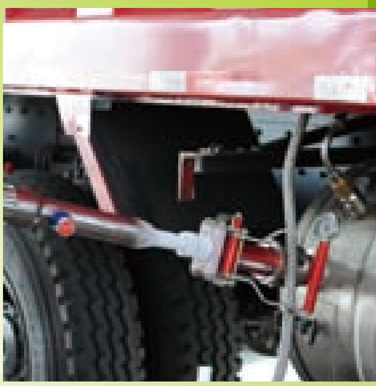
KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)



2011

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

HSBC Securities Service (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

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

39/F., 118 Connaught Road West
Hong Kong
Telephone: 2522 2282
E-mail: info@kunlun.com.hk
Fax: 2868 1741

PRINCIPAL REGISTRARS

HSBC Securities Service (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

BUSINESS REVIEW

I am pleased to report to the shareholders on behalf of the Board of Kunlun Energy Company Limited (the "Company") the 2011 interim results of the Company and its subsidiaries (together, the "Group"). For the six months ended 30 June 2011 (the "Period"), the revenue of the Group amounted to HK$6,759 million while the unaudited profit attributable to owners of the Company amounted to HK$1,651 million, representing an increase of 81.40% and 32.29% respectively compared with the unrestated revenue and profit attributable to owners of the Company of the same period last year. During the Period, international oil prices remained high and the Group's natural gas business developed on schedule, driving the contribution to the Group's revenue.

1. Exploration and Production Segment

During the Period, Exploration and Production Segment recorded revenue of HK$2,945 million, representing an increase of 31.47% compared with the unrestated revenue of the same period last year and accounting for 43.57% of our total revenue. The production volume of our nine oil projects remained stable at 8.37 million barrels, up by 0.37% over the same period last year. Given increasing oil prices in the international market, the average realised price of crude oil of the Group was US$99.81 per barrel (same period 2010: US$70.38 per barrel), representing an increase of 41.82% compared with the unrestated selling prices of the same period last year. The Group's share of profit, net of 20% withholding tax and non-controlling interest in respect of Kazakhstan project CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") increased by 15.27% (compared with unrestated share of profits less losses of an associate) to HK$521 million from that of the same period last year.

The Petroleum Concession of the Sukhothai oil field in Thailand was successfully extended to April 2021. The extension means a secure reserves for the stable production of our oil and gas in the future. The Bengara-II block in Indonesia completed the collection of 3-D seismic data during the Period. Processing and interpretation of data are underway and it is planned to drill one exploration well during the year 2011. The contract of the project will expire in November 2011 and the Group is seeking extension of the term of the contract.

2. Natural Gas Pipeline Segment

The natural gas pipeline transmission business did not commence operation during the Period. In December 2010, the Group entered into an acquisition agreement with our holding company, PetroChina Company Limited, in connection with the acquisition of a 60% equity interest in PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Gas Pipeline Acquisition"). A new joint venture agreement and articles of association were signed with Beijing Gas Group Company Limited on 3 May 2011. As of the date of this report, the acquisition is in the process of approval by the relevant PRC government authorities. The construction of the ancillary natural gas distribution pipelines, such as Wuhai-Yinchuan Line (between Inner Mongolia and Ningxia), Bazhou-Baoding Line (in Hebei), and Dagang-Huanghua Line (between Tianjin and Hebei), invested by the Group last year has made smooth progress. It is expected that they will commence operation in phases starting in the second half of 2011.

The Group believes that it will experience rapid growth in the Natural Gas Pipeline Segment in the second half of 2011 following the approval of Beijing Gas Pipeline Acquisition and the gradual commencement of operations of other ancillary natural gas distribution pipelines, which is expected to result in significant growth in both revenue and profit and such businesses will become one of the most important sources of cash flow and business drivers in the future.

3. LNG Terminal Segment

Our Group's two LNG Terminals were either under construction or in trial operation phase and did not generate revenue to the Group during the Period. Jiangsu LNG Phase 1 project (3.5 million tonne/annum) received its first shipload of LNG and commenced its trial operation in May 2011. Dalian LNG Phase 1 (3 million tonne/annum) scheduled for commissioning for trial operation in the fourth quarter this year. It is estimated that two LNG Terminals will commence operation next year and they will primarily provide loading, unloading, storage and re-gasification services to the holding company, which will provide a stable source of income as well as source of LNG to the Group.

4. LNG Processing Plants Segment

The LNG resources guarantee was crucial for the implementation of the "gas in substitution of oil" strategy. The Group has commenced the construction of 18 LNG processing plants throughout the country, among which 3 plants started operation and the rest were planned to commence production before the end of 2012. The LNG processing plant in Shandong will apply domestic technology and equipment to reduce costs. Upon completion, the Group will possess the largest LNG processing capability in the country.

5. Natural Gas Sales Segment

During the Period, revenue from the sales of natural gas amounted to HK$3,814 million, representing an increase of 156.66% over the unrestated revenue of the same period last year and accounting for 56.43% of the total sales revenue. The surge in revenue from such business was mainly attributable to the following factors: (1) successful marketing development during the Period, yielding sales volume of 1,590 million cubic metres, up by 89.08% over the unrestated sales volume of the same period last year; (2) satisfactory retail price pass through in downstream sales – the average natural gas price was RMB1,871 per thousand cubic meters, representing an increase of RMB398 or 27.02% compared with the unrestated natural gas price of the same period last year; and (3) increased proportion of high value-added natural gas products of CNG and LNG.

Comparing with the same period last year, during the Period the number of CNG stations increased from 117 stations to 189 stations, among which 171 stations were newly in operation, driving up CNG sales by 66.26%; the number of LNG processing plants increased from 10 plants to 18 plants, of which 3 plants were newly in operation; the number of LNG stations increased from 3 stations to 62 stations, of which 18 stations were newly in operation, with LNG revenue increasing by 143.90% compared with the unrestated LNG revenue of the same period last year; and 22 cities covered by city gas supply by the Group as at 30 June 2011.

The Group listed the LNG business as the prior development project and implemented our "gas in substitution of oil" strategy to actively explore the high-end LNG markets during the Period. Remarkable result was achieved by our market development efforts. A number of cooperation agreements were concluded with local governments or public transport companies in Haikou (Hainan Province), Panzhihua (Sichuan Province), Baoding (Hebei Province), Suzhou, Wuxi, Changzhou, Nantong and Zhenjiang (Jiangsu Province) in a bid to jointly promote the utilisation of LNG as a new energy for public transport and long-distance passenger and freight transport. Our goal is to promote the development of a low-carbon transportation system, achieve diversification of energy sources, and contribute to the development of a low-carbon, green and sustainable economy in such regions.

BUSINESS PROSPECTS

Our Group will continue to move forward our "gas in substitution of oil" strategy. Following the gradual commencement of operations of our LNG Processing and Terminals, completion of the approval process of Beijing Gas Pipeline Acquisition and commencement of operations of our ancillary natural gas transmission pipelines that are currently under construction, our Group's security level of natural gas resources will be greatly improved by then. In addition, the national industry standard "Technical Standard for Vehicle Liquefied Natural Gas Fueling Stations" was issued recently. The implementation of the standard filled the blank of LNG industry standards in China, and will help further the development of the domestic LNG industry and more importantly, promote the development and use of LNG vehicles. The Group will seize this opportunity to continue investment in market development, further expand the utilisation markets coverage of LNG, explore the utilisation of LNG used in rail and inland river transportation, and promote a higher degree of utilisation of LNG by heavy trucks, public transport vehicles, inland river vessels and oil rigs, so as to capture the high-end natural gas market and strive for a higher share of the domestic natural gas sales market.

