayable within five years	5,242	22,562
Loans other than bank loans, wholly repayable within five years, from:		
– Fellow subsidiaries	63,802	10,341
– Non-controlling interest of subsidiaries	–	6,684
Loans other than bank loans, not wholly repayable within five years, from a fellow subsidiary	–	38,596
	69,044	78,183

Notes to the Interim Financial Information

For the six months ended 30 June 2010

8 PROFIT BEFORE INCOME TAX EXPENSE

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Items debited in arriving at the profit before income tax expense include:		
Amortisation on advanced operating lease payments, intangibles and other non-current assets	572	1,705
Cost of inventories recognised as expense	2,107,703	1,189,554
Provision for loans to and amounts due from jointly controlled entities	–	4,511
Operating lease expenses	18,162	3,528

9 INCOME TAX EXPENSE

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Current tax		
– PRC	159,957	65,007
– Overseas	370,668	42,522
Deferred tax	530,625	107,529
	(10,434)	12,318
	520,191	119,847

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the period (Six months ended 30 June 2009: Nil).

Notes to the Interim Financial Information

For the six months ended 30 June 2010

9 INCOME TAX EXPENSE (CONTINUED)

The Group's subsidiaries in Mainland China are subject to corporate income tax of Mainland China at a statutory rate of 25.00% for the six months ended 30 June 2010 (Six months ended 30 June 2009: 25.00%).

The Group's certain subsidiaries operating in certain regions in Mainland China are qualified for certain tax incentives in a form of reduced corporation income tax rate. For the six months ended 30 June 2010, those subsidiaries enjoy preferential income tax rates ranging from 10.00% to 20.00% (Six months ended 30 June 2009: 10.00% to 20.00%).

Income tax expense on overseas (other than the PRC) profits has been calculated on the estimated assessable profit for the period at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas income tax expense is withholding tax of HK\$209,997,000 (Six months ended 30 June 2009: HK\$2,573,000) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company, which is charged at 20.00% (Six months ended 30 June 2009: 20.00%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

10 BASIC AND DILUTED EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$1,247,663,000 (Six months ended 30 June 2009: HK\$316,356,000) and weighted average number of ordinary shares in issue during the period of approximately 4,944,244,000 shares (Six months ended 30 June 2009: 4,450,012,000 shares).
- (b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK\$1,247,663,000 (Six months ended 30 June 2009: HK\$316,356,000), and the weighted average number of ordinary shares of approximately 5,029,477,000 shares (Six months ended 30 June 2009: 4,488,349,000 shares) which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 85,233,000 shares (Six months ended 30 June 2009: 38,337,000 shares) deemed to be issued at nil consideration if all outstanding share options granted had been exercised.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

11 DIVIDENDS

- (a) Final dividend attributable to owners of the Company in respect of 2008 of HK15 cents per share amounting to a total of HK\$668,854,000 were approved by the shareholders in the Annual General Meeting on 14 May 2009 and were paid on 1 June 2009.
- (b) Final dividend attributable to owners of the Company in respect of 2009 of HK7 cents per share amounting to a total of HK\$345,557,000 were approved by the shareholders in the Annual General Meeting on 10 June 2010. The amount is based on approximately 4,936,524,000 shares in issue as at 25 March 2010.
- (c) The actual final dividend for 2009 was approximately HK\$346,782,000 due to additional shares issued during the period from 26 March 2010 to 30 April 2010, the date of closure of the register of members, and were paid on 15 June 2010
- (d) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Cost		
At 1 January	12,186,058	10,467,860
Additions	888,021	264,355
Currency translation differences	–	(3,011)
At 30 June	13,074,079	10,729,204
Accumulated depletion, depreciation and impairment		
At 1 January	6,407,923	5,811,101
Charge for the period	403,783	250,152
Currency translation differences	–	(469)
At 30 June	6,811,706	6,060,784
Net book value at 30 June	6,262,373	4,668,420

Notes to the Interim Financial Information

For the six months ended 30 June 2010

13 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Share of net assets	1,174,870	1,067,638
Loans to jointly controlled entities	44,906	44,906
	1,219,776	1,112,544

Movements in share of net assets of jointly controlled entities for the six months ended 30 June 2010 are as follows:

	Unaudited For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
At 1 January	1,067,638	889,624
Share of profits	133,377	180,376
Dividend income received and receivable	(19,869)	(19,115)
Share of exchange reserves	–	3,954
Transferred to assets held for sale (Note 16)	(6,276)	–
At 30 June	1,174,870	1,054,839

Loans to jointly controlled entities are unsecured and interest free and not repayable within one year.

