KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

2012 Interim Report

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Corporate Information

BOARD OF DIRECTORS

Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(President)*
Mr Cheng Cheng *(Senior Vice-President)*
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

COMPANY SECRETARY

Mr Lau Hak Woon

BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
Clarendon House
Church Street
Hamilton HM11, Bermuda

AUDITOR

PricewaterhouseCoopers

BANKERS

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

STOCK CODE

The Stock Exchange of Hong Kong Limited
00135.HK

WEBSITE

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

PRINCIPAL BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Mr 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

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Hamilton HM11, Bermuda

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HSBC Securities Service (Bermuda) Limited
6 Front Street
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REGISTRARS IN HONG KONG

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

Chairman Statement

BUSINESS REVIEW

I am pleased to report to the shareholders on behalf of the Board of Kunlun Energy Company Limited (the "Company") the 2012 interim results of the Company and its subsidiaries (together, the "Group"). For the six months ended 30 June 2012 (the "Period"), the revenue of the Group amounted to HK$15,605 million while the unaudited profit attributable to owners of the Company amounted to HK$3,500 million, representing an increase of HK$8,846 million and HK$1,849 million or 130.88% and 111.99% respectively compared with the unrestated revenue and profit attributable to owners of the Company of the same period last year. During the Period, international oil prices increased and then fell, but remained high in general, which together with the substantial growth of the Group's natural gas business, contributed to the Group's revenue and profit.

I. Exploration and Production

For the Period, revenue of HK$3,158 million was derived from the exploration and production business, an increase of HK$213 million or 7.23% (same as restated figure) compared with the corresponding period last year, accounting for 20.24% of the Group's total revenue. The production of the Group's nine oil fields remained stable, with sales volume of crude oil reaching 8.78 million barrels, representing an increase of 0.41 million barrels or 4.91% compared with the corresponding period last year. During the Period, the Group's average realised crude oil selling price was US$100.70 per barrel, representing an increase of US$0.89 or 0.90% compared with the corresponding period last year.

II. Natural Gas Pipeline

During the Period, the Group's natural gas pipeline business has further developed. The volume of natural gas transmission was 12,271 million cubic metres of which, the volume of natural gas transmission of PetroChina Beijing Gas Pipeline Co., Ltd was 12,048 million cubic metres and that of other operating pipelines was 223 million cubic metres. The number of the Group's natural gas transmission pipelines in operation and under construction further increased. The main construction work of Wuyin line (Wuhai, Inner Mongolia – Yinchuan, Ningxia), the first long-distance coke oven gas transmission pipelines in China, has been completed and will be put into operation soon. The commission of this pipeline will not only make important contribution to the local energy saving and emission reduction, but also bring fruitful investment return to the Group.

III. LNG Terminal

During the Period, Jiangsu LNG terminal and Dalian LNG terminal owned by the Group unloaded 16 barges of LNG, amounting to an aggregate of 1.66 million tonnes. These two LNG terminals are important passageway at sea for the parent company to optimise the supply of natural gas resources, contributing stable income and sources of natural gas to the Group.

Chairman Statement

IV. LNG Processing Plant

The Group expedited the development of LNG resources and commenced the construction of 12 LNG processing plants, of which the LNG Taian processing plant (processing capacity of 2.6 million cubic metres/day) in Shandong and the Huanggang LNG processing plant (processing capacity of 5 million cubic metres/day) in Hubei, both being localisation projects, have commenced construction. The Guangan LNG processing plant (processing capacity of 1 million cubic metres/day) in Sichuan has commenced operation and the Ansai LNG processing plant (processing capacity of 2 million cubic metres/day) in Shaanxi successfully produced qualified LNG on 19 August 2012, representing the success of DMR for double cycle hybrid refrigerant self-developed by China National Petroleum Corporation which made up the deficiency of domestic liquefaction technique of natural gas. The plant will commence operation soon. The Group will have 6 LNG processing plants in operation, with total production capacity of 4.38 million cubic metres/day. The remaining processing plants will commence production successively in the next two years, upon which the Group will become the largest domestic onshore LNG producer and supplier.

V. Sales of Natural Gas

Sales volume of natural gas of the Group was 2,178 million cubic metres for the Period, representing an increase of 588 million cubic metres or 36.98% (unrestated) compared with the corresponding period last year. Revenue derived from natural gas was HK$12,447 million, an increase of HK$8,633 million or 226.35% (unrestated) compared with the corresponding period last year, accounting for 79.70% of the Group’s total revenue. Profit before tax was HK$4,059 million, representing an increase of HK$3,533 million or 671.67% (unrestated) compared with the corresponding period last year. Both sales and revenue of natural gas achieved a rapid growth and the sales proportion of LNG and CNG has increased substantially.

During the Period, the construction of natural gas distribution infrastructure has been expedited. The gradual improvement of distribution facilities has enhanced and strengthened the end-users sales results of natural gas business.

During the Period, the Group made further effort to expand the market and continue to develop the LNG business by implementing the “Gas in Substitution of Oil” strategy, accelerating the promotion of the utilisation of LNG as a fuel for urban public transport, long-distance passenger transportation, heavy duty trucks, vessels and oilfield drilling rigs. The promotion of LNG projects for urban public transport and heavy duty trucks were put forward steadily in accordance with the annual plan and the LNG collaborative project for urban public transport conducted by Beijing and Chongqing attained remarkable demonstration effect. The Group collaborated with China Classification Society, China Changjiang National Shipping (Group) Corporation and Jinan Diesel Engine Co., Ltd. to commence the LNG gasification for vessels in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Dongting Lake and Weishan Lake, and carried out the trial voyage of the first diesel-LNG hybrid bulk carrier of 3,000 tons in Yangtze River. In the meantime, the first diesel-LNG hybrid dredging engineering vessel was modified and commenced operation in Weishan Lake. The application of LNG as a fuel in oilfield drilling operations such as Xinjiang Oilfield and Changqing Oilfield was promoted and significant breakthrough has been achieved.

Chairman Statement

During the Period, the Group established KunLun Energy (Gansu) Company Limited and Jilin Jigang Clean Energy Company Limited through cooperation and joint ventures with the Yumen Oilfield and Jilin Oilfield owned by the parent company respectively, which strengthened the win-win cooperation with the parent company and further optimised the strategic plans of the Group's principal business.

BUSINESS PROSPECTS

The Group will continue to adhere to the "Gas in Substitution of Oil" strategy and expedite the development of natural gas business. In the second half of the year, several LNG processing plants currently under construction, crucial network infrastructure projects and a portion of construction work of natural gas pipeline will be gradually put into operation, contributing to the stable natural gas supply and revenue for the Group.

With a view to realise effective linkage between resources and the market, the Group will increase its marketing efforts in the second half of the year by taking Beijing, Shanghai, Chongqing and Guangzhou as exemplary cities and long-distance passenger and cargo routes as demonstration in order to substantially promote the development of LNG vehicles in the year. In addition, the Group will further consolidate the "Gasifying Changjiang" collaboration with China Changjiang National Shipping (Group) Corporation to speed up the application of LNG vessels while focusing on the oilfield enterprises of the parent company to further promote the utilisation of LNG as a fuel for oilfield drilling rigs. The Group will also accelerate the study on the safety of LNG railway transportation for Golmud-Lhasa line (Golmud, Qinghai – Lhasa, Tibet) to attain early realisation of LNG container rail transportation.

The Group will further leverage on the overall advantages of the parent company and continue its in-depth cooperation with the enterprises owned by the parent company. We will also actively look for investment opportunities that are in line with the development strategy of our natural gas distribution business in China to enhance the scale and efficiency of the natural gas business, so as to provide satisfactory returns to shareholders while making contributions to the energy savings, emission reduction and green development in China.

