KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

Annual Report **2012**

Content

Corporate Information

BOARD OF DIRECTORS

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

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

COMPANY SECRETARY
Mr Lau Hak Woon

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

AUDITOR
PricewaterhouseCoopers

BANKERS
Bank of China (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
HSBC Securities Services (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
Clarendon House
Church Street,
Hamilton HM11, Bermuda

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

PRINCIPAL REGISTRARS
HSBC Securities Services (Bermuda) Limited
6 Front Street,
Hamilton HM11, Bermuda

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

BUSINESS REVIEW

I am pleased to report the full year results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") to the shareholders on behalf of the Board. For the year ended 31 December 2012 (the "Year"), the revenue of the Group amounted to HK$32,953 million and profit attributable to owners of the Company for the Year was HK$6,518 million, representing an increase of HK$7,038 million and HK$897 million or 27.16% and 15.96% respectively compared with the restated revenue and profit attributable to owners of the Company for the corresponding period last year. International crude oil prices showed an upward trend after initial decline, and remained high in general during the Year. In addition, the natural gas business had a substantial growth, which contributed to the Group's revenue and profit.

I. Exploration and Production

For the Year, revenue of HK$6,076 million was derived from the exploration and production business, a decrease of HK$113 million or 1.83% compared with the corresponding period last year, accounting for 18.44 % of the Group's total revenue. The production of the Group's eight oil fields remained stable with sales volume of crude oil reaching 17.57 million barrels, representing an increase of 0.51 million barrels or 2.97% compared with the corresponding period last year. The Group's average realised crude oil selling price was US$98.75 per barrel for the Year, representing a decrease of US$1.41 or 1.41% compared with the corresponding period last year.

II. Natural Gas Pipeline

For the Year, natural gas pipeline business has further expanded. The volume of natural gas transmission was 23,833 million cubic metres, representing an increase of 3,047 million cubic metres or 14.66% compared with the corresponding period last year. The volume transmitted by PetroChina Beijing Gas Pipeline Co., Ltd was 23,295 million cubic metres and the volume of other natural gas pipelines was 538 million cubic metres. Phase 1 of the coke oven gas integrated utilisation project in Wuhai, the pipeline construction project for the natural gas transmission invested by the Group, was completed. Wuyin line, the longest hydrogen-rich coke oven gas transmission pipelines in the world, was in operation; and the commencement of Wuyin line not only makes an important contribution to energy saving and emission reduction, it also brings good investment return to the Group.

III. LNG Terminal

During the Year, Jiangsu LNG terminal and Dalian LNG terminal of the Group unloaded 39 barges of LNG, amounting to an aggregate of 3.85 million tonnes. The two LNG terminals are the important supporting facilities for receiving stable source of gas supply by the parent company and will contribute stable income to the Group and secure the source of gas supply.

IV. LNG Processing Plant

During the Year, the Group expedited the development of LNG resources and commenced the construction of 14 LNG processing plants and acquired one LNG processing plant, of which the Guangan LNG processing plant (processing capacity of 1 million cubic metres/day) in Sichuan, and the Ansai LNG processing plant (processing capacity of 2 million cubic metres/day) in Shaanxi, have commenced operation. Currently, there are 7 LNG processing plants in operation with total production capacity of 4.53 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 was 4,818 million cubic metres for the Year, representing an increase of 990 million cubic metres or 25.85% (restated) compared with the corresponding period last year. Revenue derived from natural gas sales was HK$13,551 million, an increase of HK$4,364 million or 47.50% (restated) compared with the corresponding period last year, accounting for 41.12% of the Group's total revenue. Profit before income tax was HK$1,956 million, representing an increase of HK$564 million or 40.52% (restated) compared with the corresponding period last year, and the sales volume of natural gas achieved rapid growth.

During the Year, the Group made further effort in market expansion and continued to develop the LNG business as priority by implementing the "Gas in Substitution of Oil" strategy, accelerating the promotion of the utilisation of LNG as fuel energy for urban public transport, long-distance passenger transportation, heavy duty trucks, vessels and oilfield drilling rigs. Over 28,000 LNG vehicles were developed and supported with the construction of 227 LNG stations during the Year. In particular, the LNG collaborative projects for public transport conducted in Beijing, Chongqing, Haikou and Baoding 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 utilisation for vessels in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Dongting Lake and Weishan Lake; 21 LNG vessels were developed; and the trial voyage of the first diesel-LNG hybrid bulk carrier of 3,000 tons was carried out in Yangtze River. The vessel named Lu Jining Jun 0099 was modified and became the first diesel-LNG hybrid engineering vessel in the country. The application of LNG as fuel energy in oil and gas field drilling operations such as Xinjiang Oilfield, Tarim Oilfield and Changqing Oilfield was promoted; 48 natural gas rigs were developed, with significant breakthrough achieved.

During the Year, the Group established Kunlun Energy (Gansu) Company Limited ("Gansu Company") and Jilin Jigang Clean Energy Company Limited ("Jigang Company") through cooperation and joint ventures with the Yumen Oilfield and Jilin Oilfield owned by the parent company respectively. The number of joint ventures increased to 6, which not only strengthened the win-win cooperation with the parent company, it also further optimised the strategic plans of the Group's principal business.

BUSINESS PROSPECTS

The Group will grasp the tremendous opportunities arising from the ecological civilisation construction, energy saving and emission reduction in the PRC and continue to adhere to the concept of "Low-carbon Economy and Green Development" by focusing on the "Gas in Substitution of Oil" strategy to accelerate the pace of development in natural gas business.

This year, the Group will expedite the development of LNG processing plants such as the Huanggang LNG processing plant (processing capacity of 5 million cubic metres/day) in Hubei and the Taian LNG processing plant (processing capacity of 2.6 million cubic metres/day) in Shandong, as well as focusing on natural gas pipeline construction projects. The Group will constantly improve the infrastructure construction of distribution facilities of natural gas to safeguard the resources for the rapid growth of the Group's natural gas business.

With a view to realise effective linkage between resources and the market, the Group will increase its marketing efforts by taking Beijing, Shanghai, Chongqing and Guangzhou as exemplary cities in public transportation, long-distance passenger and cargo routes of large transport companies as demonstration to substantially promote the development of LNG vehicles. 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 in inland rivers and lakes and further promote the utilisation of LNG as fuel energy for oilfield drilling rigs. The Group will also accelerate the study on the safety of railway transportation of LNG for Golmud-Lhasa line (Golmud, Qinghai – Lhasa, Tibet) to attain early realisation of rail transportation of LNG in container.

The Group will further optimise the "Gas in Substitution of Oil" strategy by opening up the channels in Hexi Corridor through the newly established Gansu Company and complete the overall setting in the Northeast region through the Jigang Company and KunLun Energy (LiaoNing) Company Limited of the Group to achieve the target of nation-wide network across China and set a solid foundation for the development of LNG vessels.

The Group will further leverage on the overall advantages of the parent company and explore the effect of joint venture and cooperation platform; and continue its in-depth cooperation with the enterprises owned by the parent company such as oilfield enterprises, transportation companies and sales enterprises; continue to seek investment opportunities in the field of domestic natural gas business aligning with the business development direction, enhance business scale and effectiveness sustainably; and make contribution to energy saving and emission reduction as well as green development in China; and provide shareholders with satisfactory returns.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK23 cents per share (2011: HK22 cents per share) to Shareholders whose names appear on the Shareholders Register on 28 May 2013 (Tuesday). The payment will be made in June 2013. The proposed final dividend amounts to a total of approximately HK$1,852 million and 2011 dividend of HK$1,766 million was paid in 2012, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 27.53%.

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2013 annual general meeting to be held on 20 May 2013 (the "2013 AGM"), and for determing shareholders entitlement to the final dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2013 AGM:

Latest time to lodge transfer documents for registration	4:00 pm on 14 May 2013 (Tuesday)
Closure of shareholders register	from 15 May 2013 (Wednesday) to 16 May 2013 (Thursday) (both dates inclusive)
Record date	20 May 2013 (Monday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 pm on 24 May 2013 (Friday)
Closure of shareholders register	from 27 May 2013 (Monday) to 28 May 2013 (Tuesday) (both dates inclusive)
Record date	28 May 2013 (Tuesday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2013 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 26 Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2013 AGM will be held on 20 May 2013 (Monday). The Notice of the 2013 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2012 Annual Report. The Notice of the 2013 AGM and the proxy form will also be available on the Company's website.

By the Order of the Board

Li Hualin
Chairman

Hong Kong, 21 March 2013

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment through business development and acquisitions for the year ended 31 December 2012 (the "Year"). During the Year, 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. The Company also established Kunlun Energy (Gansu) Company Limited ("Gansu Company") and Jilin Jigang Clean Energy Company Limited ("Jigang Company") with Yumen Oilfield and Jinlin Oilfield respectively. Comparative financial information in this Annual Report has been restated to reflect the effect of merging Binhai New Energy with the Group. Details of which are set out in Note 38(a) to the Consolidated Financial Statements.

OPERATING RESULTS

The financial results of the Group for the Year were benefited from the expansion of natural gas business. Profit before income tax expense of the Group for the Year was approximately HK$13,306 million, representing an increase of 26.88% as compared with restated amount of HK$10,487 million for the last year. Profit attributable to owners of the Company for the Year was approximately HK$6,518 million representing an increase of 15.96% as compared with restated amount of HK$5,621 million for the last year.

Revenue

Revenue for the Year was approximately HK$32,953 million, representing an increase of 27.16% as compared with restated amount of HK$25,915 million for the last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 18.44% of the Group's total revenue amounting to approximately HK$6,076 million while revenue from the Natural Gas Distribution business segment accounted for 81.56% of the Group's total revenue amounting to approximately HK$26,877 million.

The table below sets out the sales volume and revenue for major segments of the Group for the Year 2012 and 2011, and percentages of change during these two years.

	Sales volume For the year ended 31 December			Revenue For the year ended 31 December		
	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")	**5,621**	5,781	(2.77)	**4,000**	4,267	(6.26)
South America (note)	**606**	555	9.19	**1,048**	947	10.67
Central Asia	**681**	738	(7.72)	**541**	587	(7.84)
South East Asia	**597**	494	20.85	**487**	388	25.52
	7,505	7,568	(0.83)	**6,076**	6,189	(1.83)
Share of associates in Central Asia	**6,773**	6,696	1.15	**–**	–	N/A
Share of a jointly controlled entity in Middle East	**3,288**	2,796	17.60	**–**	–	N/A
Total of Exploration and Production	**17,566**	17,060	2.97	**6,076**	6,189	(1.83)

	Sales/processing volume For the year ended 31 December			Revenue For the year ended 31 December		
	2012	2011	Change	**2012**	2011	Change
	('000 cubic metre)	('000 cubic metre)	%	**HK$'million**	HK$'million	%
Natural Gas Distribution business						
Natural Gas Sales, as previously reported	**4,582,631**	3,627,821	26.32	**12,734**	8,116	56.90
Effect of business combination under common controls	**N/A**	101,135	N/A	**N/A**	517	N/A
Natural Gas Sales, as restated	**4,582,631**	3,728,956	22.89	**12,734**	8,633	47.50
LNG Processing	**235,530**	99,630	136.40	**817**	554	47.47
Sub-total	**4,818,161**	3,828,586	25.85	**13,551**	9,187	47.50
LNG Terminal	**5,078,257**	1,638,391	209.95	**1,916**	602	218.27
Natural Gas Pipeline	**23,833,181**	20,786,050	14.66	**11,410**	9,937	14.82
Total of Natural Gas Distribution	**33,729,599**	26,253,027	28.48	**26,877**	19,726	36.25
				32,953	25,915	27.16

Note:

Only the Group 50% share of sale volume from South America is stated while its revenue is shown as 100% per consolidation requirement.

Other Gains, Net

Other gains, net for the Year was approximately HK$361 million, representing an increase of 107.47% as compared with restated amount of HK$174 million for last year. The increase was mainly due to the increase of the subsidy from the government.

Interest Income

Interest income for the Year was approximately HK$172 million, representing a decrease of 3.37% as compared with restated amount of HK$178 million for the last year. The decrease was mainly due to a decrease in bank deposit of some projects during the Year.

Purchases, Services and Others

Purchases, services and others were approximately HK$12,912 million for the Year, representing an increase of 38.73% as compared with restated amount of HK$9,307 million for the last year. This was mainly due to the 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$1,684 million for the Year, representing an increase of 11.89% as compared with amount of HK$1,505 million for the last year. This increase was mainly due to the expansion of the Group's natural gas business.

Exploration Costs

Exploration costs for the Year was approximately HK$42 million, representing a decrease of 83.00% as compared with amount of HK$247 million for the last year. This was mainly due to the termination of the project Continental Geopetro (Bengara II) Ltd (the "CGB2").

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$4,434 million, representing an increase of 8.41% as compared with restated amount of HK$4,090 million for last year. This was mainly due to the combined effect of addition of property, plant and equipment during the Year following the business expansion and revision of the estimate useful lives of the Group's certain pipelines with effect from 1 July 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Year was approximately HK$2,165 million, representing an increase of 34.72% as compared with restated amount of HK$1,607 million for the last year. This was mainly due to a robust expansion of the Group's natural gas business.

Taxes other than Income Taxes

Taxes other than income taxes for the Year was approximately HK$923 million, representing a decrease of 22.76% as compared with restated amount of HK$1,195 million for the last year. It was mainly due to less payment of the special levy on the sales of domestic crude oil in China by the Group as the decrease both in sales volume and the average crude oil price throughout the Year.

Interest Expenses

Interest expenses for the Year was approximately HK$661 million, representing an increase of 63.21% as compared with restated amount of HK$405 million for the last year. The increase was mainly due to the increase in borrowing during the Year.

Share of Profits less Losses of Associates

Share of profits less losses of associates for the Year was approximately HK$2,334 million, representing an increase of 3.50% as compared with amount of HK$2,255 million for the last year, it was mainly attributable to CNPC – Aktobemunaigas Joint Stock Company.

Share of Profits less Losses of jointly controlled entities

Share of profits less losses of jointly controlled entities for the Year was approximately HK$307 million representing a decrease of 4.66% as compared with amount of HK$322 million for the last year, it was mainly due to the decrease of crude oil sales price in Oman project.

Profit before Income Tax Expense

Profit before income tax expense for the Year was approximately HK$13,306 million, representing an increase of 26.88% as compared with restated amount of HK$10,487 million for the last year.

The table below sets out the profit before income tax expense for major segments of the Group for the Year 2012 and 2011, and percentages of change during these two years.

	Profit before income tax expense For the year ended 31 December		
	2012 HK$'million	2011 HK$'million	Change %
Exploration and Production			
PRC	**1,465**	1,799	(18.57)
South America	**528**	498	6.02
Central Asia	**(124)**	(103)	(20.39)
South East Asia	**316**	(129)	344.96
	2,185	2,065	5.81
Share of associates in Central Asia	**2,096**	2,067	1.40
Share of a jointly controlled entity in Middle East	**307**	346	(11.27)
Total of Exploration and Production	**4,588**	4,478	2.46
Natural Gas Distribution			
Natural Gas Sales, as previously reported	**1,963**	1,331	47.48
Effect of business combination under common controls	**N/A**	37	N/A
Natural Gas Sales, as restated	**1,963**	1,368	43.49
LNG Processing	**(7)**	24	(129.17)
Sub-total	**1,956**	1,392	40.52
LNG Terminal	**572**	234	144.44
Natural Gas Pipeline	**6,088**	4,335	40.44
Total of Natural Gas Distribution	**8,616**	5,961	44.54
	13,204	10,439	26.49

Income Tax Expense

Income tax expense for the Year was approximately HK$3,392 million, representing an increase of 48.06% as compared with restated amount of HK$2,291 million for the last year.

