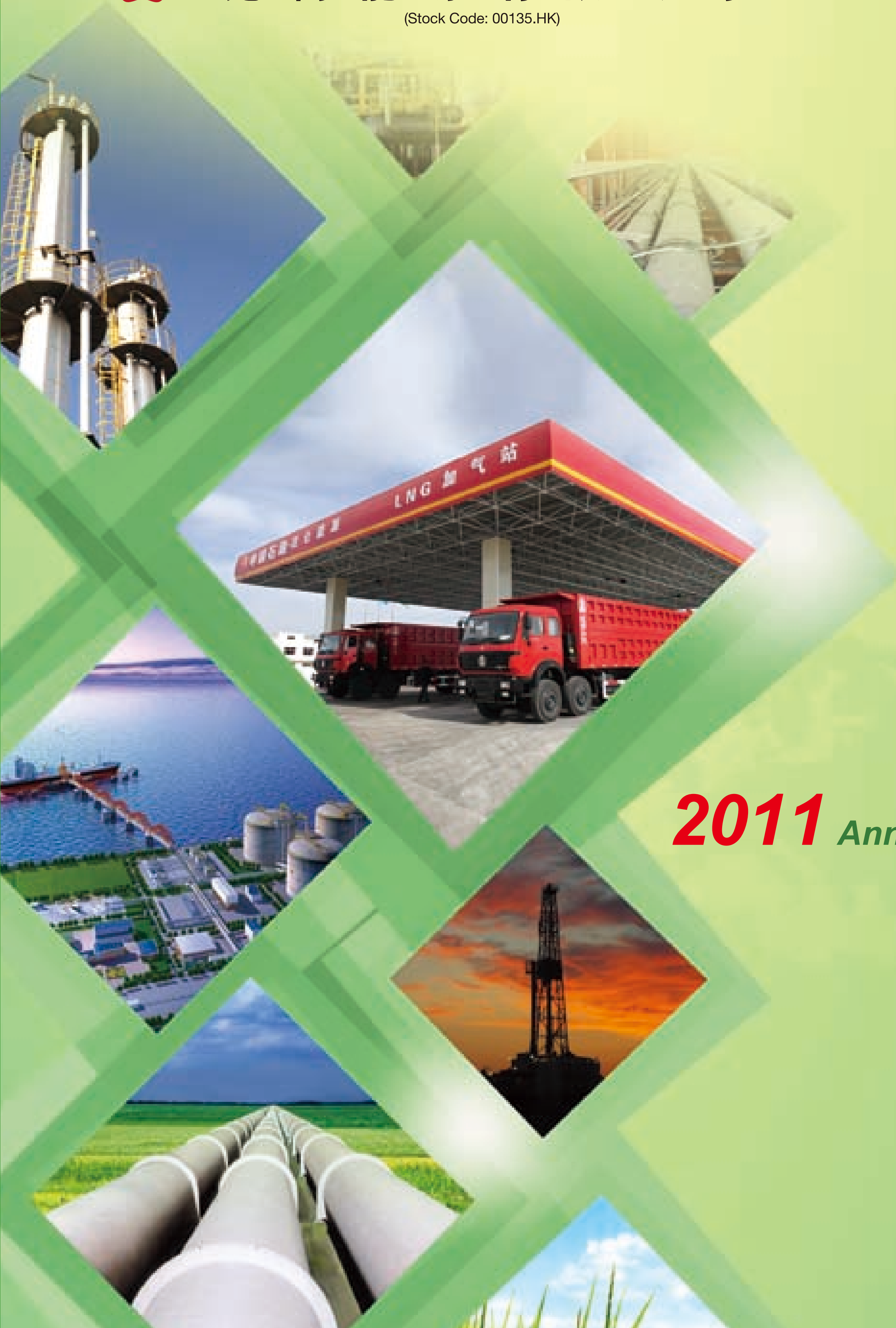
KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)



2011 Annual Report

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(President)*
Mr Cheng Cheng *(Senior Vice President)*

Independent Non-Executive Directors
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

COMPANY SECRETARY
Mr Lau Hak Woon

BERMUDA RESIDENT REPRESENTATIVE
Codan Services Limited
Clarendon House
Church Street
Hamilton HM11, Bermuda

AUDITOR
PricewaterhouseCoopers

BANKERS
HSBC Securities Services (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

Nomination Committee
Mr Li Hualin *(Chairman)*
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
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
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Telephone: 2522 2282
E-mail: info@kunlun.com.hk
Fax: 2868 1741

PRINCIPAL REGISTRARS
HSBC Securities Services (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 the full year results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together with the "Group") to the shareholders on behalf of the Board. For the year ended 31 December 2011 (the "Year"), the audited revenue of the Group amounted to HK$25,398 million and the Group's audited profit attributable to owners of the Company for the Year was HK$5,609 million, representing an increase of HK$16,330 million and HK$3,183 million or 180.08% and 131.20% respectively compared with the unrestated revenue and profit attributable to owners of the Company of the corresponding period last year. International crude oil prices remained high during the Year whilst the Group developed its natural gas business as scheduled, which contributed to the Group's revenue and profit.

I. Exploration and Production

For the Year, revenue of HK$6,189 million was derived from the exploration and production business, an increase of HK$1,915 million or 44.81% (unrestated) compared with the corresponding period last year, accounting for 24.40% of the Group's total revenue. The profit attributable to owners of the Group amounted to HK$2,672 million, representing an increase of HK$586 million or 28.09% (unrestated) compared with the corresponding period last year. The production of the Group's nine oil fields remained stable, with sales volume of crude oil reaching 17.06 million barrels, representing an increase of 0.68 million barrels or 4.13% compared with the corresponding period last year. Owing to the surging international crude oil price, the Group's average realised crude oil selling price was US$100.16 per barrel, representing an increase of US$28.39 or 39.56% compared with the corresponding period last year.

The Group currently has two exploration projects: Thailand block no. L21/43 project is under overall block evaluation; Indonesia Bengara-II project has completed the 3-D seismic data interpretation and is currently examining the well locations for the drilling of two exploration wells. Since the contract of the project expired in November 2011, the Group is actively negotiating for the extension of the contract.

II. Natural Gas Pipeline

For the Year, natural gas pipeline business has made considerable progress. The volume of natural gas transmission was 22,073 million cubic metres, representing an increase of 21,704 million cubic metres (unrestated) compared with the corresponding period last year. The Group has successfully completed the acquisition of 60% equity interests in PetroChina Beijing Gas Pipeline Co., Ltd held by PetroChina Company Limited (the "PetroChina"). Three pipelines construction projects for the natural gas transmission invested by us have commenced operation, including the Babao line (Bazhou, Hebei – Baoding, Hebei), Gangma line (Dagang, Tianjin – Mapengkou, Tianjin) and Mahuang line (Mapengkou, Tianjin – Huanghua, Hebei). Other pipeline construction projects are under smooth progress, of which the Wuyin line (Wuhai, Inner Mongolia – Yinchuan, Ningxia) will commence operation in 2012. These new natural gas transmission pipelines will effectively connect the natural gas resources with the market, which will further reinforce our leading position in the natural gas market and become one of the new growth pillars for the business of the Group.

III. LNG Terminal

During the Year, Jiangsu LNG terminal (Phase 1 capacity of 3.5 million tonne/annum) owned by the Group has commenced operation. Dalian LNG terminal (Phase 1 capacity of 3.0 million tonne/annum) has launched trial operation and commissioning in the fourth quarter for the provision of loading, unloading, storage and re-gasification services of LNG. During the Year, Jiangsu LNG terminal unloaded 17 barges of LNG and Dalian LNG terminal unloaded 2 barges of LNG, amounting to an aggregate of 1.36 million tonnes. The operation of these two LNG terminals will contribute stable income and the source of gas supply to the Group.

IV. LNG Processing Plant

During the year, the Group kicked off the construction of 15 LNG processing plants, of which the Bayannur LNG processing plant (processing capacity of 300,000 cubic metres/day) in Inner Mongolia, the Lunnan LNG processing plant (processing capacity of 300,000 cubic metres/day) in Xinjiang, the Geermu LNG processing plant (processing capacity of 350,000 cubic metres/day) in Qinghai have commenced production. Currently, there are 4 LNG processing plants in operation (including the commissioned Chengmai LNG processing plant in Hainan with processing capacity of 430,000 cubic metres/day), with total production capacity of 1.38 million cubic metres/day. The remaining processing plants will commence production successively in the next two years, upon which the LNG processing capability of the Group will reach 20 million cubic metres/day in China and become the largest domestic onshore LNG producer and supplier.

V. Sales of Natural Gas

Sales volume of natural gas was 3,628 million cubic metres for the Year, representing an increase of 1,430 million cubic metres or 65.03% (unrestated) compared with the corresponding period last year. Revenue derived from natural gas was HK$8,116 million, an increase of HK$3,322 million or 69.29% (unrestated) compared with the corresponding period last year, accounting for 31.96% of the Group's total revenue. Profit before tax was HK$1,331 million, representing an increase of HK$481 million or 56.59% (unrestated) compared with the corresponding period last year. Sales and revenue of natural gas achieved rapid growth. City gas coverage extended to 9 provinces and 25 cities, whilst the sales proportion of high value-added products including CNG and LNG has increased substantially.

During the Year, the construction of natural gas distribution infrastructure has been expedited. There are 23 CNG stations under construction and 190 CNG stations in operation, 109 LNG stations under construction and 47 LNG stations in operation. Among these, one LNG gasification facility and two L-CNG stations were constructed in Lhasa, Tibet Autonomous Region, is unprecedented for the availability of natural gas in Tibet. The gradual improvement of distribution facilities will strengthen the end-users sales and market development of natural gas business.

The first priority of the Group is to develop the LNG business by implementing the "Gas In Substitution Of Oil" strategy, actively promoting the utilisation of LNG as fuel for urban public transport, heavy duty trucks, inland vessels and oilfield drilling rigs, which has made remarkable achievements. During the Year, we have signed cooperation agreements with the government and major transport companies in Hainan, Sichuan, Jiangsu, Hebei, Liaoning, Shandong and Hubei to jointly promote the use of LNG as fuel for public transport, long distance passenger and cargo transportation. Meanwhile, through close cooperation with The China Classification Society and the maritime department, it is effortless to promote the demonstration and application of LNG powered vessels, and significant progress has been achieved in the Yangtze River, Beijing-Hangzhou Canal.

During the Year, the Group has established KunLun Energy (LiaoNing) Company Limited and has entered into an agreement to acquire Binhai New Energy Co., Ltd. through cooperation and joint ventures with the Branch Office of Liaohe Oilfield and Dagang Oilfield owned by the Parent Company respectively. By leveraging the leading edge of the oilfield enterprises as well as the advantages of their existing talent, technology, management, market share and regional prominence, our business layout in natural gas producing areas is further improved.

BUSINESS PROSPECTS

For the next two years, the Group's natural gas supply will continue to increase as more LNG processing plants currently under construction will be commenced. Moreover, to cope with the shortage of LNG resources in central China and the strategy of "Gasifying Changjiang", we plan to construct a LNG processing plant with a capacity of 5 million cubic metres/day in Hubei. To speed up the market layout of natural gas supply in Shandong, we plan to construct a LNG processing plant with a capacity of 2.6 million cubic metres/day in Taian. In respect of major construction projects, the coke oven gas integrated utilisation project in Wuhai is a demonstrating project. Not only can improve the utilisation of resources, but also embodies the concept of overall environmental protection, which will generate stable income for the Group once production commences.

Fully capitalising on the natural gas utilisation policy under the "Twelfth Five-year Plan" and the imminent requirement of energy saving emission reduction by local governments, the Group will continue to adhere to the "Gas In Substitution Of Oil" strategy and increase its marketing efforts. PetroChina has joined hands with the Beijing Municipal Government to promote LNG public transport strategically, we will eagerly publicise LNG vehicles by taking Beijing and Shanghai as exemplary cities. Moreover, we will take on the strategic cooperation agreement entered into by PetroChina and China Changjiang National Shipping (Group) Corporation in respect of the "Gasifying Changjiang" as a breakthrough point focusing on the development of LNG vessels.

Recognising that the most challenging task at present is to develop the LNG vehicle and vessel markets, the Group has set the goal of promoting the use of LNG by 35,000 vehicles for 2012. We will adopt effective measures to achieve this goal. We are confident to hold a pioneering position in the "Gas in Substitution of Oil" development for our LNG business in China in the foreseeable future.

The Group will further leverage the overall advantages of PetroChina and continue its extensive cooperation with the oilfield enterprises owned by PetroChina through equity acquisitions, joint ventures and cooperation, and actively seek investment opportunities that are in line with the development strategy of our natural gas distribution business in China, developing the scale and efficiency of the natural gas business, so as to provide satisfactory returns to shareholders while making contributions to the energy restructuring, energy savings and emission reduction in China.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK22.0 cents per share (2010: HK13.8 cents per share) to Shareholders whose names appear on the Shareholders Register on 24 May 2012 (Thursday). The payment will be made in June 2012. The proposed final dividend amounts to a total of approximately HK$1,590 million and 2010 dividend of HK$684 million was paid in 2011, which represents a payout ratio of approximately 28.05 per cent (2010: 28.15 per cent).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2012 AGM, and entitlement to the final dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2012 AGM:

Latest time to lodge transfer documents for registration	4:00 pm on 11 May 2012 (Friday)
Closure of shareholders register	from 14 May 2012 (Monday) to 16 May 2012 (Wednesday) (both dates inclusive)
Record date	16 May 2012 (Wednesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 pm on 21 May 2012 (Monday)
Closure of shareholders register	from 22 May 2012 (Tuesday) to 24 May 2012 (Thursday) (both dates inclusive)
Record date	24 May 2012 (Thursday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2012 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 26 Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2012 AGM will be held on 16 May 2012 (Wednesday). The Notice of the 2012 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2011 Annual Report. The Notice of the 2012 AGM and the proxy form will also be available on the Company's website.

By order of the Board

Li Hualin
Chairman

Hong Kong, 29 March 2012

Revenue from the Natural Gas Distribution business segment exceeded the Exploration and Production business segment for consecutive two years while the profit from the Natural Gas Distribution business segment contributed over 50% of the Group profit for the year ended 31 December 2011 (the "Year").

The Group continued to develop its natural gas business segment through business development and acquisitions. The acquisition of a 60% equity interest in PetroChina Beijing Gas Pipelines Co., Ltd ("Beijing Pipeline") and the acquisition of a 75% equity interest in PetroChina Dalian LNG Co., Ltd. from PetroChina Company Limited ("PetroChina"), an intermediate holding company, were completed on 23 December 2011 and 31 March 2011 respectively. Comparative financial information in this Annual Report has been restated to reflect the effect of merging these subsidiaries with the Group. Details of which are set out in Note 38(a) to this Consolidated Financial Statements.

OPERATING RESULTS

The financial results of the Group for the Year were benefited from the acquisition of Beijing Pipeline, the upsurge of international crude oil price and the expansion of natural gas business. Profit before income tax expense of the Group for the Year was approximately HK$10,450 million, representing an increase of 137.88% as compared with unrestated amount of HK$4,393 million (25.24% as compared with restated amount of HK$8,344 million) for last year. Profit attributable to owners of the Company for the Year was approximately HK$5,609 million representing an increase of 131.20% as compared with unrestated amount of HK$2,426 million (33.74% as compared with restated amount of HK$4,194 million) for last year

Revenue

Revenue for the Year was approximately HK$25,398 million, representing an increase of 180.08% as compared with unrestated amount of HK$9,068 million (or 46.50% as compared with restated amount of HK$17,336 million) for last year. The increase was mainly due to the effect of acquisition of Beijing Pipeline, and the increase in the selling prices of crude oil and the sales volume of natural gas.

Revenue from the Exploration and Production segment accounted for 24.37% of the Group's total revenue amounting to approximately HK$6,189 million while revenue from the Natural Gas Distribution business segment accounted for 75.63% of the Group's total revenue amounting to approximately HK$19,209 million.

The table below sets out the sales volume and revenue for major segments of the Group for the Year and 2010, and percentages of change during these two years.

	Sales Volume For the year ended 31 December			Revenue For the year ended 31 December		
	2011	2010	Change	**2011**	2010	Change
	('000 barrel)	('000 barrel)	%	**HK$ million**	HK$ million	%
Exploration and Production business						
The Group						
The People's Republic of China (the "PRC")	**5,781**	5,454	6.00	**4,267**	2,824	51.10
South America	**555**	575	(3.48)	**947**	708	33.76
Central Asia	**738**	778	(5.14)	**587**	436	34.63
South East Asia	**494**	539	(8.35)	**388**	306	26.80
	7,568	7,346	3.02	**6,189**	4,274	44.81
Share of an associate in Central Asia	**6,696**	6,603	1.41	**–**	–	N/A
Share of a jointly controlled entity in Middle East	**2,796**	2,434	14.87	**–**	–	N/A
Total of Exploration and Production	**17,060**	16,383	4.13	**6,189**	4,274	44.81

	Sale/processing volume For the year ended 31 December			Revenue For the year ended 31 December		
	2011	2010	Change	**2011**	2010	Change
	('000 cubic metre)	('000 cubic metre)	%	**HK$ million**	HK$ million	%
Natural Gas Distribution business						
Natural Gas Sales, as previously reported	**3,627,821**	2,198,283	65.03	**8,116**	4,794	69.29
Effect of business combination under common controls	**N/A**	21,904	N/A	**N/A**	74	N/A
Natural Gas Sales, as restated	**3,627,821**	2,220,187	63.40	**8,116**	4,868	66.72
Natural Gas Pipelines, as previously reported	**22,073,451**	369,332	5,876.59	**9,937**	–(Note)	N/A
Effect of business combination under common controls	**N/A**	17,238,721	N/A	**N/A**	8,194	N/A
Natural Gas Pipelines, as restated	**22,073,451**	17,608,053	25.36	**9,937**	8,194	21.27
LNG Processing and Terminal	**1,493,308**	–	N/A	**1,156**	–	N/A
Total of Natural Gas Distribution	**27,194,580**	19,828,240	37.15	**19,209**	13,062	47.06
Total Revenue				**25,398**	17,336	46.50

Note: The revenue of natural gas pipelines for the year ended 31 December 2010 was immaterial and grouped into natural gas sales.