By Order of the Board

Li Hualin
Chairman

Hong Kong, 23 August 2012

Management Discussion and Analysis

Revenue and profit before income tax expense from the Natural Gas Distribution business segment has exceeded that from the Exploration and Production segment. The profit before income tax expense from the Natural Gas Distribution business segment contributed over 59.33% of the Group's profit before income tax expense for the six months Period ended 30 June 2012 (the "Period").

The Group continued to develop its natural gas business segment through business development and acquisitions. During the Period, the capital increase in Binhai New Energy Co., Ltd. ("Binhai New Energy") was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. Comparative financial information in this interim report has been restated to reflect the effect of merging this subsidiary with the Group. Details of which are set out in Note 24 to the Interim Financial Information. The Company also established KunLun Energy (Gansu) Company Ltd ("Gansu") and Jilin Jigang Clean Energy Company Limited ("Jilin Jigang") with Yumen Oilfield and Jilin Oilfield respectively.

OPERATING RESULTS

The financial results of the Group for the Period were benefited from the acquisition of PetroChina Beijing Gas Pipeline Co., Ltd ("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 Period was approximately HK$6,841 million, representing an increase of 139.20% as compared with unrestated amount of HK$2,860 million (36.14% as compared with restated amount of HK$5,025 million) for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$3,500 million representing an increase of 111.99% as compared with unrestated amount of HK$1,651 million (32.48% as compared with restated amount of HK$2,642 million) for the same period of last year.

REVENUE

Revenue for the Period was approximately HK$15,605 million, representing an increase of 130.88% as compared with unrestated amount of HK$6,759 million (or 32.18% as compared with restated amount of HK$11,806 million) for the same period of last year. The increase was mainly due to the acquisition of Beijing Pipeline, the increase in volume of sales of crude oil and natural gas.

Revenue from the Exploration and Production segment accounted for 20.24% of the Group's total revenue amounting to approximately HK$3,158 million while revenue from the Natural Gas Distribution business segment accounted for 79.76% of the Group's total revenue amounting to approximately HK$12,447 million.

Management Discussion and Analysis

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2012 and 2011, and percentages of change during these two periods.

	Sale/processing volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2012	2011	Change	**2012**	2011	Change
	('000 barrel)	('000 barrel)	%	**HK$' million**	HK$' million	%
Exploration and Production business						
The People's Republic of China (the "PRC")	**2,915**	2,832	2.93	**2,133**	2,020	5.59
South America	**286**	256	11.72	**503**	435	15.63
Central Asia	**345**	378	(8.73)	**287**	300	(4.33)
South East Asia	**284**	240	18.33	**235**	190	23.68
	3,830	3,706	3.35	**3,158**	2,945	7.23
Share of associates in Central Asia	**3,356**	3,376	(0.59)	**–**	–	N/A
Share of jointly controlled entities in Middle East	**1,593**	1,286	23.87	**–**	–	N/A
Total of Exploration and Production	**8,779**	8,368	4.91	**3,158**	2,945	7.23

Management Discussion and Analysis

	Sale/processing volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2012 ('000 cubic metre)	2011 ('000 cubic metre)	Change %	**2012 HK$' million**	2011 HK$' million	Change %
Natural Gas Distribution business						
Natural Gas Sales, as previously reported	**2,177,810**	1,590,342	36.94	**5,226**	3,696	41.40
Effect of business combination under common controls	**N/A**	82,852	N/A	**N/A**	287	N/A
Natural Gas Sales, as restated	**2,177,810**	1,673,194	30.16	**5,226**	3,983	31.21
Natural Gas Pipelines, as previously reported	**12,270,773**	–	N/A	**5,992**	–	N/A
Effect of business combination under common controls	**N/A**	9,988,657	N/A	**N/A**	4,760	N/A
Natural Gas Pipelines, as restated	**12,270,773**	9,988,657	22.85	**5,992**	4,760	25.88
LNG Processing and Terminal	**2,228,152**	–	N/A	**1,229**	118	941.53
Total of Natural Gas Distribution	**16,676,735**	11,661,851	43.00	**12,447**	8,861	40.47
Total Revenue				**15,605**	11,806	32.18

OTHER GAINS, NET

Other gains, net for the six months ended 30 June 2012 was approximately HK$85 million, representing an increase of 32.81% as compared with unrestated amount of HK$64 million (10.39% as compared with restated amount of HK$77 million) for the same period of last year. The increase was mainly due to gain on exchange difference.

Management Discussion and Analysis

INTEREST INCOME

Interest income for the six months ended 30 June 2012 was approximately HK$83 million, representing an increase of 107.50% as compared with unrestated amount of HK$40 million (66.00% as compared with restated amount of HK$50 million) for the same period of last year. The increase was mainly due to an increase in interest rates and bank deposits held by the Group. During the Period, the Group has obtained net additional borrowings from China Petroleum Finance Company Limited amounting to approximately HK$1,193 million and share placement amounting to approximately HK$10,259 million, net of transaction costs.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK$5,506 million for the Period, representing an increase of 68.28% as compared with unrestated amount of HK$3,272 million (28.71% as compared with restated amount of HK$4,278 million) for the same period of last year. This was mainly due to the 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 was approximately HK$759 million for the Period, representing an increase of 63.58% as compared with unrestated amount of HK$464 million (38.00% as compared with restated amount of HK$550 million) for the same period of last year. This increase was mainly due to the acquisition of Beijing Pipeline and the expansion of the Group's natural gas business.

EXPLORATION COSTS

Exploration costs for the Period was approximately HK$33 million, representing a decrease of 74.42% as compared with HK$129 million for the same period of last year. This was mainly due to less exploration activities undertaken by the Group's exploration and product projects.

DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period was approximately HK$2,409 million, representing an increase of 309.69% as compared with unrestated amount of HK$588 million (31.50% as compared with restated amount of HK$1,832 million) for the period of last year. This was mainly due to acquisition of Beijing Pipeline and additions of property, plant and equipment during the Period following the business expansion.

Management Discussion and Analysis

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period was approximately HK$915 million, representing an increase of 69.44% as compared with unrestated amount of HK$540 million (37.18% as compared with restated amount of HK$667 million) for the same period of last year. This was mainly due to acquisition of Beijing Pipeline and an expansion of the Group's natural gas business.

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK$549 million, representing an increase of 38.64% as compared with unrestated amount of HK$396 million (a decrease of 0.90% as compared with restated amount of HK$554 million) for the same period of last year. It was mainly due to the acquisition of Beijing Pipeline.

INTEREST EXPENSES

Interest expenses for the Period was approximately HK$395 million, representing an increase 39.08% as compared with restated amount of HK$284 million (same period 2011: nil (unrestated)) for the same period of last year.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period increased 16.42% to approximately HK$1,425 million (same period 2011: HK$1,224 million (same as restated figures)), it was mainly due to the decrease of other taxes in Aktobe project.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

Share of profits less losses of jointly controlled entities for the Period increased 29.01% to approximately HK$209 million (2011: HK$162 million (same as restated figures)), it was mainly due to the increment of sales volume in Oman project.

PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK$6,841 million, representing an increase of 139.20% as compared with unrestated amount of HK$2,860 million (36.14% as compared with restated amount of HK$5,025 million) for the same period of last year.

Management Discussion and Analysis

The table below sets out the profit before income tax expense for major segments of the Group for the six months ended 30 June 2012 and 2011, and percentages of change during these two periods.