Dividends received and receivable from jointly controlled entities amounted to approximately HK\$19,869,000 for the six months ended 30 June 2010 (Six months ended 30 June 2009: HK\$19,115,000).

Notes to the Interim Financial Information

For the six months ended 30 June 2010

14 INVESTMENTS IN ASSOCIATES

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Share of net assets	4,169,318	4,833,673
Goodwill	397,739	397,739
	4,567,057	5,231,412

Movements in share of net assets of associates for the six months ended 30 June 2010 are as follows:

	Unaudited For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
At 1 January	4,833,673	5,164,024
Currency translation differences	–	(1,196)
Capital contributions	6,502	–
Share of profits less (losses)	999,902	(59,208)
Dividend income received and receivable	(1,670,759)	(12,866)
Share of exchange reserves	–	(985,147)
At 30 June	4,169,318	4,105,607

Dividends received and receivable from associates are approximately HK\$1,670,759,000 for the six months ended 30 June 2010 (Six months ended 30 June 2009: HK\$12,866,000).

Notes to the Interim Financial Information

For the six months ended 30 June 2010

15 ACCOUNTS RECEIVABLE

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Accounts receivable due from		
– Third parties	242,796	151,132
– Related parties	243,412	91,398
	486,208	242,530

Amounts due from related parties are unsecured and interest free.

The ageing analysis of accounts receivable at 30 June 2010 and 31 December 2009 is as follows:

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Within 3 months	453,928	218,663
Between 3 to 6 months	14,597	–
Over 6 months	17,683	23,867
	486,208	242,530

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2010, accounts receivable of HK\$32,280,000 (31 December 2009: HK\$23,867,000) were past due but for which the Group has not provided for impairment losses. These accounts receivable relate to companies for whom there is no recent history of default. The ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

16 ASSETS HELD FOR SALE

The major classes of assets classified as held for sale are as follows:

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Property, plant and equipment (Note (i))	–	567,867
Advanced operating lease payments (Note (i))	–	5,637
Investments in jointly controlled entities (Notes (ii) and (iii))	6,276	70,083
	6,276	643,587

Notes:

- (i) As at 31 December 2009, the assets related to the transmission of crude oil business ("Pipeline Business"), which was part of the Natural Gas Distribution segment, has been presented as held for sale following the Group's decision to dispose of this operation in service provision for crude oil transmission. On 18 December 2009, the Group entered into a disposal agreement with PetroChina to dispose of its entire interest in the Pipeline Business at a consideration of approximately RMB584,827,000 (approximately HK\$663,747,000) which has been received as at 31 December 2009 and classified as receipt in advance (Note 18). On 28 January 2010, the disposal was completed resulting in a gain on disposal of approximately HK\$48,412,000 recognised during the six months ended 30 June 2010 (Note 5).
- (ii) Pursuant to an agreement dated 15 January 2010, the Group disposed of its entire interest in a jointly controlled entity, Commonwealth Gobustan Limited ("CGL") for the consideration of US\$9,500,000 (approximately HK\$73,910,000). Accordingly, the Group classified CGL as held for sale as at 31 December 2009. On 7 April 2010, the disposal was completed resulting in a gain on disposal of approximately HK\$3,894,000 recognised during the six months ended 30 June 2010 (Note 5).
- (iii) Pursuant to an agreement dated 14 May 2010, the Group disposed of its entire interest in a jointly controlled entity, Beijing Zhongyou Company Limited ("Beijing Zhongyou"), for the consideration of RMB5,578,000 (approximately HK\$6,331,000). As at 30 June 2010, the completion of the transaction is still subject to the finalisation of certain conditions precedent as set out in the agreement. Accordingly, the Group classified Beijing Zhongyou as held for sale as at 30 June 2010.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