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

The profit of the Group for the Year were approximately HK$9,914 million, representing an increase of 20.96% as compared with restated amount of HK$8,196 million for the last year. The profit attributable to owners of the Company for the Year 2012 was approximately HK$6,518 million, representing an increase of 15.96% as compared with restated amount of HK$5,621 million for the last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the carrying value of total assets of the Group is approximately HK$108,542 million, representing an increase of HK$24,335 million or 28.90% as compared with 31 December 2011 restated amount of HK$84,207 million.

The gearing ratio of the Group was 33.75% as at 31 December 2012 compared with 37.65% (restated) as at 31 December 2011. It is computed by dividing the total borrowings of HK$31,673 million (2011: HK$27,575 million (restated)) by the total equity plus borrowings of HK$93,851 million (2011: HK$73,233 million (restated)).

Profit before income tax expense, excluding interest income and expense, depreciation, depletion and amortisation ("EBITDA") for the Year was approximately HK$18,229 million, representing an increase of 23.14% as compared with restated amount of HK$14,804 million for the last year.

The Group paid interest of HK$1,418 million (2011: HK$1,463 million (restated)) during the Year.

The Group received dividends of HK$3,113 million (2011: HK$2,128 million (restated)) from associates during the Year.

During the Year, the Company issued 80 million new shares (2011: 23 million new shares) for exercise of share options and received subscription amount of HK$346 million (2011: HK$96 million). In April 2012, the Company issued 800 million shares at HK$13.10 per share to the public and received subscription amount of HK$10,259 million, net of direct transaction costs of HK$221 million.

USE OF PROCEEDS

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 Year.

During the Year, the Group raised new borrowings of HK$8,213 million (2011: HK$17,565 million (restated)) and repaid HK$4,512 million (2011: HK$7,895 million (restated)) to financial institutions and related parties resulting a net increase in borrowings of HK$3,701 million (2011: HK$9,670 million (restated)) as at 31 December 2012.

PLEDGED OF ASSETS

As at 31 December 2012 and 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 Year, 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 Company and Jigang Company with Yumen Oilfield and Jinlin Oilfield respectively.

TERMINATION OF PROJECT

The Company owns 70% issued share capital of CGB2 which owns an undivided 100% participating interest in the contract rights and interests in the Bengara-II Production Sharing Contract ("Bengara-II PSC") which has a term of thirty years in Indonesia.

Under the Bengara-II PSC, the exploration phase expired on 30 November 2011. The Company and CGB2 had since April 2011 been actively negotiating with BPMIGAS (a state oil and gas regulatory body established under the Directorate General of Oil and Natural Gas of The Ministry of Mines and Energy of the Republic of Indonesia) for a further extension of the exploration phase for two years.

Despite the continuous efforts of the Company and CGB2 in negotiating with BPMIGAS for further extension, on 24 August 2012, BPMIGAS issued a letter to CGB2 stating that the Bengara-II PSC was expired as from 30 November 2011. No reason was specified in the said letter.

The Company has sought the opinion of its Indonesian counsel regarding the expiry of the Bengara-II PSC and was advised that under the applicable Indonesia laws and the Bengara-II PSC, BPMIGAS has no obligation to grant another extension other than the four-year extension period immediately after the initial six years of the exploration phase. In view of the opinion of the Indonesian counsel, the Company has decided not to pursue further application/request for extension of the term of the Bengara-II PSC.

A total expenses of HK$55 million for the Year was absorbed for the project.

EMPLOYEE

On 31 December 2012, the Group had approximately 17,475 staff globally (excluding the staff under entrustment contracts) (2011: 14,239 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.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK23 cents (2011: HK22 cents) per share. The proposed dividend will be paid in June 2013 to the shareholders whose names appear on the Register on 28 May 2013 (Tuesday), subject to the approval at the Annual General Meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the "Model Code" throughout the year ended 31 December 2012.

By the Order of the Board

Zhang Bowen
President & Executive Director

Hong Kong, 21 March 2013

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2012 (the "Year") of Kunlun Energy Company Limited (the "Company").

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

The Company's corporate governance practices are based on the principles (the "Principles"), code provisions (the "Code Provisions") and certain recommended best practices (the "Recommended Best Practices") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") (and the new Code Provisions and Recommended Best Practices since 1 April 2012 when amendments to the CG Code became effective).

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

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

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

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

THE BOARD

Responsibilities

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

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

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

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

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

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

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

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

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

Composition

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

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

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

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

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

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

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

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

Appointment and Re-election of Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Each Non-executive Director has entered into a formal letter of appointment with the Company for a specific term of three years, subject to the retirement and re-election in accordance with the Bye-laws of the Company.

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

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

In accordance with the Company's Bye-laws, Mr Zhang Bowen and Dr Liu Xiao Feng will retire by rotation and being eligible to offer themselves for re-election at the 2013 AGM.

Dr Liu Xiao Feng ("Dr Liu") has been appointed as an Independent Non-executive Director for nine years. The Company has received from Dr Liu a confirmation of independence according to Rule 3.13 of the Listing Rules. Dr Liu has not engaged in any executive management of the Company and its subsidiaries (the "Group"). Taking into consideration of his independent scope of work in the past years, the Board considers Dr Liu to be independent under the Listing Rules despite the fact that he has served the Company for nine years. The Board believes that Dr Liu's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the presence of Dr Liu who has over time gained valuable insight into the Group.

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

A circular containing detailed information of the director standing for re-election at the 2013 AGM would be sent to the shareholders.

Training for Directors

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

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

During the Year, the directors have attended various in-house briefings and internal or external seminars/trainings, and have read internal or external newsletters, updates and other reading materials covering topics such as business of the Company, corporate governance, industry knowledge, regulatory updates, finance and management.

Board Meetings

Number of Meetings and Directors' Attendance

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the Year, seven Board meetings, two Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held.

The attendance record of each director at the meetings of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee during the Year is set out below:

	Attendance/Number of Meetings			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Director:				
Mr Li Hualin *(Chairman)*	7/7	–	–	1/1
Mr Zhang Bowen *(President)*	7/7	–	–	–
Mr Cheng Cheng *(Senior Vice President)*	7/7	–	–	–
Independent Non-Executive Director:				
Dr Lau Wah Sum	7/7	2/2	2/2	1/1
Mr Li Kwok Sing Aubrey	7/7	2/2	2/2	1/1
Dr Liu Xiao Feng	7/7	2/2	2/2	1/1

Practices and Conduct of Meetings

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

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

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

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Minutes are prepared after each meeting and the final version is signed by the Chairman or the chairman of the relevant board committees (as the case may be) and confirmed by the Board in the following Board Meeting or by the relevant committee in the following committee meeting (as the case may be). The confirmed minutes are kept for future reference and directors' inspection.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

The positions of the Chairman and Chief Executive Officer of the Company are during the Year held by Mr Li Hualin and Mr Jiang Changliang. There is no relationship between the Chairman and Chief Executive Officer.

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

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

The main duties of the Audit Committee include the following:

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

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

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

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

The Company's annual results for the Year has been reviewed by the Audit Committee.

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

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee held two meetings during the Year to review the remuneration policy and structure of the Company and review and make recommendation of the remuneration packages of the Executive Directors and the senior management for the Year to the Board. An independent consultant on executive compensation was appointed to carry out review of the Company's executive compensation in March 2012.

The remuneration paid to the senior management, by band for the Year is set out as below:

Senior Management emolument

	2012
HK$5,500,001 – HK$6,000,000	1
HK$6,000,001 – HK$6,500,000	–
HK$6,500,001 – HK$7,000,000	1
HK$7,000,001 – HK$7,500,000	–
HK$7,500,001 – HK$8,000,000	2
HK$9,000,001 – HK$9,500,000	1
	5

NOMINATION COMMITTEE

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

The main duties of the Nomination Committee include the following:

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

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

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

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

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

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

In performing its duties, due regards would be given to the Listing Rules and the associated guidance.

The Nomination Committee held one meeting during the Year to review the Terms of Reference of Nomination Committee.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance functions as required under the CG Code:

– to develop and review the Company's policies and practices on corporate governance;

– to review and monitor the training and continuous professional development of directors and senior management;

– to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and

– to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Year, the Board considered the following corporate governance matters:

– adoption of corporate governance functions under the CG Code;

– establishment of the Nomination Committee;

– review the usage of annual caps on continuing connected transactions of the Group;

– review the compliance with the CG Code; and

– review of the effectiveness of the internal controls and risk management systems of the Company through the internal audit department and the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

Code provision A.6.4 stipulates that directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules and, in addition, the Board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

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

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

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

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

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the Year.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 36 and 37.

The remuneration to the independent auditor of the Company in respect of audit services and non-audit services for the Year amounted to approximately HK$15 million and approximately HK$1 million (2011: HK$14 million and HK$1 million) respectively. The said non-audit services related to the interim review, the tax compliance services and the internal control review of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(1) General Meeting

Under the Listing Rules, any vote of shareholders at a general meeting will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Details of the poll procedures are included in all notices/circulars to shareholders and will be explained during the proceedings of meetings.

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

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

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

During the Year, one general meeting was held on 16 May 2012, which is the 2012 annual general meeting. The attendance records of the Directors to the 2012 annual general meeting are set out below:-

Directors	**Attendance**
Executive Directors	
Mr Li Hualin	1/1
Mr Zhang Bowen	1/1
Mr Cheng Cheng	1/1
Independent Non-executive Directors	
Dr Lau Wah Sum	1/1
Mr Li Kwok Sing Aubrey	1/1
Dr Liu Xiao Feng	1/1

(2) Rights of Shareholders to Convene Special General Meeting

A special general meeting shall be convened on the written requisition of shareholder(s) holding at the date of the deposit of the registration not less than one-tenth of the paid-up capital of the Company which as at the date of the deposit carries the voting right at general meetings of the Company deposited at the registered office of the Company in Bermuda (Clarendon House, Church Street, Hamilton HM11, Bermuda) and the principal place of business of the Company in Hong Kong (39/F, 118 Connaught Road West, Hong Kong) for the attention of the Board.

The written requisition shall specify the objects of the special general meeting and signed by the requistionist(s). If the Board does not, within 21 days from the date of deposit of the written requisition, proceed duly to convene the special general meeting the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them, may convene the special general meeting in the same manner, as nearly as possible, as that in which special general meeting may be convened by the Board, provided that any special general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(3) Shareholders' Communication

Corporation communications such as interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides the shareholders with the corporate information, such as principal business activities and latest development of the Group, as well as the share price and dividend history of the Company. Also, it provides information on corporate governance and corporate social responsibilities of the Group as well as the compositions and functions of the Board and the committees. For efficient communication with shareholders and in the interest of environmental protection, arrangements were made to allow shareholders to elect to receive corporate communications of the Company by electronic means through the Company's website.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means.

(4) Investor Relations

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

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

INTERNAL CONTROLS

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

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

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

The Board of Directors (the "Board") is pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2012 (the "Year").

BUSINESS STRATEGY

As is known to all, the climate change caused by greenhouse gases is largely attributed to the use of power fuels dominated by gasoline and diesel oil. Among this, the proportion of gasoline and diesel oil consumption in the transportation field has gone up year by year, and this has gradually become the main factor for the continuous rise of total carbon emission and the urban air pollution.

Kunlun Energy Company Limited's (the "Company") business strategy is to reduce the emission of greenhouse gases while providing reasonable returns to shareholders. The Company has been seeking a path to realise its own value by seeking the balance between ensuring economic developments and reducing carbon emission. Therefore, the Company has begun the strategic transformation with "Low-Carbon Economy Green Development" as its mission since 2009. The Company has been mainly engaged in developing the LNG "Gas in Substitution of Oil" business and promoting the application of LNG fuels on highway transportation vehicles, vessels, and drilling rigs. The Company believes its choice is of great significance to structural adjustment in energy development, energy conservation and emission reduction, and countermeasures to climate change in the country.

Through strict purification, LNG has more pure components, thus featuring lower emission of pollutants and more remarkable advantages in energy conservation and emission reduction as compared with conventional fuels, such as gasoline and diesel oil.

In order to achieve the objective, the Company planned to construct 19 LNG liquefaction plants (7 plants are in operation in 2012) to ensure sufficient LNG available. The corresponding countermeasures to further reduce the emission of greenhouse gases in the LNG production process was also taken.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (together, the "Group") for the Year are set out in the consolidated statement of comprehensive income on page 38.

A final dividend for the year ended 31 December 2011 of HK22 cents per share amounting to approximately HK$1,766 million was paid during the year. The directors recommend the payment of a final dividend of HK23 cents per share for the Year, totalling approximately HK$1,852 million.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 122.

RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on pages 43 and 44, and Note 30 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the Year are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2012 and 2011 were as follows:

	2012 **HK$'million**	2011 HK$'million
Contributed surplus	**134**	134
Retained earnings	**11,172**	8,684
	11,306	8,818

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

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

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

PRE-EMPTIVE RIGHTS

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

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

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

DIRECTORS

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

Executive Directors:
Mr Li Hualin
Mr Zhang Bowen
Mr Cheng Cheng

Independent Non-Executive Directors:
Dr Lau Wah Sum
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

In accordance with Article 97 of the Company's Bye-Laws, Mr Zhang Bowen and Dr Liu Xiao Feng will retire at the 2013 AGM and, being eligible, offer themselves for re-election.

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

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Li Hualin *(Chairman)*
Age 50, after graduated from South West Petroleum University in 1983 with Bachelor's Degree in Oil and Gas Exploration and Prospecting Engineering, Mr Li joined China National Petroleum Corporation ("CNPC") in the same year. He was the Deputy Director of CNPC office at Houston in the U.S.A.; Chairman and General Manager of CNPC Canada Ltd in Canada and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation ("CNODC"). In 2000, Mr Li was awarded the degree of Master of Business Administration from The University of Nebraska. He joined the Company as Executive Vice-Chairman and Managing Director in January 2001 and become the Chief Executive Officer in 2005. Mr Li was re-designated as the Chairman of the Company in January 2007. Mr Li was appointed by PetroChina Company Limited ("PetroChina") as Vice-President in November 2007, Company Secretary and authorised representative in June 2009.

Mr Zhang Bowen *(President)*
Aged 46, joined the Company on 1 January 2007. He holds a Bachelor degree from Xidian University in computer science and a Master degree in petroleum geology from Daqing Petroleum Institute. Since he graduated, Mr Zhang joined CNODC, a subsidiary of CNPC. He has over 10 years of working experience in the oil and gas industry. Immediately before he joined the Company, he was the executive vice president of CNPC America Limited.

Mr Cheng Cheng *(Senior Vice President)*
Aged 45, was appointed as an Executive Director in June 2004. He is currently a Senior Vice President of the Company. Before joining the Company, Mr Cheng has over 15 years industry experience working at various departments and sections of CNPC including 3 years in Canada as Vice President of CNPC International (Canada) Limited. Mr Cheng has a Master of Business Administration from the University of Calgary, Canada, a Master in Energy and Environment Economy from Scuola Superiore Enrico Mattei, Milan Italy and Diploma in Petroleum Technical Economy from Jianghan Institute of Petroleum, the PRC.