In the meantime, the Group will seize the opportunity brought forth by the transition to a low-carbon economy and tremendous demand for clean energy resulting from the rapid economic development in China. Taking the advantage of being listed, we will implement effective capital utilisation strategies to identify more investment opportunities that are in line with our development direction in the natural gas business area. Our goals are to achieve leap-forward development, maximise the return for our shareholders and employees, and make greater contribution to the national goal of energy conservation, emission reductions and sustainable development.

By Order of the Board

Li Hualin
Chairman

Hong Kong, 25 August 2011

Management Discussion and Analysis

Revenue from the Natural Gas Distribution segment has exceeded that from the Exploration and Production segment for two consecutive periods while the Exploration and Production segment remained the key profit driver of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 30 June 2011 (the "Period").

The Group continued to develop its natural gas segment through acquisitions from holding companies and completed the acquisition of a 75% equity interest in PetroChina Dalian LNG Company Ltd. ("Dalian LNG") from PetroChina Company Limited ("PetroChina"), an intermediate holding company, on 31 March 2011. Comparative financial information in this interim report has been restated to reflect the effect of merging this subsidiary with the Group. Details of which are set out in Note 24 to the Interim Financial Information.

The Group has made a good progress on the acquisition of a 60% equity interest in PetroChina Beijing Gas Pipelines Co., Ltd. ("Beijing Gas Pipeline") and expected its completion will take place in the second half of 2011.

OPERATING RESULTS

The financial results of the Group for the Period were benefited from the upsurge of international crude oil price and the expansion of natural gas business. Profit before income tax expense of the Group for the Period was approximately HK$2,860 million (same period 2010: HK$2,191 million, unrestated), representing an increase of 30.53% compared with same period last year or increase of 25.82% compared with restated amount of HK$2,273 million. Profit attributable to owners of the Company for the Period was approximately HK$1,651 million (same period 2010: HK$1,248 million, unrestated), representing an increase of 32.29% compared with same period last year or increase of 29.69% compared with restated amount of HK$1,273 million.

REVENUE

Revenue for the Period was approximately HK$6,759 million, representing an increase of 81.40% as compared with unrestated amount of HK$3,726 million or 60.05% as compared with restated amount of HK$4,223 million for the same period last year. The increase was mainly due to the increase in both selling prices and volume of sales of crude oil and natural gas.

Revenue from the Exploration and Production segment accounted for 43.57% of the Group's total revenue amounting to approximately HK$2,945 million while revenue from the Natural Gas Distribution segment accounted for 56.43% of the Group's total revenue amounting to approximately HK$3,814 million.

The table below sets out the external sales volume and revenue for major segments of the Group for the six months ended 30 June 2011 and 2010, and percentages of change during these two periods.

	Sale/processing volume For the six months ended 30 June			**Revenue For the six months ended 30 June**		
	2011	2010	Change	**2011**	2010	Change
	'000 barrel	'000 barrel	%	**HK$'million**	HK$'million	%
Exploration and Production						
The Group						
The People's Republic of China (the "PRC")	**2,832**	2,873	(1.43%)	**2,020**	1,476	36.86%
South America	**256**	318	(19.50%)	**435**	384	13.28%
Central Asia	**378**	404	(6.44%)	**300**	236	27.12%
South East Asia	**240**	262	(8.40%)	**190**	144	31.94%
	3,706	3,857	(3.91%)	**2,945**	2,240	31.47%
Share of CNPC-Aktobemunaigas Joint Stock Company ("Aktobe")	**3,376**	3,376	0.00%	**–**	–	N/A
Share of jointly controlled entities in Middle East	**1,286**	1,104	16.49%	**–**	–	N/A
Total of Exploration and Production	**8,368**	8,337	0.37%	**2,945**	2,240	31.47%

Management Discussion and Analysis

	Sale/processing volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2011	2010	Change	**2011**	2010	Change
	'000 cubic metre	'000 cubic metre	%	**HK$' million**	HK$' million	%
Natural Gas Distribution						
Natural Gas Sales, as previously reported	**1,590,342**	841,106	89.08%	**3,814**	1,486	156.66%
Effect of business combination under common controls	**N/A**	261,567	N/A	**N/A**	497	N/A
Natural Gas Sales, as restated	**1,590,342**	1,102,673	44.23%	**3,814**	1,983	92.33%
LNG Processing and Terminal	**–**	–	N/A	**–**	–	N/A
Natural Gas Pipelines	**–**	–	N/A	**–**	–	N/A
Total of Natural Gas Distribution	**1,590,342**	1,102,673	44.23%	**3,814**	1,983	92.33%
Total revenue				**6,759**	4,223	60.05%

OTHER GAINS, NET

Other gains, net for the Period was approximately HK$64 million, representing a decrease of 34.02% as compared with unrestated amount of HK$97 million or 27.27% as compared with restated amount of HK$88 million for the same period last year. The decrease was mainly due to an one-off gain on disposal of refined oil pipeline transmission assets of HK$48 million recognised in the six months ended 30 June 2010.

INTEREST INCOME

Interest income for the Period was approximately HK$40 million, representing an increase of 344.44% as compared with unrestated amount of HK$9 million or three times as compared with restated amount of HK$10 million for the same period last year. The increase was mainly due to an increase in interest rates and bank deposits held by the Group. In June 2011, the Group has obtained additional borrowings from China Petroleum Finance Company Limited amounting to approximately HK$4,089 million. As at 30 June 2011, the entire amount was not yet utilised.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others for the Period were approximately HK$3,272 million, representing an increase of 121.68% (same period 2010: HK$1,476 million, unrestated) or increase of 78.60% compared with restated amount of HK$1,832 million. This was mainly due to an increase in purchase volume of natural gas which is in line with the market condition.

EMPLOYEE COMPENSATION COSTS

Employee compensation costs for the Period was approximately HK$464 million, representing an increase of 69.96% (same period 2010: HK$273 million, unrestated) or increase of 50.16% compared with restated amount of HK$309 million. This increase was mainly due to the increase of headcount in connection of the expansion of the Group's natural gas business.

EXPLORATION COSTS

Exploration costs for the Period increased by 616.67% to approximately HK$129 million (same period 2010: HK$18 million (same as restated figures)). This was mainly due to more exploration activities undertaken by the Indonesia project.

DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period increased by 45.54% to approximately HK$588 million (same period 2010: HK$404 million, unrestated) or increased by 44.12% compared with restated amount of HK$408 million. This was primarily due to an addition of capital expenditure during the Period following the natural gas business expansion and revision of oil and gas reserve estimate. During the Period, there was no depreciation, depletion and amortisation in PetroChina LNG Jiangsu Company Ltd. and Dalian LNG as they are either under construction or not yet commenced commercial production.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period increased by 56.52% to HK$540 million (same period 2010: HK$345 million, unrestated) or increased by 53.41% compared with restated amount of HK$352 million. The increase was mainly due to an increase in royalty expenses following the increase of crude oil sales revenue as well as an increase in general and administrative expenses of the Group's natural gas businesses.

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK$396 million, representing an increase of 127.59% (same period 2010: HK$174 million, unrestated) or increase of 121.23% compared with restated amount of HK$179 million. The increase was mainly due to the increase of average crude oil prices as the special levy was computed based on the crude oil price increment.