	Profit before income tax expense For the six months ended 30 June		
	2012	2011	Change
	HK$ 'million	HK$ 'million	%
Exploration and Production			
PRC	**860**	878	(2.05)
South America	**255**	230	10.87
Central Asia	**(53)**	(46)	(15.22)
South East Asia	**140**	(40)	450.00
	1,202	1,022	17.61
Share of an associate in Central Asia	**1,327**	1,136	16.81
Share of a jointly controlled entity in Middle East	**205**	160	28.13
Total of Exploration and Production	**2,734**	2,318	17.95
Natural Gas Distribution			
Natural Gas Sales, as previously reported	**829**	537	54.38
Effect of business combination under common controls	**N/A**	20	N/A
Natural Gas Sales, as restated	**829**	557	48.83
Natural Gas Pipelines, as previously reported	**3,027**	–	N/A
Effect of business combination under common controls	**N/A**	2,145	N/A
Natural Gas Pipelines, as restated	**3,027**	2,145	41.12
LNG Processing and Terminal	**203**	(11)	1,945.45
Total of Natural Gas Distribution	**4,059**	2,691	50.84
	6,793	5,009	35.62

Management Discussion and Analysis

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK$1,639 million, representing an increase of 147.21% as compared with unrestated amount of HK$663 million (38.78% as compared with restated amount of HK$1,181 million) for the same period of last year.

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

The profit for the Period of the Group was approximately HK$5,202 million, representing an increase of 136.78% as compared with unrestated amount of HK$2,197 million (35.33% as compared with restated amount of HK$3,844 million) for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$3,500 million, representing an increase of 111.99% as compared with unrestated amount of HK$1,651 million (32.48% as compared with restated amount of HK$2,642 million) for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2012, the carrying value of total assets of the Group is approximately HK$97,297 million, representing an increase of HK$13,228 million or 15.73% as compared with 31 December 2011 unrestated amount of HK$84,069 million or increase of HK$13,090 million or 15.55% as compared with 31 December 2011 restated amount of HK$84,207 million.

The gearing ratio of the Group was 33.23% as at 30 June 2012 compared with 37.69% (unrestated) or 37.65% (restated) as at 31 December 2011. It is computed by dividing the total borrowings of HK$27,773 million (31 December 2011: HK$27,572 million (both unrestated and restated)) by the total equity plus borrowings of HK$83,582 million (31 December 2011: HK$73,159 million (unrestated); HK$73,233 million (restated)).

Profit before interest, tax, depreciation and amortisation ("EBITDA") for the Period was approximately HK$9,562 million, representing an increase of 180.58% as compared with unrestated amount of HK$3,408 million (or 34.85% as compared with restated amount of HK$7,091 million) for the same period of last year.

The Group received dividends from associates during the Period which included HK$429 million (same period 2011: HK$634 million (same as restated figures)) from an associate in Central Asia.

The Group raised new borrowings of HK$2,299 million and repaid HK$1,893 million to financial institutions and related parties resulting a net increase in borrowings of HK$406 million during the Period.

During the Period, certain senior executives of the Company exercised their share options. As a result, the Company issued 57 million new shares (31 December 2011: 23 million new shares) and received subscription amount of HK$239 million (31 December 2011: HK$96 million). In April 2012, the Company issued 800 million shares at HK$13.10 per share to public and received amount of HK$10,259 million net of the direct transaction costs.

Management Discussion and Analysis

USE OF PROCEEDS

The Group paid interest of HK$587 million (same period 2011: HK$171 million (unrestated); HK$484 million (restated)) during the Period.

2011 final dividend of HK$0.22 per share amounting HK$1,766 million (2010: HK$0.138 per share amounting HK$684 million) was distributed to owners of the Company during the Period.

PLEDGED OF ASSETS

As at 30 June 2012 and 31 December 2011, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

During the Period, the capital increase in Binhai New Energy was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. The Company also established Gansu and Jilin Jigang with Yumen Oilfield and Jilin Oilfield respectively.

EMPLOYEE

On 30 June 2012, the Group had approximately 14,763 staff globally (excluding the staff under entrustment contracts) (2011: 12,868 staff (restated)). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, the Company has not repurchased any of its shares. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

Management Discussion and Analysis

CORPORATE GOVERNANCE

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. The Board is of the view that the Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "Former CG Code") (formerly set out 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 Former CG Code was amended and renamed as the Corporate Governance Code ("Revised CG Code"). The Revised CG Code is applicable to financial reports covering a period after 1 April 2012. The Company has also complied with all the code provisions in the Revised CG Code during the period from 1 April 2012 to 30 June 2012, except that in respect of code provision D.1.4, the Board has approved on 23 August 2012 the formal letters of appointment for directors setting out the key terms and conditions of their appointment which will be subsequently executed by all directors no later than September 2012.

REVIEW OF INTERIM FINANCIAL INFORMATION

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

The unaudited consolidated interim condensed financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the Period.

Management Discussion and Analysis

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2012, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities Future Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below.

Ordinary shares of HK$0.01 each of the Company.

Name	Number of shares	Capacity and nature of interests	Percentage of issued shares
Li Hualin (note)	39,000,000	Beneficial owner	0.49%
Zhang Bowen (note)	20,000,000	Beneficial owner	0.25%
Cheng Cheng (note)	10,000,000	Beneficial owner	0.13%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.01%

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

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

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

Management Discussion and Analysis

SHARE OPTIONS

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

Name	Date of grant	Exercise period	Exercise price HK$	Number of share options: Outstanding at 1 January 2012 '000	Options granted during the Period '000	Exercised during the Period '000	Outstanding at 30 June 2012 '000
Directors							
Li Hualin	8 January 2007	8 April 2007 – 7 January 2012	4.186	25,000	–	(25,000)	–
	26 May 2008	26 August 2008 – 25 May 2013	4.240	3,200	–	–	3,200
	26 March 2009	26 June 2009 – 25 March 2014	3.250	3,200	–	–	3,200
	26 March 2010	26 June 2010 – 25 March 2015	10.320	3,200	–	–	3,200
	18 March 2011	18 June 2011 – 17 March 2016	11.730	3,200	–	–	3,200
	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	3,200	–	3,200
Zhang Bowen	8 January 2007	8 April 2007 – 7 January 2012	4.186	20,000	–	(20,000)	–
	26 May 2008	26 August 2008 – 25 May 2013	4.240	2,400	–	–	2,400
	26 March 2009	26 June 2009 – 25 March 2014	3.250	2,400	–	–	2,400
	26 March 2010	26 June 2010 – 25 March 2015	10.320	2,400	–	–	2,400
	18 March 2011	18 June 2011 – 17 March 2016	11.730	2,400	–	–	2,400
	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	2,200	–	2,200
Cheng Cheng	8 January 2007	8 April 2007 – 7 January 2012	4.186	10,000	–	(10,000)	–
	26 May 2008	26 August 2008 – 25 May 2013	4.240	1,500	–	–	1,500
	26 March 2009	26 June 2009 – 25 March 2014	3.250	1,500	–	–	1,500
	26 March 2010	26 June 2010 – 25 March 2015	10.320	1,500	–	–	1,500
	18 March 2011	18 June 2011 – 17 March 2016	11.730	1,500	–	–	1,500
	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	2,000	–	2,000
Lau Wah Sum	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
Li Kwok Sing Aubrey	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
Liu Xiao Feng	26 March 2010	26 June 2010 – 25 March 2015	10.320	400	–	–	400
				84,600	7,400	(55,000)	37,000
Chief Executive Officer							
Jiang Changliang	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	2,400	–	2,400
Employees	8 January 2007	8 April 2007 – 7 January 2012	4.186	2,000	–	(2,000)	–
	14 September 2007	14 December 2007 – 13 September 2012	4.480	20,000	–	–	20,000
	26 May 2008	26 August 2008 – 25 May 2013	4.240	7,000	–	–	7,000
	26 March 2009	26 June 2009 – 25 March 2014	3.250	7,000	–	–	7,000
	26 March 2010	26 June 2010 – 25 March 2015	10.320	7,000	–	–	7,000
	18 March 2011	18 June 2011 – 17 March 2016	11.730	7,000	–	–	7,000
	17 May 2012	17 August 2012 – 16 May 2017	12.632	–	13,000	–	13,000
				50,000	13,000	(2,000)	61,000
				134,600	22,800	(57,000)	100,400

Management Discussion and Analysis

SHARE OPTIONS (CONTINUED)

The closing prices of the Company's shares immediately before 17 May 2012, the date of grant of the options, was HK$12.28.