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

Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP
Aged 85, is a Fellow of the Chartered Institute of Management Accountants. He was the Chairman of Urban Renewal Authority. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Honorary Court Member of the University of Science and Technology of Hong Kong. He also acts as an honorary advisor to Tian Teck Land Limited and Associated International Hotels Limited in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

Mr Li Kwok Sing Aubrey
Aged 63, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 35 years' experience in merchant banking and commercial banking. He is a non-executive director of The Bank of East Asia, Limited, an independent non-executive director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kowloon Development Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited. He is also a non-executive director of Affin Bank Berhad. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

Dr Liu Xiao Feng
Aged 50, was appointed as an Independent Non-Executive Director of the Company in 2004. He is currently a Managing Director at China Resources Capital Holdings Company Limited. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, JP Morgan, and DBS. He has many years of experience in corporate finance. Dr Liu has a Ph.D and Master degrees from the Faculty of Economics, University of Cambridge and a Bachelor of Economics from Sichuan Institute of Finance and Economics, China. Dr Liu is currently also an independent non-Executive director of Haier Electronics Group Co. Ltd and Honghua Group Limited, both of which are publicly listed companies on the Stock Exchange.

Senior Management

Mr Jiang Changliang *(Chief Executive Officer)*
Aged 47, is a senior engineer having 23 years' experience in the oil and gas field. He majored in medicinal plant studies in the Northwest University of China and graduated in 1988, obtaining a bachelor's degree in engineering. Then he joined the Liaohe Petroleum Exploration Bureau. In 2001, he was awarded a doctorate degree in Science (Ecology) by the Shenyang Institute of Applied Ecology under the China Academy of Sciences. Mr Jiang worked for a number of subsidiaries of the CNPC and PetroChina including the West-East Gas Pipeline Company, the Natural Gas and Pipeline Company and the Pipeline Company previously, and was once the senior executive of Pipeline Company.

Mr Fa Yuxiao *(Senior Vice President)*
Aged 48, is a senior engineer having 27 years' experience in the oil and gas field. He studied earth physics and exploration technologies in the Southwest Petroleum University and was awarded a bachelor's degree in engineering in 1984. After his graduation, he worked for the Research Institute of Petroleum Exploration and Development, the Tarim Petroleum Exploration and Development Headquarters, CNPC and PetroChina. He was once the Deputy Chief Economist under the Human Resources Department of the CNPC and PetroChina.

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

Senior Management (Continued)

Mr Zhong Wenxu *(Senior Vice President)*
Aged 48, is a senior engineer having 25 years' experience in the oil and gas field. He majored in oil drilling engineering in the Southwest Petroleum Institute and was awarded a bachelor's degree in engineering in 1986. After his graduation, he worked for various entities including CNPC Xinjiang Petroleum Administration, CNPC Tarim Oilfield Company and Shenzhen Petroleum Industrial Co., Ltd. In 2005, Mr Zhong graduated from the Oil and Gas Field Development Engineering Specialty of the China University of Petroleum in Beijing, obtaining a master's degree in engineering. After that, he worked as the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation Co., Ltd. as well as the General Manager of 華油天然氣股份有限公司.

Mr Xia Yu *(Assistant Chief Executive Officer)*
Aged 49, is a senior engineer with 28 years' experience in the oil and gas field. He majored in irrigation for agricultural land in the Shandong Water Polytechnic. After he graduated with a bachelor's degree in engineering in 1983, he joined Hubei Petroleum Administration. In 1998, he was awarded a master's degree in business administration by Tianjin University. After that, he worked for a number of companies including China International (Kazakhstan) Company, CNPC Shennan Oil Technology Development Co., Ltd. and Shenzhen Petroleum Industrial Co., Ltd. He was also the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation Co., Ltd.

Mr Lau Hak Woon *(Chief Financial Officer & Company Secretary)*
Aged 60, member of Hong Kong Institute of Certified Public Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 30 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Chief Financial Officer of several large companies in Hong Kong and overseas.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS

As at 31 December 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 Commencement of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or which (c) were required, pursuant to the Model Code under the Listing Rules, to be notified to the Company and the Stock Exchange are set out below.

DIRECTORS' INTERESTS (Continued)

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)	28,600,000	Beneficial owner	0.36%
Zhang Bowen (note)	11,600,000	Beneficial owner	0.14%
Cheng Cheng (note)	5,800,000	Beneficial owner	0.07%
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 executives under the executive share option scheme approved by the Board on 3 June 2002. Details are set out in the section headed "Share Options" of this report.

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

SHARE OPTIONS

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

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

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

				Number of Share Options			
Name	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1 January 2012 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2012 '000
Directors							
Li Hualin	08/01/07	08/04/07 – 07/01/12	4.186	25,000	–	(25,000)	–
	26/05/08	26/08/08 – 25/05/13	4.240	3,200	–	–	3,200
	26/03/09	26/06/09 – 25/03/14	3.250	3,200	–	–	3,200
	26/03/10	26/06/10 – 25/03/15	10.320	3,200	–	–	3,200
	18/03/11	18/06/11 – 17/03/16	11.730	3,200	–	–	3,200
	17/05/12	17/08/12 – 16/05/17	12.632	–	3,200	–	3,200

SHARE OPTIONS (Continued)

Name	Date of grant	Exercise period	Exercise price HK$	Number of Share Options: Outstanding at 1 January 2012 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2012 '000
Zhang Bowen	08/01/07	08/04/07 – 07/01/12	4.186	20,000	–	(20,000)	–
	26/05/08	26/08/08 – 25/05/13	4.240	2,400	–	–	2,400
	26/03/09	26/06/09 – 25/03/14	3.250	2,400	–	–	2,400
	26/03/10	26/06/10 – 25/03/15	10.320	2,400	–	–	2,400
	18/03/11	18/06/11 – 17/03/16	11.730	2,400	–	–	2,400
	17/05/12	17/08/12 – 16/05/17	12.632	–	2,200	–	2,200
Cheng Cheng	08/01/07	08/04/07 – 07/01/12	4.186	10,000	–	(10,000)	–
	26/05/08	26/08/08 – 25/05/13	4.240	1,500	–	–	1,500
	26/03/09	26/06/09 – 25/03/14	3.250	1,500	–	–	1,500
	26/03/10	26/06/10 – 25/03/15	10.320	1,500	–	–	1,500
	18/03/11	18/06/11 – 17/03/16	11.730	1,500	–	–	1,500
	17/05/12	17/08/12 – 16/05/17	12.632	–	2,000	–	2,000
Li Kwok Sing Aubrey	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
Liu Xiao Feng	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
Lau Wah Sum	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	400
				84,600	7,400	(55,000)	37,000
Chief Executive Officer							
Jiang Changliang	17/05/12	17/08/12 – 16/05/17	12.632	–	2,400	–	2,400
Employees	08/01/07	08/04/07 – 07/01/12	4.186	2,000	–	(2,000)	–
	14/09/07	14/12/07 – 13/09/12	4.480	20,000	–	(20,000)	–
	26/05/08	26/08/08 – 25/05/13	4.240	7,000	–	(1,000)	6,000
	26/03/09	26/06/09 – 25/03/14	3.250	7,000	–	(1,000)	6,000
	26/03/10	26/06/10 – 25/03/15	10.320	7,000	–	(1,000)	6,000
	18/03/11	18/06/11 – 17/03/16	11.730	7,000	–	–	7,000
	17/05/12	17/08/12 – 16/05/17	12.632	–	13,000	–	13,000
				50,000	13,000	(25,000)	38,000
				134,600	22,800	(80,000)	77,400

The closing prices of the Company's shares immediately before 17 May 2012, the date of grant of the options, was HK$12.280.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$11.9614.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 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.

Name	Number of Shares Direct Interest	Number of Shares Indirect Interest	Percentage of the total number of Shares in issue
Sun World Limited ("Sun World") [1]	4,708,302,133 (L)	–	58.48%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") [1]	–	4,708,302,133 (L)	58.48%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") [1]	–	4,708,302,133 (L)	58.48%
PetroChina [1]	–	4,708,302,133 (L)	58.48%
CNODC [2]	–	277,432,000 (L)	3.45%
CNPC International Ltd.("CNPCI") [2]	–	277,432,000 (L)	3.45%
Fairy King Investments Ltd. [2]	277,432,000 (L)	–	3.45%
CNPC [1] [2]	–	4,985,734,133 (L)	61.93%

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..

Save as disclosed above, as at 31 December 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 31 December 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 was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in Note 29 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2012 and there had been no other exercise of convertible securities, options, warrants or similar rights during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

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

	Nature of transactions	Details	Amount incurred since acquisition for 2012 HK$' million (Note)	Annual cap for 2012 HK$' million
(i)	Provision of products and services by China National Petroleum Corporation, its subsidiaries and associates (together, the "CNPC Group") to the Group	As disclosed in the Company's announcement dated 14 November 2011	5,683	15,291
(ii)	Purchase of the Group's share of crude oil by the CNPC Group	As disclosed in the Company's announcement dated 14 November 2011	4,000	5,222
(iii)	Rental payments	As disclosed in the Company's announcement dated 14 November 2011	11	20
(iv)	Purchase of oil and gas products from the CNPC Group by the Group	As disclosed in the Company's announcement dated 14 November 2011	6,927	15,498
(v)	Provision of products and services by the Group to the CNPC Group	As disclosed in the Company's announcement dated 14 November 2011	5,849	6,525
(vi)	Pipeline transmission fee for the transmission of natural gas received and receivable from Beijing Enterprises Holding Limited and its subsidiaries	As disclosed in the Company's circular dated 19 February 2011	4,509	N/A

Note:

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

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

CONNECTED TRANSACTIONS (CONTINUED)

In accordance with rule 14A.38 of the Listing Rules, the Board of Directors engaged the independent auditor of the Company to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has issued his unqualified letter containing his following findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 108 of the Annual Report in accordance with Main Board Listing Rule 14A.38.

(i) have received the approval of the Company’s Board of Directors;

(ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreement governing the transactions; and

(iv) have not exceeded the cap disclosed in previous announcement dated 14 November 2011 and circular dated 19 February 2011.

A copy of the auditor’s letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

MANAGEMENT CONTRACTS

The Group has entered into certain entrustment management contracts in relation to the management and operation of the Xinjiang Contract and the Leng Jiapu Contract.

On 21 December 2012, the Company and PetroChina entered into the Entrustment Management Agreement, pursuant to which, the Company has entrusted to PetroChina and PetroChina has agreed to manage certain aspects of the Company’s shareholder rights associated with the Equity Interests and the day-to-day management and operation of the PetroChina Beijing Gas Pipeline Co. Ltd, PetroChina Jiangsu LNG Co., Ltd. and PetroChina Dalian LNG Co., Ltd. for a term of three years commencing from the date of the Entrustment Management Agreement.

MAJOR CUSTOMERS AND SUPPLIERS

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

Percentage of purchases attributable to the Group’s largest supplier	53%
Percentage of purchases attributable to the Group’s five largest suppliers	61%
Percentage of sales attributable to the Group’s largest customer	29%
Percentage of sales attributable to the Group’s five largest customers	49%

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

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

DONATIONS

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

EMOLUMENT POLICY

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING BUSINESS

Save as disclosed below, as at 21 March 2013, none of the directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

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

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

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

No event after the date of the statement of financial position.

AUDITOR

The financial statements for the Year have been audited by Messrs PricewaterhouseCoopers.

According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Counsel, PetroChina, the controlling shareholder of the Company, shall change its auditor if such auditor has served continuously for certain period of time. PetroChina is intended to recommend at its forthcoming annual general meeting the appointment of Messrs KPMG as its international auditor for the year 2013. The Board considers that it would be more efficient and cost effective to appoint Messrs KPMG as the auditor of the Company for the year 2013. Accordingly the Board, with the recommendation of the Audit Committee of the Company recommends at the 2013 AGM the appointment of Messrs KPMG as the auditor of the Company for the year 2013.

On behalf of the Board

Li Hualin
Chairman

Hong Kong, 21 March 2013

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Revenue	6	**32,953**	25,915
Other gains, net	7	**361**	174
Interest income	8	**172**	178
Purchases, services and others		**(12,912)**	(9,307)
Employee compensation costs	9	**(1,684)**	(1,505)
Exploration expenses, including exploratory dry holes		**(42)**	(247)
Depreciation, depletion and amortisation		**(4,434)**	(4,090)
Selling, general and administrative expenses		**(2,165)**	(1,607)
Taxes other than income taxes	10	**(923)**	(1,195)
Other expense		**–**	(1)
Interest expenses	11	**(661)**	(405)
Share of profits less losses of:			
– Associates		**2,334**	2,255
– Jointly controlled entities		**307**	322
Profit before income tax expense	12	**13,306**	10,487
Income tax expense	14	**(3,392)**	(2,291)
Profit for the year		**9,914**	8,196
Other comprehensive income:			
Currency translation differences		**663**	1,851
Fair value gain/(loss) on available-for-sale financial assets		**1**	(8)
Other comprehensive income		**664**	1,843
Total comprehensive income for the year		**10,578**	10,039

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	**2012 HK$'million**	2011 HK$'million (restated) (Note 38(a))
Profit for the year attributable to:			
– Owners of the Company		**6,518**	5,621
– Non-controlling interest		**3,396**	2,575
		9,914	8,196
Total comprehensive income for the year attributable to:			
– Owners of the Company		**7,017**	6,809
– Non-controlling interest		**3,561**	3,230
		10,578	10,039
Earnings per share for profit attributable to owners of the Company	*16*		
– Basic (HK cents)		**83.54**	78.60
– Diluted (HK cents)		**83.13**	77.68

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

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Assets			
Non-current assets			
Property, plant and equipment	*18*	**69,225**	56,677
Advanced operating lease payments	*19*	**2,199**	1,218
Investments in associates	*20*	**5,606**	6,158
Investments in jointly controlled entities	*21*	**1,541**	1,732
Available-for-sale financial assets	*22*	**173**	133
Intangibles and other non-current assets	*24*	**2,360**	1,553
Deferred tax assets	*33*	**187**	125
		81,291	67,596
Current assets			
Inventories	*25*	**717**	563
Accounts receivable	*26*	**1,367**	736
Prepaid expenses and other current assets	*27*	**5,575**	3,594
Cash and cash equivalents	*28*	**19,592**	11,718
		27,251	16,611
Total assets		**108,542**	84,207

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**81**	72
Retained earnings	*30*	**20,059**	17,545
Reserves	*30*	**24,282**	12,766
		44,422	30,383
Non-controlling interest		**17,756**	15,275
Total equity		**62,178**	45,658
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**12,438**	8,913
Income tax payable		**461**	459
Other tax payable		**353**	589
Short-term borrowings	*32*	**5,111**	2,611
		18,363	12,572
Non-current liabilities			
Long-term borrowings	*32*	**26,562**	24,964
Deferred tax liabilities	*33*	**1,278**	985
Other long-term obligations		**161**	28
		28,001	25,977
Total liabilities		**46,364**	38,549
Total equity and liabilities		**108,542**	84,207
Net current assets		**8,888**	4,039
Total assets less current liabilities		**90,179**	71,635