Other Gains, Net

Other gains, net for the Year was approximately HK$175 million, representing a decrease of 15.05% as compared with unrestated amount of HK$206 million (13.79% as compared with restated amount of HK$203 million) for last year. The decrease was mainly due to the absence of one-off gain on disposal of fixed assets in 2011 (2010: HK$45 million).

Interest Income

Interest income for the Year was approximately HK$177 million, representing an increase of 156.52% as compared with unrestated amount of HK$69 million (126.92% as compared with restated amount of HK$78 million) for last year. The increase was mainly due to an increase in average bank balance held by the Group.

Purchases, Services and Others

Purchases, services and others for the Year was approximately HK$8,848 million, representing an increase of 107.41% as compared with unrestated amount of HK$4,266 million (54.01% as compared with restated amount of HK$5,745 million) for last year. This was mainly due to the effect of acquisition of Beijing Pipeline and an increase in purchase volume of natural gas which is in line with the market condition.

Employee Compensation Costs

Employee compensation costs of the Group for the Year was approximately HK$1,505 million, representing an increase of 119.71% as compared with unrestated amount of HK$685 million (65.93% as compared with restated amount of HK$907 million) for last year. This increase was mainly due to the increase in the number of employees as a result of the acquisition of Beijing Pipeline and the expansion of the Group's natural gas business.

Exploration Costs

Exploration costs for the Year was approximately HK$247 million, representing an increase of 366.04% as compared with HK$53 million for last year. This was mainly due to more exploration activities undertaken by the Group's Indonesia projects.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$4,088 million, representing an increase of 350.72% as compared with unrestated amount of HK$907 million (47.21% as compared with restated amount of HK$2,777 million) for last year. This was mainly due to effect of acquisition of Beijing Pipeline and the commencement of the Jiangsu LNG terminal and the expansion of the other natural gas business during the Year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Year was approximately HK$1,592 million, representing an increase of 110.30% as compared with unrestated amount of HK$757 million (60.32% as compared with restated amount of HK$993 million) for last year. This was mainly due to the effect of acquisition of Beijing Pipeline and an expansion of the Group's natural gas business, together with the increase in royalty expenses of the Group's overseas oil fields in line with an increase in global crude oil selling prices.

Taxes other than Income Taxes

Taxes other than income taxes for the Year was approximately HK$1,193 million, representing an increase of 235.11% as compared with unrestated amount of HK$356 million (89.06% as compared with restated amount of HK$631 million) for last year. It was mainly due to the increase of special levy on crude oil price increment and the effect of acquisition of Beijing Pipeline.

Other Expenses, Net

Other expenses for the Year was approximately HK$1 million, representing a decrease of 93.33% as compared with unrestated amount of HK$15 million (same as restated figure) for last year. The decrease was mainly due to the one off impairment of other receivables due from a jointly controlled entities in 2010.

Interest Expenses

Interest expenses for the Year was approximately HK$403 million, representing an increase of 141.31% as compared with unrestated amount of HK$167 million (decreased by 1.47% as compared with restated amount of HK$409 million) for last year. Although the Group obtained additional borrowings, additional interest expenses were to be capitalised, as a result of an increase in qualifying assets for the expansion of natural gas business.

Share of Profits less Losses of Associates

Share of profits less losses of associates for the Year was approximately HK$2,255 million, representing an increase of 11.08% as compared with unrestated amount of HK$2,030 million (11.03% as compared with restated amount of HK$2,031 million) for last year, it was mainly due to the increment of crude oil selling price in CNPC-Aktobemunaigas Joint Stock Company and better business performance from China City Natural Gas Investment Group Co., Ltd in natural gas business.

Share of Profits less Losses of jointly controlled entities

Share of profits less losses of jointly controlled entities for the Year increased 42.48% to approximately HK$322 million (2010: HK$226 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 for the Year was approximately HK$10,450 million, representing an increase of 137.88% as compared with unrestated amount of HK$4,393 million (25.24% as compared with restated amount of HK$8,344 million) for last year.

The table below sets out the profit before income tax expense for major segments of the Group for the Year and 2010, and percentages of change during these two years.

	Profit before income tax expense For the year ended 31 December		
	2011	2010	Change
	HK$ million	HK$ million	%
Exploration and Production			
PRC	**1,799**	1,128	59.49
South America	**498**	354	40.68
Central Asia	**(103)**	(139)	25.90
South East Asia	**(129)**	104	(224.04)
	2,065	1,447	42.71
Share of an associate in Central Asia	**2,067**	1,917	7.82
Share of a jointly controlled entity in Middle East	**346**	212	63.21
Total of Exploration and Production	**4,478**	3,576	25.22
Natural Gas Distribution			
Natural gas Sales, as previously reported	**1,331**	725	83.59
Effect of business combination under common controls	**N/A**	138	N/A
Natural Gas Sales, as restated	**1,331**	863	54.23
Natural Gas Pipelines, as previously reported	**4,335**	–	N/A
Effect of business combination under common controls	**N/A**	3,946	N/A
Natural Gas Pipelines, as restated	**4,335**	3,946	9.86
LNG Processing and Terminal	**258**	(19)	1,457.89
Total of Natural Gas Distribution	**5,924**	4,790	23.67
	10,402	8,366	24.34

Income Tax Expense

Income tax expense for the Year was approximately HK$2,281 million, representing an increase of 124.73% as compared with unrestated amount of HK$1,015 million (13.54% as compared with restated amount of HK$2,009 million) for last year.

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

The profit for the Year of the Group were approximately HK$8,169 million, representing an increase of 141.83% as compared with unrestated amount of HK$3,378 million (28.95% as compared with restated amount of HK$6,335 million) for last year. The profit attributable to owners of the Company for the Year was approximately HK$5,609 million, representing an increase of 131.20% as compared with unrestated amount of HK$2,426 million (33.74% as compared with restated amount of HK$4,194 million) for last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the carrying value of total assets of the Group is approximately HK$84,069 million, representing an increase of HK$51,843 million or 160.87% as compared with 31 December 2010 unrestated amount of HK$32,226 million or increase of HK$20,676 million or 32.62% as compared with 31 December 2010 restated amount of HK$63,393 million.

The gearing ratio of the Group was 37.69% as at 31 December 2011 compared with 24.44% (unrestated) or 30.58% (restated) as at 31 December 2010. It is calculated as interest-bearing borrowings of HK$27,572 million (2010: HK$6,804 million (unrestated); HK$16,931 million (restated)) divided by the sum of total equity and interest-bearing borrowings of HK$73,159 million (2010: HK$27,841 million (unrestated); HK$55,358 million (restated)).

Profit before interest, tax, depreciation and amortisation ("EBITDA") for the Year was approximately HK14,764 million, representing an increase of 173.51% as compared with unrestated amount of HK$5,398 million (or 28.91% as compared with restated amount of HK$11,453 million) for last year.

The Group paid interest of HK$1,463 million (2010: HK$574 million (same as restated figures)) during the Year.

The Group received dividends of HK$2,128 million (2010: HK$1,671 million (same as restated figures)) from associates and jointly controlled entities during the Year.

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 Year.

The Group raised new borrowings of HK$17,565 million (2010: HK$4,488 million (unrestated): HK$10,406 million (restated)) and repaid HK$7,895 million (2010: HK$1,212 million (unrestated): HK$5,292 million (restated)) to financial institutions and related parties resulting a net increase in borrowings of HK$9,670 million (2010: HK$3,276 million (unrestated): HK$5,114 million (restated)) during the Year.

USE OF PROCEEDS

During the Year, certain senior executives of the Company exercised their share options. As a result, the Company issued 23 million new shares (2010: 17.5 million new shares) and received subscription amount of HK$96 million (2010: HK$21 million). On 23 December 2011, the Company issued approximately 2,194 million new shares as part of the purchase consideration for the acquisition of 60% equity interest in Beijing Pipeline.

PLEDGED OF ASSETS

As at 31 December 2011 and 2010, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

The Company entered into the Capital Increase Agreement on 21 November 2011 with Binhai New Energy Co., Ltd. ("Binhai New Energy") and 天津大港油田勞動服務總公司 to increase the registered capital of Binhai New Energy from RMB10 million (approximately HK$12 million) to RMB224 million (approximately HK$266 million) by way of capital injection by the Company in the total amount of RMB214 million (approximately HK$254 million).

Upon completion of the above capital increase, Binhai New Energy will become a 51% owned subsidiary of the Company.

EMPLOYEE

On 31 December 2011, the Group had approximately 14,239 staff globally (excluding the staff under entrustment contracts) (2010: 9,025 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, 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 Year.

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 year ended 31 December 2011.

By order of the Board

Director
Hong Kong, 29 March 2012

Corporate Governance Report

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2011.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

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 has applied the Principles and the Code Provisions as set out in the CG Code and complied with all the Code Provisions.

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

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

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company adopted written terms established on division of functions reserved to the Board and delegated to the management.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Composition

During the year, the Board composes of 3 Executive Directors and 3 Independent Non-executive Directors. It has the necessary balance of skills and experience appropriate to the requirements of the business of the Company. There is a strong element of independence in the Board, which can effectively exercise independent judgement.

The Board comprises the following six directors:
Executive Directors:
Mr Li Hualin *(Chairman & Chairman of the Nomination Committee)*
Mr Zhang Bowen *(President)*
Mr Cheng Cheng *(Senior Vice President)*

Independent Non-Executive Directors:
Dr Lau Wah Sum *(Chairman of the Audit Committee and Member of the Remuneration Committee & the Nomination Committee)*
Mr Li Kwok Sing Aubrey *(Chairman of the Remuneration Committee and Member of the Audit Committee & the Nomination Committee)*
Dr Liu Xiao Feng *(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

None of the members of the Board is related to one another.

During the year ended 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Independent Non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all Independent Non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the Articles of Association of the Company which provide that every director appointed by the Board during the year shall retire at the next general meeting and every director (including those appointed for a specific term) shall be subject to retirement at least once every three years. Code Provisions A.4.1 and A.4.2 have been fully complied.

In accordance with the Company's Bye-laws, Mr Li Hualin will retire by rotation and being eligible offer himself for re-election at the forthcoming annual general meeting.

The Board recommended the re-appointment of the above director standing for re-election at the forthcoming annual general meeting of the Company.

A circular containing detailed information of the director standing for re-election at the forthcoming annual general meeting would be sent to the shareholders.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Code provision A1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2011, six Board meetings, four Audit Committee meetings and one Remuneration Committee meeting were held.

The attendance record of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2011 is set out below:

	Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director:			
Mr Li Hualin *(Chairman)*	6/6	–	–
Mr Zhang Bowen *(President)*	6/6	–	–
Mr Cheng Cheng *(Senior Vice President)*	6/6	–	–
Independent Non-Executive Director:			
Dr Lau Wah Sum	6/6	4/4	1/1
Mr Li Kwok Sing Aubrey	6/6	4/4	1/1
Dr Liu Xiao Feng	6/6	4/4	1/1

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings and reasonable notice is generally given for other Board meetings. For committee meeting, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors/ committee members at least 3 days before each Board meeting or committee meeting to keep the directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, President, Chief Financial Officer and Company Secretary will attend Board and committee meetings, when necessary, to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Minutes are prepared after each meeting and the final version is signed by the Chairman and confirmed by the Board in the following Board Meeting. The confirmed minutes are kept for future reference and directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer of the Company are during the year held by Mr Li Hualin and Mr Jiang Changliang.

There are written terms on the general division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The three Independent Non-executive Directors of the Company are the members of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors (including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing independent auditor.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by independent auditor before submission to the Board.

(b) To review the relationship with the independent auditor by reference to the work performed by the independent auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the independent auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2011, the Audit Committee held four meetings, to review the financial results and reports, financial reporting and compliance procedures, the report on the Company's internal control and risk management review and processes and the re-appointment of the independent auditor.

The Company's annual results for the year ended 31 December 2011 has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of the independent auditor.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include making recommendations to the Board for approval of the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Executive Directors and the senior management and other related matters. The Company Secretary is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee held one meeting during the year ended 31 December 2011 to review the remuneration policy and structure of the Company and remuneration packages of the Executive Directors and the senior management for the year under review. An independent consultant on executive compensation was appointed to carry out review of the Company's executive compensation in May 2008.

NOMINATION COMMITTEE

The Nomination Committee was formed on 16 January 2012 and comprises three Independent Non-executive Directors and one Executive Director. Mr. Li Hualin is the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of Independent Non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executives;

5. to regularly review the time required from a Director to perform his responsibilities; and

6. to do such other things to enable the Committee to discharge its powers and functions conferred to it by the Board.

In performing its duties, due regards would be given to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the associated guidance.

MODEL CODE FOR SECURITIES TRANSACTIONS

Code provision A.5.4 stipulates that directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 and, in addition, the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

The Company has also established written guidelines (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 34 and 35.

The remuneration to the independent auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to approximately HK$12 million and approximately HK$1 million (2010: HK$6 million and HK$5 million) respectively. The said non-audit services related to the interim review, the tax compliance services and the internal control review of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be posted on the website of the Stock Exchange and the Company subsequent to the close of the shareholders meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee or, in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains two websites at http://www.kunlun.com.hk and http://www.irasia.com/listco/hk/kunlun, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

INTERNAL CONTROLS

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders investment and the Company's assets. The internal control system of the Company comprises a well-established organisational structure and comprehensive policies and standards.

The Board, through the Audit Committee, assesses annually the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls as well as risk management, the adequacy of resources, qualification and experiences of staff of the Company's accounting and financial functions, and their training programs and budget.

During the year, the external consulting firm of the Group reviewed the key processes of a number of management selected business units and provided recommendation on improvement of the internal control system of the Group. No major issue in relation to financial reporting has been identified.

The directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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 People's Republic of China (the "PRC"), the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia, and the sales of natural gas, LNG processing and terminal and transmission of natural gas in PRC.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 36.

A final dividend for the year ended 31 December 2010 of HK13.8 cents per share amounting to approximately HK$684 million was paid during the year. The directors recommend the payment of a final dividend of HK22.0 cents per share for the year ended 31 December 2011, totalling approximately HK$1,590 million.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 129.

RESERVES

Movements in the reserves of the Group and of the Company during the year ended 31 December 2011 are set out in the consolidated statement of changes in equity on pages 41 and 42, and Note 30 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year ended 31 December 2011 are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2011 are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2011 and 2010 were as follows:

	2011 **HK$ million**	2010 HK$ million
Contributed surplus	**134**	134
Retained earnings	**8,684**	7,367
	8,818	7,501

DISTRIBUTABLE RESERVES OF THE COMPANY (Continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2011.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr Li Hualin
Mr Zhang Bowen
Mr Cheng Cheng

Independent Non-Executive Directors:

Dr Lau Wah Sum
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

In accordance with Article 97 of the Company's Bye-Laws, Mr Li Hualin will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Li Hualin *(Chairman)*
Age 49, after graduated from South West Petroleum University in 1983 with Bachelor's Degree in Oil and Gas Exploration and Prospecting Engineering, Mr Li joined China National Petroleum Corporation ("CNPC") in the same year. He was the Deputy Director of CNPC office at Houston in the U.S.A.; Chairman and General Manager of CNPC Canada Ltd in Canada and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation ("CNODC"). In 2000, Mr Li was awarded the degree of Master of Business Administration from The University of Nebraska. He joined the Company as Executive Vice-Chairman and Managing Director in January 2001 and become the Chief Executive Officer in 2005. Mr Li was re-designated as the Chairman of the Company in January 2007. Mr Li was appointed by PetroChina Company Limited ("PetroChina") as Vice-President in November 2007, Company Secretary and authorised representative in June 2009.

Mr Zhang Bowen *(President)*
Aged 45, joined the Company on 1 January 2007. He holds a Bachelor degree from Xidian University in computer science and a Master degree in petroleum geology from Daqing Petroleum Institute. Since he graduated, Mr Zhang joined CNODC, a subsidiary of CNPC. He has over 10 years of working experience in the oil and gas industry. Immediately before he joined the Company, he was the executive vice president of CNPC America Limited.

Mr Cheng Cheng *(Senior Vice President)*
Aged 44, was appointed as an Executive Director in June 2004. He is currently a Senior Vice President of the Company. Before joining the Company, Mr Cheng has over 15 years industry experience working at various departments and sections of CNPC including 3 years in Canada as Vice President of CNPC International (Canada) Limited. Mr Cheng has a Master of Business Administration from the University of Calgary, Canada, a Master in Energy and Environment Economy from Scuola Superiore Enrico Mattei, Milan Italy and Diploma in Petroleum Technical Economy from Jianghan Institute of Petroleum, the PRC.

Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP
Aged 84, is a Fellow of the Chartered Institute of Management Accountants. He was the ex-Chairman of Urban Renewal Authority. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Honorary Court Member of the University of Science and Technology of Hong Kong. He also sits on the board of Tian Teck Land Limited and Associated International Hotels Limited in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

Mr Li Kwok Sing Aubrey
Aged 62, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 35 years' experience in merchant banking and commercial banking. He is a non-executive director of The Bank of East Asia, Limited, an independent non-executive director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kowloon Development Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited. He is also a non-executive director of Affin Bank Berhad, Atlantis Investment Management (Ireland) Limited and Dalton Capital (Guernsey) Limited. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Independent Non-Executive Directors (Continued)

Dr Liu Xiao Feng
Aged 49, was appointed as an Independent Non-Executive Director of the Company in 2004. He is currently a Managing Director at China Resources Capital Holdings Company Limited. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, JP Morgan, and DBS. He has many years of experience in corporate finance. Dr Liu has a Ph.D and Master degrees from the Faculty of Economics, University of Cambridge and a Bachelor of Economics from Sichuan Institute of Finance and Economics, China. Dr Liu is currently also an independent non-Executive director of Haier Electronics Group Co. Ltd and Honghua Group Limited, both of which are publicly listed companies on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Senior Management

Mr. Jiang Changliang *(Chief Executive Officer)*
Aged 46, is a senior engineer having 23 years' experience in the oil and gas field. He majored in medicinal plant studies in the Northwest University of China and graduated in 1988, obtaining a bachelor's degree in engineering. Then he joined the Liaohe Petroleum Exploration Bureau. In 2001, he was awarded a doctorate degree in Science (Ecology) by the Shenyang Institute of Applied Ecology under the China Academy of Sciences. Mr. Jiang worked for a number of subsidiaries of the CNPC and PetroChina including the West-East Gas Pipeline Company, the Natural Gas and Pipeline Company and the Pipeline Company previously, and was once the senior executive of Pipeline Company.