OTHER EXPENSES, NET

There was no other expenses for the Period (same period 2010: HK$14 million (same as restated figures)). An impairment of other receivables of a subsidiary was recorded last year.

INTEREST EXPENSES

There was no interest expenses for the Period (same period 2010: HK$69 million (same as restated figures)). All interest expenses incurred was capitalised into the Group's construction-in-progress during the construction period.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period increased 22.40% to approximately HK$1,224 million (same period 2010: HK$1,000 million (same as restated figures)), it was mainly due to the increment of crude oil selling price in Aktobe.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

Share of profits less losses of jointly controlled entities for the Period increased 21.80% to approximately HK$162 million (same period 2010: HK$133 million (same as restated figures)), it was mainly due to the increment of crude oil selling price and sales volume in Oman project.

PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense increased by 30.53% from approximately HK$2,191 million for the same period last year to approximately HK$2,860 million for the Period or increased by 25.82% compared with restated amount of HK$2,273 million.

The table below sets out the profit before income tax expense for major segments of the Group for the six months ended 30 June 2011 and 2010, and percentages of change during these two periods.

	Profit before income tax expense For the six months ended 30 June		
	2011	2010	Change
	HK$'million	HK$'million	%
Exploration and Production			
The Group			
PRC	**878**	634	38.49%
South America	**230**	193	19.17%
Central Asia	**(46)**	(39)	(17.95%)
South East Asia	**(40)**	47	(185.11%)
	1,022	835	22.40%
Share of Aktobe	**1,136**	938	21.11%
Share of jointly controlled entities in Middle East	**160**	111	44.14%
Total of Exploration and Production	**2,318**	1,884	23.04%
Natural Gas Distribution			
The Group			
Natural Gas Sales, as previously reported	**452**	270	67.41%
Effect of business combination under common controls	**N/A**	82	N/A
Natural Gas Sales, as restated	**452**	352	28.41%
LNG Processing and Terminal (note)	**(14)**	–	N/A
Natural Gas Pipelines	**–**	–	N/A
	438	352	24.43%
Share of associates	**88**	62	41.94%
Total of Natural Gas Distribution	**526**	414	27.05%
Total profit before income tax expense	**2,844**	2,298	23.76%

Note: Formerly known as "LNG Processing and Storage".

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK$663 million, representing an increase of 27.50% (same period 2010: HK$520 million, unrestated) or increase of 22.10% compared with restated amount of HK$543 million. The increase was in line with an increase in assessable profit for the Period. The effective tax rate was relatively stable over the Period.

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

The profit for the Period of the Group were approximately HK$2,197 million, representing an increase of 31.48% as compared with unrestated amount of HK$1,671 million or 26.99% as compared with restated amount of HK$1,730 million for the same period last year. The profit attributable to owners of the Company for the Period was approximately HK$1,651 million, representing an increase of 32.29% as compared with unrestated amount of HK$1,248 million or 29.69% as compared with restated amount of HK$1,273 million for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2011, the carrying value of total assets of the Group is approximately HK$46,226 million, representing an increase of HK$14,000 million or 43.44% as compared with 31 December 2010 unrestated amount of HK$32,226 million or increase of HK$9,775 million or 26.82% as compared with 31 December 2010 restated amount of HK$36,451 million.

The gearing ratio of the Group was 37.43% as at 30 June 2011 compared with 24.44% (unrestated) or 22.06% (restated) as at 31 December 2010. It is computed by dividing the total borrowings of HK$14,396 million (31 December 2010: HK$6,806 million (same as restated figures)) by the total equity and borrowings of HK$38,465 million (31 December 2010: HK$27,844 million, unrestated; HK$30,856 million, restated).

Profit before income tax expenses excluding interest income and expenses, and depreciation, depletion and amortisation ("EBITDA") for the six months ended 30 June 2011 was approximately HK$3,408 million, representing an increase of 28.36% as compared with unrestated amount of HK$2,655 million or 24.38% as compared with restated amount of HK$2,740 million for the same period last year.

The Group paid interest of HK$171 million (same period 2010: HK$25 million (same as restated figures)) during the Period.

The Group received dividends of HK$634 million (same period 2010: HK$1,050 million (same as restated figures)) from an associate during the Period.

2010 final dividend of HK$0.138 per share amounting HK$684 million (2009: HK$0.07 per share amounting HK$347 million) was distributed to owners of the Company during the Period.

The Group raised new borrowings of HK$12,234 million and repaid HK$4,911 million to financial institutions and related parties resulting a net increase in borrowings of HK$7,590 million.

USE OF PROCEEDS

During the Period, no senior executives of the Company exercised their share options.

PLEDGED OF ASSETS

As at 30 June 2011, short-term borrowings of RMB15 million (approximately HK$18 million) (31 December 2010: Nil) were secured by property, plant and equipment and advanced operating lease payments of a subsidiary. Long-term borrowings were unsecured.

NEW INVESTMENT

In 2010, the Group successfully bid for a 60% equity interest in Beijing Gas Pipeline through the China Beijing Equity Exchange and the sales and purchase agreement was signed on 31 December 2010. A new joint venture agreement and articles of association were signed with Beijing Gas Group Company Limited on 3 May 2011. As of the reporting date, the acquisition is in the process of approval by the relevant PRC government authorities.

EMPLOYEE

On 30 June 2011, the Group had approximately 9,859 staff globally (excluding the staff under entrustment contracts) (31 December 2010: 8,773 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. 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 2010 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 Period.

The unaudited consolidated interim condensed financial information of the Group for the Period has 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 2011.

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

As at 30 June 2011, 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 (note)	14,000,000	Beneficial owner	0.28%
Li Kwok Sing Aubrey (note)	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:

				Number of share options			
Name	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1 January 2011 '000	Options granted during the Period '000	Exercised during the Period '000	Outstanding at 30 June 2011 '000
Directors							
Li Hualin	8 January 2007	8 April 2007 – 7 January 2012	4.186	25,000	–	–	25,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	3,200	–	–	3,200
	26 March 2009	26 June 2009 – 25 March 2014	3.250	3,200	–	–	3,200
	26 March 2010	26 June 2010 – 25 March 2015	10.320	3,200	–	–	3,200
	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	3,200	–	3,200
Zhang Bowen	8 January 2007	8 April 2007 – 7 January 2012	4.186	20,000	–	–	20,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	2,400	–	–	2,400
	26 March 2009	26 June 2009 – 25 March 2014	3.250	2,400	–	–	2,400
	26 March 2010	26 June 2010 – 25 March 2015	10.320	2,400	–	–	2,400
	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	2,400	–	2,400
Cheng Cheng	8 January 2007	8 April 2007 – 7 January 2012	4.186	10,000	–	–	10,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	1,500	–	–	1,500
	26 March 2009	26 June 2009 – 25 March 2014	3.250	1,500	–	–	1,500
	26 March 2010	26 June 2010 – 25 March 2015	10.320	1,500	–	–	1,500
	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	1,500	–	1,500
Lau Wah Sum	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
Li Kwok Sing Aubrey	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
Liu Xiao Feng	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
				77,500	7,100	–	84,600
Employees	8 January 2007	8 April 2007 – 7 January 2012	4.186	25,000	–	–	25,000
	14 September 2007	14 December 2007 – 13 September 2012	4.480	20,000	–	–	20,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	7,000	–	–	7,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	7,000	–	–	7,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	7,000	–	–	7,000
	18 March 2011	18 June 2011 – 17 March 2016	11.730	–	7,000	–	7,000
				66,000	7,000	–	73,000
				143,500	14,100	–	157,600

SHARE OPTIONS (CONTINUED)

The closing prices of the Company's shares immediately before 18 March 2011, the date of grant of the options, was HK$11.780.