Director *Director*

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

Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$' million	2011 HK$' million
Assets			
Non-current assets			
Property, plant and equipment	*18*	**2**	2
Investments in associates	*20*	**966**	846
Investments in jointly controlled entities	*21*	**272**	272
Investments in subsidiaries	*23*	**40,389**	37,163
Intangibles and other non-current assets	*24*	**1**	1
		41,630	38,284
Current assets			
Prepaid expenses and other current assets	*27*	**8,597**	5,070
Cash and cash equivalents	*28*	**6,627**	1,219
		15,224	6,289
Total assets		**56,854**	44,573
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**81**	72
Retained earnings	*30*	**11,172**	8,684
Reserves	*30*	**40,281**	29,482
		51,534	38,238
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**198**	212
Income tax payable		**88**	–
Short-term borrowings	*32*	**225**	–
		511	212
Non-current liabilities			
Long-term borrowings	*32*	**4,809**	6,123
Total liabilities		**5,320**	6,335
Total equity and liabilities		**56,854**	44,573
Net current assets		**14,713**	6,077
Total assets less current liabilities		**56,343**	44,361

Director *Director*

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Attributable to owners of the Company				Non-	
		Share capital	Retained earnings	Reserves	Sub-total	controlling interest	Total equity
	Note	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances at 31 December 2010, as previously reported		50	13,337	13,671	27,058	11,369	38,427
Business combinations under common control		–	15	10	25	24	49
Balances at 1 January 2011, as restated		50	13,352	13,681	27,083	11,393	38,476
Total comprehensive income for the year		–	5,621	1,188	6,809	3,230	10,039
Transfer between reserves		–	(332)	332	–	–	–
Final dividend for 2010		–	(684)	–	(684)	–	(684)
Recognition of equity settled share-based payments	*29(b)*	–	–	43	43	–	43
Exercise of share options	*29(b)*	1	–	96	97	–	97
Acquisition of 2011 Natural Gas Projects	*29(a)*	21	–	(2,452)	(2,431)	–	(2,431)
Acquisition of 2012 Natural Gas Projects	*38(a)*	–	–	(129)	(129)	129	–
Dividend paid to former owners of 2011 Natural Gas Projects		–	(412)	–	(412)	–	(412)
Acquisition of subsidiaries		–	–	12	12	2	14
Realisation of reserves upon disposal of a jointly controlled entity		–	–	(5)	(5)	–	(5)
Dividend to non-controlling interest		–	–	–	–	(837)	(837)
Capital contributions from non-controlling interest		–	–	–	–	1,358	1,358
Balances at 31 December 2011		72	17,545	12,766	30,383	15,275	45,658

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to owners of the Company				Non-	
	Note	Share capital HK$'million	Retained earnings HK$'million	Reserves HK$'million	Sub-total HK$'million	controlling interest HK$'million	Total equity HK$'million
Balances at 31 December 2011, as previously reported		72	17,521	12,883	30,476	15,111	45,587
Business combinations under common control		–	24	(117)	(93)	164	71
Balances at 1 January 2012, as restated		72	17,545	12,766	30,383	15,275	45,658
Total comprehensive income for the year		–	6,518	499	7,017	3,561	10,578
Transfer between reserves		–	(469)	469	–	–	–
Final dividend for 2011	*17*	–	(1,766)	–	(1,766)	–	(1,766)
Issue of shares, net of share issue expenses upon placement	*29(a)*	8	–	10,251	10,259	–	10,259
Recognition of equity settled share-based payments	*29(b)*	–	–	72	72	–	72
Exercise of share options	*29(b)*	1	–	345	346	–	346
Utilisation of reserves		–	–	(120)	(120)	(35)	(155)
Dividend paid to former owners of 2011 Natural gas project		–	(1,769)	–	(1,769)	–	(1,769)
Purchase of non-controlling interest		–	–	–	–	(123)	(123)
Dividend to non-controlling interest		–	–	–	–	(3,217)	(3,217)
Capital contributions from non-controlling interest		–	–	–	–	2,295	2,295
Balances at 31 December 2012		81	20,059	24,282	44,422	17,756	62,178

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Cash flows from operating activities		
Profit for the year	**9,914**	8,196
Adjustments for:		
Income tax expense	**3,392**	2,291
Taxes other than income taxes	**923**	1,195
Depreciation, depletion and amortisation	**4,434**	4,090
Share of profits less losses of associates	**(2,334)**	(2,255)
Share of profits less losses of jointly controlled entities	**(307)**	(322)
Employee share-based payment expense	**72**	43
Net losses/(gains) on disposals of property, plant and equipment	**4**	(6)
Gains on disposals of jointly controlled entities	**(2)**	(5)
Net exchange gains	**(96)**	(95)
Interest income	**(172)**	(178)
Interest expense	**661**	405
Changes in working capital:		
Accounts receivable and prepaid expenses and other current assets	**(2,718)**	(1,736)
Inventories	**(154)**	(180)
Accounts payable and accrued liabilities and other tax payable	**(393)**	377
Cash generated from operations	**13,224**	11,820
Income tax paid	**(3,161)**	(2,222)
Net cash generated from operating activities	**10,063**	9,598

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Cash flows from investing activities			
Dividends received from associates		**3,113**	1,981
Dividends received from jointly controlled entities		**–**	147
Acquisitions of subsidiaries	*38(b)*	**(579)**	(3,090)
Capital contributions to associates		**(354)**	(191)
Capital contributions to jointly controlled entities		**(7)**	(42)
Acquisitions of available-for-sale financial assets		**(36)**	(8)
Proceeds from disposal of jointly controlled entities		**32**	–
Proceeds from disposal of property, plant and equipment		**178**	247
Capital expenditure		**(15,391)**	(13,507)
Interest received		**172**	178
Repayment of loan to non-controlling interests		**564**	–
Loan to third parties		**(440)**	–
Purchase of non-controlling interest		**(123)**	–
Net cash used in investing activities		**(12,871)**	(14,285)
Cash flows from financing activities			
Capital contributions from non-controlling interest		**2,295**	1,358
Dividends paid to owners of the Company		**(1,766)**	(684)
Dividends paid to non-controlling interest		**(2,310)**	(837)
Dividends paid to former owners of 2011 Natural Gas Project		**(1,769)**	(412)
Amount received from non-controlling interest		**954**	–
Increase in other long-term obligations		**133**	15
Issue of shares, net of share issue expenses		**10,605**	96
Increase in borrowings		**8,213**	17,565
Repayments of borrowings		**(4,512)**	(7,918)
Interest paid		**(1,418)**	(1,267)
Net cash generated from financing activities		**10,425**	7,916
Increase in cash and cash equivalents		**7,617**	3,229
Cash and cash equivalents at 1 January		**11,718**	8,203
Effect of foreign exchange rate changes		**257**	286
Cash and cash equivalents at 31 December	28	**19,592**	11,718

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

1 GENERAL INFORMATION

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World"), which is a company incorporated in the British Virgin Islands. On 18 December 2008, PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, acquired 100% equity interest in Sun World. Since then, PetroChina became an intermediate holding company of the Company. As at 31 December 2012, PetroChina indirectly owned 58.48% (2011: 65.65%) equity interest in the Company.

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

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

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

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

2 BASIS OF PREPARATION

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries are those entities (including special purpose entities) over which the Group has an interest of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

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

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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

(b) Investments in associates

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

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

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Investments in jointly controlled entities

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

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

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

(d) Accounting for production sharing contracts

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

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

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

(e) Transactions with non-controlling interest

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated profit or loss within "other gains, net".

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

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

(iii) Group entities

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies (Continued)

(iii) Group entities (Continued)

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

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

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

(g) Property, plant and equipment

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

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

The Group uses the following useful lives for depreciation purposes:

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. In the second half of 2012, management has revised the estimates of useful lives, ranging from 10 to 14 years, of the Group's certain pipelines to a range from 10 to 30 years with reference to the practices commonly adopted by the companies within the same industry and the physical condition of the relevant assets resulting in an increase in profit for the year ended 31 December 2012 amounting to approximately HK$504 million, net of tax.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (Continued)

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

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

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

(h) Oil and gas properties

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Oil and gas properties (Continued)

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

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

(i) Intangible assets

(i) Goodwill

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

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

(ii) Other intangible assets

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

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

(k) Leases

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

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

(l) Inventories

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Accounts receivable

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

(n) Cash and cash equivalents

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

(o) Accounts payable

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

(p) Borrowings

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

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Taxation

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

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

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

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

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition

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

(s) Provisions

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

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

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

(t) Retirement benefit plans

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(u) Share-based compensation

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

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

(v) Profit-sharing and bonus plans

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

(w) New accounting developments

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

HKAS 12 (Amendment) "Income taxes". The amendment introduces an exception to the principles for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. Currently, HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 Investment Property. The amendment did not have any significant impact on the consolidated financial statements, as the Group does not have any investment properties.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) New accounting developments (Continued)

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

HKFRS 7 (Amendment) "Financial instruments: disclosures". The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 1 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters" include two changes to HKFRS 1 "First-time adoption of HKFRS". The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to HKFRSs', thus eliminating the need for companies adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to HKFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation. The amendment did not have any significant impact on the consolidated financial statements.

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

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2013 or later periods and have not been early adopted by the Group:

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

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

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) New accounting developments (Continued)

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

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

HKAS 32 (Amendment) "Financial instruments: presentation - on assets and liabilities offsetting" are to the application guidance in HKAS 32. The amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Group is yet to assess HKAS 32 (Amendment)'s full impact and intends to adopt HKAS 32 (Amendment) no later than the accounting period beginning on or after 1 January 2014.

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

HKFRS 9 "Financial instruments" is the first standard issued as part of a wider project to replace HKAS 39. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) New accounting developments (Continued)

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

HKFRS 10 "Consolidated financial statements" establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. The standard defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group anticipates that the application of the HKFRS 10 has no material impact on the results and financial position of the Group.

HKFRS 1 (Amendment) "First time adoption – on government loans" addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to HKFRS. It also adds an exception to the retrospective application of HKFRS, which provides the same relief to first-time adopters granted to existing preparers of HKFRS financial statements when the requirement was incorporated into HKAS 20 in 2008. The Group is yet to assess HKFRS 1 (Amendment)'s full impact and intends to adopt HKFRS 1 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) "Transition guidance" provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. The Group is yet to assess HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)'s full impact and intends to adopt HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) no later than the accounting period beginning on or after 1 January 2013.

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) New accounting developments (Continued)

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

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

HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Market risk

- Foreign exchange rate risk

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

Entities within the Group also exposes to foreign exchange rate risk in relation to monetary balances which are denominated in a currency that is not the entity's functional currency. As at 31 December 2012 and 2011, except for bank balances amounting to approximately HK$4,815 million (2011: HK$3,573 million), there are no significant monetary balances held by the Group that are denominated in a non-functional currency.

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

At 31 December 2012, if Renminbi had weakened/strengthened by 5% against US dollar with all other variables held constant, profit for the year would have been approximately HK$39 million lower/higher (2011: HK$126 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowing within the Group.

- Cash flow and fair value interest rate risk

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

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

- Cash flow and fair value interest rate risk (Continued)

  At 31 December 2012, if interest rates on bank balances and deposits, and borrowings had been 50 base-point higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$95 million (2011: HK$67 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank balances and deposits, and borrowings at floating interest rates.

- Price risk

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

  The Group is also exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as available-for-sale financial assets. As at 31 December 2012, the available-for-sale financial assets represented approximately 0.28% (2011: 0.29%) of the total equity of the Group. There would not be any significant financial impact to the results and equity of the Group if the quoted market price of the equity investments held by the Group had significantly changed.

(b) Credit risk

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

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

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

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

The Group has no significant concentration of credit risk.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

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

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

4.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio which is calculated as interest-bearing borrowings divided by the sum of total equity and interest-bearing borrowings. The gearing ratio at 31 December 2012 is 33.7% (2011 restated: 37.7%).

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at 31 December 2012 and 2011 are disclosed in the respective accounting policies.

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Fair value estimation (Continued)

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimation of oil and natural gas reserves

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

(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 useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and 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 useful lives and 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. In the second half of 2012, the management has revised the estimates of useful lives of certain property, plant and equipment, details are set out in Note 3(g).

5 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.

6 REVENUE AND TURNOVER

Turnover mainly represents revenue from the sale of crude oil, the sales of natural gas, LNG processing, LNG terminal and transmission of natural gas. Analysis of revenue by segment is shown in Note 37.

7 OTHER GAINS, NET

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Net exchange gains	**96**	95
Rental income	**33**	26
Net (losses)/gains on disposals of property, plant and equipment	**(4)**	6
Gains on disposals of jointly controlled entities	**2**	5
Government subsidies	**104**	–
Refund of value-added tax	**80**	–
Others	**50**	42
	361	174

8 INTEREST INCOME

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Interest income on:		
– Amounts due from related parties	**36**	55
– Bank deposits	**136**	123
	172	178

9 EMPLOYEE COMPENSATION COSTS

	2012 HK$'million	2011 HK$'million
Salaries, wages and allowances	**1,475**	1,385
Retirement benefits scheme contributions	**137**	77
Share-based payment expenses (Note 30)	**72**	43
	1,684	1,505

10 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levies on PRC domestic sales of crude oil of approximately HK$470 million (2011: HK$735 million) for the year ended 31 December 2012.

11 INTEREST EXPENSES

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Interest expenses on:		
Bank loans, wholly repayable within five years	**10**	28
Loans other than bank loans, wholly repayable within five years, from:		
– An intermediate holding company	**635**	724
– An immediate holding company	**12**	5
– China Petroleum Finance Company Limited ("CP Finance")	**705**	457
– A fellow subsidiary	**59**	63
Less: Amounts capitalised	**(760)**	(872)
	661	405

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 4.41% (2011: 3.81%) per annum for the year ended 31 December 2012.

12 PROFIT BEFORE INCOME TAX EXPENSE

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Items charged in arriving at the profit before income tax expense include:		
Amortisation on intangibles and other assets	**40**	27
Auditors' remuneration	**16**	15
Cost of inventories recognised as expense	**14,656**	10,994
Depreciation and depletion of property, plant and equipment	**4,394**	4,063
Operating lease expenses	**145**	49
Repairs and maintenance	**432**	364

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors and the Chief Executive Officer for the years ended 31 December 2012 and 2011 are as follows:

	2012					2011
	Fees HK$'000	**Salaries and other benefits HK$'000**	**Retirement benefits scheme contributions HK$'000**	**Share option benefit expenses HK$'000**	**Total HK$'000**	Total HK$'000
Directors:						
Mr Li Hualin	**–**	**3,500**	**–**	**10,372**	**13,872**	10,460
Mr Zhang Bowen (note)	**–**	**5,250**	**375**	**4,460**	**10,085**	12,754
Mr Cheng Cheng	**–**	**4,000**	**300**	**5,495**	**9,795**	9,529
Dr Lau Wah Sum	**450**	**–**	**–**	**–**	**450**	450
Mr Li Kwok Sing Aubrey	**300**	**–**	**–**	**–**	**300**	300
Dr Liu Xiao Feng	**250**	**–**	**–**	**–**	**250**	250
Chief Executive Officer:						
Mr Jiang Changliang	**–**	**887**	**–**	**8,342**	**9,229**	–
	1,000	**13,637**	**675**	**28,669**	**43,981**	33,743

Note:

Mr Zhang Bowen is a director and Chief Executive Officer of the Group until September 2011. His emolument in 2011 represented remuneration of his dual capacity.