Mr. Fa Yuxiao *(Senior Vice President)*
Aged 47, is a senior engineer having 27 years' experience in the oil and gas field. He studied earth physics and exploration technologies in the Southwest Petroleum University and was awarded a bachelor's degree in engineering in 1984. After his graduation, he worked for the Research Institute of Petroleum Exploration and Development, the Tarim Petroleum Exploration and Development Headquarters, CNPC and PetroChina. He was once the Deputy Chief Economist under the Human Resources Department of the CNPC and PetroChina.

Mr. Zhong Wenxu *(Senior Vice President)*
Aged 47, is a senior engineer having 25 years' experience in the oil and gas field. He majored in oil drilling engineering in the Southwest Petroleum Institute and was awarded a bachelor's degree in engineering in 1986. After his graduation, he worked for various entities including CNPC Xinjiang Petroleum Administration, CNPC Tarim Oilfield Company and Shenzhen Petroleum Industrial Co., Ltd. In 2005, Mr. Zhong graduated from the Oil and Gas Field Development Engineering Specialty of the China University of Petroleum in Beijing, obtaining a master's degree in engineering. After that, he worked as the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation Co., Ltd. as well as the General Manager of 華油天然氣股份有限公司.

Mr. Xia Yu *(Assistant Chief Executive Officer)*
Aged 48, is a senior engineer with 28 years' experience in the oil and gas field. He majored in irrigation for agricultural land in the Shandong Water Polytechnic. After he graduated with a bachelor's degree in engineering in 1983, he joined Hubei Petroleum Administration. In 1998, he was awarded a master's degree in business administration by Tianjin University. After that, he worked for a number of companies including China International (Kazakhstan) Company, CNPC Shennan Oil Technology Development Co., Ltd. and Shenzhen Petroleum Industrial Co., Ltd. He was also the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation Co., Ltd.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Senior Management (Continued)

Mr Lau Hak Woon *(Chief Financial Officer & Company Secretary)*
Aged 59, member of Hong Kong Institute of Certified Public Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 30 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Chief Financial Officer of several large companies in Hong Kong and overseas.

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 holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS

As at 31 December 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 Commencement of the Securities and Futures 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, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules, to be notified to the Company and the Stock Exchange 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	0.20%
Li Kwok Sing Aubrey (Note)	1,000,000	Beneficial owner	0.01%

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 executives 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 year 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 executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in Note 29(b) to the consolidated financial statements.

The following table discloses the movements in the number of share options of the Company during the year ended 31 December 2011 which have been granted to the directors and employees of the Company:

Shares options were granted to the Directors, chief executives and employees of the Company under the executive share option scheme approved by the Board on 3 June 2002, details of which are set out below:

					Number of Share Options		
Name	**Date of Grant**	**Exercise Period**	**Exercise Price HK$**	**Outstanding at 1 January 2011 '000**	**Granted during the year '000**	**Exercised during the year '000**	**Outstanding at 31 December 2011 '000**
Li Hualin	08/01/07	08/04/07 – 07/01/12	4.186	25,000	–	–	25,000
	26/05/08	26/08/08 – 25/05/13	4.240	3,200	–	–	3,200
	26/03/09	26/06/09 – 25/03/14	3.250	3,200	–	–	3,200
	26/03/10	26/06/10 – 25/03/15	10.320	3,200	–	–	3,200
	18/03/11	18/06/11 – 17/03/16	11.730	–	3,200	–	3,200
Zhang Bowen	08/01/07	08/04/07 – 07/01/12	4.186	20,000	–	–	20,000
	26/05/08	26/08/08 – 25/05/13	4.240	2,400	–	–	2,400
	26/03/09	26/06/09 – 25/03/14	3.250	2,400	–	–	2,400
	26/03/10	26/06/10 – 25/03/15	10.320	2,400	–	–	2,400
	18/03/11	18/06/11 – 17/03/16	11.730	–	2,400	–	2,400
Cheng Cheng	08/01/07	08/04/07 – 07/01/12	4.186	10,000	–	–	10,000
	26/05/08	26/08/08 – 25/05/13	4.240	1,500	–	–	1,500
	26/03/09	26/06/09 – 25/03/14	3.250	1,500	–	–	1,500
	26/03/10	26/06/10 – 25/03/15	10.320	1,500	–	–	1,500
	18/03/11	18/06/11 – 17/03/16	11.730	–	1,500	–	1,500

SHARE OPTIONS (Continued)

Name	Date of Grant	Exercise Period	Exercise Price HK$	Outstanding at 1 January 2011 '000	Number of Share Options: Granted during the year '000	Number of Share Options: Exercised during the year '000	Outstanding at 31 December 2011 '000
Lau Wah Sum	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
Li Kwok Sing Aubrey	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
Liu Xiao Feng	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
Employees	08/01/07	08/04/07 – 07/01/12	4.186	25,000	–	(23,000)	2,000
	14/09/07	14/12/07 – 13/09/12	4.480	20,000	–	–	20,000
	26/05/08	26/08/08 – 25/05/13	4.240	7,000	–	–	7,000
	26/03/09	26/06/09 – 25/03/14	3.250	7,000	–	–	7,000
	26/03/10	26/06/10 – 25/03/15	10.320	7,000	–	–	7,000
	18/03/11	18/06/11 – 17/03/16	11.730	–	7,000	–	7,000
				143,500	14,100	(23,000)	134,600

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

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$10.78.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 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.

Name	Number of Shares Direct Interest	Number of Shares Indirect Interest	Percentage of the total number of Shares in issue
Sun World Limited ("Sun World") (1)	4,708,302,133(L)	–	65.65%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") (1)	–	4,708,302,133(L)	65.65%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") (1)	–	4,708,302,133(L)	65.65%
PetroChina (1)	–	4,708,302,133(L)	65.65%
CNODC (2)	–	277,432,000(L)	3.87%
CNPC International Ltd.("CNPCI") (2)	–	277,432,000(L)	3.87%
Fairy King Investments Ltd.	277,432,000(L)	–	3.87%
CNPC (1) (2)	–	4,985,734,133(L)	69.52%

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 4,708,302,133 (L) shares held by Sun World. Mr. Li Hualin, the Chairman of the Company and Mr. Zhang Bowen, the President of the Company are also directors of Sun World, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).

(2) Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 277,432,000 (L) shares held by Fairy King Investments Ltd..

Save as disclosed above, as at 31 December 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 31 December 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 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.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in Note 29 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2011 and there had been no other exercise of convertible securities, options, warrants or similar rights during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

(a) Continuing Connected Transactions

Continuing connected transactions under the Listing Rules, which are required to be disclosed in accordance with Chapter 14A of the Listing Rules, are as follows.

	Nature of transactions	Details	Amount incurred since acquisition for 2011 HK$' million (Note)	Annual cap HK$' million
(a)	Provision of products and services by China National Petroleum Corporation, its subsidiaries and associates (together, the "CNPC Group") to the Group	As disclosed in the Company's circular dated 19 February 2011	3,502	11,547
(b)	Purchase of the Group's share of crude oil by the CNPC Group	As disclosed in the Company's circular dated 25 May 2010	4,267	4,840
(c)	Rental payments	As disclosed in the Company's circular dated 25 May 2010	2	5
(d)	Purchase of oil and gas products from the CNPC Group by the Group	As disclosed in the Company's circular dated 19 February 2011	4,776	5,759
(e)	Provision of products and services by the Group to the CNPC Group	As disclosed in the Company's circular dated 19 February 2011	1,768	2,928
(f)	Pipeline transmission fee for the transmission of natural gas received and receivable from Beijing Enterprises Holdings Limited and its subsidiaries	As disclosed in the Company's circular dated 19 February 2011	81	N/A

Note:

After the completion of the acquisitions as disclosed in Note 38(a) to the consolidated financial statements, certain transactions between the CNPC Group and subsidiaries acquired under common control combination during the year became continuing connected transactions of the Company and were aggregated with the existing amounts for the relevant category under the Master Agreement (as supplemented) as disclosed above.

These amounts are different from the related party transactions as disclosed in Note 36 to the consolidated financial statements because the related party transactions included transactions incurred by the subsidiaries acquired under common control combination from the earliest date presented as if the operations of the Group and the subsidiaries acquired have always been combined.

CONNECTED TRANSACTIONS (Continued)

(a) Continuing Connected Transactions (Continued)

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with rule 14A.38 of the Listing Rules, the Board of Directors engaged the independent auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 106 of the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

(b) One-off Connected Transactions

PetroChina is the intermediate holding company of the Company and CNPC is the ultimate controlling shareholder of the Company and therefore transactions between the Group and PetroChina or CNPC constitute connected transactions of the Group under the Listing Rules.

(i) The capital increase agreement dated 21 November 2011 among the Company, Binhai New Energy Co., Ltd. ("Binhai New Energy") and 天津大港油田勞動服務總公司 ("Dagang Fuwu"), pursuant to which the Company and Dagang Fuwu have conditionally agreed to increase the share capital of Binhai New Energy from RMB10,000,000 to RMB224,353,100 by way of capital injection by the Company in the total amount of RMB214,353,100 in two stages.

MANAGEMENT CONTRACTS

The Group has entered into certain entrustment contracts in relation to the management of the oil production under the Xinjiang Contract and the Leng Jiapu Contract. Details of those contracts are set out in Note 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	44%
Percentage of purchases attributable to the Group's five largest suppliers	48%
Percentage of sales attributable to the Group's largest customer	36%
Percentage of sales attributable to the Group's five largest customers	59%

PetroChina, a listed subsidiary of CNPC, is the Group's largest supplier and customer.

Save for the above, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the major suppliers or customers noted above.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$10,000.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares during the year.

COMPETING BUSINESS

Save as disclosed below, as at 29 March 2012, none of the directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

Name of director	Name of company	Nature of interest	Nature of competing business
Mr. Li Hualin	PetroChina	Vice-President, Company Secretary and authorised representative	Exploration, development and production and marketing of crude oil and natural gas

As the Board is independent of the board of the above entity, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above business.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Details of events after the date of the statement of financial position are set out in Note 40 to the consolidated financial statements.

AUDITOR

Mr Deloitte Touche Tohmatsu were appointed as the auditor of the Company in 2006 upon the retirement of Mr PricewaterhouseCoopers, who acted as the auditor of the Company for the year ended 31 December 2005. Mr Deloitte Touche Tohmatsu has acted as the auditor of the Company for the years ended 31 December 2006 and 2007. During the year ended 31 December 2008, Mr PricewaterhouseCoopers were appointed as the auditor of the Company to fill the casual vacancy upon the resignation of Mr Deloitte Touche Tohmatsu.

The financial statements for the year ended 31 December 2011 have been audited by Mr PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Hualin
Chairman

Hong Kong, 29 March 2012

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 128, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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羅兵咸永道

TO THE SHAREHOLDERS OF KUNLUN ENERGY COMPANY LIMITED (CONTINUED)
(incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Revenue	6	**25,398**	17,336
Other gains, net	7	**175**	203
Interest income	8	**177**	78
Purchases, services and others		**(8,848)**	(5,745)
Employee compensation costs	9	**(1,505)**	(907)
Exploration expenses, including exploratory dry holes		**(247)**	(53)
Depreciation, depletion and amortisation		**(4,088)**	(2,777)
Selling, general and administrative expenses		**(1,592)**	(993)
Taxes other than income taxes	10	**(1,193)**	(631)
Other expense		**(1)**	(15)
Interest expenses	11	**(403)**	(409)
Share of profits less losses of:			
– Associates		**2,255**	2,031
– Jointly controlled entities		**322**	226
Profit before income tax expense	12	**10,450**	8,344
Income tax expense	14	**(2,281)**	(2,009)
Profit for the year		**8,169**	6,335
Other comprehensive income:			
Currency translation differences		**1,851**	622
Fair value (loss)/gain on available-for-sale financial assets		**(8)**	9
Other comprehensive income		**1,843**	631
Total comprehensive income for the year		**10,012**	6,966

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Profit for the year attributable to:			
– Owners of the Company	*15*	**5,609**	4,194
– Non-controlling interest		**2,560**	2,141
		8,169	6,335
Total comprehensive income for the year attributable to:			
– Owners of the Company		**6,798**	4,634
– Non-controlling interest		**3,214**	2,332
		10,012	6,966
Earnings per share for profit attributable to owners of the Company	*16*		
– Basic (HK cents)		**78.44**	58.71
– Diluted (HK cents)		**77.52**	58.05

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Assets			
Non-current assets			
Property, plant and equipment	*18*	**56,613**	42,968
Advanced operating lease payments	*19*	**1,218**	827
Investments in associates	*20*	**6,158**	5,635
Investments in jointly controlled entities	*21*	**1,732**	1,500
Available-for-sale financial assets	*22*	**130**	129
Intangibles and other non-current assets	*24*	**1,545**	1,165
Deferred tax assets	*33*	**125**	41
		67,521	52,265
Current assets			
Inventories	*25*	**563**	383
Accounts receivable	*26*	**724**	520
Prepaid expenses and other current assets	*27*	**3,572**	2,057
Cash and cash equivalents	*28*	**11,689**	8,168
		16,548	11,128
Total assets		**84,069**	63,393

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**72**	50
Retained earnings		**17,521**	13,337
Reserves	*30*	**12,883**	13,671
		30,476	27,058
Non-controlling interest		**15,111**	11,369
Total equity		**45,587**	38,427
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**8,853**	6,483
Income tax payable		**456**	261
Other tax payable		**589**	245
Short-term borrowings	*32*	**2,611**	4,911
		12,509	11,900
Non-current liabilities			
Long-term borrowings	*32*	**24,964**	12,023
Deferred tax liabilities	*33*	**985**	1,034
Other long-term obligations		**24**	9
		25,973	13,066
Total liabilities		**38,482**	24,966
Total equity and liabilities		**84,069**	63,393
Net current assets/(liabilities)		**4,039**	(772)
Total assets less current liabilities		**71,560**	51,493

Director *Director*

The accompanying notes are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
Assets			
Non-current assets			
Property, plant and equipment	*18*	**2**	1
Investments in associates	*20*	**846**	788
Investments in jointly controlled entities	*21*	**272**	312
Investments in subsidiaries	*23*	**37,163**	7,197
Intangibles and other non-current assets	*24*	**1**	58
		38,284	8,356
Current assets			
Prepaid expenses and other current assets	*27*	**5,070**	3,811
Cash and cash equivalents	*28*	**1,219**	265
		6,289	4,076
Total assets		**44,573**	12,432
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**72**	50
Retained earnings		**8,684**	7,367
Reserves	*30*	**29,482**	4,305
		38,238	11,722
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**212**	710
Non-current liabilities			
Long-term borrowings	*32*	**6,123**	–
Total liabilities		**6,335**	710
Total equity and liabilities		**44,573**	12,432
Net current assets		**6,077**	3,366
Total assets less current liabilities		**44,361**	11,722

Director *Director*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

		Attributable to owners of the Company				Non-	
		Share	Retained			controlling	Total
		capital	earnings	Reserves	Sub-total	interest	equity
	Note	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances at 31 December 2009, as previously reported		49	10,884	3,838	14,771	2,670	17,441
Business combinations under common control	*38(a)*	–	1,510	7,033	8,543	5,427	13,970
Balances at 1 January 2010, as restated		49	12,394	10,871	23,314	8,097	31,411
Total comprehensive income for the year		–	4,194	440	4,634	2,332	6,966
Transfer between reserves		–	(238)	238	–	–	–
Final dividend for 2009	*17*	–	(347)	–	(347)	–	(347)
Recognition of equity settled share-based payments	*29*	–	–	43	43	–	43
Exercise of share options	*29, 30*	1	–	21	22	–	22
Acquisition of 2010 Natural Gas Projects		–	–	(858)	(858)	–	(858)
Acquisition of 2011 Natural Gas Projects	*38(a)*	–	–	3,024	3,024	1,533	4,557
Dividend paid to former owners of 2011 Natural Gas Project	*38(a)*	–	(2,666)	–	(2,666)	(1,778)	(4,444)
Acquisition of subsidiaries		–	–	–	–	52	52
Dividends to non-controlling interest		–	–	–	–	(526)	(526)
Purchase of non-controlling interest	*38(c)*	–	–	(108)	(108)	(239)	(347)
Capital contributions from non-controlling interest		–	–	–	–	1,898	1,898
Balances at 31 December 2010, as restated		50	13,337	13,671	27,058	11,369	38,427

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to owners of the Company				Non-	
		Share capital	Retained earnings	Reserves	Sub-total	controlling interest	Total equity
	Note	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances at 31 December 2010, as previously reported		50	12,923	3,212	16,185	4,853	21,038
Business combinations under common control	*38(a)*	–	414	10,459	10,873	6,516	17,389
Balances at 1 January 2011, as restated		50	13,337	13,671	27,058	11,369	38,427
Total comprehensive income for the year		–	5,609	1,189	6,798	3,214	10,012
Transfer between reserves		–	(329)	329	–	–	–
Final dividend for 2010	*17*	–	(684)	–	(684)	–	(684)
Recognition of equity settled share-based payments	*29*	–	–	43	43	–	43
Exercise of share options	*29, 30*	1	–	96	97	–	97
Acquisition of 2011 Natural Gas Projects	*29, 38(a)*	21	–	(2,452)	(2,431)	–	(2,431)
Dividend paid to former owners of 2011 Natural Gas Project	*38(a)*	–	(412)	–	(412)	–	(412)
Acquisition of subsidiaries		–	–	12	12	2	14
Realisation of reserves upon disposal of a jointly controlled entity		–	–	(5)	(5)	–	(5)
Dividends to non-controlling interest		–	–	–	–	(832)	(832)
Capital contributions from non-controlling interest		–	–	–	–	1,358	1,358
Balances at 31 December 2011		72	17,521	12,883	30,476	15,111	45,587