The weighted average closing prices of the Company's shares immediately before the date on which the share options were exercised was HK$11.20.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2012, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

	Number of shares		Percentage of
Name	**Direct interest**	**Indirect interest**	**issued shares**
Sun World Limited ("Sun World")(1)	4,708,302,133 (L)	–	58.64%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)")(1)	–	4,708,302,133 (L)	58.64%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong")(1)	–	4,708,302,133 (L)	58.64%
PetroChina Company Limited ("PetroChina")(1)	–	4,708,302,133 (L)	58.64%
China National Oil and Gas Exploration and Development Corporation ("CNODC")(2)	–	277,432,000 (L)	3.46%
CNPC International Ltd. ("CNPCI")(2)	–	277,432,000 (L)	3.46%
Fairy King Investments Ltd.	277,432,000 (L)	–	3.46%
China National Petroleum Corporation ("CNPC")(1)(2)	–	4,985,734,133 (L)	62.10%

Notes:

(1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly-owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 86.47% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by Sun World. Mr 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.

Management Discussion and Analysis

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES (CONTINUED)

Save as disclosed above, as at 30 June 2012, the directors and the chief executive of the Company were not aware of any person (other than a director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at 30 June 2012, the directors and the chief executive of the Company were not aware of any person (other than a directors or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

By Order of the Board

Zhang Bowen
President & Executive Director

Hong Kong, 23 August 2012

Report on Review of Interim Financial Information

pwc 羅兵咸永道

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

INTRODUCTION

We have reviewed the consolidated interim condensed financial information set out on pages 20 to 52, which comprises the consolidated interim condensed statement of financial position of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related consolidated interim condensed statement of comprehensive income, consolidated interim condensed statement of changes in equity and consolidated interim condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2012

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Unaudited Consolidated Interim Condensed Statement of Comprehensive Income

For the six months ended 30 June 2012

	Note	2012 HK$'million	2011 HK$'million (restated) (Note 24)
Revenue	4	**15,605**	11,806
Other gains, net	5	**85**	77
Interest income		**83**	50
Purchases, services and others		**(5,506)**	(4,278)
Employee compensation costs		**(759)**	(550)
Exploration expenses, including exploratory dry holes		**(33)**	(129)
Depreciation, depletion and amortisation		**(2,409)**	(1,832)
Selling, general and administrative expenses		**(915)**	(667)
Taxes other than income taxes	6	**(549)**	(554)
Interest expenses	7	**(395)**	(284)
Share of profits less losses of:			
– Associates		**1,425**	1,224
– Jointly controlled entities		**209**	162
Profit before income tax expense	8	**6,841**	5,025
Income tax expense	9	**(1,639)**	(1,181)
Profit for the period		**5,202**	3,844
Other comprehensive (loss)/income:			
Currency translation differences		**(758)**	1,032
Fair value (loss)/gain on available-for-sale financial assets		**(40)**	14
Other comprehensive (loss)/income, net of tax		**(798)**	1,046
Total comprehensive income for the period		**4,404**	4,890
Profit for the period attributable to:			
– Owners of the Company		**3,500**	2,642
– Non-controlling interest		**1,702**	1,202
		5,202	3,844
Total comprehensive income for the period attributable to:			
– Owners of the Company		**2,889**	3,306
– Non-controlling interest		**1,515**	1,584
		4,404	4,890
Earnings per share for profit attributable to owners of the Company	10		
– Basic (HK cents)		**46.29**	36.96
– Diluted (HK cents)		**46.06**	36.50

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

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2012

	Note	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Assets			
Non-current assets			
Property, plant and equipment	*12*	**57,706**	56,677
Advanced operating lease payments		**1,274**	1,218
Investments in associates	*13*	**5,513**	6,158
Investments in jointly controlled entities	*14*	**1,737**	1,732
Available-for-sale financial assets		**91**	133
Intangibles and other non-current assets	*15*	**2,495**	1,553
Deferred tax assets		**172**	125
		68,988	67,596
Current assets			
Inventories		**621**	563
Accounts receivable	*16*	**1,146**	736
Prepaid expenses and other current assets	*17*	**4,523**	3,594
Cash and cash equivalents		**22,019**	11,718
		28,309	16,611
Total assets		**97,297**	84,207
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**80**	72
Retained earnings		**17,457**	17,545
Reserves		**22,732**	12,766
		40,269	30,383
Non-controlling interest		**15,540**	15,275
Total equity		**55,809**	45,658

Unaudited Consolidated Interim Condensed Statement of Financial Position

As at 30 June 2012

	Note	**30 June 2012 HK$'million**	31 December 2011 HK$'million (restated) (Note 24)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*19*	**12,028**	8,913
Income taxes payable		**337**	459
Other taxes payable		**264**	589
Short-term borrowings	*20*	**5,531**	2,611
		18,160	12,572
Non-current liabilities			
Long-term borrowings	*20*	**22,242**	24,964
Deferred tax liabilities		**1,048**	985
Other long-term obligations		**38**	28
		23,328	25,977
Total liabilities		**41,488**	38,549
Total equity and liabilities		**97,297**	84,207
Net current assets		**10,149**	4,039
Total assets less current liabilities		**79,137**	71,635

Director Director

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

Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2012

	Note	For the six months ended 30 June 2012 HK$'million	 2011 HK$'million (restated) (Note 24)
Cash flows from operating activities		**4,885**	4,074
Cash flows from investing activities			
Dividends received from associates		**1,303**	792
Dividends received from jointly controlled entities		**198**	124
Acquisitions of subsidiaries	*24*	**(21)**	(568)
Prepayment for acquisition of a subsidiary		**(167)**	–
Capital contributions to associates	*13*	**(13)**	(161)
Capital contributions to jointly controlled entities	*14*	**–**	(17)
Acquisitions of available-for-sale financial assets		**–**	(8)
Repayments of loan from/(loan to) non-controlling interest		**557**	(84)
Capital expenditure		**(5,017)**	(5,477)
Proceeds from disposal of property, plant and equipment		**43**	–
Interest received		**83**	50
Increase in deposits with maturities more than three months		**–**	(108)
Net cash used in investing activities		**(3,034)**	(5,457)
Cash flows from financing activities			
Capital contributions from non-controlling interest		**423**	633
Dividends paid to owners of the Company		**(1,766)**	(684)
Dividends paid to non-controlling interest		**(351)**	(680)
Dividends paid to former owners		**–**	(475)
Increase in other long-term obligations		**10**	4
Issue of shares, net of share issue expenses		**10,497**	–
Increase in borrowings	*20*	**2,299**	12,234
Repayments of borrowings	*20*	**(1,893)**	(4,911)
Interest paid		**(587)**	(484)
Net cash generated from financing activities		**8,632**	5,637
Increase in cash and cash equivalents		**10,483**	4,254
Cash and cash equivalents at 1 January		**11,718**	8,202
Effect of foreign exchange rate changes		**(182)**	941
Cash and cash equivalents at 30 June		**22,019**	13,397