17 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares '000	Nominal value of ordinary shares HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each At 31 December 2009 and 30 June 2010	8,000,000	80,000
Issue and fully paid:		
Ordinary shares of HK\$0.01 each At 1 January 2009	4,440,784	44,408
Issue of shares upon exercise of share options (Note)	18,240	182
At 30 June 2009	4,459,024	44,590
At 1 January 2010	4,936,524	49,365
Issue of shares upon exercise of share options (Note)	17,500	175
At 30 June 2010	4,954,024	49,540

Note:

During the period, the Company allotted and issued 17,500,000 shares (Six months ended 30 June 2009: 18,240,000 shares) of HK\$0.01 each for cash at the exercise price of HK\$1.224 (Six months ended 30 June 2009: HK\$0.940 to HK\$1.224) per share as a result of the exercise of share options.

(b) Share option scheme

Pursuant to executive share option scheme of the Company dated 3 June 2002 and the resolution of the Company passed on 26 March 2010, 8,300,000 and 7,000,000 share options have been granted to directors and employees of the Company, respectively.

All of the options are vested to the option holders after 3 months from the date on which the options were granted. The exercise period of the options is 5 years from the grant date.

The closing price of the Company's shares immediately before 26 March 2010, the date of grant of the options, was HK\$10.320.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

17 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

The fair values of share options granted on 26 March 2010 were calculated using the Binomial model. The inputs into the model were as follows:

	Directors	Employees
Share price at grant date	HK\$10.320	HK\$10.320
Exercise price	HK\$10.320	HK\$10.320
Expected volatility	50.10%	50.10%
Risk-free rate	1.865%	1.865%
Expected dividend yield	3.42%	3.42%
Exercise multiple	2	1.5

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years.

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the independent professional valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The fair values of the options granted to directors and employees of the Company during the period are HK\$22,264,000 (Six months ended 30 June 2009: HK\$7,778,000) and HK\$20,717,000 (Six months ended 30 June 2009: HK\$6,345,000) respectively.

The number of shares in respect of which options had been granted and outstanding at 30 June 2010 under the 2002 Share Option Scheme was 143,500,000 shares (31 December 2009: 145,700,000 shares), representing 2.90% (31 December 2009: 2.95%) of the issued share capital of the Company at 30 June 2010.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

17 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

Details of the options granted under the scheme outstanding as at 30 June 2010 and 31 December 2009 are as follows:

	Date of grant	Exercise period	Exercise price	Number of shares subject to the options	
				30 June 2010	31 December 2009
Directors	08/01/2007	08/04/2007-07/01/2012	HK\$4.186	55,000,000	55,000,000
	26/05/2008	26/08/2008-25/05/2013	HK\$4.240	7,100,000	7,100,000
	26/03/2009	26/06/2009-25/03/2014	HK\$3.250	7,100,000	7,100,000
	26/03/2010	26/06/2010-25/03/2015	HK\$10.320	8,300,000	–
Employees	27/04/2005	27/07/2005-26/04/2010	HK\$1.224	–	17,500,000
	08/01/2007	08/04/2007-07/01/2012	HK\$4.186	25,000,000	25,000,000
	14/09/2007	14/12/2007-13/09/2012	HK\$4.480	20,000,000	20,000,000
	26/05/2008	26/08/2008-25/05/2013	HK\$4.240	7,000,000	7,000,000
	26/03/2009	26/06/2009-25/03/2014	HK\$3.250	7,000,000	7,000,000
	26/03/2010	26/06/2010-25/03/2015	HK\$10.320	7,000,000	–
				143,500,000	145,700,000

Notes to the Interim Financial Information

For the six months ended 30 June 2010

18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Accounts payable		
– Third parties	108,311	207,139
– Related parties	481,051	216,705
	589,362	423,844
Advances from customers	94,784	69,909
Salaries and welfare payable	47,926	71,291
Accrued expenses	236,198	18,476
Dividends payable by subsidiaries to non-controlling interest	19,813	43,850
Interest payable	111,641	67,578
Construction fee and equipment cost payables	81,972	119,825
Amounts due to related parties		
– Non-controlling interest	49,058	49,058
– Others	2,334	2,334
Consideration payables	81,296	168,789
Receipts in advance (Note 16)	–	663,747
Other payables	239,540	202,732
	1,553,924	1,901,433

Balances with related parties are unsecured, interest free and with no fixed terms of repayment.