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Cash flows from operating activities		
Profit for the year	**8,169**	6,335
Adjustments for:		
Income tax expense	**2,281**	2,009
Tax other than income tax	**1,193**	631
Depreciation, depletion and amortisation	**4,088**	2,777
Share of profits less losses of associates	**(2,255)**	(2,031)
Share of profits less losses of jointly controlled entities	**(322)**	(226)
Employee share-based payment expense	**43**	43
Net(gains)/loss on disposals of property, plant and equipment	**(7)**	1
Gain on disposal of a jointly controlled entity/assets held for sale	**(5)**	(52)
Net exchange gains	**(95)**	(104)
Interest income	**(177)**	(78)
Interest expense	**403**	409
Changes in working capital:		
Accounts receivable and prepaid expenses and other current assets	**(1,717)**	(867)
Inventories	**(180)**	(88)
Accounts payable and accrued liabilities	**377**	1,319
Cash generated from operations	**11,796**	10,078
Income tax paid	**(2,212)**	(1,745)
Net cash generated from operating activities	**9,584**	8,333

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Cash flows from investing activities			
Dividends received from associates		**1,981**	1,671
Dividends received from jointly controlled entities		**147**	–
Acquisitions of subsidiaries and a plant engaging in LNG business	*38(d)*	**(3,090)**	(256)
Acquisitions of associates		**–**	(26)
Capital contributions to associates		**(191)**	(26)
Capital contributions to jointly controlled entities		**(42)**	(181)
Acquisitions of available-for-sale financial assets		**(8)**	(6)
Prepayments for acquisition of a subsidiary		**–**	(131)
Purchase of non-controlling interest		**–**	(347)
Proceeds from disposal of property, plant and equipment		**247**	108
Capital expenditure		**(13,492)**	(10,930)
Interest received		**177**	78
Decrease in deposits with maturities more than three months		**–**	31
Loan to non-controlling interests		**–**	(532)
Net cash used in investing activities		**(14,271)**	(10,547)
Cash flows from financing activities			
Capital contributions from non-controlling interest		**1,358**	3,431
Dividends paid to owners of the Company		**(684)**	(347)
Dividends paid to non-controlling interest		**(832)**	(552)
Dividends paid to former owners of 2011 Natural Gas Project		**(412)**	(4,444)
Increase in other long-term obligations		**15**	2
Issue of shares, net of share issue expenses		**96**	22
Increase in borrowings		**17,565**	10,406
Repayments of borrowings		**(7,895)**	(5,292)
Interest paid		**(1,265)**	(574)
Net cash generated from financing activities		**7,946**	2,652
Increase in cash and cash equivalents		**3,259**	438
Cash and cash equivalents at 1 January		**8,168**	7,627
Effect of foreign exchange rate changes		**262**	103
Cash and cash equivalents at 31 December	*28*	**11,689**	8,168

The accompanying notes are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World"), which is a company incorporated in the British Virgin Islands. On 27 August 2008, PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, entered into a sale and purchase agreement with CNPC to acquire 100% equity interest in Sun World. On 18 December 2008, the transaction was completed. Since then, PetroChina became an intermediate holding company of the Company. As at 31 December 2011, PetroChina indirectly owned 65.65% (2010: 50.75%) equity interest in the Company.

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

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

The Group currently has three production sharing arrangements in the PRC and Azerbaijan. On 1 July 1996, the Group entered into an oil production sharing contract (the "Xinjiang Contract") to develop and produce crude oil in Xinjiang Uygur Autonomous Region, the PRC. On 30 December 1997, the Group entered into another oil production sharing contract (the "Leng Jiapu Contract") to develop and produce crude oil in Liaohe, Lioaning Province, the PRC. In 2002, the Group acquired the third production sharing arrangement ("K&K Contract") to develop and produce crude oil in Azerbaijan. Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in Note 35.

The oil operations in the PRC and Azerbaijan are conducted through production sharing arrangements with PetroChina and a third party, whereby the Group is entitled to a fixed percentage of assets, liabilities, income and expenses in accordance with the respective oil production sharing contracts entered into with PetroChina and the third party.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries except for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

For purposes of the presentation of the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment.

A listing of the Group's principal subsidiaries is set out in Note 40.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost.

Under this method of accounting the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated profit or loss and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its investment in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investments in associates includes goodwill identified on acquisition, net of any accumulated loss and is tested for impairment as part of the overall balance. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

For purpose of the presentation of the Company's statement of financial position, investments in associates are accounted for at cost less impairment.

A listing of the Group's principal associates is shown in Note 41.

(c) Investments in jointly controlled entities

Jointly controlled entities are those entities over which the Group has contractual arrangements to jointly share control with one or more parties. The Group's investments in jointly controlled entities are accounted for using the equity method of accounting (Note 3(b)) in the consolidated financial statements.

For purpose of the presentation of the Company's statement of financial position, investments in jointly controlled entities are accounted for at cost less impairment.

A listing of the Group's principal jointly controlled entities is shown in Note 42.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Accounting for production sharing contracts

Production sharing contracts constitute jointly controlled operations. The Group's interests in production sharing contracts are accounted for in the consolidated financial statements on the following bases:

(i) the assets that the Group controls and the liabilities that the Group incurs; and

(ii) the share of expenses that the Group incurs and its share of income from the production according to the terms stipulated in these contracts.

(e) Transactions with non-controlling interest

Transactions with non-controlling interest are treated as transactions with owners in their capacity as owners of the Group. Gains and losses resulting from disposals to non-controlling interest are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired resulting from the purchase from non-controlling interest, are recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the equity is remeasured to its fair value, with the change in carrying amount recognised in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to consolidated profit or loss where appropriate.

(f) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies (Continued)

(i) Functional and presentation currency (Continued)

In prior years, the Board of Directors regarded US dollar as the functional currency of the Company. During the year ended 31 December 2011, the Group acquired PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline") and the Board of Directors reassessed the Company's functional currency and considered to change the functional currency of the Company from US dollar to Renminbi starting from 23 December 2011 as Renminbi has become the currency that mainly influences the operation of the Group's significant entities.

The change in functional currency of the Company was applied prospectively from the date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit or loss items were translated into Renminbi at the exchange rate on that date.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "other gains". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains, net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in consolidated profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation difference on financial assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies (Continued)

(iii) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designed as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(g) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3(h)), are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortisation (including any impairment).

Depreciation, to write off the cost of each asset, other than oil and gas properties (Note 3(h)), to their residual values over their estimated useful lives is calculated using the straight-line method.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (Continued)

The Group uses the following useful lives for depreciation purposes:

Buildings	40 years or over the remaining period of respective leases whichever is the shorter
Natural gas pipelines	10-14 years
Equipment and machinery	4-30 years
Motor vehicles	4-14 years
Others	5-12 years

No depreciation is provided for construction in progress until the assets are completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property, plant and equipment, including oil and gas properties (Note 3(h)), are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are recorded in the consolidated profit or loss.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Costs for repair and maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain regardless of whether the estimate is a deterministic estimate or probabilistic estimate. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The cost shall be that prevailing at the end of the period.

Exploratory wells in areas not requiring major capital expenditure are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review (Note 3(g)). For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities.

The cost of oil and gas properties is amortised at the field level based on the units of production method. Units of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group's production licenses. The Group's oil and gas reserves estimates include only crude oil and condensate and natural gas which management believes can be reasonably produced within the current terms of these production licenses.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate and jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets" whereas goodwill on acquisitions of associates and jointly controlled entities is included in the investments in associates and jointly controlled entities respectively, and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains on losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment test. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Other intangible assets

Expenditure on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using straight line method over their estimated useful lives. Intangible assets are not subsequently revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in the consolidated profit or loss. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the estimated net present value of future cash flows to be derived from the assets.

(j) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has principally loans and receivables and available-for-sale financial assets. The detailed accounting policies for loans and receivables and available-for-sale financial assets held by the Group are set out below.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the statement of financial position, which are classified as non-current assets. The Group's loans and receivables comprise accounts receivable, other deposits and cash and cash equivalents. The recognition methods for loans and receivables are disclosed in the respective policy notes.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position. The Group's available-for-sale financial assets primarily comprise quoted and unquoted equity instruments.

Regular way purchases and sales of available-for-sale financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value plus transaction costs.

Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership in the investment. Available-for-sale financial assets are subsequently carried at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

The Group assesses at each date of the statement of financial position whether there is objective evidence that an available-for-sale financial asset is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. Payments made to the PRC's land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms of use range up to 50 years.

(l) Inventories

Inventories include crude oil and marina club debentures and wet berths held for sales which are stated at the lower of cost and net realisable value. Cost of crude oil is primarily determined by the weighted average cost method, comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(m) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

(o) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit or loss over the period of the borrowings.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the reporting period.

(q) Taxation

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Taxation (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group also incurs various other taxes and levies that are not income taxes. "Taxes other than income taxes", which form part of operating expenses, primarily comprise a special levy on domestic sales of crude oil (Note 10), resource tax, urban construction tax, education surcharges and business tax.

(r) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts. Revenue is recognised only when the Group has transferred to the buyers significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

(s) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and reliable estimates of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in the PRC. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in the PRC. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expense as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(u) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and including the impact of any non-vesting conditions (for example, the requirement for employees to save). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to owners of the Company after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(w) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) New accounting developments

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

HKAS 24 (Revised) "Related party disclosures". The Group has applied it from 1 January 2011 (Note 36), and had early adopted the partial exemption in paragraphs 25 to 27 for government-related entities from 1 January 2009. The revised standard did not have any significant impact on the consolidated financial statements.

HKAS 1 (Amendment) "Presentation of financial statements". The amendment clarifies that an entity should present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 27 (Amendment) "Consolidated and separate financial statements". The amendment clarifies that the consequential amendments from HKAS 27 made to HKAS 21 "The effect of changes in foreign exchange rates", HKAS 28 "Investments in associates", and HKAS 31 "Interests in joint ventures", apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when HKAS 27 is applied earlier. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 32 (Amendment) "Classification of rights issues". The amendment requires rights issues to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of non-derivative equity. Entities will no longer classify rights issues, for which non-derivative the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity will continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss. The amendment did not have any significant impact on the consolidated financial statements.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) New accounting developments (Continued)

(i) New and amended standards adopted by the Group (Continued)

HKFRS 1 (Amendment) "First-time adoption of Hong Kong Financial Reporting Standard". The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 "Interim financial reporting", it should explain those changes and update the reconciliations between previous GAAP and HKFRS. It allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first HKFRS financial statements are issued. When such remeasurement occurs after the date of transition to HKFRSs but during the period covered by its first HKFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity. Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under HKAS 36 at the date of transition.

HKFRS 3 (Amendments) "Business combinations". The amendments clarify that (1) entities should apply the rules in HKFRS 3 (not HKFRS 7, HKAS 32 or HKAS 39) to contingent consideration that arose from business combinations with acquisition dates that precede the application of HKFRS 3; (2) only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets; and (3) the application guidance in HKFRS 3 applies to all share based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. These amendments did not have any significant impact on the consolidated financial statements.

HKFRS 7 (Amendment) "Financial instruments: disclosures". The amendment clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. The amendment did not have any significant impact on the consolidated financial statements.

HK (IFRIC) – Int 19 "Extinguishing financial liabilities with equity instruments". The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a "debt for equity swap"). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes. The interpretation did not have any significant impact on the consolidated financial statements.

3 **SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

(x) New accounting developments (Continued)

(i) New and amended standards adopted by the Group (Continued)

HK (IFRIC) – Int 13 (Amendment) "Customer loyalty programmes". The amendment clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of the award credit is not expected to be redeemed by customers. The amendment did not have any significant impact on the consolidated financial statements.

HK (IFRIC) – Int 14 (Amendment) "Prepayments of a minimum funding requirement". Some entities that are subject to a minimum funding requirement have elected to prepay their pension contributions. The prepaid contributions are recovered through lower minimum funding requirements in future years. The previous version of HK(IFRIC) 14 did not permit the recognition of an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was an unintended consequence of the interpretation, which has been amended to require that an asset is recognised in these circumstances. The amendment to the interpretation did not have any significant impact on the consolidated financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2012 or later periods and have not been early adopted by the Group:

HKAS 1 (Amendment) "Presentations of financial statements" requires entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess HKAS 1 (Amendment)'s full impact and intends to adopt HKAS 1 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKAS 12 (Amendment) "Income taxes" introduces an exception to the principles for the measurement of deferred tax assets and liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The Group is yet to assess HKAS 12 (Amendment)'s full impact and intends to adopt HKAS 12 (Amendment) no later than the accounting period beginning on or after 1 January 2012.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) New accounting developments (Continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKAS 19 (Amendment) "Employee benefits" eliminates the corridor approach and calculates finance costs on a net funding basis. The Group is yet to assess HKAS 19 (Amendment)'s full impact and intends to adopt HKAS 19 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKAS 27 (Revised 2011) "Separate financial statements" includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. The Group is yet to assess HKAS 27 (Revised 2011)'s full impact and intends to adopt HKAS 27 (Revised 2011) no later than the accounting period beginning on or after 1 January 2013.

HKAS 28 (Revised 2011) "Associates and joint ventures" includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. The Group is yet to assess HKAS 28 (Revised 2011)'s full impact and intends to adopt HKAS 27 (Revised 2011) no later than the accounting period beginning on or after 1 January 2013.

HKAS 32 (Amendment) "Financial instruments: presentation – offsetting financial assets and financial liabilities" clarify the requirements for offsetting financial instruments on the statement of financial position: (i) the meaning of 'currently has a legally enforceable right of set-off'; and (ii) that some gross settlement systems may be considered equivalents to net settlement. The Group is yet to assess HKAS 32 (Amendment)'s full impact and intends to adopt HKAS 32 (Amendment) no later than the accounting period beginning on or after 1 January 2014.

HKFRS 1 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters" include two changes to HKFRS 1 "First-time adoption of HKFRS". The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to HKFRSs', thus eliminating the need for entities adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to HKFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation. The Group is yet to assess HKFRS 1(Amendment)'s full impact and intends to adopt HKFRS 1 (Amendment) no later than the accounting period beginning on or after 1 January 2012.

HKFRS 7 (Amendment) "Disclosures – transfers of financial assets" promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) no later than the accounting period beginning on or after 1 January 2012.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) New accounting developments (Continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKFRS 7 (Amendment) "Financial instruments: disclosures - offsetting financial assets and financial liabilities" requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKFRS 9 "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.

HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures" delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from HKAS 39 to HKFRS 9 are required. The Group is yet to assess HKFRS 7 and HKFRS 9 (Amendments)'s full impact and intends to adopt HKFRS 7 and HKFRS 9 (Amendments) no later than the accounting period beginning on or after 1 January 2015.

HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) New accounting developments (Continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKFRS 11 "Joint arrangements" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

HK(IFRIC) – Int 20 "Stripping costs in the production phase for surface mine" sets out the accounting for overburden waste removal (stripping) costs that are incurred in surface mining activity during the production phase of a mine. The interpretation may require mining entities reporting under HKFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable components of an ore body.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the management of the Company under policies approved by the Board of Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

(a) Market risk

- Foreign exchange rate risk

  The Group conducts its business primarily in US dollar and Renminbi. Renminbi is not a freely convertible currency and is regulated by the PRC Government. Limitation in foreign exchange transactions imposed by the PRC Government could cause future exchange rates to vary significantly from current or historical exchange rates.

  Entities within the Group also exposes to foreign exchange rate risk in relation to monetary balances which are denominated in a currency that is not the entity's functional currency. As at 31 December 2011 and 2010, except for bank balances amounting to approximately HK$3,573 million (2010 restated: HK$3,963 million), there are no significant monetary balances held by the Group that are denominated in a non-functional currency.

  The Group did not enter into material hedge contracts during any of the years presented to hedge against its foreign exchange rate risk. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

  At 31 December 2011, if Renminbi had weakened/strengthened by 5% against US dollar with all other variables held constant, profit for the year would have been approximately HK$126 million lower/higher (2010 restated: HK$75 million higher/lower), mainly as a result of foreign exchange losses/gains (2010 restated: foreign exchange gains/losses) on translation of US dollar-denominated borrowing within the Group.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

- Cash flow and fair value interest rate risk

  The Group's exposure to fair value interest rate risk is mainly attributable to borrowings. The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

  The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances and deposits and borrowings. The Group's cash flow interest rate is mainly concentrated on the fluctuation of the saving interest rates set by the financial institutions.

  The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

  At 31 December 2011, if interest rates on bank balances and deposits, and borrowings had been 50 base-point higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$67 million (2010 restated: HK$44 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank balances and deposits, and borrowings at floating interest rates.

- Price risk

  The Group is engaged in a wide range of petroleum-related activities. Prices of crude oil and petroleum products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. The Group did not enter into any material hedging of its price risk during the year.

  The Group is also exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as available-for-sale financial assets. As at 31 December 2011, the available-for-sale financial assets represented approximately 0.29% (2010 restated: 0.34%) of the total equity of the Group. There would not be any significant financial impact to the results and equity of the Group if the quoted market price of the equity investments held by the Group had significantly changed.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk arises primarily from cash and cash equivalents, accounts receivable and loans to non-controlling interest.

A substantial portion of the Group's cash at bank and time deposits are placed with state-owned banks and financial institutions in China and management believes that the credit risk is low.

The Group performs ongoing assessment of the credit quality of its customers. The ageing analysis of accounts receivable is presented in Note 26.