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

Unaudited Consolidated Interim Condensed Statement of Changes in Equity

For the six months ended 30 June 2012

	Note	Attributable to owners of the Company				Non-controlling interest	Total equity
		Share capital	Retained earnings	Reserves	Sub-total		
		HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances as at 31 December 2010, as previously reported		50	13,337	13,671	27,058	11,369	38,427
Business combinations under common control	24	–	15	10	25	24	49
Balances as at 1 January 2011, as restated		50	13,352	13,681	27,083	11,393	38,476
Total comprehensive income for the period		–	2,642	664	3,306	1,584	4,890
Transfer between reserves		–	(31)	31	–	–	–
Final dividend for 2010	11	–	(684)	–	(684)	–	(684)
Recognition of equity settled share-based payments	18	–	–	43	43	–	43
Dividend paid to former owners of 2011 Natural Gas Project		–	(475)	–	(475)	–	(475)
Acquisition of 2011 Natural Gas Project		–	–	(2,354)	(2,354)	–	(2,354)
Dividend paid to non-controlling interest		–	–	–	–	(680)	(680)
Capital contributions from non-controlling interest		–	–	–	–	633	633
		–	1,452	(1,616)	(164)	1,537	1,373
Balances as at 30 June 2011		50	14,804	12,065	26,919	12,930	39,849
Balances as at 31 December 2011, as previously reported		**72**	**17,521**	**12,883**	**30,476**	**15,111**	**45,587**
Business combinations under common control	24	**–**	**24**	**(117)**	**(93)**	**164**	**71**
Balances as at 1 January 2012, as restated		**72**	**17,545**	**12,766**	**30,383**	**15,275**	**45,658**
Total comprehensive (loss)/income for the period		**–**	**3,500**	**(611)**	**2,889**	**1,515**	**4,404**
Transfer between reserves		**–**	**(53)**	**53**	**–**	**–**	**–**
Final dividend for 2011	11	**–**	**(1,766)**	**–**	**(1,766)**	**–**	**(1,766)**
Recognition of equity settled share-based payments	18	**–**	**–**	**35**	**35**	**–**	**35**
Issue of shares, net of share issue expenses upon placement	18	**8**	**–**	**10,251**	**10,259**	**–**	**10,259**
Exercise of share options		**–**	**–**	**238**	**238**	**–**	**238**
Dividend to former owners of 2011 Natural Gas Project		**–**	**(1,769)**	**–**	**(1,769)**	**–**	**(1,769)**
Dividend to non-controlling interest		**–**	**–**	**–**	**–**	**(1,661)**	**(1,661)**
Acquisition from non-controlling interest		**–**	**–**	**–**	**–**	**(12)**	**(12)**
Capital contributions from non-controlling interest		**–**	**–**	**–**	**–**	**423**	**423**
		8	**(88)**	**9,966**	**9,886**	**265**	**10,151**
Balances as at 30 June 2012		**80**	**17,457**	**22,732**	**40,269**	**15,540**	**55,809**

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

Notes to the Interim Financial Information

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World") which is a company incorporated in the British Virgin Islands. PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, is an intermediate holding company of the Company and indirectly owned a 58.64% (31 December 2011: 65.65%) equity interest in the Company as at 30 June 2012.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited interim financial information presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Company for the year ended 31 December 2011.

Except as described below, the accounting policies and methods of computation applied in the preparation of the unaudited interim financial information are consistent with those of the consolidated financial statements for the year ended 31 December 2011, as described in those annual financial statements.

The interim financial information as of 30 June 2012 and for the six months ended 30 June 2012 and 2011 included herein are unaudited but reflect, in the opinion of the Board of Directors, all adjustments (which include only normal recurring adjustments) necessary to properly prepare the unaudited interim financial information, in all material respects, in accordance with HKAS 34. The results of operations for the six months ended 30 June 2012 are not necessarily indicative of the results of operations expected for the year ending 31 December 2012.

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

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

Notes to the Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The following new amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012, but they are either not currently relevant for the Group or their impact is not significant to the Group for the six months ended 30 June 2012.

HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendment)	Deferred tax: Recovery of Underlying Assets

The following new standards, new amendments to standards and interpretations have been published but are not yet effective and have not been early adopted by the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements[1]
HKFRS 10	Consolidated Financial Statements[2]
HKAS 27 (revised 2011)	Separate Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKAS 28 (revised 2011)	Associates and Joint Ventures[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurements[2]
HKAS 19 (Amendment)	Employee Benefits[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures[4]

1 Effective for the Group for annual period beginning on or after 1 July 2012
2 Effective for the Group for annual period beginning on or after 1 January 2013
3 Effective for the Group for annual period beginning on or after 1 January 2014
4 Effective for the Group for annual period beginning on or after 1 January 2015

There are no other amendments to standards or interpretations that are not yet effective and would be expected to have a significant impact on the Group.

Notes to the Interim Financial Information

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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

(a) Estimation of oil and natural gas reserves

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

(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.

Notes to the Interim Financial Information

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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.

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

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

4 REVENUE AND TURNOVER

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

5 OTHER GAINS, NET

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (restated) (Note 24)
Net exchange gains	**68**	49
Rental income	**12**	6
Others	**5**	22
	85	77

6 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levy on PRC domestic sales of crude oil of approximately HK$277 million (Six months ended 30 June 2011: HK$345 million) for the six months ended 30 June 2012.

Notes to the Interim Financial Information

7 INTEREST EXPENSES

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (restated) (Note 24)
Interest expenses on:		
Bank loans, wholly repayable within five years	**4**	6
Loans other than bank loans, wholly repayable within five years, from:		
– An intermediate holding company	**324**	398
– An immediate holding company	**5**	1
– China Petroleum Finance Company Limited ("CP Finance")	**207**	46
– A fellow subsidiary	**33**	34
Less: Amounts capitalised	**(178)**	(201)
	395	284

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 2.86% (Six months ended 30 June 2011 restated: 3.30%) per annum for the six months ended 30 June 2012.

8 PROFIT BEFORE INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (restated) (Note 24)
Items charged in arriving at the profit before income tax expense include:		
Amortisation on intangibles and other assets	**14**	8
Cost of inventories recognised as expense	**6,597**	4,817
Depreciation on property, plant and equipment	**2,396**	1,824
Operating lease expenses	**61**	20
Repairs and maintenance	**116**	137

Notes to the Interim Financial Information

9 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (restated) (Note 24)
Current tax		
– PRC	**1,124**	805
– Overseas	**500**	508
	1,624	1,313
Deferred tax	**15**	(132)
	1,639	1,181

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the period (Six months ended 30 June 2011: 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% (Six months ended 30 June 2011: 25%). The operations of the Group's certain regions in Mainland China were qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 20% (Six months ended 30 June 2011: 10% to 20%).

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

Included in overseas income tax expense is withholding tax of approximately HK$392 million (Six months ended 30 June 2011: HK$396 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (Six months ended 30 June 2011: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

Notes to the Interim Financial Information

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$3,500 million (Six months ended 30 June 2011 restated: HK$2,642 million) and weighted average number of ordinary shares in issue during the period of approximately 7,561 million shares (2011 restated: 7,148 million shares (Note 24)).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$3,500 million (Six months ended 30 June 2011 restated: HK$2,642 million), and the weighted average number of ordinary shares of approximately 7,598 million (Six months ended 30 June 2011 restated: 7,238 million shares) which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 37 million shares (Six months ended 30 June 2011: 90 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

11 DIVIDENDS

(a) 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 were paid on 30 June 2011.

(b) Final dividend attributable to owners of the Company in respect of 2011 of HK22.0 cents per share amounting to a total of approximately HK$1,590 million were approved by the shareholders in the Annual General Meeting on 16 May 2012. The amount is based on approximately 7,228 million shares in issue as at 29 March 2012.

(c) The actual final dividend for 2011 was approximately HK$1,766 million due to additional shares issued during the period from 30 March 2012 to 16 May 2012, the date of closure of the register of members, and were paid on 6 June 2012.