No share options was exercised during the Period.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2011, 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.

	Number of shares		Percentage of
Name	**Direct interest**	**Indirect interest**	**issued shares**
Sun World Ltd. ("Sun World")[(1)]	2,513,917,342(L)	–	50.75%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)")[(1)]	–	2,513,917,342(L)	50.75%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong")[(1)]	–	2,513,917,342(L)	50.75%
PetroChina Company Limited ("PetroChina")[(1)]	–	2,513,917,342(L)	50.75%
China National Oil and Gas Exploration and Development Corporation ("CNODC")[(2)]	–	297,924,000(L)	6.01%
CNPC International Ltd. ("CNPCI")[(2)]	–	297,924,000(L)	6.01%
Fairy King Investments Ltd.	297,924,000(L)	–	6.01%
China National Petroleum Corporation ("CNPC")[(1)(2)]	–	2,811,841,342(L)	56.76%

Notes:

(1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly-owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 86.35% 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 297,924,000 shares held by Fairy King Investments Ltd.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES (CONTINUED)

Save as disclosed above, as at 30 June 2011, 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 2011, 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, 25 August 2011

Report on Review of Consolidated Interim Condensed Financial Information

pwc

羅兵咸永道

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 21 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 2011 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-month period 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

pwc 羅兵咸永道

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, 25 August 2011

Unaudited Consolidated Interim Condensed Statement of Comprehensive Income

For the six months ended 30 June 2011

	Note	**2011** **HK$'million**	2010 HK$'million (Note 24)
Revenue	4	**6,759**	4,223
Other gains, net	5	**64**	88
Interest income		**40**	10
Purchases, services and others		**(3,272)**	(1,832)
Employee compensation costs		**(464)**	(309)
Exploration expenses, including exploratory dry holes		**(129)**	(18)
Depreciation, depletion and amortisation		**(588)**	(408)
Selling, general and administrative expenses		**(540)**	(352)
Taxes other than income taxes	6	**(396)**	(179)
Other expenses		**–**	(14)
Interest expenses	7	**–**	(69)
Share of profits less losses of:			
– Associates		**1,224**	1,000
– Jointly controlled entities		**162**	133
Profit before income tax expense	8	**2,860**	2,273
Income tax expense	9	**(663)**	(543)
Profit for the period		**2,197**	1,730
Other comprehensive income/(loss):			
Currency translation differences		**530**	(14)
Fair value gain/(loss) on available-for-sale financial assets		**14**	(17)
Other comprehensive income/(loss), net of tax		**544**	(31)
Total comprehensive income for the period		**2,741**	1,699
Profit for the period attributable to:			
– Owners of the Company		**1,651**	1,273
– Non-controlling interest		**546**	457
		2,197	1,730
Total comprehensive income for the period attributable to:			
– Owners of the Company		**2,014**	1,240
– Non-controlling interest		**727**	459
		2,741	1,699
Earnings per share for profit attributable to owners of the Company	10		
– Basic (HK cents)		**33.33**	25.75
– Diluted (HK cents)		**32.74**	25.31

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

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2011

	Note	30 June 2011 HK$'million	31 December 2010 HK$'million (Note 24)
Assets			
Non-current assets			
Property, plant and equipment	12	**20,589**	17,299
Advanced operating lease payments		**586**	544
Investments in associates	13	**5,067**	5,635
Investments in jointly controlled entities	14	**1,535**	1,500
Available-for-sale financial assets		**156**	129
Intangibles and other non-current assets	15	**940**	1,031
Deferred tax assets		**48**	25
		28,921	26,163
Current assets			
Inventories		**68**	50
Accounts receivable	16	**627**	472
Prepaid expenses and other current assets	17	**3,137**	1,622
Time deposits with maturities over three months		**108**	–
Cash and cash equivalents		**13,324**	8,144
		17,264	10,288
Assets held for sale		**41**	–
		17,305	10,288
Total assets		**46,226**	36,451
Equity			
Equity attributable to owners of the Company			
Share capital	18	**50**	50
Retained earnings		**13,865**	12,907
Reserves		**3,546**	5,485
Total equity attributable to owners of the Company		**17,461**	18,442
Non-controlling interest		**6,608**	5,608
Total equity		**24,069**	24,050

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2011

	Note	**30 June 2011 HK$'million**	31 December 2010 HK$'million (Note 24)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	19	**6,156**	4,305
Income taxes payable		**363**	104
Other taxes payable		**295**	156
Short-term borrowings	20	**3,789**	4,328
		10,603	8,893
Non-current liabilities			
Long-term borrowings	20	**10,607**	2,478
Deferred tax liabilities		**933**	1,021
Other long-term obligations		**14**	9
		11,554	3,508
Total liabilities		**22,157**	12,401
Total equity and liabilities		**46,226**	36,451
Net current assets		**6,702**	1,395
Total assets less current liabilities		**35,623**	27,558

Li Hualin
Chairman

Zhang Bowen
Chief Executive Officer

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 2011

	Note	**2011** **HK$'million**	2010 HK$'million (Note 24)
Cash flows from operating activities		**1,395**	1,493
Cash flows from investing activities			
Dividends received from associates		**792**	1,050
Dividends received from jointly controlled entities		**124**	–
Acquisitions of subsidiaries		**(568)**	(130)
Capital contributions to associates	13	**(161)**	(7)
Capital contributions to jointly controlled entities	14	**(17)**	–
Acquisitions of available-for-sale financial assets		**(8)**	(9)
Prepayments for acquisition of subsidiaries		**–**	(88)
Purchase of non-controlling interest		**–**	(322)
Loan to non-controlling interest		**(84)**	–
Capital expenditure		**(3,191)**	(1,829)
Interest received		**40**	10
(Increase)/decrease in deposits with maturities more than three months		**(108)**	23
Proceeds from disposal of assets held for sale		**–**	74
Net cash used in investing activities		**(3,181)**	(1,228)
Cash flows from financing activities			
Capital contributions from non-controlling interest		**633**	657
Dividends paid to owners of the Company		**(684)**	(347)
Dividends paid to non-controlling interest		**(345)**	(62)
Increase in other long-term obligations		**4**	1
Issue of shares		**–**	22
Increase in borrowings	20	**12,234**	1,445
Repayments of borrowings	20	**(4,911)**	(750)
Interest paid		**(171)**	(25)
Net cash generated from financing activities		**6,760**	941
Increase in cash and cash equivalents		**4,974**	1,206
Cash and cash equivalents at 1 January		**8,144**	7,600
Effect of foreign exchange rate changes		**206**	10
Cash and cash equivalents at 30 June		**13,324**	8,816