The carrying amounts of cash and cash equivalents, time deposits placed with banks, accounts receivable and loans to non-controlling interest included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

Given the low level of gearing and continued access to funding, the Group believes that its liquidity risk is not material.

Analysis of the Group's financial liabilities based on the remaining period at the date of the statement of financial position to the contractual maturity dates are presented in Note 31 and 32.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, optimise returns for owners and to minimise its cost of capital. In meeting its objectives of managing capital, the Group may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

The Group monitors capital on the basis of the gearing ratio which is calculated as interest-bearing borrowings divided by the sum of total equity and interest-bearing borrowings. The gearing ratio at 31 December 2011 is 37.7% (2010 restated: 30.6%).

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at 31 December 2011 and 2010 are disclosed in the respective accounting policies.

The carrying amounts of the following financial assets and financial liabilities approximate their fair values as all of them are short-term in nature: cash and cash equivalents, bank deposits with maturities over three months, accounts receivable, other receivables, accounts payable, accrued liabilities and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 32.

Available-for-sale financial assets are the Group's only assets that are measured at fair value. A table analysing financial instruments carried at fair value, by valuation method, is presented in Note 22. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as available for sale.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

5 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 consolidated financial statements.

(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 statements 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 or development plans.

5 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) 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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.

6 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 37.

7 OTHER GAINS, NET

	2011 **HK$'million**	2010 HK$'million (restated) (Note 38(a))
Net exchange gains	**95**	104
Rental income	**26**	5
Net gains/(losses) on disposals of property, plant and equipment	**7**	(1)
Gains on disposal of a jointly controlled entity/assets held for sale	**5**	52
Others	**42**	43
	175	203

8 INTEREST INCOME

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Interest income on:		
– Amounts due from related parties	**55**	9
– Bank deposits	**122**	69
	177	78

9 EMPLOYEE COMPENSATION COSTS

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Salaries, wages and allowances	**1,385**	836
Retirement benefits scheme contributions	**77**	28
Share-based payment expenses (Note 30)	**43**	43
	1,505	907

10 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levies on PRC domestic sales of crude oil of approximately HK$735 million (2010: HK$305 million) for the year ended 31 December 2011.

11 INTEREST EXPENSES

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Interest expenses on:		
Bank loans, wholly repayable within five years	**26**	12
Loans other than bank loans, wholly repayable within five years, from:		
– An intermediate holding company	**724**	627
– An immediate holding company	**5**	–
– China Petroleum Finance Company Limited ("CP Finance")	**457**	106
– A fellow subsidiary	**63**	82
Less: Amounts capitalised	**(872)**	(418)
	403	409

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 3.81% (2010 restated: 5.31%) per annum for the year ended 31 December 2011.

12 PROFIT BEFORE INCOME TAX EXPENSE

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Items charged in arriving at the profit before income tax expense include:		
Amortisation on intangibles and other assets	**25**	15
Auditor's remuneration	**15**	12
Cost of inventories recognised as expense	**10,534**	6,971
Depreciation of property, plant and equipment	**4,063**	2,762
Operating lease expenses	**49**	43
Repairs and maintenance	**364**	315

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors for the years ended 31 December 2011 and 2010 are as follows:

	2011					2010
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefit expenses	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Li Hualin	–	3,500	–	6,960	10,460	12,287
Mr Zhang Bowen	–	5,250	375	7,129	12,754	13,199
Mr Cheng Cheng	–	4,000	300	5,229	9,529	7,327
Dr Lau Wah Sum	450	–	–	–	450	1,257
Mr Li Kwok Sing Aubrey	300	–	–	–	300	1,107
Dr Liu Xiao Feng	250	–	–	–	250	1,512
	1,000	12,750	675	19,318	33,743	36,689

The five individuals whose emoluments were the highest in the Group for the year including three (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: two) individual during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, wages and allowances	8,000	8,000
Retirement benefits scheme contributions	600	600
Share-based payment expenses	10,825	9,004
	19,425	17,604

The emoluments fell within the following bands:

	2011	2010
HK$8,500,001 to HK$9,000,000	–	2
HK$9,500,001 to HK$10,000,000	2	–

None of the directors has waived their remuneration during the year ended 31 December 2011 (2010: Nil).

During the year ended 31 December 2011, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company (2010: Nil).

14 INCOME TAX EXPENSE

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Current tax		
– PRC	**1,753**	1,345
– Overseas	**673**	443
	2,426	1,788
Deferred tax (Note 33)	**(145)**	221
	2,281	2,009

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (2010: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in Mainland China is principally 25% (2010: 25%). The operations of the Group's certain regions in China have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 20% (2010: 10% to 20%).

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

Included in overseas income tax expenses is withholding tax of approximately HK$396 million (2010: HK$315 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (2010: 20%).

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2011 (2010: Nil).

14 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax expense differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group as follows:

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Profit before income tax expense	**10,450**	8,344
Tax calculated at a tax rate of 25% (2010: 25%)	**2,613**	2,086
Prior year tax return adjustment	**7**	4
Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate	**(114)**	(95)
Effect of preferential tax rate	**(135)**	(115)
Tax effect of income not subject to tax	**(62)**	(4)
Tax effect of expenses not deductible for tax purposes	**57**	78
Tax effect of share of profits less losses of associates	**(372)**	(335)
Tax effect of share of profits less losses of jointly controlled entities	**(53)**	(37)
Withholding tax on dividends received and receivable	**340**	427
Income tax expense	**2,281**	2,009

The domestic income tax rate used in the calculation above is the PRC tax rate which is the jurisdiction where the operations of the Group are substantially based.

15 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$2,001 million (2010: HK$1,371 million).

16 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$5,609 million (2010 restated: HK$4,194 million) and weighted average number of ordinary shares in issue during the year of approximately 7,151 million shares (2010 restated: 7,143 million shares (Note 38(a)).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$5,609 million (2010 restated: HK$4,194 million), and the weighted average number of ordinary shares of approximately 7,236 million shares (2010 restated: 7,225 million shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 85 million shares (2010: 82 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

17 DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2011 **HK$'million**	2010 HK$'million
Proposed final dividend attributable to owners of the Company for 2011 (Note (a))	**1,590**	–
Final dividend attributable to owners of the Company for 2010 (Notes (b) and (c))	**–**	684

Notes:

(a) At the meeting on 29 March 2012, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2011 of HK22 cents per share amounting to a total of approximately HK$1,590 million. The amount is based on approximately 7,228 million shares in issue as at 29 March 2012. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2012 when approved at the forthcoming Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2010 of HK13.8 cents per share amounting to a total of approximately HK$684 million were approved by the shareholders in the Annual General Meeting on 8 June 2011 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2011. The amount is based on approximately 4,954 million shares in issue as at 17 March 2011.

(c) Final dividend attributable to owners of the Company in respect of 2009 of HK7 cents per share amounting to a total of approximately HK$346 million were approved by the shareholders in the Annual General Meeting on 10 June 2010 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2010, and were paid on 15 June 2010. The amount was based on approximately 4,937 million shares in issue as at 25 March 2010.

18 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2010	Group Buildings HK$'million	Oil and gas properties HK$'million	Natural gas pipelines HK$'million	Equipment and machinery HK$'million	Motor vehicles HK$'million	Others HK$'million	Construction in progress HK$'million	Total HK$'million	Company Others HK$'million
Cost									
Balances at 31 December 2009, as previously reported	245	9,518	–	1,463	386	258	3,253	15,123	4
Business combinations under common control	897	–	16,822	6,394	2	131	6,879	31,125	–
Balances at 1 January 2010, as restated	1,142	9,518	16,822	7,857	388	389	10,132	46,248	4
Currency translation differences	33	292	537	207	15	13	298	1,395	–
Additions	146	445	–	300	275	33	11,643	12,842	1
Additions through business combinations	–	–	–	63	–	–	–	63	–
Disposals	(57)	(1)	(3)	(86)	(13)	(34)	(30)	(224)	(1)
Transfers	197	282	7,745	650	149	424	(9,447)	–	–
Balances at 31 December 2010, as restated	1,461	10,536	25,101	8,991	814	825	12,596	60,324	4
Accumulated depletion, depreciation and impairment									
Balances at 31 December 2009, as previously reported	73	5,669	–	396	138	133	–	6,409	4
Business combinations under common control	263	–	5,780	1,744	49	–	–	7,836	–
Balances at 1 January 2010, as restated	336	5,669	5,780	2,140	187	133	–	14,245	4
Currency translation differences	9	155	164	115	4	4	–	451	–
Charge for the year	78	640	1,322	634	76	12	–	2,762	–
Additions through business combinations	–	–	–	13	–	–	–	13	–
Disposals	(6)	–	(94)	–	(13)	(2)	–	(115)	(1)
Balances at 31 December 2010, as restated	417	6,464	7,172	2,902	254	147	–	17,356	3
Net book value at 31 December 2010, as restated	1,044	4,072	17,929	6,089	560	678	12,596	42,968	1

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Year ended 31 December 2011	Group								Company
	Buildings HK$'million	Oil and gas properties HK$'million	Natural gas pipelines HK$'million	Equipment and machinery HK$'million	Motor vehicles HK$'million	Others HK$'million	Construction in progress HK$'million	Total HK$'million	Others HK$'million
Cost									
Balances at 31 December 2010, as previously reported	343	10,536	–	2,441	698	825	6,359	21,202	4
Business combinations under common control (Note 38(a))	1,118	–	25,101	6,550	116	–	6,237	39,122	–
Balances at 1 January 2011	1,461	10,536	25,101	8,991	814	825	12,596	60,324	4
Currency translation differences	95	466	1,555	645	57	124	806	3,748	–
Additions	246	889	–	1,328	353	105	12,258	15,179	1
Additions through business combinations	–	–	–	46	–	–	–	46	–
Disposals	–	(40)	(2)	(165)	(10)	–	(130)	(347)	–
Transfers	228	228	1,946	4,061	25	2,610	(9,098)	–	–
Balances at 31 December 2011	2,030	12,079	28,600	14,906	1,239	3,664	16,432	78,950	5
Accumulated depletion, depreciation and impairment									
Balances at 31 December 2010, as previously reported	100	6,464	–	591	203	147	–	7,505	3
Business combinations under common control (Note 38(a))	317	–	7,172	2,311	51	–	–	9,851	–
Balances at 1 January 2011, as restated	417	6,464	7,172	2,902	254	147	–	17,356	3
Currency translation differences	28	293	483	198	18	5	–	1,025	–
Charge for the year	60	932	1,886	995	101	89	–	4,063	–
Disposals	–	(8)	(9)	(83)	(7)	–	–	(107)	–
Balances at 31 December 2011	505	7,681	9,532	4,012	366	241	–	22,337	3
Net book value at 31 December 2011	1,525	4,398	19,068	10,894	873	3,423	16,432	56,613	2

The buildings of the Group are mainly located in the PRC.

The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current regulations and contracts governing such activities.

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2011, the legal title registration of certain of the Group's properties with carrying amount of approximately HK$502 million (2010: HK$507 million) is subject to certain administrative procedures to be completed by the relevant local government authorities. However, the Board of Directors of the Company is of the opinion that the risks and rewards of using these assets have been transferred to the Group.

In addition, certain of the Group's property, plant and equipment are situated on leasehold land in the PRC which was granted for use by the relevant government authorities to the Group at nil consideration with no specific terms of usage.

19 ADVANCED OPERATING LEASE PAYMENTS

The Group's advanced operating lease payments mainly represent land use rights and comprise:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
Leasehold interest in land outside Hong Kong:		
Leases of between 10 to 50 years	**1,218**	827
Balance as at 31 December	**311**	109
Business combinations under common control	**516**	250
Balance as at 1 January	**827**	359
Currency translation differences	**59**	15
Additions	**353**	462
Amortisation for the year	**(21)**	(9)
Balance as at 31 December	**1,218**	827

These advanced operating lease payments are amortised over the related lease terms using the straight-line method.

20 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Unlisted shares, at cost	**–**	–	**846**	788
Share of net assets	**5,726**	5,227	**–**	–
Goodwill	**432**	408	**–**	–
	6,158	5,635	**846**	788

The Group's interests in its associates (which are unlisted), together with their share of their respective assets, liabilities, revenue and profit are as follows:

Name	**Country of incorporation/ establishment**	**Assets HK$'million**	**Liabilities HK$'million**	**Revenue HK$'million**	**Profit HK$'million**	**Interest held %**	**Type of shares**
As at or for the year ended 31 December 2011							
Aktobe	Kazakhstan	**7,548**	**2,816**	**9,255**	**2,067**	25.12%	Common shares
China City Natural Gas Investment Group Co., Ltd. ("Zhongyou Zhongtai")	PRC	**2,022**	**1,220**	**1,868**	**183**	49.00%	Equity joint venture
Others		**218**	**26**	**123**	**5**		
		9,788	**4,062**	**11,246**	**2,255**		
As at or for the year ended 31 December 2010, as restated							
Aktobe	Kazakhstan	7,725	3,081	6,396	1,917	25.12%	Common shares
Zhongyou Zhongtai	PRC	1,231	699	1,156	109	49.00%	Equity joint venture
Others		62	11	69	5		
		9,018	3,791	7,621	2,031		

Dividends received from associates amounted to approximately HK$1,981 million (2010: HK$1,671 million) for the year ended 31 December 2011.

20 INVESTMENTS IN ASSOCIATES (CONTINUED)

Movements in share of net assets of associates are as follows:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
At 31 December	**5,220**	4,833
Business combinations under common control	**7**	6
At 1 January	**5,227**	4,839
Share of exchange reserves	**33**	(24)
Capital contributions	**192**	26
Acquisitions	**–**	26
Share of profits	**2,255**	2,031
Dividend income received	**(1,981)**	(1,671)
At 31 December	**5,726**	5,227

Movements in goodwill included in investments in associates are as follows:

	Group	
	2011	2010
	HK$'million	HK$'million
At 1 January	**408**	398
Currency translation differences	**24**	10
At 31 December	**432**	408

Details of the principal associates, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2011 and 2010, are set out in Note 41.

21 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Unlisted shares, at cost	**–**	–	**227**	267
Share of net assets	**1,687**	1,455	**–**	–
Loans to jointly controlled entities	**45**	45	**45**	45
	1,732	1,500	**272**	312

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

As at 31 December 2011 and 2010, the carrying amounts of loans to jointly controlled entities are not past due and not impaired.

Dividends received and receivable from jointly controlled entities are approximately HK$127 million (2010: HK$20 million) for the year ended 31 December 2011.

The Group's interests in its principal jointly controlled entities (all of which are unlisted), together with its share of their respective assets, liabilities, revenue and profit/(loss) are as follows:

Name	Country of incorporation/ establishment	Assets HK$'million	Liabilities HK$'million	Revenue HK$'million	Profit/(loss) HK$'million	Interest held %	Type of shares
As at or for the year ended 31 December 2011							
Mazoon Petrogas (BVI) Limited	British Virgin Islands	**1,440**	**362**	**2,212**	**346**	50.00%	Ordinary shares
華油鋼管有限公司	PRC	**1,259**	**968**	**1,520**	**(24)**	39.56%	Equity joint venture
Others		**409**	**91**	**418**	**–**		
		3,108	**1,421**	**4,150**	**322**		
As at or for the year ended 31 December 2010, as restated							
Mazoon Petrogas (BVI) Limited	British Virgin Islands	1,071	220	1,464	212	50.00%	Ordinary shares
華油鋼管有限公司	PRC	853	549	1,310	11	39.56%	Equity joint venture
Others		368	68	137	3		
		2,292	837	2,911	226		

21 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Movements in share of net assets of jointly controlled entities are as follows:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
At 31 December	**1,452**	1,068
Business combinations under common control	**3**	3
At 1 January	**1,455**	1,071
Currency translation differences	**35**	4
Capital contributions	**42**	181
Share of profits	**322**	226
Dividend income received and receivable	**(127)**	(20)
Disposals	**(40)**	(7)
At 31 December	**1,687**	1,455

Details of the principal jointly controlled entities, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2011 and 2010, are set out in Note 42.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2011	2010
	HK$'million	HK$'million
Listed shares:		
Equity securities listed in Hong Kong	**16**	26
Equity securities listed in Australia	**77**	75
Unlisted shares:	**93**	101
Equity securities in the PRC	**37**	28
	130	129

At the date of the statement of financial position, all the listed equity securities are stated at fair values, which have been determined by reference to bid prices quoted in the Hong Kong Stock Exchange and Australian Stock Exchange respectively. The equity securities in the PRC amounted to approximately HK$37 million (2010: HK$28 million) are stated at cost. Those securities do not have quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted equity instruments.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The carrying amounts of the available-for-sale financial assets are denominated in the following currencies:

	Group	
	2011	2010
	HK$'million	HK$'million
Renminbi	**37**	28
Hong Kong dollar	**16**	26
Australian dollar	**77**	75
	130	129

Movements in available-for-sale financial assets are as follows:

	Group	
	2011	2010
	HK$'million	HK$'million
At 1 January	**129**	105
Currency translation differences	**1**	10
Additions	**8**	6
Disposals	**–**	(1)
Changes in fair value	**(8)**	9
At 31 December	**130**	129

The following table presents the carrying amounts of the Group's available-for-sale financial assets in the statement of financial position by the measurement hierarchy as set out in Note 4.3:

	Group	
	2011	2010
	HK$'million	HK$'million
Level 1	**93**	101
Level 3	**37**	28
	130	129

23 INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'million	HK$'million
Unlisted shares, at cost	**37,163**	7,197

Details of the principal subsidiaries, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2011 and 2010, are set out in Note 40.