(d) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

Notes to the Interim Financial Information

12 PROPERTY, PLANT AND EQUIPMENT

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (restated) (Note 24)
Cost		
Balances as at 31 December 2011/2010	**78,950**	60,324
Business combinations under common control (Note 24)	**69**	38
Balances as at 1 January	**79,019**	60,362
Currency translation differences	**(783)**	1,985
Additions	**4,035**	3,662
Disposals	**(52)**	–
Balances as at 30 June	**82,219**	66,009
Accumulated depletion, depreciation and impairment		
Balances as at 31 December 2011/2010	**22,337**	17,356
Business combinations under common control (Note 24)	**5**	3
Balances as at 1 January	**22,342**	17,359
Currency translation differences	**(215)**	565
Charge for the period	**2,395**	1,824
Disposals	**(9)**	–
Balances as at 30 June	**24,513**	19,748
Net book value at 30 June	**57,706**	46,261

Notes to the Interim Financial Information

13 INVESTMENTS IN ASSOCIATES

	30 June 2012 HK$'million	31 December 2011 HK$'million
Share of net assets	**5,085**	5,726
Goodwill	**428**	432
	5,513	6,158

Movements in share of net assets of associates for the six months ended 30 June 2012 are as follows:

	For the six months ended 30 June	
	2012 HK$'million	2011 HK$'million
Balances as at 1 January	**5,725**	5,227
Capital contributions	**13**	161
Share of profits less losses	**1,425**	1,224
Dividend income received and receivable	**(1,962)**	(1,979)
Share of exchange reserves	**(116)**	12
Balances as at 30 June	**5,085**	4,645

Dividends received and receivable from associates are approximately HK$1,962 million for the six months ended 30 June 2012 (Six months ended 30 June 2011: HK$1,979 million).

Notes to the Interim Financial Information

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	30 June 2012 HK$'million	31 December 2011 HK$'million
Share of net assets	**1,692**	1,687
Loans to jointly controlled entities	**45**	45
	1,737	1,732

Movements in share of net assets of jointly controlled entities for the six months ended 30 June 2012 are as follows:

	For six months ended 30 June	
	2012 HK$'million	2011 HK$'million
Balances as at 1 January	**1,687**	1,455
Capital contributions	**–**	17
Share of profits less losses	**209**	162
Dividend income received and receivable	**(198)**	(124)
Share of exchange reserves	**(6)**	21
Transferred to assets held for sale	**–**	(41)
Balances as at 30 June	**1,692**	1,490

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

At 30 June 2012 and 31 December 2011, 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$198 million for the six months ended 30 June 2012 (Six months ended 30 June 2011: HK$124 million).

Notes to the Interim Financial Information

15 INTANGIBLES AND OTHER NON-CURRENT ASSETS

	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Intangibles	**190**	159
Prepaid construction costs	**1,667**	865
Prepayment for acquisition of land use rights	**346**	350
Prepayment for acquisition of a subsidiary	**167**	–
Loans to third parties (note)	**79**	130
Others	**46**	49
	2,495	1,553

Note: Loans to third parties are unsecured, interest bearing at 6.10% to 6.65% (31 December 2011: 6.65%) per annum and not repayable within one year.

16 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2012 and 31 December 2011 is as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Within 3 months	**921**	623
Between 3 to 6 months	**131**	29
Over 6 months	**94**	84
	1,146	736

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2012, accounts receivable of approximately HK$225 million (31 December 2011 restated: HK$113 million) were past due but for which the Group has not provided for impairment losses. These accounts receivable relate to companies for whom there is no recent history of default. The ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

Notes to the Interim Financial Information

17 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Included in prepaid expenses and other current assets are dividend receivables from Aktobe and loan to non-controlling interest amounting to approximately HK$659 million (31 December 2011: Nil) and HK$7 million (31 December 2011: HK$564 million) respectively. Loan to non-controlling interest is interest bearing at 6.10% (31 December 2011: a range of 5.31% to 5.56%) per annum and repayable within one year. All the amount is secured by the equity interest in a subsidiary held by the non-controlling interest.

18 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK$'million
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2011	8,000	80
Increase in authorised share capital (note (i))	8,000	80
At 30 June and 31 December 2011, and 1 January and 30 June 2012	**16,000**	**160**
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2011 and 30 June 2011	4,954	50
Issue of shares upon exercise of share options (note (ii))	23	–
Issue of shares for business combinations under common control (note (iii))	2,194	22
At 31 December 2011 and 1 January 2012	**7,171**	**72**
Issue of shares upon exercise of share options (note (ii))	**57**	**–**
Issue of shares upon placement of shares (note (iv))	**800**	**8**
At 30 June 2012	**8,028**	**80**

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 six months ended 30 June 2012, the Company allotted and issued approximately 57 million shares (31 December 2011: 23 million shares) of HK$0.01 each for cash at the exercise price of HK$4.186 (31 December 2011: HK$4.186) 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 PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline"). These new shares rank pari passu in all respects with the existing shares. The fair value per the Company's share at the date of acquisition was HK$11.42.

(iv) On 3 April 2012, the Company, Sun World, a number of placing agents and independent third parties ("Purchasers") entered into a placing and subscription agreement pursuant to which (i) Sun World appointed the placing agents, as agents and underwriters to procure purchasers to purchase 800 million shares held by Sun World at HK$13.10 during the placing period; and (ii) Sun World has conditionally agreed to subscribe for 800 million shares at the same price. The transaction was completed on 16 April 2012 and the equity interests in the Company held by Sun World decreased to 58.64% (31 December 2011: 65.65%). Accordingly, approximately 800 million shares of HK$0.01 each were issued at a premium of HK$13.09 each. The premium on issue of shares of approximately HK$10,251 million, net of the direct transaction costs of approximately HK$221 million, was credited to the share premium account. These new shares rank pari passu in all respects with the existing shares.

Notes to the Interim Financial Information

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme

Pursuant to executive share option scheme (the "2002 Share Option Scheme") of the Company dated 3 June 2002 and the resolution of the Company passed on 17 May 2012, 7.4 million and 15.4 million share options have been granted to directors and employees of the Company, respectively.

The 2002 Share Option Scheme expired on 2 June 2012.

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

The closing price of the Company's shares immediately before 17 May 2012, the date of grant of the share option, was HK$12.28.

The fair values of share options granted on 17 May 2012 were calculated using the Binomial model. The inputs into the model were as follows:

	Directors	Employees
Share price at grant date	**HK$12.32**	**HK$12.32**
Exercise price	**HK$12.632**	**HK$12.632**
Expected volatility	**43.85%**	**43.85%**
Risk-free rate	**0.48%**	**0.48%**
Expected dividend yield	**2.20%**	**2.20%**
Exercise multiple	**2.20**	**1.60**

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

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

The fair value of the options granted to directors and employees of the Company during the period are HK$21 million (Six months ended 30 June 2011: HK$19 million) and HK$51 million (Six months ended 30 June 2011: HK$24 million), respectively. Share-based payment expense of HK$35 million (Six months ended 30 June 2011: HK$43 million) has been recognised over the vesting period up to 30 June 2012.

The number of shares in respect of which options had been granted and outstanding at 30 June 2012 under the 2002 Share Option Scheme was 100.4 million shares (31 December 2011: 134.6 million shares), representing 1.25% (31 December 2011: 1.88%) of the issued share capital of the Company at 30 June 2012.

Notes to the Interim Financial Information

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

During the six months ended 30 June 2012, 55 million and 2 million share options with the exercise price of HK$4.186 have been exercised by the directors and employees of the Company, respectively. The weighted average closing price of the Company's shares was HK$11.20.