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 2011

	Note	Attributable to owners of the Company				Non–controlling interest HK$'million	Total equity HK$'million
		Share capital HK$'million	Retained earnings HK$'million	Reserves HK$'million	Sub-total HK$'million		
Balances at 31 December 2009		49	10,884	3,838	14,771	2,670	17,441
Business combinations under common control	24	–	(12)	854	842	284	1,126
Balances at 1 January 2010		49	10,872	4,692	15,613	2,954	18,567
Total comprehensive income for the period		–	1,273	(33)	1,240	459	1,699
Transfer between reserves		–	(3)	3	–	–	–
Final dividend for 2009	11	–	(347)	–	(347)	–	(347)
Recognition of equity settled share-based payments	18	–	–	43	43	–	43
Exercise of share options	18	–	–	21	21	–	21
Acquisitions of 2010 Natural Gas Projects		–	–	1,350	1,350	454	1,804
Dividend paid to non-controlling interest		–	–	–	–	(62)	(62)
Purchase of non-controlling interest		–	–	(93)	(93)	(229)	(322)
Capital contributions from non-controlling interest		–	–	–	–	203	203
		–	923	1,291	2,214	825	3,039
Balances at 30 June 2010		49	11,795	5,983	17,827	3,779	21,606
Balances at 31 December 2010		**50**	**12,923**	**3,212**	**16,185**	**4,853**	**21,038**
Business combinations under common control	24	**–**	**(16)**	**2,273**	**2,257**	**755**	**3,012**
Balances at 1 January 2011		**50**	**12,907**	**5,485**	**18,442**	**5,608**	**24,050**
Total comprehensive income for the period		**–**	**1,651**	**363**	**2,014**	**727**	**2,741**
Transfer between reserves		**–**	**(9)**	**9**	**–**	**–**	**–**
Final dividend for 2010	11	**–**	**(684)**	**–**	**(684)**	**–**	**(684)**
Recognition of equity settled share-based payments	18	**–**	**–**	**43**	**43**	**–**	**43**
Acquisition of 2011 Natural Gas Projects		**–**	**–**	**(2,354)**	**(2,354)**	**–**	**(2,354)**
Dividend paid to non-controlling interest		**–**	**–**	**–**	**–**	**(360)**	**(360)**
Capital contributions from non-controlling interest		**–**	**–**	**–**	**–**	**633**	**633**
		–	**958**	**(1,939)**	**(981)**	**1,000**	**19**
Balances at 30 June 2011		**50**	**13,865**	**3,546**	**17,461**	**6,608**	**24,069**

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

Notes to the Interim Financial Information

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 a 50.75% equity interest in the Company as at 30 June 2011.

The address of the Company's principal office and registered office are 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, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia, and the sale, processing 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 2011 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 2010.

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 2010.

The consolidated interim condensed financial information as of 30 June 2011 and for the six months ended 30 June 2011 and 2010 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 2011 are not necessarily indicative of the results of operations expected for the year ending 31 December 2011.

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.

Income tax expense for the period is accrued using the tax rate that would be applicable to expected total assessable profit for the year.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The following new amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011, but are not currently relevant for or their impact is not material to the Group for the six months ended 30 June 2011.

HKFRS 7 (Amendment)	Disclosures-Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangement[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
Additions to HKFRS 9	Financial Instruments-Financial Liabilities[3]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[1]
HKAS 19 (2011)	Employee Benefits[3]
HKAS 27 (2011)	Separate Financial Statements[3]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[3]

[1] Effective for the Group for annual period beginning 1 January 2012
[2] Effective for the Group for annual period beginning 1 July 2012
[3] Effective for the Group for annual period beginning 1 January 2013

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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Estimation of impairment of non-financial assets

The Group tests at least annually whether goodwill has suffered any impairment. Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments whenever 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 future prices 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.

(d) Estimation of natural gas consumption

Revenue for natural gas supply may include an estimation of the natural gas supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. As of the statement of financial position date, the overall billed natural gas sales are in line with the natural gas supplied to the customers.

(e) Taxes and duties applicable to an associate operating in Kazakhstan

The determination of the obligations for taxes and duties for each statement of financial position date of the associate operating in Kazakhstan requires the interpretation of tax and other legislations. Whilst the Directors believe that the associate's judgements are appropriate, significant differences in actual experience may materially affect its future tax and duty obligations.

The associate operating in Kazakhstan is subject to uncertainties relating to the determination of its tax and other liabilities. The tax system and legislations in Kazakhstan have been in force for only a relatively short time compared to more developed jurisdictions and are subject to frequent changes and varying interpretations. The interpretations of such legislations by management of the associate operating in Kazakhstan in applying it to business transactions may be challenged by the relevant tax and other governmental authorities and, as a result, the associate may be assessed for additional tax and other payments including duties, fines and penalties, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may relate to calculating the profitability of each subsoil contract for tax purposes, the applicability of excess profits tax to the operations of the associate operating in Kazahkstan.

Were the actual final outcome on the interpretations of tax and other legislations to differ from the associate's judgements and estimates, the results of operation and financial position of the Group would have a significant adverse effect.

4 REVENUE AND TURNOVER

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

5 OTHER GAINS, NET

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Net exchange gains	**49**	19
Rental income	**6**	1
Gain on disposal of asset held for sale	**–**	52
Others	**9**	16
	64	88

6 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levy on PRC domestic sales of crude oil of approximately HK$345 million (Six months ended 30 June 2010: HK$162 million) for the six months ended 30 June 2011.

7 INTEREST EXPENSES

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Interest on		
Bank loans, wholly repayable within five years	**6**	5
Loans other than bank loans, wholly repayable within five years, from:		
– Immediate holding company	**1**	–
– An intermediate holding company	**85**	49
– A fellow subsidiary	**34**	43
– China Petroleum Finance Company Limited ("CP Finance")	**45**	21
Less: Amounts capitalised	**(171)**	(49)
	–	69

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 4.40% (Six months ended 30 June 2010: 6.30%) per annum for the six months ended 30 June 2011.

Notes to the Interim Financial Information

8 PROFIT BEFORE INCOME TAX EXPENSE

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Items debited in arriving at the profit before income tax expense include:		
Amortisation on advanced operating lease payments, intangibles and other non-current assets	**5**	1
Cost of inventories recognised as expense	**4,072**	2,463
Depreciation on property, plant and equipment	**583**	407
Operating lease expenses	**20**	19

9 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Current tax		
– PRC	**274**	179
– Overseas	**508**	371
	782	550
Deferred tax	**(119)**	(7)
	663	543

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the period (Six months ended 30 June 2010: Nil).

The Group's subsidiaries in Mainland China are subject to Corporate Income Tax of Mainland China at a statutory rate of 25% for the six months ended 30 June 2011 (Six months ended 30 June 2010: 25%).

The Group's certain subsidiaries operating in certain regions in the Mainland China are qualified for some tax incentives in the form of reduced Corporate Income Tax rate. For the six months ended 30 June 2011, those subsidiaries enjoy preferential income tax rates ranging from 10% to 20% (Six months ended 30 June 2010: 10% to 20%).

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.

9 INCOME TAX EXPENSE (CONTINUED)

Included in overseas income tax expense is withholding tax of HK$396 million (Six months ended 30 June 2010: HK$210 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (Six months ended 30 June 2010: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2011 (Six months ended 30 June 2010: 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$1,651 million (Six months ended 30 June 2010: HK$1,273 million) and weighted average number of ordinary shares in issue during the period of approximately 4,954.0 million shares (2010: 4,944.2 million shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$1,651 million (Six months ended 30 June 2010: HK$1,273 million), and the weighted average number of ordinary shares of approximately 5,043.5 million (Six months ended 30 June 2010: 5,029.5 million 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 89.5 million shares (Six months ended 30 June 2010: 85.3 million shares) deemed to be issued at nil consideration if all outstanding share options granted had been exercised.