The five individuals whose emoluments were the highest in the Group for the year including three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: two) individual during the year are as follows:

	2012 HK$'000	2011 HK$'000
Salaries, wages and allowances	**8,000**	8,000
Retirement benefits scheme contributions	**600**	600
Share-based payment expenses	**10,428**	10,825
	19,028	19,425

The emoluments fell within the following band:

HK$9,500,001 to HK$10,000,000	**2**	2

None of the directors has waived their remuneration during the year ended 31 December 2012 (2011: Nil).

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

During the year ended 31 December 2012, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company (2011: Nil).

14 INCOME TAX EXPENSE

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Current tax		
– PRC	**2,257**	1,762
– Overseas	**906**	674
	3,163	2,436
Deferred tax (Note 33)	**229**	(145)
	3,392	2,291

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (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% (2011: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2011: 10% to 20%).

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

Included in overseas income tax expenses is withholding tax of approximately HK$602 million (2011: HK$396 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") which is charged at 20% (2011: 20%).

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2012 (2011: Nil).

14 INCOME TAX EXPENSE (CONTINUED)

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

	2012 **HK$'million**	2011 HK$'million (restated) (Note 38(a))
Profit before income tax expense	**13,306**	10,487
Tax calculated at a tax rate of 25% (2011: 25%)	**3,327**	2,622
Prior year tax return adjustment	**8**	7
Effect of income taxes from international operations in different of taxes at the PRC statutory tax rate	**(79)**	(114)
Effect of preferential tax rate	**(153)**	(135)
Tax effect of income not subject to tax	**(84)**	(62)
Tax effect of expenses not deductible for tax purposes	**82**	58
Tax effect of share of profits less losses of associates	**(385)**	(372)
Tax effect of share of profits less losses of jointly controlled entities	**(51)**	(53)
Tax effect of tax losses not recognised for prior years	**(43)**	–
Withholding tax on dividends received and receivable	**770**	340
Income tax expense	**3,392**	2,291

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

15 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$4,254 million (2011: HK$2,001 million).

16 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$6,518 million (2011 restated: HK$5,621 million) and weighted average number of ordinary shares in issue during the year of approximately 7,802 million shares (2011: 7,151 million shares).

16 BASIC AND DILUTED EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$6,518 million (2011 restated: HK$5,621 million), and the weighted average number of ordinary shares of approximately 7,841 million shares (2011: 7,236 million shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 39 million shares (2011: 85 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

17 DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2012 HK$'million	2011 HK$'million
Proposed final dividend attributable to owners of the Company for 2012 (note (a))	**1,852**	–
Final dividend attributable to owners of the Company for 2011 (notes (b) and (c))	–	1,590

Notes:

(a) At the meeting on 21 March 2013, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2012 of HK23 cents per share amounting to a total of approximately HK$1,852 million. The amount is based on approximately 8,051 million shares in issue as at 21 March 2013. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2013 when approved at the 2013 annual general meeting (the "2013 AGM").

(b) Final dividend attributable to owners of the Company in respect of 2011 of HK22 cents per share amounting to a total of approximately HK$1,590 million were approved by the shareholders in the Annual General Meeting on 16 May 2012 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 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 21 May 2012, the date of closure of the register of members, and were paid on 6 June 2012.

18 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2011	Group Buildings HK$'million	Group Oil and gas properties HK$'million	Group Natural gas pipelines HK$'million	Group Equipment and machinery HK$'million	Group Motor vehicles HK$'million	Group Others HK$'million	Group Construction in progress HK$'million	Group Total HK$'million	Company Others HK$'million
Cost									
Balances at 31 December 2010, as previously restated	1,461	10,536	25,101	8,991	814	825	12,596	60,324	4
Business combinations under common control (Note 38(a))	–	–	–	13	4	–	21	38	–
Balances at 1 January 2011, as restated	1,461	10,536	25,101	9,004	818	825	12,617	60,362	4
Currency translation differences	95	466	1,555	645	56	124	809	3,750	–
Additions	268	889	–	1,329	355	105	12,262	15,208	1
Additions through business combinations	–	–	–	46	–	–	–	46	–
Disposals	–	(40)	(2)	(165)	(10)	–	(130)	(347)	–
Transfers	228	228	1,946	4,061	25	2,610	(9,098)	–	–
Balances at 31 December 2011, as restated	2,052	12,079	28,600	14,920	1,244	3,664	16,460	79,019	5
Accumulated depreciation and depletion									
Balances at 31 December 2010, as previously restated	417	6,464	7,172	2,902	254	147	–	17,356	3
Business combinations under common control (Note 38(a))	–	–	–	3	1	–	–	4	–
Balances at 1 January 2011, as restated	417	6,464	7,172	2,905	255	147	–	17,360	3
Currency translation differences	28	293	483	199	19	5	–	1,027	–
Charge for the year	60	932	1,886	995	101	89	–	4,063	–
Disposals	–	(8)	(9)	(83)	(8)	–	–	(108)	–
Balances at 31 December 2011, as restated	505	7,681	9,532	4,016	367	241	–	22,342	3
Net book value at 31 December 2011, as restated	1,547	4,398	19,068	10,904	877	3,423	16,460	56,677	2

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group								Company
Year ended 31 December 2012	Buildings HK$'million	Oil and gas properties HK$'million	Natural gas pipelines HK$'million	Equipment and machinery HK$'million	Motor vehicles HK$'million	Others HK$'million	Construction in progress HK$'million	Total HK$'million	Others HK$'million
Cost									
Balances at 31 December 2011, as previously reported	2,030	12,079	28,600	14,906	1,239	3,664	16,432	78,950	5
Business combinations under common control (Note 38(a))	22	–	–	14	5	–	28	69	–
Balances at 1 January 2012, as restated	2,052	12,079	28,600	14,920	1,244	3,664	16,460	79,019	5
Currency translation differences	42	215	541	366	27	36	290	1,517	–
Additions	17	217	–	919	606	–	13,842	15,601	1
Additions through business combinations	43	–	–	538	29	9	–	619	–
Disposals	(2)	(7)	(4)	(72)	(29)	(59)	(65)	(238)	–
Transfers	497	728	2,794	10,590	–	(1,239)	(13,370)	–	–
Balances at 31 December 2012	2,649	13,232	31,931	27,261	1,877	2,411	17,157	96,518	6
Accumulated depreciation and depletion									
Balances at 31 December 2011, as previously reported	505	7,681	9,532	4,012	366	241	–	22,337	3
Business combinations under common control (Note 38(a))	–	–	–	4	1	–	–	5	–
Balances at 1 January 2012, as restated	505	7,681	9,532	4,016	367	241	–	22,342	3
Currency translation differences	10	141	184	89	12	6	–	442	–
Charge for the year	74	927	1,374	1,780	171	68	–	4,394	1
Additions through business combinations	15	–	–	148	7	1	–	171	–
Disposals	(3)	(4)	(4)	(31)	(5)	(9)	–	(56)	–
Transfer	(9)	16	–	1	16	(24)	–	–	–
Balances at 31 December 2012	592	8,761	11,086	6,003	568	283	–	27,293	4
Net book value at 31 December 2012	2,057	4,471	20,845	21,258	1,309	2,128	17,157	69,225	2

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

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

Other assets mainly comprises of containers, roads, bridges and others.

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2012, the legal title registration of certain of the Group's properties with carrying amount of approximately HK$656 million (2011: HK$502 million) is subject to certain administrative procedures to be completed by the relevant local government authorities. However, the Board of Directors of the Company is of the opinion that the risks and rewards of using these assets have been transferred to the Group.

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

19 ADVANCED OPERATING LEASE PAYMENTS

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

	Group	
	2012	2011
	HK$'million	HK$'million
Leasehold interest in land outside Hong Kong:		
Leases of between 10 to 50 years	**2,199**	1,218
Balance as at 1 January	**1,218**	827
Currency translation differences	**53**	59
Additions	**962**	353
Amortisation for the year	**(34)**	(21)
Balance as at 31 December	**2,199**	1,218

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

20 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Unlisted shares, at cost	**–**	–	**966**	846
Share of net assets	**5,166**	5,726	**–**	–
Goodwill	**440**	432	**–**	–
	5,606	6,158	**966**	846

20 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Name	Country of incorporation/ establishment	Assets HK$'million	Liabilities HK$'million	Revenue HK$'million	Profit HK$'million	Interest held %	Type of shares
As at or for the year ended 31 December 2012							
Aktobe	Kazakhstan	**8,523**	**4,836**	**9,349**	**2,096**	25.12%	Common shares
China City Natural Gas Investment Group Co., Ltd. ("Zhongyou Zhongtai")	PRC	**2,570**	**1,531**	**2,194**	**221**	49.00%	Equity joint ventures
Others		**477**	**37**	**498**	**17**		
		11,570	**6,404**	**12,041**	**2,334**		
As at or for the year ended 31 December 2011							
Aktobe	Kazakhstan	7,548	2,816	9,255	2,067	25.12%	Common shares
Zhongyou Zhongtai	PRC	2,022	1,220	1,868	183	49.00%	Equity joint ventures
Others		218	26	123	5		
		9,788	4,062	11,246	2,255		

Dividends received from associates amounted to approximately HK$3,113 million (2011: HK$1,981 million) for the year ended 31 December 2012.

20 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	Group	
	2012	2011
	HK$'million	HK$'million
At 1 January	**5,726**	5,227
Share of exchange reserves	**(135)**	33
Capital contributions	**354**	192
Share of profits	**2,334**	2,255
Dividend income received	**(3,113)**	(1,981)
At 31 December	**5,166**	5,726

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

	Group	
	2012	2011
	HK$'million	HK$'million
At 1 January	**432**	408
Currency translation differences	**8**	24
At 31 December	**440**	432

Details of the principal associates, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2012 and 2011, are set out in Note 41.

21 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Unlisted shares, at cost	**–**	–	**227**	227
Share of net assets	**1,496**	1,687	**–**	–
Loans to jointly controlled entities	**45**	45	**45**	45
	1,541	1,732	**272**	272

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

As at 31 December 2012 and 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$486 million (2011: HK$127 million) for the year ended 31 December 2012.

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

Name	Country of incorporation/ establishment	Assets HK$'million	Liabilities HK$'million	Revenue HK$'million	Profit/(loss) HK$'million	Interest held %	Type of shares
As at or for the year ended 31 December 2012							
Mazoon Petrogas (BVI) Limited	British Virgin Islands	**1,392**	**492**	**2,551**	**307**	50.00%	Ordinary shares
華油鋼管有限公司	PRC	**1,342**	**1,030**	**1,932**	**15**	39.56%	Equity joint venture
Others		**399**	**115**	**435**	**(15)**		
		3,133	**1,637**	**4,918**	**307**		
As at or for the year ended 31 December 2011							
Mazoon Petrogas (BVI) Limited	British Virgin Islands	1,440	362	2,212	346	50.00%	Ordinary shares
華油鋼管有限公司	PRC	1,259	968	1,520	(24)	39.56%	Equity joint venture
Others		409	91	418	–		
		3,108	1,421	4,150	322		

21 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

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

	Group	
	2012	2011
	HK$'million	HK$'million
At 1 January	**1,687**	1,455
Currency translation differences	**11**	35
Capital contributions	**7**	42
Share of profits	**307**	322
Dividend income received and receivable	**(486)**	(127)
Disposals	**(30)**	(40)
At 31 December	**1,496**	1,687

Details of the principal jointly controlled entities, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2012 and 2011, are set out in Note 42.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012	2011
	HK$'million	HK$'million (restated) (Note 38(a))
Listed shares:		
Equity securities listed in Hong Kong	**27**	16
Equity securities listed in Australia	**69**	77
	96	93
Unlisted shares:		
Equity securities in the PRC	**77**	40
	173	133

At the date of the statement of financial position, all the listed equity securities are stated at fair values, which have been determined by reference to bid prices quoted in the Hong Kong Stock Exchange and Australian Stock Exchange respectively. The equity securities in the PRC amounted to approximately HK$77 million (2011: HK$40 million) are stated at cost. Those securities do not have quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted equity instruments.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The carrying amounts of the available-for-sale financial assets are mainly denominated in Renminbi or Australian dollar.

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

	Group	
	2012	2011
	HK$'million	HK$'million (restated) (Note 38(a))
At 31 December	**130**	129
Business combinations under common control	**3**	3
At 1 January	**133**	132
Currency translation differences	**3**	1
Additions	**36**	8
Changes in fair value	**1**	(8)
At 31 December	**173**	133

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

	Group	
	2012	2011
	HK$'million	HK$'million (restated) (Note 38(a))
Level 1	**96**	93
Level 3	**77**	40
	173	133

Increase in Level 3 available-for-sale financial assets is mainly due to additions during the year.

23 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'million	HK$'million
Unlisted shares, at cost	**40,389**	37,163

Details of the principal subsidiaries, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2012 and 2011, are set out in Note 40.

24 INTANGIBLES AND OTHER NON-CURRENT ASSETS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Intangibles (note (i))	**343**	159	**–**	–
Prepaid construction costs	**1,431**	865	**–**	–
Prepayment for acquisition of land use rights	**–**	350	**–**	–
Loans to third parties (note (ii))	**570**	130	**–**	–
Others	**16**	49	**1**	1
	2,360	1,553	**1**	1

Note:

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

	Group					
	2012			2011		
	Goodwill HK$'million	**Other intangible assets HK$'million**	**Total HK$'million**	Goodwill HK$'million	Other intangible assets HK$'million	Total HK$'million
At 1 January	**117**	**42**	**159**	59	24	83
Currency translation differences	**4**	**1**	**5**	5	1	6
Additions	**–**	**26**	**26**	–	21	21
Acquisitions of subsidiaries (Note 38(b))	**159**	**–**	**159**	53	–	53
Amortisation for the year	**–**	**(6)**	**(6)**	–	(4)	(4)
At 31 December	**280**	**63**	**343**	117	42	159

(ii) Loans to third parties are unsecured, interest bearing at a range of 4.8% to 6.65% (2011: 6.65%) per annum and not repayable within one year.

25 INVENTORIES

	Group	
	2012	2011
	HK$'million	HK$'million
Natural gas	**179**	79
Materials for natural gas pipelines	**482**	430
Crude oil in tanks and others	**56**	54
	717	563

26 ACCOUNTS RECEIVABLE

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

	Group	
	2012	2011
	HK$'million	HK$'million (restated) (Note 38(a))
Within 3 months	**1,104**	623
Between 3 to 6 months	**176**	29
Over 6 months	**87**	84
	1,367	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 31 December 2012, accounts receivable of approximately HK$263 million (2011 restated: HK$113 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to companies for whom there is no recent history of default. For 2012 and 2011, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

The carrying amounts of the accounts receivable are mainly denominated in Renminbi.

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Other receivables	**1,630**	968	**–**	46
Advances to suppliers	**227**	275	**–**	–
Amounts due from related parties				
– Intermediate holding company	**1,323**	350	**–**	–
– Subsidiaries	**–**	–	**7,179**	5,332
– Others	**393**	176	**–**	–
	3,573	1,769	**7,179**	5,378
Less: Provision for impairment	**(4)**	(4)	**(238)**	(451)
	3,569	1,765	**6,941**	4,927
Loans to non-controlling interest	**–**	564	**–**	–
Dividends receivable from a jointly controlled entity	**486**	–	**–**	–
Dividends receivable from subsidiaries	**–**	–	**1,646**	61
Value-added tax recoverable	**802**	462	**–**	–
Refundable prepayments for acquisitions	**–**	82	**4**	82
Prepaid expenses	**651**	631	**–**	–
Other current assets	**67**	90	**6**	–
	5,575	3,594	**8,597**	5,070

Except for the amounts due from intermediate holding company HK$1,323 million (2011: HK$350 million) which are interest bearing, the other amounts due from related parties are interest free, unsecured and expected to be settled within one year.