The ageing analysis of accounts payable at 30 June 2010 and 31 December 2009 is as follows:

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Within 3 months	275,237	327,876
Between 3 to 6 months	73,609	64
Over 6 months	240,516	95,904
	589,362	423,844

Notes to the Interim Financial Information

For the six months ended 30 June 2010

19 BORROWINGS

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Short-term borrowings		
– Secured	–	14,754
– Unsecured	942,042	148,565
	942,042	163,319
Long-term borrowings – Unsecured	1,792,942	1,793,401
	2,734,984	1,956,720

As at 31 December 2009, secured short-term borrowings were secured by property, plant and equipment and advanced operating lease payments and assets held for sale with aggregate carrying values of HK\$40,753,000.

The movements in the borrowings can be analysed as follows:

	Unaudited 2010 HK\$'000	2009 HK\$'000
At 1 January	1,956,720	2,270,571
Increase in borrowings	907,534	1,154,211
Repayments of borrowings	(129,270)	(1,041,686)
At 30 June	2,734,984	2,383,096

Notes to the Interim Financial Information

For the six months ended 30 June 2010

19 BORROWINGS (CONTINUED)

The borrowings can be analysed as follows:

	Short-term borrowings		Long-term borrowings	
	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Bank loans, wholly repayable within five years	–	14,754	39,301	–
Loans other than bank loans				
– Wholly repayable within five years	942,042	148,565	1,753,641	828,510
– Not wholly repayable within five years	–	–	–	964,891
	942,042	163,319	1,792,942	1,793,401

As at 30 June 2010 and 31 December 2009, the Group's short-term borrowings were repayable within one year and the Group's long-term borrowings were repayable as follows:

	Bank loans		Loans other than bank loans	
	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Between one to two years	5,895	–	374,569	397,268
Between two to five years	33,406	–	1,379,072	1,203,155
After five years	–	–	–	192,978
	39,301	–	1,753,641	1,793,401

As at 30 June 2010 and 31 December 2009, the loans other than bank loans were from fellow subsidiaries and non-controlling interest of subsidiaries, unsecured and bore interest ranging from 4.30% to 8.00% per annum.

As at 30 June 2010, the carrying values of borrowings approximate their fair values due to short maturity except for the amount of HK\$1,753,641,000 (31 December 2009: HK\$1,793,401,000) whose fair value is approximately HK\$2,142,217,000 (31 December 2009: HK\$2,074,372,000) and the fair value is based on cash flows discounted using a rate based on the borrowing rate ranged from 0.29% to 4.50% (31 December 2009: 0.23% to 4.32%).

Notes to the Interim Financial Information

For the six months ended 30 June 2010

20 SUBSIDIARIES

The principal subsidiaries of the Group are:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
<u>Exploration, production and sales of crude oil in the PRC</u>				
Hafnium Limited	British Virgin Islands	US\$1	Limited liability company	100.00%
Beckbury International Limited	British Virgin Islands	US\$1	Limited liability company	100.00%
<u>Exploration, productions and sales of crude oil in Peru</u>				
SAPET Development Corporation ("SAPET")	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (Note (i))
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (Note (i))
<u>Exploration, production and sales of crude oil in Thailand</u>				
Central Place Company Limited	Hong Kong	HK\$1,600	Limited liability company	100.00%
Sino-U.S. Petroleum Inc.	United States of America	US\$1,000	Limited liability company	100.00%
CNPCHK (Thailand) Limited	Thailand	Baht100,000,000	Limited liability company	100.00%
<u>Exploration, production and sales of crude oil in Azerbaijan</u>				
Fortunemate Assets Limited	British Virgin Islands	US\$1	Limited liability company	100.00%
<u>Exploration, production and sales of crude oil in Indonesia</u>				
Continental GeoPetro (Bengara-II) Limited	British Virgin Islands	US\$50,000	Limited liability company	70.00%