11 DIVIDENDS

(a) Final dividend attributable to owners of the Company in respect of 2009 of HK7 cents per share amounting to a total of HK$347 million were approved by the shareholders in the Annual General Meeting on 10 June 2010 and were paid on 15 June 2010.

(b) Final dividend attributable to owners of the Company in respect of 2010 of HK13.8 cents per share amounting to a total of HK$684 million were approved by the shareholders in the Annual General Meeting on 8 June 2011 and were paid on 30 June 2011.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2011 (Six months ended 30 June 2010: Nil).

Notes to the Interim Financial Information

12 PROPERTY, PLANT AND EQUIPMENT

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Cost		
Balances as at 31 December 2010/2009	**21,202**	15,123
Business combinations under common controls (Note 24)	**3,605**	1,733
Balances as at 1 January	**24,807**	16,856
Currency translation differences	**777**	–
Additions	**3,308**	1,415
Balances as at 30 June	**28,892**	18,271
Accumulated depletion, depreciation and impairment		
Balances as at 31 December 2010/2009	**7,505**	6,432
Business combinations under common controls (Note 24)	**3**	3
Balances as at 1 January	**7,508**	6,435
Currency translation differences	**212**	–
Charge for the period	**583**	407
Balances as at 30 June	**8,303**	6,842
Net book value at 30 June	**20,589**	11,429

13 INVESTMENTS IN ASSOCIATES

	30 June 2011 HK$'million	31 December 2010 HK$'million
Share of net assets	**4,645**	5,227
Goodwill	**422**	408
	5,067	5,635

Movements in share of net assets of associates for the six months ended 30 June 2011 are as follows:

	For the six months ended 30 June	
	2011 HK$'million	2010 HK$'million
Balances as at 31 December 2010/2009	**5,220**	4,833
Business combinations under common controls (Note 24)	**7**	6
Balances as at 1 January	**5,227**	4,839
Capital contributions	**161**	7
Share of profits less losses	**1,224**	1,000
Dividend income received and receivable	**(1,979)**	(1,671)
Share of exchange reserves	**12**	–
Balances as at 30 June	**4,645**	4,175

Dividends received and receivable from associates are approximately HK$1,979 million for the six months ended 30 June 2011(Six months ended 30 June 2010: HK$1,671 million).

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	30 June 2011 HK$'million	31 December 2010 HK$'million
Share of net assets	**1,490**	1,455
Loans to jointly controlled entities	**45**	45
	1,535	1,500

Notes to the Interim Financial Information

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Movements in share of net assets of jointly controlled entities for the six months ended 30 June 2011 are as follows:

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Balances as at 31 December 2010/2009	**1,452**	1,068
Business combinations under common controls (Note 24)	**3**	3
Balances as at 1 January	**1,455**	1,071
Capital contributions	**17**	–
Share of profits less losses	**162**	133
Dividend income received and receivable	**(124)**	(20)
Share of exchange reserves	**21**	–
Transferred to assets held for sale	**(41)**	(6)
Balances as at 30 June	**1,490**	1,178

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

At 30 June 2011 and 31 December 2010, the carrying amount of loans to jointly controlled entities are not past due and not impaired.

Dividends received and receivable from jointly controlled entities amounted to approximately HK$124 million for the six months ended 30 June 2011 (Six months ended 30 June 2010: HK$20 million).

15 INTANGIBLES AND OTHER NON-CURRENT ASSETS

	30 June 2011	31 December 2010
	HK$'million	HK$'million
Non-refundable prepayments for acquisitions	**6**	57
Intangibles	**105**	77
Prepaid construction costs	**412**	564
Prepayment for acquisition of land use rights	**341**	330
Others	**76**	3
	940	1,031

16 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2011 and 31 December 2010 is as follows:

	30 June 2011 HK$'million	31 December 2010 HK$'million
Within 3 months	**470**	383
Between 3 to 6 months	**88**	30
Over 6 months	**69**	59
	627	472

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 2011, accounts receivable of HK$157 million (31 December 2010: HK$89 million) 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.

17 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Included in prepaid expenses and other current assets are dividend receivables from Aktobe and loans to non-controlling interest amounting to approximately HK$1,187 million (31 December 2010: Nil) and HK$616 million (31 December 2010: HK$532 million) respectively. Loans to non-controlling interest are interest bearing, ranges from 5.31% to 5.95% (31 December 2010: 5.56%) per annum and repayable within one year. Except an amount of HK$84 million (31 December 2010: Nil) which is unsecured, the remaining amount is secured by the equity interests in a subsidiary held by the non-controlling interest.

Notes to the Interim Financial Information

18 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK$'million
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January, 30 June and 31 December 2010	8,000	80
Increase in authorised share capital (note (i))	8,000	80
At 30 June 2011	**16,000**	**160**
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2010	4,937	49
Issue of shares upon exercise of share options (note (ii))	17	1
At 30 June 2010, 31 December 2010 and 30 June 2011	**4,954**	**50**

Notes:

(i) Pursuant to a resolution passed at the special general meeting on 11 March 2011, the authorised share capital of the Company was increased to HK$160 million by the creation of additional 8,000.0 million ordinary shares of HK$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(ii) During the six months ended 30 June 2010, the Company allotted and issued 17.5 million shares of HK$0.01 each for cash at the exercise price of HK$1.224 as a result of the exercise of share options.

(b) Share option scheme

Pursuant to executive share option scheme (the "2002 Share Option Scheme") of the Company dated 3 June 2002 and the resolution of the Company passed on 18 March 2011, 7.1 million and 7.0 million 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 are granted. The exercise period of the options is 5 years from the grant date.

The closing price of the Company's shares immediately before 18 March 2011, the date of grant of the options, was HK$11.78.

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

The fair values of share options granted on 18 March 2011 were calculated using the Binomial model. The inputs into the model were as follows:

	Directors	Employees
Share price at grant date	HK$11.72	HK$11.72
Exercise price	HK$11.73	HK$11.73
Expected volatility	47.57%	47.57%
Risk-free rate	1.77%	1.77%
Expected dividend yield	2.27%	2.27%
Exercise multiple	2.2	1.6

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 value of the options granted to directors and employees of the Company during the period are HK$19 million (Six months ended 30 June 2010: HK$22 million) and HK$24 million (Six months ended 30 June 2010: HK$21 million), respectively.

The number of shares in respect of which options had been granted and outstanding at 30 June 2011 under the 2002 Share Option Scheme was 157.6 million shares (31 December 2010: 143.5 million shares), representing 3.18% (31 December 2010: 2.90%) of the issued share capital of the Company at 30 June 2011.