Details of the options granted under the scheme outstanding as at 30 June 2012 and 31 December 2011 are as follows:

	Date of grant	Exercise period	Exercise price per share	Number of shares subject to the options 30 June 2012 '000	31 December 2011 '000
Directors	8 January 2007	8 April 2007-7 January 2012	HK$4.186	–	55,000
	26 May 2008	26 August 2008-25 May 2013	HK$4.240	7,100	7,100
	26 March 2009	26 June 2009-25 March 2014	HK$3.250	7,100	7,100
	26 March 2010	26 June 2010-25 March 2015	HK$10.320	8,300	8,300
	18 March 2011	18 June 2011-17 March 2016	HK$11.730	7,100	7,100
	17 May 2012	17 August 2012-16 May 2017	HK$12.632	7,400	–
Employees	8 January 2007	8 April 2007-7 January 2012	HK$4.186	–	2,000
	14 September 2007	14 December 2007-13 September 2012	HK$4.480	20,000	20,000
	26 May 2008	26 August 2008-25 May 2013	HK$4.240	7,000	7,000
	26 March 2009	26 June 2009-25 March 2014	HK$3.250	7,000	7,000
	26 March 2010	26 June 2010-25 March 2015	HK$10.320	7,000	7,000
	18 March 2011	18 June 2011-17 March 2016	HK$11.730	7,000	7,000
	17 May 2012	17 August 2012-16 May 2017	HK$12.632	15,400	–
				100,400	134,600

Notes to the Interim Financial Information

19 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Accounts payable	**1,376**	1,720
Advances from customers	**689**	639
Salaries and welfare payable	**125**	163
Accrued expenses	**377**	23
Dividends payable by subsidiaries to non-controlling interest	**1,294**	18
Interest payables	**25**	39
Construction fee and equipment cost payables	**5,239**	5,495
Amounts due to related parties	**1,854**	51
Other payables	**1,049**	765
	12,028	8,913

The ageing analysis of accounts payable as at 30 June 2012 and 31 December 2011 is as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Within 3 months	**464**	1,238
Between 3 to 6 months	**269**	289
Over 6 months	**643**	193
	1,376	1,720

Notes to the Interim Financial Information

20 BORROWINGS

	30 June 2012 HK$'million	31 December 2011 HK$'million
Short-term borrowings-unsecured	**4,947**	2,408
Current portion of long-term borrowings	**584**	203
	5,531	2,611
Long-term borrowings-unsecured	**22,826**	25,167
Less: Current portion of long-term borrowings	**(584)**	(203)
	22,242	24,964
	27,773	27,575

The movements in the borrowings can be analysed as follows:

	For the six months ended 30 June 2012 HK$'million	2011 HK$'million (restated) (Note 24)
Balance as at 31 December 2011/2010	**27,575**	16,934
Business combinations under common control (Note 24)	**–**	23
Balance as at 1 January	**27,575**	16,957
Currency translation differences	**(208)**	609
Increase in borrowings	**2,299**	12,234
Repayments of borrowings	**(1,893)**	(4,911)
Balance as at 30 June	**27,773**	24,889

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

	30 June 2012 HK$'million	31 December 2011 HK$'million
Carrying amounts	**22,826**	25,167
Fair values	**22,071**	24,977

Notes to the Interim Financial Information

20 BORROWINGS (CONTINUED)

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 1.66% to 6.90% per annum as of 30 June 2012 (31 December 2011: 1.70% to 7.50% per annum) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair values.

The borrowings can be analysed as follows:

	Short-term borrowings		Long-term borrowings	
	30 June 2012 HK$'million	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million
Bank loans				
– wholly repayable within five years	**554**	310	**95**	46
– Not wholly repayable within five years	**–**	–	**53**	–
Loans other than bank loans				
– Wholly repayable within five years	**4,393**	2,098	**22,656**	25,063
– Not wholly repayable within five years	**–**	–	**22**	58
	4,947	2,408	**22,826**	25,167

As at 30 June 2012 and 31 December 2011, the Group's short-term borrowings are repayable within one year and the Group's long-term borrowings are repayable as follows:

	Bank loans		Loans other than bank loans	
	30 June 2012 HK$'million	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million
Within one year	**5**	3	**579**	200
Between one to two years	**21**	4	**12,775**	3,267
Between two to five years	**69**	39	**9,302**	21,596
After five years	**53**	–	**22**	58
	148	46	**22,678**	25,121

As at 30 June 2012 and 31 December 2011, the loans other than bank loans were borrowings from immediate holding company, an intermediate holding company, fellow subsidiaries and CP Finance, unsecured and bore interest ranging from 1.85% to 8.00% per annum.

Notes to the Interim Financial Information

21 SEGMENT INFORMATION

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

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

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

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

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.

Notes to the Interim Financial Information

21 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2012 and 2011 are as follows:

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million	LNG Processing and Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the six months ended 30 June 2012									
Revenue from external customers	2,133	1,025	3,158	5,226	1,229	5,992	12,447	–	15,605
Segment results	860	342	1,202	731	203	3,027	3,961	44	5,207
Share of profits less losses of:									
– Associates	–	1,327	1,327	98	–	–	98	–	1,425
– Jointly controlled entities	–	205	205	–	–	–	–	4	209
Profit before income tax expense	860	1,874	2,734	829	203	3,027	4,059	48	6,841
Income tax expense									(1,639)
Profit for the period									5,202
Segment results included:									
Interest income	15	4	19	36	2	17	55	9	83
Depreciation, depletion and amortisation	(286)	(139)	(425)	(263)	(356)	(1,364)	(1,983)	(1)	(2,409)
Interest expenses	–	(28)	(28)	(60)	(109)	(230)	(399)	32	(395)
As at 30 June 2012									
Non-current assets	2,987	1,186	4,173	8,175	19,003	29,157	56,335	967	61,475
Current assets	2,863	2,710	5,573	9,287	2,373	1,836	13,496	9,240	28,309
Segment assets	5,850	3,896	9,746	17,462	21,376	30,993	69,831	10,207	89,784
Investments in associates	–	3,993	3,993	1,515	5	–	1,520	–	5,513
Investments in jointly controlled entities	–	1,086	1,086	234	–	–	234	417	1,737
Sub-total	5,850	8,975	14,825	19,211	21,381	30,993	71,585	10,624	97,034
Available-for-sale financial assets									91
Deferred tax assets									172
Total assets									97,297

Notes to the Interim Financial Information

21 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 24)	LNG Processing and Terminal HK$'million	Natural Gas Pipeline HK$'million (restated) (Note 24)	Sub-total HK$'million (restated) (Note 24)	HK$'million	Total HK$'million (restated) (Note 24)
For the six months ended 30 June 2011									
Revenue from external customers	2,020	925	2,945	3,983	118	4,760	8,861	–	11,806
Segment results	878	144	1,022	469	(11)	2,145	2,603	14	3,639
Share of profits less losses of:									
– Associates	–	1,136	1,136	88	–	–	88	–	1,224
– Jointly controlled entities	–	160	160	–	–	–	–	2	162
Profit before income tax expense	878	1,440	2,318	557	(11)	2,145	2,691	16	5,025
Income tax expense									(1,181)
Profit for the period									3,844
Segment results included:									
Interest income	4	2	6	31	3	10	44	–	50
Depreciation, depletion and amortisation	(200)	(202)	(402)	(176)	(10)	(1,243)	(1,429)	(1)	(1,832)
Interest expenses	–	–	–	(2)	–	(282)	(284)	–	(284)

Notes to the Interim Financial Information

21 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 24)	LNG Processing and Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million (restated) (Note 24)	HK$'million	Total HK$'million (restated) (Note 24)
As at 31 December 2011									
Non-current assets	3,106	1,258	4,364	6,248	19,241	28,762	54,251	833	59,448
Current assets	3,006	1,612	4,618	7,005	2,358	1,251	10,614	1,379	16,611
Segment assets	6,112	2,870	8,982	13,253	21,599	30,013	64,865	2,212	76,059
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	14,909	21,605	30,013	66,527	2,630	83,949
Available-for-sale financial assets									133
Deferred tax assets									125
Total assets									84,207

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

For the six months ended 30 June 2012, revenue of approximately HK$7,138 million (Six months ended 30 June 2011 restated: HK$4,588 million) are derived from two single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