24 INTANGIBLES AND OTHER NON-CURRENT ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Prepayments for acquisitions	**–**	57	**–**	57
Intangibles (Note (i))	**159**	83	**–**	–
Prepaid construction costs	**857**	692	**–**	–
Prepayment for acquisition of land use rights	**350**	330	**–**	–
Loan to third parties (Note (ii))	**130**	–	**–**	–
Others	**49**	3	**1**	1
	1,545	1,165	**1**	58

Notes:

(i) The intangibles mainly comprise goodwill, franchised rights and computer software costs. The movements in intangibles are as follows:

	Group					
		2011			2010	
	Goodwill HK$'million	**Other intangible assets HK$'million**	**Total HK$'million**	Goodwill HK$'million	Other intangible assets HK$'million (restated) (Note 38(a))	Total HK$'million (restated) (Note 38(a))
At 1 January	**59**	**24**	**83**	–	13	13
Currency translation differences	**5**	**1**	**6**	–	(2)	(2)
Additions	**–**	**21**	**21**	–	21	21
Acquisitions of subsidiaries (Note 38(b))	**53**	**–**	**53**	59	–	59
Amortisation for the year	**–**	**(4)**	**(4)**	–	(6)	(6)
Disposals	**–**	**–**	**–**	–	(2)	(2)
At 31 December	**117**	**42**	**159**	59	24	83

(ii) Loan to third parties are unsecured, interest bearing at 6.65% per annum and not repayable within one year.

25 INVENTORIES

	Group	
	2011 **HK$'million**	2010 HK$'million (restated) (Note 38(a))
Crude oil in tanks	**40**	30
Natural gas	**79**	6
Materials for natural gas pipelines	**430**	333
Marina club debentures and wet berths	**14**	14
	563	383

26 ACCOUNTS RECEIVABLE

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

	Group	
	2011 **HK$'million**	2010 HK$'million (restated) (Note 38(a))
Within 3 months	**612**	431
Between 3 to 6 months	**29**	30
Over 6 months	**83**	59
	724	520

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 31 December 2011, accounts receivable of approximately HK$112 million (2010 restated: HK$89 million) were past due but for which the Group has not provided for impairment loss. 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.

26 ACCOUNTS RECEIVABLE (CONTINUED)

The carrying amounts of the accounts receivable are denominated in the following currencies:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
Renminbi	**601**	444
US dollar	**77**	49
Other currencies	**46**	27
	724	520

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Other receivables	**946**	542	**46**	2
Advances to suppliers	**275**	93	**–**	–
Amounts due from related parties				
– Subsidiaries	**–**	–	**5,332**	4,174
– Others	**526**	433	**–**	–
	1,747	1,068	**5,378**	4,176
Less: Provision for impairment	**(4)**	(19)	**(451)**	(452)
	1,743	1,049	**4,927**	3,724
Loans to non-controlling interest	**564**	532	**–**	–
Dividends receivable from a jointly controlled entity	**–**	20	**–**	7
Dividends receivable from subsidiaries	**–**	–	**61**	–
Prepaid income taxes	**–**	19	**–**	–
Value-added tax recoverable	**462**	138	**–**	–
Refundable prepayments for acquisitions	**82**	74	**82**	74
Prepaid expenses	**631**	204	**–**	6
Other current assets	**90**	21	**–**	–
	3,572	2,057	**5,070**	3,811

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS (CONTINUED)

Except for amounts due from related parties to the extent of HK$350 million (2010: HK$429 million) are interest bearing, the remaining balance are interest free, unsecured and expected to be settled within one year.

Loans to non-controlling interest are interest bearing range from 5.31% to 5.56% (2010: 5.31% to 5.56%) per annum, repayable within one year and secured by the equity interests in a subsidiary held by the non-controlling interest.

The carrying amounts of the prepaid expenses and other current assets are denominated in the following currencies:

	Group		Company	
	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))	**2011 HK$'million**	2010 HK$'million
Renminbi	**3,538**	2,010	**4,928**	3,560
US dollar	**19**	34	**119**	233
Other currencies	**15**	13	**23**	18
	3,572	2,057	**5,070**	3,811

28 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))	**2011 HK$'million**	2010 HK$'million
Cash at bank and on hand	**9,658**	7,446	**1,005**	265
Short-term bank deposits	**2,031**	722	**214**	–
	11,689	8,168	**1,219**	265

Cash at bank and bank deposits with original maturity less than three months carry interest at prevailing market rate at 0.46% per annum (2010 restated: 0.54% per annum).

28 CASH AND CASH EQUIVALENTS (CONTINUED)

The carrying amounts of the bank deposits, bank balances and cash are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Renminbi	**8,116**	4,205	**81**	–
US dollar	**3,011**	3,108	**1,105**	30
Hong Kong dollar	**300**	672	**33**	235
Other currencies	**262**	183	**–**	–
	11,689	8,168	**1,219**	265

Included in bank deposits, bank balances and cash are amounts of approximately HK$8,116 million or RMB6,578 million (2010 restated: HK$4,205 million or RMB3,611 million) denominated in Renminbi which are deposited with banks in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

29 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 2010 and 31 December 2010	8,000	80
Increase in authorised share capital (Note (i))	8,000	80
At 31 December 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 31 December 2010 and 1 January 2011	**4,954**	**50**
Issue of shares upon exercise of share options (Note (ii))	**23**	**1**
Issue of shares for business combinations under common control (Notes (iii) and 38(a))	**2,194**	**21**
At 31 December 2011	**7,171**	**72**

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 approximately HK$160 million by the creation of an additional approximately 8,000 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 year, the Company allotted and issued approximately 23 million shares (2010: 17 million shares) of HK$0.01 each for cash at the exercise price of HK$4.186 (2010: HK$1.224) per share as a result of the exercise of share options.

(iii) On 23 December 2011, the Company issued approximately 2,194 million new shares of HK$0.01 each to Sun World as part of the purchase consideration for the acquisition of 60% equity interest in Beijing Pipeline. These new shares rank pari passu in all respects with the then existing shares. The fair value per the Company's share at the date of acquisition, was HK11.42.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes

Pursuant to resolution of the Company passed on 28 May 2001, the Company adopted an executive share option scheme (the "2001 Share Option Scheme"). The 2001 Share Option Scheme was replaced by another share option scheme (the "2002 Share Option Scheme") on 3 June 2002 and no options were granted under the 2001 Share Option Scheme since its adoption. The purpose of these share option schemes is to enable the Company to grant options to eligible directors and employees as incentives and rewards for their contributions to the Company and to recruit high calibre employees and attract human resources that are valuable to the Company.

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

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

Pursuant to the resolution of the Company passed on 18 March 2011, approximately 7.1 million and 7.0 million share options were granted to directors and employees of the Company, respectively, under the 2002 Share Option Scheme.

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

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

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The fair values of share options granted in 2011 and 2010 were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 18 March 2011 to		Granted on 26 March 2010 to	
	Directors	**Employees**	Directors	Employees
Share price at grant date	**HK$11.72**	**HK$11.72**	HK$10.320	HK$10.320
Exercise price	**HK$11.73**	**HK$11.73**	HK$10.320	HK$10.320
Expected volatility	**47.57%**	**47.57%**	50.10%	50.10%
Risk-free rate	**1.77%**	**1.77%**	1.865%	1.865%
Expected dividend yield	**2.27%**	**2.27%**	3.42%	3.42%
Exercise multiple	**2.2**	**1.6**	2.0	1.5

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

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

The fair value of the options granted to directors and employees of the Company during the year are approximately HK$19 million (2010: HK$22 million) and HK$24 million (2010: HK$21 million), respectively.

The number of shares in respect of which options had been granted and outstanding at 31 December 2011 under the 2002 Share Option Scheme was approximately 134.6 million shares (2010: 143.5 million shares), representing 1.88% (2010: 2.90%) of the issued share capital of the Company at 31 December 2011.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The movements in the share options granted under the 2002 Share Option Scheme during the year are shown in the following table:

Name or category of participants	Option Type	Number of share options: Outstanding at 1 January 2010 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2010 and 1 January 2011 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2011 '000
Directors								
Mr Li Hualin	2007 (Note (ii))	25,000	–	–	25,000	–	–	**25,000**
	2008 (Note (iv))	3,200	–	–	3,200	–	–	**3,200**
	2009 (Note (v))	3,200	–	–	3,200	–	–	**3,200**
	2010 (Note (vi))	–	3,200	–	3,200	–	–	**3,200**
	2011 (Note (vii))	–	–	–	–	**3,200**	–	**3,200**
Mr Zhang Bowen	2007 (Note (ii))	20,000	–	–	20,000	–	–	**20,000**
	2008 (Note (iv))	2,400	–	–	2,400	–	–	**2,400**
	2009 (Note (v))	2,400	–	–	2,400	–	–	**2,400**
	2010 (Note (vi))	–	2,400	–	2,400	–	–	**2,400**
	2011 (Note (vii))	–	–	–	–	**2,400**	–	**2,400**
Mr Cheng Cheng	2007 (Note (ii))	10,000	–	–	10,000	–	–	**10,000**
	2008 (Note (iv))	1,500	–	–	1,500	–	–	**1,500**
	2009 (Note (v))	1,500	–	–	1,500	–	–	**1,500**
	2010 (Note (vi))	–	1,500	–	1,500	–	–	**1,500**
	2011 (Note (vii))	–	–	–	–	**1,500**	–	**1,500**
Dr Lau Wah Sum	2010 (Note (vi))	–	400	–	400	–	–	**400**
Mr Li Kwok Sing Aubrey	2010 (Note (vi))	–	400	–	400	–	–	**400**
Dr Liu Xiao Feng	2010 (Note (vi))	–	400	–	400	–	–	**400**
Sub-total		69,200	8,300	–	77,500	**7,100**	–	**84,600**
Other employees	2005 (Note (i))	17,500	–	(17,500)	–	–	–	–
	2007 (Note (ii))	25,000	–	–	25,000	–	**(23,000)**	**2,000**
	2007 (Note (iii))	20,000	–	–	20,000	–	–	**20,000**
	2008 (Note (iv))	7,000	–	–	7,000	–	–	**7,000**
	2009 (Note (v))	7,000	–	–	7,000	–	–	**7,000**
	2010 (Note (vi))	–	7,000	–	7,000	–	–	**7,000**
	2011 (Note (vii))	–	–	–	–	**7,000**	–	**7,000**
Sub-total		76,500	7,000	(17,500)	66,000	**7,000**	**(23,000)**	**50,000**
Total		145,700	15,300	(17,500)	143,500	**14,100**	**(23,000)**	**134,600**

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

Notes:

(i) These options were granted on 27 April 2005 with exercise price of HK$1.224 and exercisable from 27 July 2005 to 26 April 2010.

(ii) These options were granted on 8 January 2007 with exercise price of HK$4.186 and exercisable from 8 April 2007 to 7 January 2012.

(iii) These options were granted on 14 September 2007 with exercise price of HK$4.480 and exercisable from 14 December 2007 to 13 September 2012.

(iv) These options were granted on 26 May 2008 with exercise price of HK$4.240 and exercisable from 26 August 2008 to 25 May 2013.

(v) These options were granted on 26 March 2009 with exercise price of HK$3.250 and exercisable from 26 June 2009 to 25 March 2014.

(vi) These options were granted on 26 March 2010 with exercise price of HK$10.320 and exercisable from 26 June 2010 to 25 March 2015.

(vii) These options were granted on 18 March 2011 with exercise price of HK$11.730 and exercisable from 18 June 2011 to 17 March 2016.

(viii) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2011 are ranged from HK$10.240 (2010: HK$10.880) to HK$11.340 (2010: HK$11.180).

30 RESERVES

	Group								
	Share premium HK$'million	Contributed surplus HK$'million (Note (i))	Employee share-based compensation reserve HK$'million	Merger reserve HK$'million (Note (ii))	Available-for-sale financial assets reserve HK$'million	Translation reserve HK$'million	Other reserves HK$'million (Note (iii))	Retained earnings HK$'million	Total HK$'million
Balances at 31 December 2009, as previously reported	3,954	134	153	(567)	51	18	95	10,884	14,722
Business combinations under common control	–	–	–	5,684	–	566	783	1,510	8,543
Balances at 1 January 2010, as restated	3,954	134	153	5,117	51	584	878	12,394	23,265
Total comprehensive income for the year	–	–	–	–	9	431	–	4,194	4,634
Transfer between reserves	–	–	–	–	–	–	238	(238)	–
Final dividend for 2009	–	–	–	–	–	–	–	(347)	(347)
Recognition of equity-settled share-based payments (Note 9)	–	–	43	–	–	–	–	–	43
Exercise of share options	26	–	(5)	–	–	–	–	–	21
Acquisition of 2010 Natural Gas Projects	–	–	–	(858)	–	–	–	–	(858)
Acquisition of 2011 Natural Gas Projects	–	–	–	3,024	–	–	–	–	3,024
Dividend paid to former owners of 2011 Natural Gas Projects	–	–	–	–	–	–	–	(2,666)	(2,666)
Purchase of non-controlling interest (Note 38(c))	–	–	–	(108)	–	–	–	–	(108)
Balances at 31 December 2010, as restated	3,980	134	191	7,175	60	1,015	1,116	13,337	27,008
Balances at 31 December 2010, as previously reported	**3,980**	**134**	**191**	**(1,533)**	**60**	**245**	**135**	**12,923**	**16,135**
Business combinations under common control	**–**	**–**	**–**	**8,708**	**–**	**770**	**981**	**414**	**10,873**
Balances at 1 January 2011, as restated	**3,980**	**134**	**191**	**7,175**	**60**	**1,015**	**1,116**	**13,337**	**27,008**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(8)**	**1,197**	**–**	**5,609**	**6,798**
Transfer between reserves	**–**	**–**	**–**	**–**	**–**	**–**	**329**	**(329)**	**–**
Final dividend for 2010	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(684)**	**(684)**
Recognition of equity-settled share-based payments (Note 9)	**–**	**–**	**43**	**–**	**–**	**–**	**–**	**–**	**43**
Exercise of share options	**96**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**96**
Acquisition of 2011 Natural Gas Projects	**25,038**	**–**	**–**	**(27,490)**	**–**	**–**	**–**	**–**	**(2,452)**
Dividend paid to former owners of 2011 Natural Gas Projects	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(412)**	**(412)**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**12**	**–**	**12**
Realisation of reserves upon disposal of a jointly controlled entity	**–**	**–**	**–**	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Balances at 31 December 2011	**29,114**	**134**	**234**	**(20,320)**	**52**	**2,212**	**1,457**	**17,521**	**30,404**

30 RESERVES (CONTINUED)

	Company				
	Share premium HK$'million	Contributed surplus HK$'million (Note (i))	Employee share-based compensation reserve HK$'million	Retained earnings HK$'million	Total HK$'million
Balances at 1 January 2010	3,954	134	153	6,343	10,584
Profit for the year	–	–	–	1,371	1,371
Recognition of equity-settled share-based payments	–	–	43	–	43
Final dividend for 2009	–	–	–	(347)	(347)
Exercise of share options	26	–	(5)	–	21
Balances at 31 December 2010	3,980	134	191	7,367	11,672
Profit for the year	**–**	**–**	**–**	**2,001**	**2,001**
Issue of shares for business combinations under common control	**25,038**	**–**	**–**	**–**	**25,038**
Recognition of equity-settled share-based payments	**–**	**–**	**43**	**–**	**43**
Final dividend for 2010	**–**	**–**	**–**	**(684)**	**(684)**
Exercise of share options	**96**	**–**	**–**	**–**	**96**
Balances at 31 December 2011	**29,114**	**134**	**234**	**8,684**	**38,166**

Notes:

(i) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued for the acquisition.

(ii) The merger reserve represents the difference between the considerations and the aggregate share capital of subsidiaries acquired under business combinations under common control.

(iii) Other reserves mainly represents the statutory surplus reserves. Pursuant to the Company Law of the PRC, the Articles of Association and the resolution of Board of Directors of the Group's subsidiaries established in the PRC are required to transfer 10% of its net profit to statutory surplus reserves. Appropriation to the statutory surplus reserves may be ceased when the fund aggregates to 50% of those subsidiaries' registered capital. The statutory surplus reserves may be used to make good previous years' losses or to increase the capital of those subsidiaries upon approval.

31 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Accounts payable	**1,719**	740	**–**	–
Advances from customers	**620**	327	**–**	–
Salaries and welfare payable	**163**	90	**17**	16
Accrued expenses	**23**	66	**13**	11
Dividend payable by subsidiaries to non-controlling interest	**18**	18	**–**	–
Interest payable	**39**	29	**5**	–
Construction fee and equipment cost payables	**5,480**	4,106	**–**	–
Amounts due to related parties				
– Subsidiaries	**–**	–	**166**	113
– Others	**51**	51	**–**	–
Consideration payables (Note 38(d))	**–**	568	**–**	568
Other payables	**740**	488	**11**	2
	8,853	6,483	**212**	710

The ageing analysis of accounts payable is as follows:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
Within 3 months	**1,238**	615
Between 3 to 6 months	**289**	46
Over 6 months	**192**	79
	1,719	740

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables fall within the credit time frame. The contractual maturity date of accounts payable and accrued liabilities are within one year.