As at 31 December 2011, loans to non-controlling interest were interest bearing range from 5.31% to 5.56% per annum, repayable within one year and secured by the equity interests in a subsidiary held by the non-controlling interest. These loans were repaid in full during the year.

The carrying amounts of the prepaid expenses and other current assets are mainly denominated in Renminbi.

28 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Cash at bank and on hand	**13,476**	9,687	**1,066**	1,005
Short-term bank deposits	**6,116**	2,031	**5,561**	214
Cash and cash equivalents	**19,592**	11,718	**6,627**	1,219

Cash at bank and bank deposits with original maturity less than three months carry interest at prevailing market rate at 0.54% per annum (2011: 0.46% per annum).

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Renminbi	**14,777**	8,145	**4,638**	81
US dollar	**3,269**	3,011	**945**	1,105
Hong Kong dollar	**1,199**	300	**1,044**	33
Other currencies	**347**	262	**–**	–
	19,592	11,718	**6,627**	1,219

Included in bank deposits, bank balances and cash are amounts of approximately HK$14,777 million or RMB11,765 million (2011 restated: HK$8,145 million or RMB6,601 million) denominated in Renminbi which are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK$'million
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2011	8,000	80
Increase in authorised share capital (note (i))	8,000	80
At 31 December 2012 and 2011	16,000	160
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2011	4,954	50
Issue of shares upon exercise of share options (note (ii))	23	1
Issue of shares for business combinations under common control (notes (iii))	2,194	21
At 31 December 2011 and 1 January 2012	**7,171**	**72**
Issue of shares upon exercise of share options (note (ii))	**80**	**1**
Issue of shares upon placement of shares (note (iv))	**800**	**8**
At 31 December 2012	**8,051**	**81**

Notes:

(i) Pursuant to a resolution passed at the special general meeting on 11 March 2011, the authorised share capital of the Company was increased to approximately HK$160 million by the creation of an additional approximately 8,000 million ordinary shares of HK$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(ii) During the year, the Company allotted and issued approximately 80 million shares (2011: 23 million shares) of HK$0.01 each for cash at the average exercise price of HK$4.325 (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 then existing shares. The fair value per the Company's share at the date of acquisition was HK$11.42.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(a) Share capital (Continued)

Notes (Continued):

(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 58.65%. 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.

(b) Share option schemes

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

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

Options granted under the 2002 Share Option Scheme must be taken up within the period as specified in the offer of the options and no amount shall be payable by the grantee to the exercising of the right to accept an offer of an option. Options granted are exercisable at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee. All of the options are vested to the option holders after 3 months from the date on which the options are granted. The exercise period of the option is 5 years from the grant date.

The 2002 share option scheme expired on 2 June 2012.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

Pursuant to the resolution of the Company passed on 17 May 2012, approximately 7.4 million and 15.4 million share options were granted to directors and other employees of the Company, respectively, under the 2002 Share Option Scheme.

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

The fair values of share options granted in 2012 and 2011 were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 17 May 2012 to		Granted on 18 March 2011 to	
	Directors	**Employees**	Directors	Employees
Share price at grant date	**HK$12.32**	**HK$12.32**	HK$11.72	HK$11.72
Exercise price	**HK$12.632**	**HK$12.632**	HK$11.73	HK$11.73
Expected volatility	**43.85%**	**43.85%**	47.57%	47.57%
Risk-free rate	**0.48%**	**0.48%**	1.77%	1.77%
Expected dividend yield	**2.20%**	**2.20%**	2.27%	2.27%
Exercise multiple	**2.2**	**1.6**	2.2	1.6

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

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

The fair value of the options granted to directors and employees of the Company during the year are approximately HK$20 million (2011: HK$19 million) and HK$52 million (2011: HK$24 million), respectively.

The number of shares in respect of which options had been granted and outstanding at 31 December 2012 under the 2002 Share Option Scheme was approximately 77.4 million shares (2011: 134.6 million shares), representing 0.96% (2011: 1.88%) of the issued share capital of the Company at 31 December 2012.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

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

		Number of share options						
Name or category of participants	Option Type	Outstanding at 1 January 2011 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2011 and 1 January 2012 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2012 '000
Directors								
Mr Li Hualin	2007 (note (i))	25,000	–	–	25,000	**–**	**(25,000)**	**–**
	2008 (note (iii))	3,200	–	–	3,200	**–**	**–**	**3,200**
	2009 (note (iv))	3,200	–	–	3,200	**–**	**–**	**3,200**
	2010 (note (v))	3,200	–	–	3,200	**–**	**–**	**3,200**
	2011 (note (vi))	–	3,200	–	3,200	**–**	**–**	**3,200**
	2012 (note (vii))	–	–	–	–	**3,200**	**–**	**3,200**
Mr Zhang Bowen	2007 (note (i))	20,000	–	–	20,000	**–**	**(20,000)**	**–**
	2008 (note (iii))	2,400	–	–	2,400	**–**	**–**	**2,400**
	2009 (note (iv))	2,400	–	–	2,400	**–**	**–**	**2,400**
	2010 (note (v))	2,400	–	–	2,400	**–**	**–**	**2,400**
	2011 (note (vi))	–	2,400	–	2,400	**–**	**–**	**2,400**
	2012 (note (vii))	–	–	–	–	**2,200**	**–**	**2,200**
Mr Cheng Cheng	2007 (note (i))	10,000	–	–	10,000	**–**	**(10,000)**	**–**
	2008 (note (iii))	1,500	–	–	1,500	**–**	**–**	**1,500**
	2009 (note (iv))	1,500	–	–	1,500	**–**	**–**	**1,500**
	2010 (note (v))	1,500	–	–	1,500	**–**	**–**	**1,500**
	2011 (note (vi))	–	1,500	–	1,500	**–**	**–**	**1,500**
	2012 (note (vii))	–	–	–	–	**2,000**	**–**	**2,000**
Dr Lau Wah Sum	2010 (note (v))	400	–	–	400	**–**	**–**	**400**
Mr Li Kwok Sing Aubrey	2010 (note (v))	400	–	–	400	**–**	**–**	**400**
Dr Liu Xiao Feng	2010 (note (v))	400	–	–	400	**–**	**–**	**400**
Sub-total		77,500	7,100	–	84,600	**7,400**	**(55,000)**	**37,000**
Chief Executive Officer								
Jiang Changliang	2012 (note (vii))	–	–	–	–	**2,400**	**–**	**2,400**
Other employees	2007 (note (i))	25,000	–	(23,000)	2,000	**–**	**(2,000)**	**–**
	2007 (note (ii))	20,000	–	–	20,000	**–**	**(20,000)**	**–**
	2008 (note (iii))	7,000	–	–	7,000	**–**	**(1,000)**	**6,000**
	2009 (note (iv))	7,000	–	–	7,000	**–**	**(1,000)**	**6,000**
	2010 (note (v))	7,000	–	–	7,000	**–**	**(1,000)**	**6,000**
	2011 (note (vi))	–	7,000	–	7,000	**–**	**–**	**7,000**
	2012 (note (vii))	–	–	–	–	**13,000**	**–**	**13,000**
Sub-total		66,000	7,000	(23,000)	50,000	**13,000**	**(25,000)**	**38,000**
Total		143,500	14,100	(23,000)	134,600	**22,800**	**(80,000)**	**77,400**

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

Notes:

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

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

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

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

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

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

(vii) These options were granted on 17 May 2012 with exercise price of HK$12.632 and exercisable from 17 August 2012 to 16 May 2017.

(viii) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2012 are ranged from HK$11.200 (2011: HK$10.240) to HK$15.900 (2011: HK$11.340).

30 RESERVES

	Group								
	Share premium HK$'million	Contributed surplus HK$'million	Employee share-based compensation reserve HK$'million	Merger reserve HK$'million	Available-for-sale financial assets reserve HK$'million	Translation reserve HK$'million	Other reserves HK$'million	Retained earnings HK$'million	Total HK$'million
Balances at 31 December 2010, as previously restated	3,980	134	191	7,175	60	1,015	1,116	13,337	27,008
Business combinations under common control	–	–	–	7	–	1	2	15	25
Balances at 1 January 2011, as restated	3,980	134	191	7,182	60	1,016	1,118	13,352	27,033
Total comprehensive income for the year	–	–	–	–	(8)	1,196	–	5,621	6,809
Transfer between reserves	–	–	–	–	–	–	332	(332)	–
Final dividend for 2010	–	–	–	–	–	–	–	(684)	(684)
Recognition of equity-settled share-based payments (Note 9)	–	–	43	–	–	–	–	–	43
Exercise of share options	96	–	–	–	–	–	–	–	96
Acquisition of subsidiaries	–	–	–	–	–	–	12	–	12
Acquisition of 2011 Natural Gas Projects	25,038	–	–	(27,490)	–	–	–	–	(2,452)
Acquisition of 2012 Natural Gas projects	–	–	–	(129)	–	–	–	–	(129)
Dividend paid to former owners of 2011 Natural Gas Projects	–	–	–	–	–	–	–	(412)	(412)
Realisation of reserves upon disposal of a jointly controlled entity	–	–	–	(5)	–	–	–	–	(5)
Balances at 31 December 2011, as restated	29,114	134	234	(20,442)	52	2,212	1,462	17,545	30,311
Balances at 31 December 2011, as previously reported	**29,114**	**134**	**234**	**(20,320)**	**52**	**2,212**	**1,457**	**17,521**	**30,404**
Business combinations under common control	**-**	**-**	**-**	**(122)**	**-**	**-**	**5**	**24**	**(93)**
Balances at 1 January 2012, as restated	**29,114**	**134**	**234**	**(20,442)**	**52**	**2,212**	**1,462**	**17,545**	**30,311**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**1**	**498**	**-**	**6,518**	**7,017**
Transfer between reserves	**-**	**-**	**-**	**-**	**-**	**-**	**469**	**(469)**	**-**
Utilisation of reserves	**-**	**-**	**-**	**-**	**-**	**-**	**(120)**	**-**	**(120)**
Final dividend for 2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,766)**	**(1,766)**
Issue of shares, net of share issue expenses upon placement	**10,251**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,251**
Recognition of equity-settled share-based payments (Note 9)	**-**	**-**	**72**	**-**	**-**	**-**	**-**	**-**	**72**
Exercise of share options	**465**	**-**	**(120)**	**-**	**-**	**-**	**-**	**-**	**345**
Dividend paid to former owners of 2011 Natural Gas Projects	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,769)**	**(1,769)**
Balances at 31 December 2012	**39,830**	**134**	**186**	**(20,442)**	**53**	**2,710**	**1,811**	**20,059**	**44,341**

30 RESERVES (CONTINUED)

	Company					
	Share premium HK$'million	Contributed surplus HK$'million	Employee share-based compensation reserve HK$'million	Retained earnings HK$'million	Translation reserve HK$'million	Total HK$'million
Balances at 1 January 2011	3,980	134	191	7,367	–	11,672
Total comprehensive income for the year	–	–	–	2,001	–	2,001
Issue of shares for business combinations under common control	25,038	–	–	–	–	25,038
Recognition of equity-settled share-based payments	–	–	43	–	–	43
Final dividend for 2010	–	–	–	(684)	–	(684)
Exercise of share options	96	–	–	–	–	96
Balances at 31 December 2011	29,114	134	234	8,684	–	38,166
Total comprehensive income for the year	**–**	**–**	**–**	**4,254**	**131**	**4,385**
Issue of shares, net of share issue expenses upon placement	**10,251**	**–**	**–**	**–**	**–**	**10,251**
Recognition of equity-settled share-based payments	**–**	**–**	**72**	**–**	**–**	**72**
Final dividend for 2011	**–**	**–**	**–**	**(1,766)**	**–**	**(1,766)**
Exercise of share options	**465**	**–**	**(120)**	**–**	**–**	**345**
Balances at 31 December 2012	**39,830**	**134**	**186**	**11,172**	**131**	**51,453**

Notes:

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

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

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

31 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million (restated) (Note 38(a))	**HK$'million**	HK$'million
Accounts payable	**1,935**	1,720	**–**	–
Advances from customers	**1,181**	639	**–**	–
Salaries and welfare payable	**215**	163	**2**	17
Accrued expenses	**44**	23	**29**	13
Dividend payable to non-controlling interest	**925**	18	**–**	–
Interest payable	**42**	39	**5**	5
Construction fee and equipment cost payables	**6,390**	5,495	**–**	–
Amounts due to related parties				
– Subsidiaries	**–**	–	**160**	166
– Non-controlling interest	**1,005**	51	**–**	–
– Others	**2**	–	**–**	–
Other payables	**699**	765	**2**	11
	12,438	8,913	**198**	212

The ageing analysis of accounts payable is as follows:

	Group	
	2012	2011
	HK$'million	HK$'million (restated) (Note 38(a))
Within 3 months	**1,469**	1,238
Between 3 to 6 months	**200**	289
Over 6 months	**266**	193
	1,935	1,720

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

The carrying amounts of the accounts payable and accrued liabilities are mainly denominated in Renminbi.

32 BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Short-term borrowings-unsecured	**4,187**	2,408	**225**	–
Current portion of long-term borrowings	**924**	203	**–**	–
	5,111	2,611	**225**	–
Long-term borrowings-unsecured	**27,486**	25,167	**4,809**	6,123
Less: Current portion of long-term borrowings	**(924)**	(203)	**–**	–
	26,562	24,964	**4,809**	6,123
	31,673	27,575	**5,034**	6,123

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Renminbi	**25,602**	20,222	**–**	–
US dollar	**5,525**	5,717	**4,488**	4,487
Hong Kong dollar	**546**	1,636	**546**	1,636
	31,673	27,575	**5,034**	6,123

32 BORROWINGS (CONTINUED)

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Total borrowings:				
– Interest free	**2**	2	**–**	–
– At fixed rates	**24,871**	20,015	**–**	–
– At floating rates	**6,800**	7,558	**5,034**	6,123
	31,673	27,575	**5,034**	6,123
Weighted average effective interest rates:				
– Bank loans	**2.13%**	1.95%	**–**	–
– Loans from an immediate holding company	**0.26%**	1.66%	**0.26%**	1.66%
– Loans from an intermediate holding company	**6.36%**	6.12%	**0.17%**	1.68%
– Loans from CP Finance	**4.37%**	4.78%	**2.37%**	2.79%
– Loans from fellow subsidiaries	**4.07%**	7.92%	**–**	–

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Carrying amounts	**27,486**	25,167	**4,809**	6,123
Fair values	**25,530**	24,977	**4,805**	6,117

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 1.62% to 6.40% per annum as of 31 December 2012 (2011: 1.70% to 7.50%) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair values.