18 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 2011 and 31 December 2010 are as follows:

	Date of grant	Exercise period	Exercise price	Number of shares subject to the options 30 June 2011 '000	31 December 2010 '000
Directors	8 January 2007	8 April 2007 – 7 January 2012	HK$4.186	**55,000**	55,000
	26 May 2008	26 August 2008 – 25 May 2013	HK$4.240	**7,100**	7,100
	26 March 2009	26 June 2009 – 25 March 2014	HK$3.250	**7,100**	7,100
	26 March 2010	26 June 2010 – 25 March 2015	HK$10.320	**8,300**	8,300
	18 March 2011	18 June 2011 – 17 March 2016	HK$11.730	**7,100**	–
Employees	8 January 2007	8 April 2007 – 7 January 2012	HK$4.186	**25,000**	25,000
	14 September 2007	14 December 2007 – 13 September 2012	HK$4.480	**20,000**	20,000
	26 May 2008	26 August 2008 – 25 May 2013	HK$4.240	**7,000**	7,000
	26 March 2009	26 June 2009 – 25 March 2014	HK$3.250	**7,000**	7,000
	26 March 2010	26 June 2010 – 25 March 2015	HK$10.320	**7,000**	7,000
	18 March 2011	18 June 2011 – 17 March 2016	HK$11.730	**7,000**	–
				157,600	143,500

19 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2011 HK$'million	31 December 2010 HK$'million
Accounts payable	**1,026**	740
Advances from customers	**376**	308
Salaries and welfare payable	**57**	78
Accrued expenses	**299**	65
Dividends payable by subsidiaries to non-controlling interest	**33**	18
Interest payables	**29**	29
Construction fee and equipment cost payables	**1,543**	2,054
Amounts due to non-controlling interest	**50**	50
Amounts due to related parties	**1**	1
Consideration payables (note)	**2,359**	568
Other payables	**383**	394
	6,156	4,305

The ageing analysis of accounts payable as at 30 June 2011 and 31 December 2010 is as follows:

	30 June 2011 HK$'million	31 December 2010 HK$'million
Within 3 months	**573**	615
Between 3 to 6 months	**129**	46
Over 6 months	**324**	79
	1,026	740

Note:

As at 30 June 2011, the entire balance represented consideration payable to PetroChina for the acquisition of a 75% equity interest in PetroChina Dalian LNG Company Ltd. ("Dalian LNG"). Details of the acquisition are set out in Note 24.

Notes to the Interim Financial Information

20 BORROWINGS

	30 June 2011 HK$'million	31 December 2010 HK$'million
Short-term borrowings		
– Secured	**18**	–
– Unsecured	**3,579**	4,136
	3,597	4,136
Current portion of long-term borrowings	**192**	192
	3,789	4,328
Long-term borrowings-Unsecured	**10,799**	2,670
Less: Current portion of long-term borrowings	**(192)**	(192)
	10,607	2,478
	14,396	6,806

As at 30 June 2011, secured short-term borrowings are secured by property, plant and equipment and advanced operating lease payments with aggregate carrying values of HK$18 million (31 December 2010: Nil).

The movements in the borrowings can be analysed as follows:

	For the six months ended 30 June	
	2011 HK$'million	2010 HK$'million
Balances as at 31 December 2010/2009	**6,806**	3,358
Business combinations under common controls (Note 24)	**–**	623
Balances as at 1 January	**6,806**	3,981
Currency translation differences	**267**	–
Increase in borrowings	**12,234**	1,445
Repayments of borrowings	**(4,911)**	(750)
Balances as at 30 June	**14,396**	4,676

20 BORROWINGS (CONTINUED)

The carrying amounts and fair values of long-term borrowings are as follows:

	30 June 2011 HK$'million	31 December 2010 HK$'million
Carrying amounts	10,799	2,670
Fair values	10,616	2,904

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 0.23% to 6.06% per annum as of 30 June 2011 (31 December 2010: 0.23% to 4.32% per annum) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair values.

The borrowings can be analysed as follows:

	Short-term borrowings		Long-term borrowings	
	30 June 2011 HK$'million	31 December 2010 HK$'million	30 June 2011 HK$'million	31 December 2010 HK$'million
Bank loans, wholly repayable within five years	328	327	26	32
Loans other than bank loans				
– Wholly repayable within five years	3,269	3,809	10,772	2,637
– Not wholly repayable within five years	–	–	1	1
	3,597	4,136	10,799	2,670

As at 30 June 2011 and 31 December 2010, 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	
	30 June 2011 HK$'million	31 December 2010 HK$'million	30 June 2011 HK$'million	31 December 2010 HK$'million
Within one year	–	–	192	192
Between one to two years	–	–	800	832
Between two to five years	26	32	9,780	1,613
After five years	–	–	1	1
	26	32	10,773	2,638

Notes to the Interim Financial Information

20 BORROWINGS (CONTINUED)

As at 30 June 2011 and 31 December 2010, the loans other than bank loans were borrowings from immediate holding company, an intermediate holding company, fellow subsidiaries, CP Finance and non-controlling interest of subsidiaries, unsecured and bore interest ranging from 1.62% to 8.00% 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 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. After the acquisitions of several natural gas projects and the continuing expansion of the Group's business in 2010, two new segments within Natural Gas Distribution segment were identified and evaluated by the Board of Directors of the Company. Currently, the Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing and Terminal (formerly known as "LNG Processing and Storage") and Natural Gas Pipeline.

The Natural Gas Pipeline segment does not meet the definition of reportable segment, its financial information is included in the Natural Gas Sales segment.

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 administration 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.

21 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2011 and 2010 are as follows:

	Exploration and Production				Natural Gas Distribution			Corporate	
	PRC HK$'million	South America HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million	LNG Processing and Terminal HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the six months ended 30 June 2011									
Revenue from external customers	2,020	435	490	2,945	3,696	118	3,814	–	6,759
Segment results	878	230	(86)	1,022	449	(11)	438	14	1,474
Share of profits less losses of:									
– Associates	–	–	1,136	1,136	88	–	88	–	1,224
– Jointly controlled entities	–	–	160	160	–	–	–	2	162
Profit before income tax expense	878	230	1,210	2,318	537	(11)	526	16	2,860
Income tax expense									(663)
Profit for the period									2,197
Segment results included:									
Interest income	4	1	1	6	31	3	34	–	40
Depreciation, depletion and amortisation	200	32	170	402	175	10	185	1	588
Interest expenses	–	–	–	–	–	–	–	–	–
As at 30 June 2011									
Non-current assets	2,922	460	966	4,348	4,605	12,350	16,955	813	22,116
Current assets	2,434	270	1,728	4,432	7,034	3,207	10,241	2,619	17,292
Segment assets	5,356	730	2,694	8,780	11,639	15,557	27,196	3,432	39,408
Investments in associates	–	–	3,802	3,802	1,259	6	1,265	–	5,067
Investments in jointly controlled entities	–	–	892	892	208	–	208	435	1,535
Sub-total	5,356	730	7,388	13,474	13,106	15,563	28,669	3,867	46,010
Available-for-sale financial assets									156
Deferred tax assets									48
Prepaid income taxes									12
Total assets									46,226

Notes to the Interim Financial Information

21 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production				Natural Gas Distribution			Corporate	
	PRC HK$'million	South America HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million	LNG Processing and Terminal HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the six months ended 30 June 2010									
Revenue from external customers	1,476	384	380	2,240	1,983	–	1,983	–	4,223
Segment results	634	193	8	835	352	–	352	(47)	1,140
Share of profits less losses of:									
– Associates	–	–	938	938	62	–	62	–	1,000
– Jointly controlled entities	–	–	111	111	–	–	–	22	133
Profit before income tax expense	634	193	1,057	1,884	414	–	414	(25)	2,273
Income tax expense									(543)
Profit for the period									1,730
Segment results included:									
Interest income	3	–	–	3	4	–	4	3	10
Depreciation, depletion and amortisation	156	28	141	325	83	–	83	–	408
Interest expenses	–	–	43	43	26	–	26	–	69
As at 31 December 2010									
Non-current assets	3,239	426	1,091	4,756	4,254	9,443	13,697	421	18,874
Current assets	1,685	228	751	2,664	6,085	1,141	7,226	380	10,270
Segment assets	4,924	654	1,842	7,420	10,339	10,584	20,923	801	29,144
Investments in associates	–	–	4,643	4,643	986	6	992	–	5,635
Investments in jointly controlled entities	–	–	851	851	224	–	224	425	1,500
Sub-total	4,924	654	7,336	12,914	11,549	10,590	22,139	1,226	36,279
Available-for-sale financial assets									129
Deferred tax assets									25
Prepaid income taxes									18
Total assets									36,451

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 2011, revenue of approximately HK$2,592 million (Six months ended 30 June 2010: HK$1,580 million) are derived from a single external customer. The revenue is attributable to the Exploration and Production in the PRC and Natural Gas Sales segments.