Notes to the Interim Financial Information

22 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 30 June 2012 and 31 December 2011 under non-cancellable operating leases are as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Not later than 1 year	**80**	51
Later than 1 year and not later than 5 years	**194**	143
More than 5 years	**152**	99
	426	293

(b) Capital commitments

	30 June 2012 HK$'million	31 December 2011 HK$'million
Contracted but not provided for:		
Oil field development costs	**–**	492
Acquisitions of/capital contributions to investments	**1**	211
Other property, plant and equipment	**5,318**	5,599
	5,319	6,302
Authorised but not contracted for:		
Oil field development costs	**786**	1,173
Acquisitions of/capital contributions to investments	**2,744**	3,530
Other property, plant and equipment	**12,529**	17,167
	16,059	21,870

Notes to the Interim Financial Information

23 RELATED PARTY TRANSACTIONS

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include CNPC and its subsidiaries (together, the "CNPC Group"), other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over the enterprises which the Group is able to control, 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 interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the period and balances arising from related party transactions at the end of the period indicated below:

(a) Transactions with CNPC Group, 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 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 the three years ending 31 December 2014.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$1,234 million (Six months ended 30 June 2011 restated: HK$4,006 million (Note 24)) for the six months ended 30 June 2012.
- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$2,133 million (Six months ended 30 June 2011: HK$2,020 million) for the six months ended 30 June 2012.
- Rental payments by the Group for leasing of certain offices and warehouses in Hong Kong and the PRC from the CNPC Group amounted to approximately HK$5 million (Six months ended 30 June 2011: HK$1 million) for the six months ended 30 June 2012.
- 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$2,945 million (Six months ended 30 June 2011 restated: HK$1,995 million (Note 24)) for the six months ended 30 June 2012.
- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$2,821 million (Six months ended 30 June 2011 restated: HK$1,785 million (Note 24)) for the six months ended 30 June 2012.

Notes to the Interim Financial Information

23 RELATED PARTY TRANSACTIONS (CONTINUED)

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

The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

(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$569 million for the six months ended 30 June 2012 (Six months ended 30 June 2011 restated: HK$479 million (Note 24)). Information on loans from related parties is included in Note 20.

(iii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to HK$100 million for the six months ended 30 June 2012 (Six months ended 30 June 2011: HK$79 million).

(iv) As at 30 June 2012 and 31 December 2011, amounts due from and to CNPC Group, associates and jointly controlled entities of the Group, which are unsecured and interest free, included in the following accounts captions are summarised as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million (restated) (Note 24)
Intangibles and other non-current assets	**481**	183
Accounts receivable	**330**	224
Accounts payable and accrued liabilities	**2,465**	861
Borrowings	**27,069**	27,219

(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 Natural Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interest in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK$2,364 million (Six months ended 30 June 2011 restated: HK$1,996 million) for the six months ended 30 June 2012. 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.

Notes to the Interim Financial Information

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	For the six months ended 30 June	
	2012	2011
	HK$'million	HK$'million
Salaries and allowances	**5**	5
Retirement benefits-defined contribution scheme	**1**	1
Share-based payments	**28**	30
	34	36

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

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

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

Notes to the Interim Financial Information

24 ACQUISITIONS

(a) Business combinations under common control

(i) 2012 business combination under common control

It represented the acquisition agreement entered into by the Group to acquire 51% equity interests in Binhai New Energy Co., Ltd. ("2012 Natural Gas Project") for a cash consideration of RMB200 million (approximately HK$263 million). The acquisition of 2012 Natural Gas Project was by means of capital injection and completed on 15 February 2012.

The acquisition is business combination under common control since the Company and 2012 Natural Gas Project is under the common control of CNPC. As a result, the Company has accounted for the acquisition 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 interim financial information has been restated to give effect to the acquisition with all periods presented as if the operations of the Group and 2012 Natural Gas Project have always been combined.

The summarised results of operations for the six months ended 30 June 2011 and the financial position as at 31 December 2011 for the separate entity and on a consolidation basis are set out in note (iii) below.

(ii) 2011 business combinations under common control

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

The presentation of the unaudited consolidated interim condensed statement of comprehensive income for the six months ended 30 June 2011 was revised to bring it in line with the annual financial statements for the year ended 31 December 2011 to reflect the acquisition of Beijing Pipeline. Certain comparative figures have been reclassified or restated to conform with the presentation in the current period, particularly accounting for business combination under common control. The summarised results of operations for the six months ended 30 June 2011 for the separate entity and on a consolidation basis are set out in note (iii) below.

Notes to the Interim Financial Information

24 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

(iii) Summary of results, financial positions and cash flows of operations

The summarised results and cash flows of operations for the six months ended 30 June 2011 and the financial position as at 31 December 2011 for the separate entities and on a consolidation basis are set out below:

	The Group (as previously reported) HK$'million	Beijing Pipeline HK$'million	2012 Natural Gas Project HK$'million	The Group (as restated) HK$'million
Results of operations for the six months ended 30 June 2011				
Revenue	6,759	4,760	287	11,806
Other gains, net	64	13	–	77
Interest income	40	10	–	50
Purchases, services and others	(3,272)	(746)	(260)	(4,278)
Employee compensation costs	(464)	(86)	–	(550)
Exploration expenses, including exploratory dry holes	(129)	–	–	(129)
Depreciation, depletion and amortisation	(588)	(1,244)	–	(1,832)
Selling, general and administrative expenses	(540)	(121)	(6)	(667)
Taxes other than income taxes	(396)	(157)	(1)	(554)
Interest expenses	–	(282)	(2)	(284)
Share of profits less losses of:				
– Associates	1,224	–	–	1,224
– Jointly controlled entities	162	–	–	162
Profit before income tax expense	2,860	2,147	18	5,025
Income tax expense	(663)	(515)	(3)	(1,181)
Profit for the period	2,197	1,632	15	3,844
Earnings per share for profit attributable to owners of the Company (note)				
– Basic (HK cents)	33.33	3.63	–	36.96
– Diluted (HK cents)	32.74	3.76	–	36.50

Notes to the Interim Financial Information

24 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

(iii) Summary of results, financial positions and cash flows of operations (Continued)

	The Group (as previously reported) HK$'million	Beijing Pipeline HK$'million	2012 Natural Gas Project HK$'million	The Group (as restated) HK$'million
Financial position as at 31 December 2011				
Non-current assets				
Property, plant and equipment	56,613	–	64	56,677
Other non-current assets	10,908	–	11	10,919
	67,521	–	75	67,596
Current assets	16,548	–	63	16,611
Total assets	84,069	–	138	84,207
Current liabilities				
Accounts payable and accrued liabilities	8,853	–	60	8,913
Other current liabilities	3,656	–	3	3,659
	12,509	–	63	12,572
Non-current liabilities	25,973	–	4	25,977
Total liabilities	38,482	–	67	38,549
Net assets	45,587	–	71	45,658
Cash flows for the period ended 30 June 2011				
Net cash generated from/(used in) operating activities	1,395	2,688	(9)	4,074
Net cash used in investing activities	(3,181)	(2,275)	(1)	(5,457)
Net cash generated from/(used in) financing activities	6,760	(1,116)	(7)	5,637
Increase/(decrease) in cash and cash equivalents	4,974	(703)	(17)	4,254

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$2,642 million and weighted average number of ordinary shares in issue during the six months ended 30 June 2011 plus the consideration shares issued on 23 December 2011 as part of the acquisition of Beijing Pipeline of approximately 2,194 million shares.

(b) Acquisitions of subsidiaries

During the six months ended 30 June 2012, the Group made several acquisitions of subsidiaries from third parties at considerations totaling HK$21 million. No goodwill is recognised as the aggregated consideration is approximately the aggregated fair value of the Group's share of net identifiable assets of the acquired subsidiaries.