Notes to the Interim Financial Information

For the six months ended 30 June 2010

20 SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC				
CNPC Shennan Oil Technology Development Co., Ltd.	PRC	RMB102,000,000	Limited liability company	80.39%
華油天然氣股份有限公司 ("Huayou")	PRC	RMB347,000,000	Limited liability company	77.59% (Note (ii))
新疆新捷股份有限公司	PRC	RMB516,096,000	Limited liability company	97.26%
河北華港燃氣有限公司	PRC	RMB200,000,000	Sino-foreign equity joint venture	51.00%
Xi'an Qinggang Clean Energy Technology Company Limited	PRC	RMB50,000,000	Sino-foreign equity joint venture	51.00%
Xing Jing Bridge Energy Limited	PRC	RMB266,250,000	Limited liability company	75.00%

Notes:

- (i) In accordance with the share purchase agreement dated 8 September 2001, the Group has the power to control the financial and operating policies of SAPET. As a result, SAPET is accounted for as a subsidiary of the Company.

Since SAPET Development Peru Inc. is wholly owned by SAPET, it is also accounted for as a subsidiary of the Company.

- (ii) Purchase of non-controlling interest in subsidiaries during the six months ended 30 June 2010 mainly included the acquisition of an additional 26.58% equity interest in Huayou. On 30 December 2009, the Group entered into an acquisition agreement with a non-controlling interest to acquire 92,250,000 shares in Huayou, representing approximately 26.58% equity interest in Huayou, at a consideration of RMB260,151,000 (approximately HK\$293,971,000). The Group's equity interest in Huayou increased from 51.01% to 77.59%. The carrying amount of the non-controlling interest in Huayou on the date of acquisition was HK\$209,190,000. The Group recognised a decrease in non-controlling interest of approximately HK\$209,190,000 and a decrease in equity attributable to owners of the Company of HK\$84,781,000.

Effects of transactions with non-controlling interests on the equity attributable to the owners of the Company for the six months ended 30 June 2010:

	HK\$'000
Total comprehensive income for the period attributable to the owners of the Company	1,214,774
Changes in equity attributable to the owners of the Company arising from:	
– Acquisition of non-controlling interest in Huayou	(84,781)
– Acquisition of non-controlling interest in other subsidiaries	(8,505)
Net effect for transactions with non-controlling interests on changes in equity attributable to the owners of the Company	(93,286)
	1,121,488

Notes to the Interim Financial Information

For the six months ended 30 June 2010

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 Board of 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 sale of crude oil and natural gas. It is further evaluated on a geographic basis (PRC, South America and other territories).

The Natural Gas Distribution segment is engaged in the sale of natural gas and the transmission of natural gas in the PRC.

No sales between operating segments are undertaken. The Board of 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 jointly controlled entities ("segment results").

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

Corporate income and expenses, net, mainly refers to interest income earned from time deposits with maturities over three months and cash and cash equivalents, and general and administrative expenses incurred at corporate level.

Corporate assets mainly comprise time deposits with maturities over three months and cash and cash equivalents held at corporate level.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

21 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2010 and 2009 are as follows:

	Unaudited					Total HK\$'000
	Exploration and Production South		Natural Gas Distribution		Corporate HK\$'000	
	PRC HK\$'000	America HK\$'000	Others HK\$'000	PRC HK\$'000		
For the six months ended 30 June 2010						
Revenue from external customers	1,475,686	383,711	380,736	1,486,011	–	3,726,144
Segment results	633,670	192,671	7,811	270,944	(47,016)	1,058,080
Share of profits less (losses) of:						
– Associates						999,902
– Jointly controlled entities						133,377
Profit before income tax expense						2,191,359
Income tax expense						(520,191)
Profit for the period						1,671,168
Segment results included:						
Interest income	2,534	111	241	3,002	3,039	8,927
Depreciation, depletion and amortisation	156,184	28,018	140,695	79,251	207	404,355
Interest expenses	–	–	42,940	26,104	–	69,044
As at 30 June 2010						
Non-current assets	2,740,358	384,281	1,111,822	2,671,086	72,722	6,980,269
Current assets	2,520,713	158,199	1,608,657	2,794,872	3,006,823	10,089,264
Segment assets	5,261,071	542,480	2,720,479	5,465,958	3,079,545	17,069,533
Investments in jointly controlled entities						1,219,776
Investments in associates						4,567,057
Available-for-sale financial assets						93,978
Deferred tax assets						40,757
Prepaid income taxes						40,198
Total assets						23,031,299