31 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

The carrying amounts of the accounts payable and accrued liabilities are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Renminbi	**8,575**	6,208	**1**	568
US dollar	**206**	153	**82**	31
Other currencies	**72**	122	**129**	111
	8,853	6,483	**212**	710

32 BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Short-term borrowings – unsecured	**2,408**	4,719	**–**	–
Current portion of long-term borrowings	**203**	192	**–**	–
	2,611	4,911	**–**	–
Long-term borrowings – unsecured	**25,167**	12,215	**6,123**	–
Less: Current portion of long-term borrowings	**(203)**	(192)	**–**	–
	24,964	12,023	**6,123**	–
	27,575	16,934	**6,123**	–

32 BORROWINGS (CONTINUED)

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2011 **HK$'million**	2010 HK$'million (restated) (Note 38(a))	**2011** **HK$'million**	2010 HK$'million
Renminbi	**20,222**	15,485	**–**	–
US dollar	**5,717**	1,449	**4,487**	–
Hong Kong dollar	**1,636**	–	**1,636**	
	27,575	16,934	**6,123**	–

	Group		Company	
	2011 **HK$'million**	2010 HK$'million (restated) (Note 38(a))	**2011** **HK$'million**	2010 HK$'million
Total borrowings:				
– Interest free	**2**	2	**–**	–
– At fixed rates	**20,015**	16,427	**–**	–
– At floating rates	**7,558**	505	**6,123**	–
	27,575	16,934	**6,123**	–
Weighted average effective interest rates:				
– Bank loans	**1.95%**	1.86%	**–**	–
– Loans from an immediate holding company	**1.66%**	–	**1.66%**	–
– Loans from an intermediate holding company	**6.12%**	5.17%	**1.68%**	–
– Loans from CP Finance	**4.78%**	4.37%	**2.79%**	–
– Loans from fellow subsidiaries	**7.92%**	7.94%	**–**	–

32 BORROWINGS (CONTINUED)

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Carrying amounts	**25,167**	12,215	**6,123**	–
Fair values	**24,977**	11,963	**6,117**	–

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 1.70% to 7.50% per annum as of 31 December 2011 (2010 restated: 1.66% to 7.00%) 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:

	Group			
	Short-term borrowings		Long-term borrowings	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million (restated) (Note 38(a))
Bank loans, wholly repayable within five years	**310**	328	**46**	32
Loans other than bank loans				
– Wholly repayable within five years	**2,098**	4,391	**25,063**	12,182
– Not wholly repayable within five years	**–**	–	**58**	1
	2,408	4,719	**25,167**	12,215

	Company			
	Short-term borrowings		Long-term borrowings	
	2011	2010	**2011**	2010
	HK$'million	HK$'million	**HK$'million**	HK$'million
Loans other than bank loans				
– Wholly repayable within five years	**–**	–	**6,123**	–

32 BORROWINGS (CONTINUED)

Loans other than bank loans are borrowings from PetroChina, Sun World and CP Finance (a finance company controlled by CNPC), other fellow subsidiaries and non-controlling interest.

As at 31 December 2011 and 31 December 2010, the short-term borrowings of the Group were repayable within one year and the long-term borrowings of the Group were repayable as follows:

	Group			
	Bank loans		Loans other than bank loans	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million (restated) (Note 38(a))
Within one year	**314**	328	**2,296**	4,583
Between one to two years	**4**	–	**3,267**	832
Between two to five years	**39**	32	**21,633**	11,158
After five years	**–**	–	**22**	1
	357	360	**27,218**	16,574

	Company			
	Bank loans		Loans other than bank loans	
	2011	2010	**2011**	2010
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**–**	–	**–**	–
Between one to two years	**–**	–	**1,861**	–
Between two to five years	**–**	–	**4,262**	–
After five years	**–**	–	**–**	–
	–	–	**6,123**	–

32 BORROWINGS (CONTINUED)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flow including principal and interest:

	Group			
	Bank loans		Loans other than bank loans	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million (restated) (Note 38(a))
Within one year	**318**	332	**3,679**	5,337
Between one to two years	**5**	1	**4,906**	1,480
Between two to five years	**41**	34	**22,442**	12,292
After five years	**–**	–	**24**	–
	364	367	**31,051**	19,109

	Company			
	Bank loans		Loans other than bank loans	
	2011	2010	**2011**	2010
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**–**	–	**150**	–
Between one to two years	**–**	–	**1,987**	–
Between two to five years	**–**	–	**4,333**	–
After five years	**–**	–	**–**	–
	–	–	**6,470**	–

33 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using the applicable tax rates which is expected to apply at the time of reversal of the temporary difference.

The movements in net deferred tax assets/(liabilities) are as follows:

	Group	
	2011	2010
	HK$'million	HK$'million (restated) (Note 38(a))
At 31 December	**(996)**	(888)
Business combinations under common controls	**3**	2
At 1 January	**(993)**	(886)
Currency translation differences	**(12)**	114
Credited/(charged) to the consolidated profit or loss (Note 14)	**145**	(221)
At 31 December	**(860)**	(993)
Representing:		
Deferred tax assets	**125**	41
Deferred tax liabilities	**(985)**	(1,034)
	(860)	(993)

33 DEFERRED TAX (CONTINUED)

The movements in deferred tax assets/(liabilities)(to be recovered/settled after 12 months) during the year without taking into consideration of the offsetting of balances within the same tax jurisdiction, are as follows:

	Group			
	Accelerated tax depreciation HK$'million	**Withholding tax HK$'million**	**Others HK$'million**	**Total HK$'million**
At 31 December 2009, as previously reported	(160)	(790)	62	(888)
Business combinations under common control	2	–	–	2
At 1 January 2010, as restated	(158)	(790)	62	(886)
Currency translation differences	(16)	130	–	114
Charged to the consolidated profit or loss	(46)	(124)	(51)	(221)
At 31 December 2010, as restated	(220)	(784)	11	(993)
Currency translation differences	**(12)**	**–**	**–**	**(12)**
Credited to the consolidated profit or loss	**69**	**46**	**30**	**145**
At 31 December 2011	**(163)**	**(738)**	**41**	**(860)**

34 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 31 December 2011 and 2010 under non-cancellable operating leases are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Not later than one year	**51**	37	**5**	1
Later than one year and not later than five years	**143**	115	**10**	1
More than five years	**99**	102	**2**	–
	293	254	**17**	2

(b) Capital commitments

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Contracted but not provided for:				
Oil field development costs	**492**	587	**–**	–
Acquisitions of/capital contributions to investments	**211**	24,312	**211**	25,610
Other property, plant and equipment	**5,599**	5,062	**–**	–
	6,302	29,961	**211**	25,610

34 COMMITMENTS (CONTINUED)

(b) Capital commitments (Continued)

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Authorised but not contracted for:				
Oil field development costs	**1,173**	723	**–**	–
Acquisitions of/capital contributions to investments	**3,530**	1,570	**–**	–
Other property, plant and equipment	**17,167**	10,557	**–**	–
	21,870	12,850	**–**	–

35 OIL PRODUCTION SHARING CONTRACTS

(a) Xinjiang Contract

Pursuant to the Xinjiang Contract, the Group agreed to fund an enhanced oil recovery programme (the "Infill Development Programme") to be implemented under the Xinjiang Contract thereby reducing the inter-well spacing and improving oil recovery in the area as defined in the Xinjiang Contract (the "Contract Area"), at an estimated cost of US$66 million (approximately HK$510 million), in exchange for a 54% share in the oil production from the Contract Area.

Pursuant to the Xinjiang Contract, the Group bears all the costs required for the Infill Development Programme and share in the production from the Contract Area which shall be allocated (after deduction of local taxes and enterprise income tax) firstly towards operating costs recovery and thereafter in the proportion of 54% to the Group and 46% to PetroChina towards investment recovery and profit.

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the "JMC") set up by the Group and PetroChina pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1 September 1996. The first phase of the Xinjiang Contract ended on 31 August 2009. In April 2008, the Group and PetroChina, having obtained the approval of the State Council of the PRC, extended the production period for further eight years to expire on 31 August 2016. The second phase of the Xinjiang Contract commenced on 1 September 2008.

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(a) Xinjiang Contract (Continued)

In connection with the Xinjiang Contract, the Group has also entered into an Entrustment Contract with an operational entity wholly owned and operated by CNPC, whereby the latter was entrusted to take up the responsibility as an operator. Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the Xinjiang Contract:

	2011 HK$'million	2010 HK$'million
(i) Results for the year		
Income	**2,044**	1,402
Expenses	**(1,203)**	(791)
(ii) Assets and liabilities		
Oil and gas properties	**502**	393
Other non-current assets	**23**	19
Current assets	**941**	530
Current liabilities	**(331)**	(166)
Net assets	**1,135**	776
(iii) Capital commitments		
Contracted but not provided for	**150**	128

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(b) Leng Jiapu Contract

Pursuant to the Leng Jiapu Contract signed in 1997, the Group agreed to acquire 70% of the production sharing interest for RMB1,008 million (approximately HK$942 million) and to fund its share of cost of the development carried out for the realisation of oil production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "LJP Contract Area"), at an estimated cost of US$65.5 million (approximately HK$506 million) in the first two years of the development period and be further responsible for 70% of the development cost after the first two years, in exchange for a 70% share in the oil production from the LJP Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the LJP Contract Area which shall be allocated (after deduction of local taxes and enterprise income tax) firstly towards operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to PetroChina towards investment recovery and profit.

The Leng Jiapu Contract provides twenty consecutive years of production sharing commencing from the completion of the Development Operations. The production sharing period commenced on 1 March 1998.

In connection with the Leng Jiapu Contract, the Group has also entered into an Entrustment Contract with an operational entity owned and operated by CNPC, whereby the latter is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, a Joint Development Management Organisation was established for the performance of the contractual responsibilities under the operatorship.

The summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the Leng Jiapu Contract is as follows:

	2011 HK$'million	2010 HK$'million
(i) Results for the year		
Income	**2,252**	1,432
Expenses	**(1,674)**	(1,160)
(ii) Assets and liabilities		
Oil and gas properties	**2,604**	2,308
Current assets	**1,971**	1,139
Current liabilities	**(922)**	(547)
Non-current liabilities	**(172)**	(157)
Net assets	**3,481**	2,743
(iii) Capital commitments		
Contracted but not provided for	**342**	452

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(c) K&K Contract

In 2002, the Group acquired 25% of the production sharing interest in Kursangi and Karabagli oil fields in the Azerbaijan ("K&K Contract Area") for approximately HK$0.3 billion from independent third parties.

Pursuant to the K&K Contract, the Group shall bear 25% of the costs in connection with the oil production in the K&K Contract Area.

The summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the K&K Contract is as follows:

		2011 HK$'million	2010 HK$'million
(i)	**Results for the year**		
	Income	**587**	437
	Expenses	**(679)**	(507)
(ii)	**Assets and liabilities**		
	Oil and gas properties	**270**	464
	Current assets	**23**	15
	Current liabilities	**(7)**	(7)
	Net assets	**286**	472
(iii)	**Capital commitments**		
	Contracted but not provided for	**–**	31

36 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 CPNC and its subsidiaries (together, the "CNPC Group"), other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over the enterprises which the Group is able to control, 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 consolidated financial statements, 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 years and balances arising from related party transactions at the end of the years indicated below:

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC and its subsidiaries, associates and jointly controlled entities

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

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

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

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

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$8,656 million (2010 restated: HK$10,946 million) for the year ended 31 December 2011.

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$4,267 million (2010: HK$2,823 million) for the year ended 31 December 2011.

- Rental payments by the Group for leasing of certain offices and warehouses in Hong Kong and the PRC from the CNPC Group amounted to approximately HK$2 million (2010: HK$2 million) for the year ended 31 December 2011.

- Purchase of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the Group from the CNPC Group amounted to approximately HK$4,774 million (2010 restated: HK$1,795 million) for the year ended 31 December 2011.

- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$4,256 million (2010 restated: HK$1,730 million) for the year ended 31 December 2011.

The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange and were accounted for in a manner similar to a uniting of interests basis.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC and its subsidiaries, associates and jointly controlled entities (Continued)

(ii) Purchases of financial service principally represent interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries, insurance fee, etc. The total amount of these transactions amounted to approximately HK$1,249 million (2010 restated: HK$815 million) for the year ended 31 December 2011. Information on loans from related parties are included in Note 32.

(iii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK$170 million (2010: HK$81 million) for the year ended 31 December 2011.

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

	2011 HK$'million	2010 HK$'million (restated) (Note 38(a))
Intangibles and other non-current assets	**183**	94
Accounts receivable	**222**	225
Accounts payable and accrued liabilities	**861**	272
Borrowings	**27,219**	16,574

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Beijing Pipeline has entered into an agreement with PetroChina (the "Natural Gas Transmission Agreement"), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. The term of the Natural Gas Transmission Agreement is effective from 1 January 2006 until both parties agree to terminate the agreement. Under the Natrual Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interest in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK$3,701 million (2010: HK$3,522 million) for the year ended 31 December 2011. This transaction constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange and was accounted for in a manner similar to a uniting of interests basis.

(c) Key management compensation:

	2011 **HK$'million**	2010 HK$'million
Salaries and allowances	**33**	22
Retirement benefits – defined contribution scheme	**2**	1
Share-based payments	**44**	31
	79	54

(d) 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.

37 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. It Is further evaluated on a business basis (Natural Gas Sales, LNG Processing and Terminal (formerly known as "LNG Processing and Storage") and Natural Gas Pipeline).

The South America Exploration and Production segment does not meet the quantitative thresholds required by HKFRS 8 for reportable segment, its financial information is included in the Others Exploration and Production segment and the corresponding comparatives have been restated.

After the acquisition of Beijing Pipeline, the Natural Gas Pipeline segment qualifies as a reportable segment, its financial information is separately disclosed and the corresponding comparative have been restated.

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 cash and cash equivalents held at corporate level.

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Board of Directors for the reportable segments for the years ended 31 December 2011 and 2010 are as follows:

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing and Terminal	Natural Gas Pipeline	Sub-total		Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
For the year ended 31 December 2011									
Revenue from external customers	4,267	1,922	6,189	8,116	1,156	9,937	19,209	–	25,398
Segment results	1,799	266	2,065	1,145	258	4,335	5,738	70	7,873
Share of profits less losses of:									
– Associates	–	2,067	2,067	188	–	–	188	–	2,255
– Jointly controlled entities	–	346	346	(2)	–	–	(2)	(22)	322
Profit before income tax expense	1,799	2,679	4,478	1,331	258	4,335	5,924	48	10,450
Income tax expense									(2,281)
Profit for the year									8,169
Segment results included:									
Interest income	33	5	38	111	5	20	136	3	177
Depreciation, depletion and amortisation	(423)	(464)	(887)	(437)	(240)	(2,523)	(3,200)	(1)	(4,088)
Interest expense	–	–	–	–	–	(403)	(403)	–	(403)
As at 31 December 2011									
Non-current assets	3,106	1,258	4,364	6,176	19,241	28,762	54,179	833	59,376
Current assets	3,006	1,612	4,618	6,942	2,358	1,251	10,551	1,379	16,548
Segment assets	6,112	2,870	8,982	13,118	21,599	30,013	64,730	2,212	75,924
Investments in associates	–	4,732	4,732	1,420	6	–	1,426	–	6,158
Investments in jointly controlled entities	–	1,078	1,078	236	–	–	236	418	1,732
Sub-total	6,112	8,680	14,792	14,774	21,605	30,013	66,392	2,630	83,184
Available-for-sale financial assets									130
Deferred tax assets									125
Total assets									84,069

37 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million (restated) (Note 38(a))	LNG Processing and Terminal HK$'million (restated) (Note 38(a))	Natural Gas Pipeline HK$'million (restated) (Note 38(a))	Sub-total HK$'million (restated) (Note 38(a))	HK$'million	Total HK$'million (restated) (Note 38(a))
For the year ended 31 December 2010									
Revenue from external customers	2,824	1,450	4,274	4,868	–	8,194	13,062	–	17,336
Segment results	1,128	319	1,447	748	(19)	3,946	4,675	(35)	6,087
Share of profits less losses of:									
–Associates	–	1,917	1,917	114	–	–	114	–	2,031
–Jointly controlled entities	–	212	212	1	–	–	1	13	226
Profit before income tax expense	1,128	2,448	3,576	863	(19)	3,946	4,790	(22)	8,344
Income tax expense									(2,009)
Profit for the year									6,335
Segment results included:									
Interest income	11	2	13	39	–	9	48	17	78
Depreciation, depletion and amortisation	(306)	(313)	(619)	(287)	(1)	(1,870)	(2,158)	–	(2,777)
Interest expense	–	(85)	(85)	(82)	–	(242)	(324)	–	(409)
As at 31 December 2010									
Non-current assets	2,814	1,517	4,331	4,241	9,444	26,098	39,783	846	44,960
Current assets	1,685	979	2,664	5,874	1,141	1,050	8,065	380	11,109
Segment assets	4,499	2,496	6,995	10,115	10,585	27,148	47,848	1,226	56,069
Investments in associates	–	4,643	4,643	987	5	–	992	–	5,635
Investments in jointly controlled entities	–	851	851	224	–	–	224	425	1,500
Sub-total	4,499	7,990	12,489	11,326	10,590	27,148	49,064	1,651	63,204
Available-for-sale financial assets									129
Deferred tax assets									41
Prepaid income taxes									19
Total assets									63,393

37 SEGMENT INFORMATION (CONTINUED)

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 year ended 31 December 2011, revenue of approximately HK$12,907 million (2010 restated: HK$9,152 million) are derived from two single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

38 ACQUISITIONS

(a) Business combinations under common control

It mainly represented the acquisition agreements entered into by the Group to acquire (i) a 75% equity interest in PetroChina Dalian LNG Co., Ltd. ("Dalian LNG") for a cash consideration of approximately RMB2,009 million (approximately HK$2,418 million (Note 38(d))) on 9 November 2010; (ii) a 60% equity interest in Beijing Pipeline for a share consideration of approximately RMB18,871 million (approximately HK$22,717 million) on 31 December 2010; and (iii) a 51% equity interest in Binhai New Energy Co., Ltd. ("Binhai New Energy"). Except for Binhai New Energy, the acquisitions of Dalian LNG and Beijing Pipeline were completed on 31 March 2011 and 23 December 2011 respectively. The acquisitions of Dalian LNG and Beijing Pipeline are collectively referred to as the "2011 Natural Gas Projects".

These acquisitions are business combinations under common control since the Company 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 statements have been restated to give effect to these acquisitions with all periods presented as if the operations of the Group and the 2011 Natural Gas Projects have always been combined. The difference between the consideration and the aggregate share capital of 2011 Natural Gas Projects acquired has been adjusted against equity.