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 2011 and 31 December 2010 under non-cancellable operating leases are as follows:

	30 June 2011 HK$'million	31 December 2010 HK$'million
Not later than 1 year	**37**	37
Later than 1 year and not later than 5 years	**115**	115
More than 5 years	**90**	102
	242	254

(b) Capital commitments

	30 June 2011 HK$'million	31 December 2010 HK$'million
Contracted but not provided for:		
Oil field development costs	**540**	587
Acquisitions of capital contributions to investments (note)	**22,717**	24,312
Other property, plant and equipment	**6,961**	7,889
	30,218	32,788
Authorised but not contracted for:		
Oil field development costs	**517**	723
Acquisitions of capital contributions to investments	**1,050**	1,570
Other property, plant and equipment	**8,569**	10,557
	10,136	12,850

Note:

Included in the balance is the share consideration for the acquisition of PetroChina Beijing Gas Pipelines Co., Ltd. ("Beijing Gas Pipeline"). On 31 December 2010, the Company and PetroChina entered into an acquisition agreement pursuant to which the Company agreed to acquire a 60% equity interest in Beijing Gas Pipeline for a share consideration of approximately RMB18,871 million (approximately HK$22,717 million) from PetroChina. As of 30 June 2011, the completion of acquisition of Beijing Gas Pipeline was still subject to approval of the Ministry of Commence and other relevant PRC governmental bodies.

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 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 the 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 Group and its 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 Supplement Agreement.

On 25 March 2009, the Group and CNPC entered into the Second Supplement Agreement 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.

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$1,552 million (Six months ended 30 June 2010: HK$909 million) for the six months ended 30 June 2011.

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$2,020 million (Six months ended 30 June 2010: HK$1,476 million) for the six months ended 30 June 2011.

- 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$1,785 million (Six months ended 30 June 2010: HK$872 million) for the six months ended 30 June 2011.

23 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(i) (Continued)

- Provision of products and services by the Group to the CNPC Group amounted to approximately HK$521 million (Six months ended 30 June 2010: HK$187 million) for the six months ended 30 June 2011.

- Assistance fee paid to the CNPC Group amounted to approximately HK$0.3 million (Six months ended 30 June 2010: HK$0.3 million) for the six months ended 30 June 2011.

- Training fee paid to the CNPC Group amounted to approximately HK$0.4 million (Six months ended 30 June 2010: HK$0.4 million) for the six months ended 30 June 2011.

(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$165 million for the six months ended 30 June 2011 (Six months ended 30 June 2010: HK$64 million). Information on loans from related parties is included in Note 20.

(iii) The Group has entered into agreements for the sales of natural gas to certain associates of the Group amounted to approximately HK$79 million for the six months ended 30 June 2011 (Six months ended 30 June 2010: HK$39 million).

(iv) As at 30 June 2011 and 31 December 2010, amounts due from and to the CNPC Group, associates and jointly controlled entities of the Group, which are unsecured and interest free, included in the following accounts captions are summarised as follows:

	30 June 2011 HK$'million	31 December 2010 HK$'million
Accounts receivable	**298**	225
Accounts payable and accrued liabilities	**3,569**	2,197
Borrowings	**14,041**	6,446

Notes to the Interim Financial Information

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	For the six months ended 30 June	
	2011	2010
	HK$'million	HK$'million
Salaries and allowances	**5**	5
Retirement benefits-defined contribution scheme	**1**	1
Share-based payments	**30**	28
	36	34

(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.

24 BUSINESS COMBINATIONS UNDER COMMON CONTROL

It mainly represented the acquisition agreements entered into by the Group to acquire (i) a 55% equity interest in PetroChina LNG Jiangsu Company Ltd. for a cash consideration of approximately RMB500 million (approximately HK$568 million) on 17 May 2010; (ii) a 75% equity interest in Dalian LNG for a cash consideration of approximately RMB2,009 million (approximately HK$2,418 million) on 9 November 2010; (iii) a 51% equity interest in Langfang Huayou Tiancheng Gas Sales Company Limited for a cash consideration of approximately RMB408 million (approximately HK$475 million) on 26 November 2010; (iv) a 51% equity interest in Sichuan Chuangang Gas Limited Company for a cash consideration of approximately RMB159 million (approximately HK$180 million) on 22 June 2010; and (v) a 60% equity interest in Beijing Gas Pipeline for a share consideration of approximately RMB18,871 million (approximately HK$22,717 million) (Note 22(b)) on 31 December 2010.

Except for the acquisitions of Dalian LNG and Beijing Gas Pipeline, all other acquisitions were completed by the second half of 2010 and collectively referred to as the "2010 Natural Gas Projects". The acquisition of Dalian LNG was completed on 31 March 2011 and referred to as the "2011 Natural Gas Projects". As set out in Note 22(b), the acquisition of Beijing Gas Pipeline was yet to be completed as at 30 June 2011.

These acquisitions are business combinations under common control since the Company, and the 2010 and 2011 Natural Gas Projects are under the common control of CNPC. As a result, the Company has accounted for the acquisitions in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at carryover predecessor values to CNPC.

The consolidated financial information has been restated to give effect to these acquisitions with all periods presented as if the operations of the Group and the 2010 and 2011 Natural Gas Projects have always been combined. The difference between the consideration and the aggregate share capital of 2010 and 2011 Natural Gas Projects acquired has been adjusted against equity.

24 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

The summarised results and cash flows of operations for the six months ended 30 June 2010 and the financial position as at 31 December 2010 for the separate entities and on a consolidation basis are set out below:

	The Group (as previously reported) HK$'million	2010 and 2011 Natural Gas Projects HK$'million	The Group (as restated) HK$'million
Results of operations for the six months ended 30 June 2010			
Revenue	3,726	497	4,223
Profit for the period	1,671	59	1,730
Earnings per share for profit attributable to owners of the Company			
– Basic (HK cents)	25.23	0.52	25.75
– Diluted (HK cents)	24.81	0.50	25.31
Financial position as at 31 December 2010			
Non-current assets			
Property, plant and equipment	13,697	3,602	17,299
Other non-current assets	8,291	573	8,864
	21,988	4,175	26,163
Current assets	10,238	50	10,288
	32,226	4,225	36,451
Current liabilities			
Short-term borrowings	4,328	–	4,328
Other current liabilities	3,352	1,213	4,565
	7,680	1,213	8,893
Non-current liabilities	3,508	–	3,508
	11,188	1,213	12,401
Net assets	21,038	3,012	24,050

24 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

	The Group (as previously reported) HK$'million	2010 and 2011 Natural Gas Projects HK$'million	The Group (as restated) HK$'million
Cash flows for the six months ended 30 June 2010			
Net cash generated from operating activities	1,248	245	1,493
Net cash used in investing activities	(589)	(639)	(1,228)
Net cash generated from financing activities	555	386	941
Increase/(decrease) in cash and cash equivalents	1,214	(8)	1,206