Notes to the Interim Financial Information

For the six months ended 30 June 2010

21 SEGMENT INFORMATION (CONTINUED)

	Unaudited					Total HK\$'000
	Exploration and Production South			Natural Gas Distribution	Corporate HK\$'000	
	PRC HK\$'000	America HK\$'000	Others HK\$'000	PRC HK\$'000		
For the six months ended 30 June 2009						
Revenue from external customers	724,534	198,588	208,583	874,020	–	2,005,725
Segment results	167,192	86,260	(23,341)	169,624	(34,174)	365,561
Share of profits less (losses) of:						
– Associates						(59,208)
– Jointly controlled entities						180,376
Profit before income tax expense						486,729
Income tax expense						(119,847)
Profit for the period						366,882
Segment results included:						
Interest income	15,537	1,018	1,880	1,834	3,948	24,217
Depreciation, depletion and amortisation	142,337	15,891	42,617	50,696	316	251,857
Interest expenses	–	–	38,596	39,587	–	78,183
As at 31 December 2009						
Non-current assets	2,463,406	276,741	1,187,567	2,040,387	96,903	6,065,004
Current assets	1,912,030	204,504	296,679	2,305,995	4,067,350	8,786,558
Segment assets	4,375,436	481,245	1,484,246	4,346,382	4,164,253	14,851,562
Investments in jointly controlled entities						1,112,544
Investments in associates						5,231,412
Available-for-sale financial assets						105,468
Deferred tax assets						78,598
Prepaid income taxes						37,173
Total assets						21,416,757

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 2010, revenue of approximately HK\$1,957,659,000 (Six months ended 30 June 2009: HK\$923,122,000) are derived from two single external customers. The revenue is attributable to the Exploration and Production and Natural Gas segments.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

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 1 to 15 years and usually do not contain renewal options. Future minimum lease payments as of 30 June 2010 and 31 December 2009 under non-cancellable operating leases are as follows:

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Not later than 1 year	27,529	14,033
Later than 1 year and not later than 5 years	94,885	40,932
More than 5 years	84,590	118,647
	207,004	173,612

(b) Capital commitments

	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
Contracted but not provided for:		
Development cost under the Xinjiang Contract	66,971	133,943
Development cost under the Leng Jiapu Contract	419,317	419,317
Development cost for Azerbaijan Kursangi and Kurabagli oil field	54,281	106,843
Acquisitions of/capital contributions to investments (Note)	702,917	232,049
Other property, plant and equipment	1,441,740	559,015
	2,685,226	1,451,167
Authorised but not contracted for:		
Development cost for Onshore Exploration Block No. L21/43 in Thailand	104,652	137,051
Development cost for Indonesia Bengara-II	169,227	169,227
Development cost for Peru Talara oil field	118,389	223,409
Development cost for Oman oil field	48,383	115,442
Acquisitions of/capital contributions to investments	839,241	725,593
Other property, plant and equipment	5,001,702	6,452,584
	6,281,594	7,823,306

Notes to the Interim Financial Information

For the six months ended 30 June 2010

22 COMMITMENTS (CONTINUED)

(b) Capital commitments (Continued)

Note:

The Group's committed investments as at 30 June 2010 mainly included the acquisition of PetroChina LNG Jiangsu Co., Ltd.. On 17 May 2010, the Group entered into an acquisition agreement with PetroChina to acquire 55.00% equity interest in PetroChina Jiangsu LNG Co., Ltd. at a cash consideration of RMB500,206,000 (equivalent to approximately HK\$567,707,000). As of the date of this financial information, the completion of the transaction is still subject to the finalisation of certain conditions precedent as set out in the acquisition agreement.

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, other state-owned enterprises and their subsidiaries which the PRC Government has control, joint control or significant influence over and enterprises which the Group is able to control, jointly control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members. In addition to the related party information shown elsewhere in this unaudited consolidated interim condensed financial information, 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 and its subsidiaries and associates

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 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) the Master Agreement in 2003, which was subsequently amended in 2006 pursuant to the First Supplemental Agreement.