38 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

The summarised results of operations for the year ended 31 December 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 HK$'million (as previously reported)	Dalian LNG and other HK$'million	Beijing Pipeline HK$'million	The Group HK$'million (restated)
Results of operations for the year ended 31 December 2010				
Revenue	9,068	73	8,195	17,336
Other gains/(losses), net	206	–	(3)	203
Interest income	69	–	9	78
Purchases, services and others	(4,266)	(54)	(1,425)	(5,745)
Employee compensation costs	(685)	(18)	(204)	(907)
Exploration expenses, including exploratory dry holes	(53)	–	–	(53)
Depreciation, depletion and amortisation	(907)	(1)	(1,869)	(2,777)
Selling, general and administrative expenses	(757)	(6)	(230)	(993)
Taxes other than income taxes	(356)	(1)	(274)	(631)
Other expenses	(15)	–	-	(15)
Interest expenses	(167)	–	(242)	(409)
Share of profits less losses of:				
– Associates	2,030	1	–	2,031
– Jointly controlled entities	226	–	–	226
Profit/(loss) before income tax expense	4,393	(6)	3,957	8,344
Income tax expense	(1,015)	–	(994)	(2,009)
Profit/(loss) for the year	3,378	(6)	2,963	6,335

38 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

	The Group HK$'million (as previously reported)	Dalian LNG and other HK$'million	Beijing Pipeline HK$'million	The Group HK$'million (restated)
Results of operations for the year ended 31 December 2010 (Continued)				
Earnings per share for profit attributable to owners of the Company (Note)				
– Basic (HK cents)	49.02	(0.09)	9.78	58.71
– Diluted (HK cents)	48.22	(0.09)	9.92	58.05
Financial position as at 31 December 2010				
Non-current assets				
Property, plant and equipment	13,697	3,602	25,669	42,968
Advanced operating lease payments	311	233	283	827
Investments in associates	5,628	7	–	5,635
Investments in jointly controlled entities	1,497	3	–	1,500
Available-for-sale financial assets	129	–	–	129
Intangibles and other non-current assets	701	330	134	1,165
Deferred tax assets	25	–	16	41
	21,988	4,175	26,102	52,265
Current assets				
Inventories	50	–	333	383
Accounts receivable	467	5	48	520
Prepaid expenses and other current assets	1,584	38	435	2,057
Cash and cash equivalents	8,137	7	24	8,168
	10,238	50	840	11,128
Total assets	32,226	4,225	26,942	63,393

38 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

	The Group HK$'million (as previously reported)	Dalian LNG and other HK$'million	Beijing Pipeline HK$'million	The Group HK$'million (restated)
Financial position as at 31 December 2010 (Continued)				
Current liabilities				
Accounts payable and accrued liabilities	3,094	1,212	2,177	6,483
Income tax payable	104	–	157	261
Other tax payable	154	1	90	245
Short-term borrowings	4,328	–	583	4,911
	7,680	1,213	3,007	11,900
Non-current liabilities				
Long-term borrowings	2,478	–	9,545	12,023
Deferred tax liabilities	1,021	–	13	1,034
Other long-term obligations	9	–	–	9
	3,508	–	9,558	13,066
Total liabilities	11,188	1,213	12,565	24,966
Net assets	21,038	3,012	14,377	38,427
Cash flows for the year ended 31 December 2010				
Net cash generated from/(used in) operating activities	1,703	(38)	6,668	8,333
Net cash used in from investing activities	(5,146)	(1,168)	(4,233)	(10,547)
Net cash generated from/(used in) financing activities	3,967	1,207	(2,522)	2,652
Increase/(decrease) in cash and cash equivalents	524	1	(87)	438

Note:

The calculation of earnings per share after combining Beijing Pipeline is based on the Group's profit attributable to owners of the Company of approximately HK$4,194 million and weighted average number of ordinary shares in issue during the year ended 31 December 2010 plus the consideration shares issued on 23 December 2011 as part of the acquisition of Beijing Pipeline of approximately 2,194 million shares.

38 ACQUISITIONS (CONTINUED)

(b) Acquisitions of subsidiaries

For the year ended 31 December 2011, the Group acquired controlling interests in 6 (2010: 16) subsidiaries, which are principally engaging in natural gas distribution business in the PRC for an aggregated consideration of RMB101 million (approximately HK$121 million) (2010: RMB137 million (approximately HK$158 million)). The acquired businesses contributed revenue of approximately HK$57 million (2010: HK$333 million) and loss for the year of approximately HK$1 million (2010: a profit of HK$28 million) to the Group for the period from the respective dates of acquisitions to 31 December 2011. If the acquisition had occurred on 1 January 2011, revenue would have been approximately HK$119 million (2010: HK$768 million), and loss for the year would have been approximately HK$2 million (2010: a profit of HK$64 million). These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2011, together with the consequential tax effect.

Details of net assets acquired and goodwill are as follows:

	2011 **HK$'million**	2010 HK$'million
Aggregate purchase consideration		
– Cash paid	**121**	158
Less: Aggregate fair value of net assets acquired, as below	**(68)**	(99)
Goodwill	**53**	59

38 ACQUISITIONS (CONTINUED)

(b) Acquisitions of subsidiaries (Continued)

The aggregate fair values of assets and liabilities as of the respective dates of acquisitions arising from the acquisitions are as follows:

	2011 **HK$'million**	2010 HK$'million
Property, plant and equipment	**46**	50
Intangibles and other non-current assets	**27**	55
Cash and cash equivalents	**17**	70
Accounts receivable	**11**	27
Prepaid expenses and other current assets	**4**	174
Accounts payable and accrual liabilities	**(35)**	(225)
Non-controlling interest	**(2)**	(52)
Fair value of net assets and total purchase consideration	**68**	99
Purchase consideration paid	**121**	158
Cash and cash equivalents acquired	**(17)**	(70)
Cash and cash equivalents in subsidiaries acquired and cash inflow on acquisition (Note 38(d))	**104**	88

38 ACQUISITIONS (CONTINUED)

(c) Transactions with non-controlling interest

There were no transactions with non-controlling interest for the year ended 31 December 2011.

Purchase of non-controlling interest during the year ended 31 December 2010 mainly included the acquisition of an additional 26.58% equity interest in 華油天然氣股份有限公司 ("Huayou Natural Gas"). On 30 December 2009, the Group entered into an acquisition agreement with a non-controlling interest to acquire 92 million shares in Huayou Natural Gas, representing approximately 26.58% equity interest in Huayou Natural Gas, at a consideration of approximately RMB260 million (approximately HK$294 million). The transaction was completed during the year ended 31 December 2010. The Group's equity interest in Huayou Natural Gas increased from 51.01% to 77.59%. The carrying amount of the non-controlling interest in Huayou Natural Gas on the date of acquisition was approximately HK$209 million. The Group recognised a decrease in non-controlling interest of approximately HK$209 million and a decrease in equity attributable to owners of the Company of approximately HK$85 million.

Effects of transactions with non-controlling interest on the equity attributable to owners of the Company for the year ended 31 December 2010:

	HK$'million
Total comprehensive income for the year attributable to owners of the Company	2,662
Changes in equity attributable to owners of the Company arising from:	
– Acquisition of non-controlling interest in Huayou Natural Gas	(85)
– Acquisition of non-controlling interest in other subsidiaries	(23)
Net effect for transactions with non-controlling interest on changes in equity attributable to owners of the Company	(108)
	2,554

38 ACQUISITIONS (CONTINUED)

(d) Notes to consolidated statement of cash flows

(i) Acquisitions of subsidiaries and a plant engaging in LNG business

	2011 **HK$'million**	2010 HK$'million
Cash consideration paid in respect of:		
– current year acquisitions under common control (Note 38(a))	**2,418**	–
– prior year acquisitions under common control (Note 31)	**568**	–
– others acquisitions (Note 38(b))	**104**	256
Total cash outflow	**3,090**	256

(ii) Major non-cash transaction

On 23 December 2011, the Group issued approximately 2,194 million new shares (Note 29(a)(iii)) to acquire 60% equity interest in Beijing Pipeline which was a non-cash transaction.

39 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 29 March 2012 and will be submitted to the shareholders for approval at the forthcoming annual general meeting to be held on 16 May 2012.

40 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2011 and 2010, are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in the PRC				
Hafnium Limited	British Virgin Islands	US$1	Limited liability company	100.00% (Note (i))
Beckbury International Limited	British Virgin Islands	US$1	Limited liability company	100.00% (Note (i))

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Peru				
SAPET Development Corporation ("SAPET")	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (Note (ii))
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (Note (ii))
Exploration, production and sales of crude oil in Thailand				
Central Place Company Limited	Hong Kong	HK$1,600	Limited liability company	100.00%
Sino-U.S. Petroleum Inc.	United States of America	US$1,000	Limited liability company	100.00%
CNPCHK (Thailand) Limited	Thailand	Baht100 million	Limited liability company	100.00%
Exploration, production and sales of crude oil in Azerbaijan				
Fortunemate Assets Limited	British Virgin Islands	US$1	Limited liability company	100.00% (Note (i))
Exploration, production and sales of crude oil in Indonesia				
Continental GeoPetro (Bengara-II) Limited	British Virgin Islands	US$50,000	Limited liability company	70.00%
Natural gas distribution in the PRC				
PetroChina Beijing Gas Pipeline Co., Ltd	PRC	RMB10,240 million	Limited liability company	60.00% (Note (i))
CNPC Shennan Oil Technology Development Co., Ltd.	PRC	RMB602 million	Limited liability company	96.68% (Note (i))
華油天然氣股份有限公司	PRC	RMB1,041 million	Limited liability company	77.59% (Note (i))
Xinjiang Xinjie Co., Ltd.	PRC	RMB1,467 million	Limited liability company	97.26% (Note (i))

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC (Continued)				
Huagang Gas Group Company Limited	PRC	RMB1,000 million	Limited liability company	51.00% (Note (i))
Xi'an Qinggang Clean Energy Technology Company Limited	PRC	RMB100 million	Limited liability company	51.00% (Note (i))
新疆博瑞能源有限公司	PRC	RMB255 million	Limited liability company	88.24% (Note (i))
四川川港燃氣有限責任公司	PRC	RMB310 million	Limited liability company	51.00% (Note (i))
Kunlun Energy Investment Shandong Company Limited	PRC	RMB700 million	Limited liability company	93.00% (Note (i))
Petrochina Tianjin Natural Gas Pipeline Co., Ltd.	PRC	RMB200 million	Limited liability company	51.00% (Note (i))
昆侖能源青海有限公司	PRC	RMB195 million	Limited liability company	100.00% (Note (i))
滄州中油燃氣有限公司	PRC	RMB200 million	Limited liability company	51.00% (Note (i))
PetroChina Jiangsu LNG Co., Ltd.	PRC	RMB2,651 million	Limited liability company	55.00% (Note (i))
PetroChina Dalian LNG Co., Ltd.	PRC	RMB2,600 million	Limited liability company	75.00% (Note (i))
KunLun Energy (LiaoNing) Company Limited	PRC	RMB107 million	Limited liability company	100.00% (Note (i))
昆侖能源西藏有限公司	PRC	RMB48 million	Limited liability company	100.00% (Note (i))

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

(i) Shares held directly by the Company.

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

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

(iii) None of the subsidiaries had any debt securities at 31 December 2011 or at any time during the year.

41 PRINCIPAL ASSOCIATES

At 31 December 2011 and 2010, the Group had interest in the following principal associates:

Name of associate	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Kazakhstan				
CNPC-Aktobemunaigas Joint Stock Company ("Aktobe")	Kazakhstan	8,946,470 common shares of 1,500 tenge each	Joint-stock company	15.07% (Note (i))
Natural gas distribution in the PRC				
China City Natural Gas Investment Group Co., Ltd.	PRC	RMB500 million	Equity joint venture	49.00% (Note (ii))

Notes:

(i) The effective equity interest of Aktobe attributable to the Group is 15.07% as the 25.12% equity interest in Aktobe is held by a non-wholly subsidiary in which the Group holds a 60% equity interest.

(ii) Shares held directly by the Company.

42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

As at 31 December 2011 and 2010, the Group had interest in the following principal jointly controlled entities:

Name of jointly controlled entity	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in the PRC				
Mazoon Petrogas (BVI) Limited	British Virgin Islands	50,000 ordinary shares of US$1 each	Limited liability company	50.00% (Note (i))
Coal steam gas operation in the PRC				
山西國興煤層氣輸配有限責任公司	PRC	RMB100 million	Equity joint venture	35.00% (Note (ii))
Manufacturing of steel pipe in the PRC				
華油鋼管有限公司	PRC	RMB468 million	Equity joint venture	39.56% (Note (i))
Production of petro-chemical products in the PRC				
青島慶昕塑料有限公司	PRC	RMB124 million	Equity joint venture	25.00% (Note (i))

Notes:

(i) Shares held directly by the Company.

(ii) 山西國興煤層氣輸配有限責任公司 was disposed of in 2011.

Results	Year ended 31 December 2011 HK$'million	2010 HK$'million (restated)	2010 HK$'million (unrestated)	2009 HK$'million (restated)	2008 HK$'million (unrestated)	2007 HK$'million (unrestated)
Revenue	**25,398**	17,336	9,068	6,164	5,208	3,843
Profit before income tax expense	**10,450**	8,344	4,393	1,960	5,554	2,315
Income tax expense	**(2,281)**	(2,009)	(1,015)	(420)	(1,035)	(630)
Profit for the year	**8,169**	6,335	3,378	1,540	4,519	1,685
Non-controlling interest	**(2,560)**	(2,141)	(952)	(306)	(1,200)	(318)
Profit attributable to owners of the Company	**5,609**	4,194	2,426	1,234	3,319	1,367
Earnigns per share						
– Basic (HK cents)	**78.44**	58.71	49.02	27.46	69.70	28.23
– Dilute (HK cents)	**77.52**	58.05	48.22	27.06	68.99	27.88

Assets and liabilities	As at 31 December 2011 HK$'million	2010 HK$'million (restated)	2010 HK$'million (unrestated)	2009 HK$'million (restated)	2008 HK$'million (unrestated)	2007 HK$'million (unrestated)
Total assets	**84,069**	63,393	32,226	24,664	14,816	22,727
Total liabilities	**(38,482)**	(24,966)	(11,188)	(7,223)	(2,538)	(2,247)
Total equity	**45,587**	38,427	21,038	17,441	12,278	20,480

Referring to Note 38(a) to the consolidated financial statements, the consolidated financial statements of the Company for the year ended 31 December 2010 has been restated as merger accounting was adopted retrospectively to account for certain acquisitions by the Company in 2011 which were regarded as business combinations under common control of CNPC in accordance with the Group's accounting policies as set out in Note 3(a) to the consolidated financial statements . For the purpose of presenting the above financial summary of the Group, the consolidated financial information of the Company for the years ended 31 December 2007, 2008 and 2009 has not been restated and unrestated figures for the year ended 31 December 2010 is also presented above as the Directors consider that such information is more appropriate to explain and analyse the changes in the Group's business operations.

Reserve Quantities Information

PROVEN DEVELOPED RESERVES (ESTIMATION)

Crude Oil

	PRC (million barrels)	South America (million barrels)	Central Asia (million barrels)	South East Asia (million barrels)	Middle East (million barrels)	Total (million barrels)
As at 1 January 2011	33.5	1.8	37.0	4.9	4.5	81.7
Revison	–	0.1	3.5	–	4.9	8.5
Production	(5.9)	(0.6)	(7.7)	(0.5)	(2.9)	(17.6)
As at 31 December 2011	27.6	1.3	32.8	4.4	6.5	72.6

Natural gas

	South America (million cu.feet)	Central Asia (million cu.feet)	Total (million cu.feet)
As at 1 January 2011	634.9	102,200.6	102,835.5
Revision	54.1	(40,968.7)	(40,914.6)
Production	(464.5)	(17,938.8)	(18,403.3)
As at 31 December 2011	224.5	43,293.1	43,517.6

Notes:

(a) Based on the Group's share of participated interest in the oil field through subsidiaries, an associate and a jointly controlled entity.

(b) Participated interest belonging to non-controlling interest is excluded.

(c) The revision is due to the change from proved reserve to proved developed reserve.

Locations of Natural Gas Distribution Activities in PRC

Province	CNG Station	LNG Station	LNG Plant	LNG Terminal	Total	In Operation	Under Construction: CNG Station	LNG Station	LNG Plant	LNG Terminal	Total
1. Xinjiang	83	28	4	–	115	91	2	19	3	–	115
2. Inner Mongolia	11	34	2	–	47	15	1	30	1	–	47
3. Hebei	31	11	1	–	43	21	10	11	1	–	43
4. Shandong	17	17	1	–	35	26	–	8	1	–	35
5. Hainan	22	5	1	–	28	26	2	–	–	–	28
6. Sichuan	18	2	2	–	22	18	–	2	2	–	22
7. Guangdong	1	15	–	–	16	9	–	7	–	–	16
8. Jiangsu	4	10	1	1	16	5	2	8	1	–	16
9. Shaanxi	7	6	2	–	15	7	1	5	2	–	15
10. Qinghai	8	1	3	–	12	9	3	–	–	–	12
11. Ningxia	3	9	–	–	12	4	–	8	–	–	12
12. Shanxi	–	4	–	–	4	1	–	3	–	–	4
13. Tibet	–	3	–	–	3	3	–	–	–	–	3
14. Anhui	1	2	–	–	3	2	–	1	–	–	3
15. Zhejiang	–	3	–	–	3	2	–	1	–	–	3
16. Guizhou	2	1	–	–	3	1	1	1	–	–	3
17. Liaoning	–	1	1	1	3	–	–	1	1	1	3
18. Hubei	2	–	–	–	2	2	–	–	–	–	2
19. Hunan	1	1	–	–	2	1	–	1	–	–	2
20. Beijing	1	1	–	–	2	1	–	1	–	–	2
21. Henan	1	1	–	–	2	–	1	1	–	–	2
22. Chongqing	–	1	–	–	1	–	–	1	–	–	1
	213	156	18	2	389	244	23	109	12	1	389

Note: include 22 CNG stations, 5 LNG stations and 2 LNG plants owned by associated Companies.

LOCATIONS OF CRUDE OIL EXPLORATION AND PRODUCTION BUSINESS
原油勘探及生產業務分佈圖


Kazakhstan
哈薩克斯坦
Xinjiang
新疆
Azerbaijan
阿塞拜疆
Liaohe
遼河
Hong Kong
香港
Oman
阿曼
Thailand
泰國
Indonesia
印尼