32 BORROWINGS (CONTINUED)

The borrowings can be analysed as follows:

	Group			
	Short-term borrowings		Long-term borrowings	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Bank loans, wholly repayable within five years	**63**	310	**92**	46
Loans other than bank loans				
– Wholly repayable within five years	**4,124**	2,098	**27,393**	25,063
– Not wholly repayable within five years	**–**	–	**1**	58
	4,187	2,408	**27,486**	25,167

	Company			
	Short-term borrowings		Long-term borrowings	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Loans other than bank loans				
– Wholly repayable within five years	**225**	–	**4,809**	6,123

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

32 BORROWINGS (CONTINUED)

As at 31 December 2012 and 2011, the short-term borrowings of the Group were repayable within one year and the long-term borrowings of the Group were repayable as follows:

	Group			
	Bank loans		Loans other than bank loans	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**10**	3	**914**	200
Between one to two years	**30**	4	**14,902**	3,267
Between two to five years	**52**	39	**11,577**	21,596
After five years	**–**	–	**1**	58
	92	46	**27,394**	25,121

	Company			
	Bank loans		Loans other than bank loans	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Between one to two years	**–**	–	**4,263**	1,861
Between two to five years	**–**	–	**546**	4,262
	–	–	**4,809**	6,123

32 BORROWINGS (CONTINUED)

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

	Group			
	Bank loans		Loans other than bank loans	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Within one year	**80**	318	**5,203**	3,679
Between one to two years	**38**	5	**15,700**	4,906
Between two to five years	**47**	41	**12,643**	22,442
After five years	**–**	–	**1**	24
	165	364	**33,547**	31,051

	Company			
	Bank loans		Loans other than bank loans	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Within one year	**–**	–	**356**	150
Between one to two years	**–**	–	**4,313**	1,987
Between two to five years	**–**	–	**600**	4,333
	–	–	**5,269**	6,470

33 DEFERRED TAX

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

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

	Group	
	2012	2011
	HK$'million	HK$'million
At 1 January	**(860)**	(993)
Currency translation differences	**(2)**	(12)
(Charged)/credited to the consolidated profit or loss (Note 14)	**(229)**	145
At 31 December	**(1,091)**	(860)
Representing:		
Deferred tax assets	**187**	125
Deferred tax liabilities	**(1,278)**	(985)
	(1,091)	(860)

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

	Group			
	Accelerated tax depreciation HK$'million	**Withholding tax HK$'million**	**Others HK$'million**	**Total HK$'million**
At 1 January 2011	(220)	(784)	11	(993)
Currency translation differences	(12)	–	–	(12)
Credited to the consolidated profit or loss	69	46	30	145
At 31 December 2011	(163)	(738)	41	(860)
Currency translation differences	**(3)**	**–**	**1**	**(2)**
(Charge)/credited to the consolidated profit or loss	**(277)**	**(4)**	**52**	**(229)**
At 31 December 2012	**(443)**	**(742)**	**94**	**(1,091)**

34 COMMITMENTS

(a) Operating lease commitments

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Not later than one year	**96**	51	**4**	5
Later than one year and not later than five years	**232**	143	**9**	10
More than five years	**202**	99	**–**	2
	530	293	**13**	17

(b) Capital commitments

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Contracted but not provided for:				
Oil field development costs	**552**	492	**–**	–
Acquisitions of/capital contributions to investments	**–**	211	**–**	211
Other property, plant and equipment	**2,924**	5,599	**–**	–
	3,476	6,302	**–**	211

34 COMMITMENTS (CONTINUED)

(b) Capital commitments (Continued)

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Authorised but not contracted for:				
Oil field development costs	**687**	1,173	**–**	–
Acquisitions of/capital contributions to investments	**656**	3,530	**38**	–
Other property, plant and equipment	**29,133**	17,167	**–**	–
	30,476	21,870	**38**	–

35 OIL PRODUCTION SHARING CONTRACTS

(a) Xinjiang Contract

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

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

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

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(a) Xinjiang Contract (Continued)

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

		2012 HK$'million	2011 HK$'million
(i)	**Results for the year**		
	Income	**1,954**	2,044
	Expenses	**(1,187)**	(1,203)
(ii)	**Assets and liabilities**		
	Oil and gas properties	**457**	502
	Other non-current assets	**35**	23
	Current assets	**765**	941
	Current liabilities	**(173)**	(331)
	Net assets	**1,084**	1,135
(iii)	**Capital commitments**		
	Contracted but not provided for	**192**	150

(b) Leng Jiapu Contract

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

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

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(b) Leng Jiapu Contract (Continued)

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

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

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

	2012 **HK$'million**	2011 HK$'million
(i) Results for the year		
Income	**2,076**	2,252
Expenses	**(1,663)**	(1,674)
(ii) Assets and liabilities		
Oil and gas properties	**2,747**	2,604
Current assets	**2,492**	1,971
Current liabilities	**(756)**	(922)
Non-current liabilities	**(177)**	(172)
Net assets	**4,306**	3,481
(iii) Capital commitments		
Contracted but not provided for	**360**	342

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(c) K&K Contract

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

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

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

		2012	2011
		HK$'million	HK$'million
(i)	**Results for the year**		
	Income	**541**	587
	Expenses	**(593)**	(679)
(ii)	**Assets and liabilities**		
	Oil and gas properties	**150**	270
	Current assets	**30**	23
	Current liabilities	**(7)**	(7)
	Net assets	**173**	286
(iii)	**Capital commitments**		
	Contracted but not provided for	**6**	–

36 RELATED PARTY TRANSACTIONS

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include CPNC and its subsidiaries (together, the "CNPC Group"), other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over the enterprises which the Group is able to control, jointly control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

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

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

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$5,683 million (2011 restated: HK$8,672 million) for the year ended 31 December 2012.

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$4,000 million (2011: HK$4,267 million) for the year ended 31 December 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$11 million (2011: HK$2 million) for the year ended 31 December 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$6,927 million (2011 restated: HK$5,096 million) for the year ended 31 December 2012.

- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$5,849 million (2011: HK$4,256 million) for the year ended 31 December 2012.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC and its subsidiaries, 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 and were accounted for in a manner similar to a uniting of interests basis.

(ii) Purchases of financial service principally represent interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries, insurance fee, etc. The total amount of these transactions amounted to approximately HK$1,411 million (2011: HK$1,249 million) for the year ended 31 December 2012. Information on loans from related parties are included in Note 32.

(iii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK$222 million (2011: HK$170 million) for the year ended 31 December 2012.

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

	2012 HK$'million	2011 HK$'million (restated) (Note 38(a))
Intangibles and other non-current assets	**77**	183
Accounts receivable	**342**	224
Accounts payable and accrued liabilities	**1,044**	861
Borrowings	**31,518**	27,219

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Beijing Pipeline has entered into an agreement with PetroChina (the "Natural Gas Transmission Agreement"), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. The term of the Natural Gas Transmission Agreement is effective from 1 January 2006 until both parties agree to terminate the agreement. Under the Natrual Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interest in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK$4,509 million (2011: HK$3,701 million) for the year ended 31 December 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.

(c) Key management compensation

	2012 **HK$'million**	2011 HK$'million
Salaries and allowances	**34**	33
Retirement benefits – defined contribution scheme	**2**	2
Share-based payments	**72**	43
	108	78

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

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

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

37 SEGMENT INFORMATION

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

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

The Exploration and Production segment is engaged in the exploration, development, production and 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 and the transmission of natural gas in the PRC. As a result of the continuing expansion of the Group's LNG Processing and Terminal businesses in 2012, this segment is further divided into two segments, namely LNG Processing and LNG Terminal. Currently the Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing, LNG Terminal and Natural Gas Pipeline.

No sales between operating segments are undertaken. The Executive Directors assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and 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 cash and cash equivalents, and general and administration expenses incurred at corporate level.

Corporate assets mainly comprise cash and cash equivalents held at corporate level.

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 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 HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the year ended 31 December 2012										
Revenue from external customers	4,000	2,076	6,076	12,734	817	1,916	11,410	26,877	–	32,953
Segment results	1,465	720	2,185	1,731	(7)	572	6,088	8,384	96	10,665
Share of profits less losses of:										
– Associates	–	2,096	2,096	238	–	–	–	238	–	2,334
– Jointly controlled entities	–	307	307	(6)	–	–	–	(6)	6	307
Profit before income tax expense	1,465	3,123	4,588	1,963	(7)	572	6,088	8,616	102	13,306
Income tax expenses										(3,392)
Profit for the year										9,914
Segment results included:										
Interest income	38	10	48	62	–	4	27	93	31	172
Depreciation, depletion and amortisation	(587)	(301)	(888)	(625)	(87)	(750)	(2,083)	(3,545)	(1)	(4,434)
Interest expense	–	(54)	(54)	(96)	–	(219)	(450)	(765)	158	(661)
As at 31 December 2012										
Non-current assets	3,203	1,205	4,408	13,492	8,433	11,850	33,824	67,599	1,777	73,784
Current assets	2,446	2,580	5,026	10,000	1,819	722	2,745	15,286	6,939	27,251
Segment assets	5,649	3,785	9,434	23,492	10,252	12,572	36,569	82,885	8,716	101,035
Investments in associates	–	3,687	3,687	1,913	–	6	–	1,919	–	5,606
Investments in jointly controlled entities	–	900	900	211	–	–	–	211	430	1,541
Sub-total	5,649	8,372	14,021	25,616	10,252	12,578	36,569	85,015	9,146	108,182
Available-for-sale financial assets										173
Deferred tax assets										187
Total assets										108,542

37 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production			Natural Gas Distribution					Corporate	
	PRC HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million (restated) (Note 38(a))	LNG Processing HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million (restated) (Note 38(a))	HK$'million	Total HK$'million (restated) (Note 38(a))
For the year ended 31 December 2011										
Revenue from external customers	4,267	1,922	6,189	8,633	554	602	9,937	19,726	–	25,915
Segment results	1,799	266	2,065	1,182	24	234	4,335	5,775	70	7,910
Share of profits less losses of:										
– Associates	–	2,067	2,067	188	–	–	–	188	–	2,255
– Jointly controlled entities	–	346	346	(2)	–	–	–	(2)	(22)	322
Profit before income tax expense	1,799	2,679	4,478	1,368	24	234	4,335	5,961	48	10,487
Income tax expense										(2,291)
Profit for the year										8,196
Segment results included:										
Interest income	33	5	38	112	–	5	20	137	3	178
Depreciation, depletion and amortisation	(423)	(464)	(887)	(439)	(43)	(197)	(2,523)	(3,202)	(1)	(4,090)
Interest expense	–	–	–	(2)	–	–	(403)	(405)	–	(405)
As at 31 December 2011										
Non-current assets	3,106	1,258	4,364	6,248	6,689	12,552	28,762	54,251	833	59,448
Current assets	3,006	1,612	4,618	7,005	1,680	678	1,251	10,614	1,379	16,611
Segment assets	6,112	2,870	8,982	13,253	8,369	13,230	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	8,369	13,236	30,013	66,527	2,630	83,949
Available-for-sale financial assets										133
Deferred tax assets										125
Total assets										84,207

37 SEGMENT INFORMATION (CONTINUED)

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

For the year ended 31 December 2012, revenue of approximately HK$14,052 million (2011 restated: HK$12,929 million) are derived from two (2011: two) single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

38 ACQUISITIONS

(a) Business combinations under common control

(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 consolidated financial statements have 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 year ended 31 December 2011 and the financial position as at 31 December 2011 for the separate entity and on a consolidation basis are set out below.

(ii) Summary of results of operations

	The Group (as previously reported) HK$'million	2012 Natural Gas Project HK$'million	The Group (as restated) HK$'million
Results of operations for the year ended 31 December 2011			
Revenue	25,398	517	25,915
Profit for the year	8,169	27	8,196

38 ACQUISITIONS (CONTINUED)

(a) Business combinations under common control (Continued)

(iii) Summary of financial positions of operations

	The Group (as previously reported) HK$'million	2012 Natural Gas Project HK$'million	The Group (as restated) HK$'million
Financial position as at 31 December 2011			
Non-current assets	67,521	75	67,596
Current assets	16,548	63	16,611
Total assets	84,069	138	84,207
Current liabilities	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

(b) Acquisitions of subsidiaries

For the year ended 31 December 2012, the Group acquired controlling interests in 18 subsidiaries, which are principally engaging in natural gas distribution business in the PRC for an aggregated consideration of RMB628 million (approximately HK$789 million). The acquired businesses contributed revenue of approximately HK$685 million and profit for the year of approximately HK$18 million to the Group for the period from the respective dates of acquisitions to 31 December 2012. If the acquisition had occurred on 1 January 2012, revenue would have been approximately HK$1,205 million, and profit for the year would have been approximately HK$21 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2012, together with the consequential tax effect.

38 ACQUISITIONS (CONTINUED)

(b) Acquisitions of subsidiaries

Details of net assets acquired and preliminary goodwill are as follows:

	2012 **HK$'million**
Aggregate purchase consideration – Cash paid	**789**
Less: Aggregate fair value of net assets (including cash and cash equivalents of HK$210 million) acquired, determined provisionally (note)	**630**
Goodwill	**159**

Note:

The Group is still in the process of identifying and valuing intangible assets that can be recognised separately from goodwill. Adjustments to those provisional values of identifiable assets and liabilities, including any additional depreciation, amortisation, and other profit or loss effect, if any, will be recognised on the completion of the initial accounting.

(c) Notes to consolidated statement of cash flows

(i) Acquisitions of subsidiaries

	2012 **HK$'million**	2011 HK$'million
Cash consideration paid in respect of:		
– current year acquisitions under common control	**–**	2,418
– prior year acquisitions under common control	**–**	568
– others acquisitions	**579**	104
Total cash outflow	**579**	3,090

(ii) Major non-cash transaction

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

39 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 21 March 2013 and will be submitted to the shareholders for approval at the 2013 AGM to be held on 20 May 2013.

40 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2012 and 2011, are as follows:

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

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC				
PetroChina Beijing Gas Pipeline Co,. Ltd	PRC	RMB10,240 million	Limited liability company	60.00% (note (i))
CNPC Shennan Oil Technology Development Co., Ltd.	PRC	RMB602 million	Limited liability company	96.68% (note (i))
華油天然氣股份有限公司	PRC	RMB1,041 million	Limited liability company	77.59% (note (i))
Xinjiang Xinjie Co., Ltd.	PRC	RMB2,400 million	Limited liability company	97.26% (note (i))
Huagang Gas Group Company Limited	PRC	RMB1,500 million	Limited liability company	51.00% (note (i))
Xi'an Qinggang Clean Energy Technology Company Limited	PRC	RMB210 million	Limited liability company	51.00% (note (i))
新疆博瑞能源有限公司	PRC	RMB500 million	Limited liability company	94.00% (note (i))
四川川港燃氣有限責任公司	PRC	RMB310 million	Limited liability company	51.00% (note (i))
Kunlun Energy Investment Shandong Company Limited	PRC	RMB1,000 million	Limited liability company	100.00% (note (i))
Petrochina Tianjin Gas Pipeline Co., Ltd.	PRC	RMB500 million	Limited liability company	51.00% (note (i))
昆侖能源青海有限公司	PRC	RMB195 million	Limited liability company	100.00% (note (i))
Cangzhou Gas Limited Company Petrochina	PRC	RMB200 million	Limited liability company	51.00% (note (i))
PetroChina Jiangsu LNG Co., Ltd.	PRC	RMB2,651 million	Limited liability company	55.00% (note (i))

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC (Continued)				
PetroChina Dalian LNG Co., Ltd.	PRC	RMB2,600 million	Limited liability company	75.00% (note (i))
KunLun Energy (LiaoNing) Company Limited	PRC	RMB192 million	Limited liability company	100.00% (note (i))
昆侖能源西藏有限公司	PRC	RMB48 million	Limited liability company	100.00% (note (i))
Binhai New Energy Co., Ltd	PRC	RMB224 million	Limited liability company	51.00% (note (i))
昆侖能源(甘肅)有限公司	PRC	RMB47 million	Limited liability company	100.00% (note (i))
Jilin Jigang Clean Energy Company Limited	PRC	RMB183 million	Limited liability company	51.00% (note (i))

Notes :

(i) Shares held directly by the Company.