On 25 March 2009 and 19 May 2010, the Group and CNPC entered into the Second and Third Supplemental Agreements for expansion of the scope of products and services to be provided by the CNPC Group under the Master Agreement, and also for the extension of the term of the Master Agreement to expire on 31 December 2011.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC and its subsidiaries and associates (Continued)

(i) (Continued)

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. Whereas, the Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects.

- Provision of products and services by the CNPC Group to the Group in relation to oil exploration and production projects amounted to approximately HK\$407,694,000 (Six months ended 30 June 2009: HK\$501,608,000) in the six months ended 30 June 2010.
 - Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK\$1,475,686,000 (Six months ended 30 June 2009: HK\$865,519,000) in the six months ended 30 June 2010.
 - Supply of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the CNPC Group to the Group amounted to approximately HK\$452,806,000 (Six months ended 30 June 2009: HK\$463,016,000) in the six months ended 30 June 2010.
 - Assistance fee paid to the CNPC Group amounted to approximately HK\$347,000 (Six months ended 30 June 2009: HK\$211,000) in the six months ended 30 June 2010.
 - Training fee paid to the CNPC Group amounted to approximately HK\$443,000 (Six months ended 30 June 2009: HK\$55,000) in the six months ended 30 June 2010.
- (ii) Purchases of financial service principally represent interest charged on the loans and advances obtained from CNPC and fellow subsidiaries, insurance fee, etc. The total amount of these transactions amounted to approximately HK\$63,802,000 in the six months ended 30 June 2010 (Six months ended 30 June 2009: HK\$48,397,000). Information on loans from related parties is included in Note 7.
- (iii) The Group has entered into agreements for the sales of natural gas to fellow subsidiaries of the CNPC Group and certain associates of the Group amounted to approximately HK\$135,744,000 in the six months ended 30 June 2010 (Six months ended 30 June 2009: HK\$22,350,000).

Notes to the Interim Financial Information

For the six months ended 30 June 2010

23 RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Key management compensation**

	Unaudited	
	For the six months	
	ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Salaries and allowances	5,100	6,850
Retirement benefits – defined contribution scheme	637	637
Share-based payments	28,392	10,497
	34,129	17,984

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

Apart from transactions with CNPC, its subsidiaries, associates and jointly controlled entities, 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.

Notes to the Interim Financial Information

For the six months ended 30 June 2010

24 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Save as disclosed elsewhere in this unaudited consolidated interim condensed financial information, the following is a summary of significant events after the date of the statement of financial position:

- (a) On 17 August 2010, the Group entered into a joint venture agreement with a third party, pursuant to which the parties agreed to establish a sino-foreign co-operative joint venture in the PRC, PetroChina Tianjin Natural Gas Pipeline Company Limited ("Tianjin Pipeline"), which will principally engage in gas pipeline construction and operation; coordination in gas supply to Tianjin; natural gas processing, storage, transmission and related operations; supply and sale of natural gas, compressed natural gas and liquefied natural gas and related operations; and leasing of gas facilities and equipment. Pursuant to the agreement, the expected total investment cost in Tianjin Pipeline is RMB1,500,000,000 (approximately HK\$1,702,417,000). The total registered capital of Tianjin Pipeline is RMB500,000,000 (approximately HK\$567,472,000). The Company and the third party have agreed to inject 51.00% and 49.00% of the total registered capital into Tianjin Pipeline respectively. The total amount for the initial capital injection by both parties is RMB100,000,000 (approximately HK\$113,494,000) payable in cash.
- (b) On 26 August 2010, the Group entered into a joint venture agreement with two third parties, pursuant to which the parties agreed to establish a sino-foreign co-operative joint venture in the PRC, Cangzhou Gas Limited Company PetroChina ("Cangzhou Gas"), which will principally engage in investment, operation and management of city gas pipeline infrastructure in the PRC, transmission of pipeline gas to residents, governmental buildings, commercial and industrial users, construction and operation of gas stations, development and application of petroleum, natural gas and other related technologies. Pursuant to the agreement, the expected total investment cost in Cangzhou Gas is RMB300,000,000 (approximately HK\$340,483,000). The total registered capital of Cangzhou Gas is RMB100,000,000 (approximately HK\$113,494,000). The Company and the two third parties have agreed to inject 51.00%, 40.00% and 9.00% of the total registered capital into Cangzhou Gas respectively.