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

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

(iii) None of the subsidiaries had any debt securities at 31 December 2012 or at any time during the year.

41 PRINCIPAL ASSOCIATES

At 31 December 2012 and 2011, the Group had interest in the following principal associates:

Name of associate	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Kazakhstan				
CNPC-Aktobemunaigas Joint Stock Company ("Aktobe")	Kazakhstan	8,946,470 common shares of 1,500 tenge each	Joint-stock company	15.07% (note (i))
Natural gas distribution in the PRC				
China City Natural Gas Investment Group Co., Ltd.	PRC	RMB700 million	Equity joint venture	49.00% (note (ii))

Notes:

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

(ii) Shares held directly by the Company.

42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

As at 31 December 2012 and 2011, the Group had interest in the following principal jointly controlled entities:

Name of associate	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Oman				
Mazoon Petrogas (BVI) Limited	British Virgin Islands	50,000 ordinary shares of US$1 each	Limited liability company	50.00% (note)
Manufacturing of steel pipe in the PRC				
華油鋼管有限公司	PRC	RMB468 million	Equity joint venture	39.56% (note)
Production of petro-chemical products in the PRC				
青島慶昕塑料有限公司	PRC	RMB124 million	Equity joint venture	25.00% (note)

Note:

Shares held directly by the Company.

Results	Year ended 31 December					
	2012	2011	2011	2010	2009	2008
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
		(restated)	(unrestated)	(unrestated)	(unrestated)	(unrestated)
		(note 1)	(note 2)	(note 2)	(note 2)	(note 2)
Revenue	**32,953**	25,915	25,398	9,068	5,280	5,208
Profit before income tax expense	**13,306**	10,487	10,450	4,393	1,855	5,554
Income tax expense	**(3,392)**	(2,291)	(2,281)	(1,015)	(392)	(1,035)
Profit for the year	**9,914**	8,196	8,169	3,378	1,463	4,519
Non-controlling interest	**(3,396)**	(2,575)	(2,560)	(952)	(259)	(1,200)
Profit attributable to owners of the Company	**6,518**	5,621	5,609	2,426	1,204	3,319
Earnigns per share						
– Basic (HK cents)	**83.54**	78.60	78.44	49.02	26.79	69.70
– Dilute (HK cents)	**83.13**	77.68	77.52	48.22	26.40	68.99

Assets and liabilities	As at 31 December					
	2012	2011	2011	2010	2009	2008
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
		(restated)	(unrestated)	(unrestated)	(unrestated)	(unrestated)
		(note 1)	(note 2)	(note 2)	(note 2)	(note 2)
Total assets	**108,542**	84,207	84,069	32,226	21,417	14,816
Total liabilities	**(46,364)**	(38,549)	(38,482)	(11,188)	(5,041)	(2,538)
Total equity	**62,178**	45,658	45,587	21,038	16,376	12,278

Notes:

(1) Due to business combinations under common control completed in 2012, the financial information of the Group has been restated in a manner similar to an uniting of interests to reflect the acquisitions.

(2) The financial information of the Group has not been restated as the directors consider that the unrestated financial information is more appropriate for year-on-year comparision of the change in the Group's business operation.

PROVED DEVELOPED RESERVES (ESTIMATION)

Crude Oil

	PRC (million barrels)	South America (million barrels)	Central Asia (million barrels)	South East Asia (million barrels)	Middle East (million barrels)	Total (million barrels)
As at 1 January 2012	27.6	1.3	32.8	4.4	6.5	72.6
Revision	–	0.2	5.4	2.2	2.8	10.6
Production	(5.6)	(0.6)	(7.6)	(0.6)	(3.3)	(17.7)
As at 31 December 2012	22.0	0.9	30.6	6.0	6.0	65.5

Natural Gas

	South America (million cu feet)	Central Asia (million cu feet)	Total (million cu feet)
As at 1 January 2012	224.5	43,293.1	43,517.6
Revision	3,581.0	9,886.7	13,467.7
Production	(547.7)	(18,735.8)	(19,283.5)
As at 31 December 2012	3,257.8	34,444.0	37,701.8

PROVED RESERVES (ESTIMATION)

Crude Oil

	PRC (million barrels)	South America (million barrels)	Central Asia (million barrels)	South East Asia (million barrels)	Middle East (million barrels)	Total (million barrels)
As at 1 January 2012	34.4	1.3	56.6	6.7	6.6	105.6
Revision	–	0.2	4.7	–	2.8	7.7
Production	(5.6)	(0.6)	(7.6)	(0.6)	(3.4)	(17.8)
As at 31 December 2012	28.8	0.9	53.7	6.1	6.0	95.5

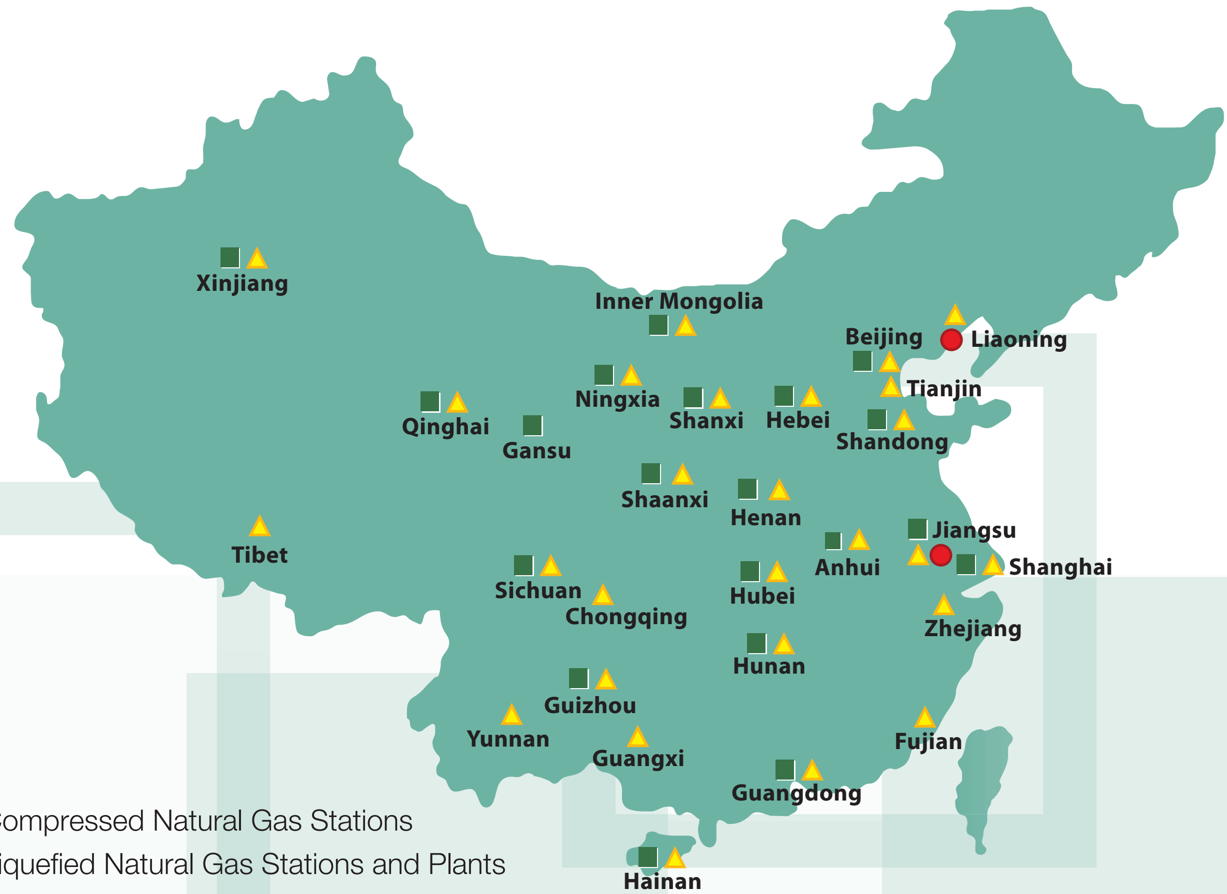
Natural Gas

	South America (million cu feet)	Central Asia (million cu feet)	Total (million cu feet)
As at 1 January 2012	224.5	111,854.8	112,079.3
Revision	1,447.0	44,218.6	45,665.6
Production	(547.7)	(18,735.8)	(19,283.5)
As at 31 December 2012	1,123.8	137,337.6	138,461.4

Notes:

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

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

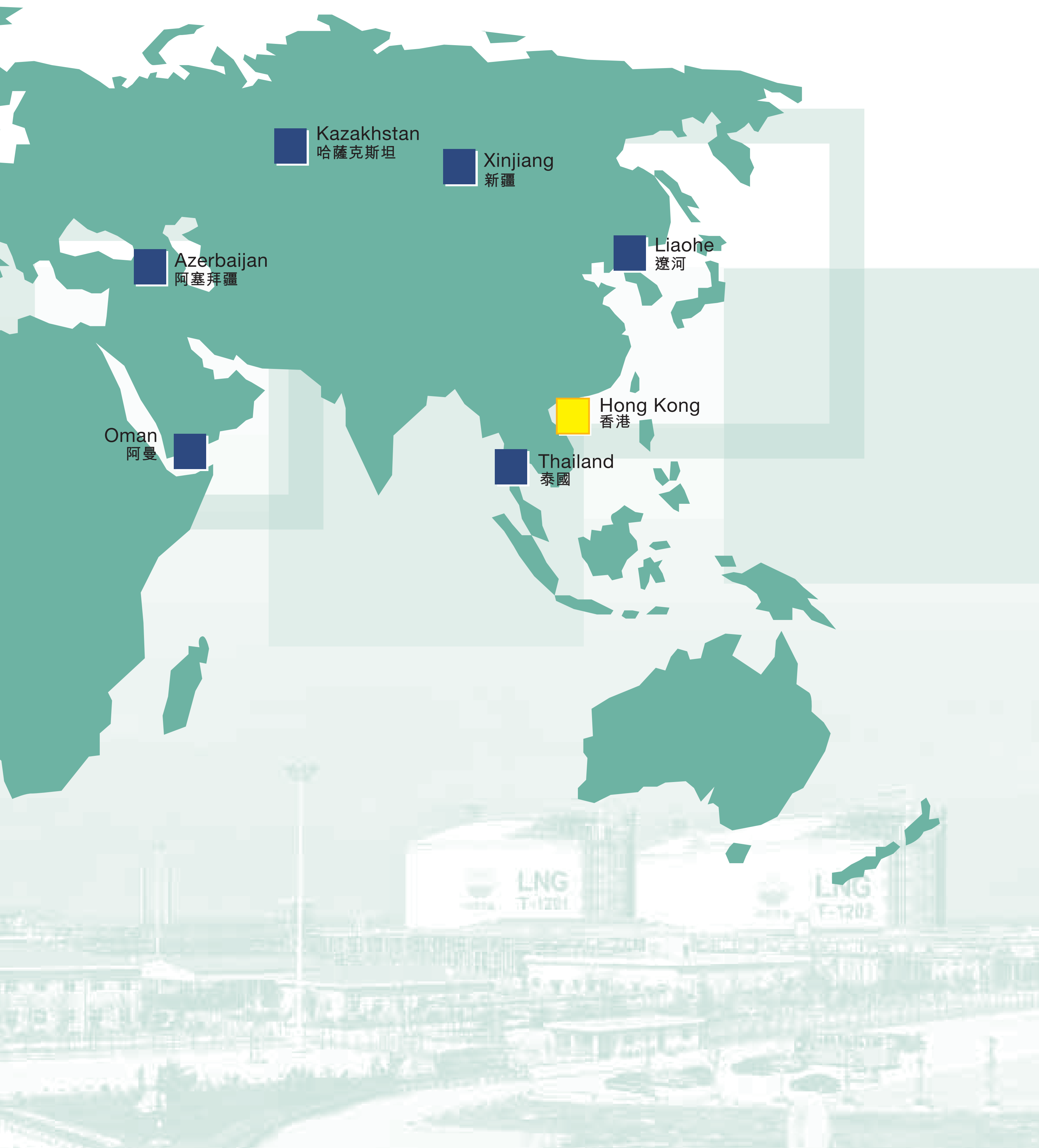


Compressed Natural Gas Stations
Liquefied Natural Gas Stations and Plants
Liquefied Natural Gas Terminals

Province	CNG Station	LNG Station	LNG Plant	LNG Terminal	Total	In Operation	Under Construction				
							CNG Station	LNG Station	LNG Plant	LNG Terminal	Total
1. Xinjiang	109	43	4	–	156	134	3	16	3	–	156
2. Shandong	21	57	1	–	79	55	2	21	1	–	79
3. Inner Mongolia	11	59	3	–	73	27	–	44	2	–	73
4. Hebei	35	27	3	–	65	39	9	15	2	–	65
5. Sichuan	18	42	2	–	62	28	–	33	1	–	62
6. Hubei	3	41	1	–	45	12	–	32	1	–	45
7. Jiangsu	10	32	–	1	43	21	5	17	–	–	43
8. Hainan	27	14	1	–	42	36	–	6	–	–	42
9. Henan	2	36	1	–	39	1	2	35	1	–	39
10. Shaanxi	7	24	2	–	33	11	1	20	1	–	33
11. Guangdong	1	28	–	–	29	12	1	16	–	–	29
12. Liaoning	–	15	1	1	17	1	–	15	1	–	17
13. Qinghai	8	1	3	–	12	10	2	–	–	–	12
14. Ningxia	5	5	–	–	10	6	–	4	–	–	10
15. Shanxi	2	8	–	–	10	4	2	4	–	–	10
16. Yunnan	–	8	–	–	8	1	–	7	–	–	8
17. Zhejiang	–	7	–	–	7	4	–	3	–	–	7
18. Shanghai	3	4	–	–	7	6	–	1	–	–	7
19. Guizhou	6	1	–	–	7	3	4	–	–	–	7
20. Chongqing	–	5	–	–	5	4	–	1	–	–	5
21. Hunan	1	3	–	–	4	1	–	3	–	–	4
22. Tianjin	–	3	1	–	4	3	–	–	1	–	4
23. Tibet	–	3	–	–	3	3	–	–	–	–	3
24. Anhui	1	2	–	–	3	3	–	–	–	–	3
25. Beijing	1	2	–	–	3	2	–	1	–	–	3
26. Gansu	3	–	–	–	3	2	1	–	–	–	3
27. Guangxi	–	3	–	–	3	–	–	3	–	–	3
28. Fujian	–	1	–	–	1	1	–	–	–	–	1
	274	474	23	2	773	430	32	297	14	–	773

Note: include 30 CNG stations, 6 LNG stations and 2 LNG plants owned by associated companies.

LOCATIONS OF CRUDE OIL EXPLORATION AND PRODUCTION BUSINESS
原 油 勘 探 及 生 產 業 務 分 佈 圖


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