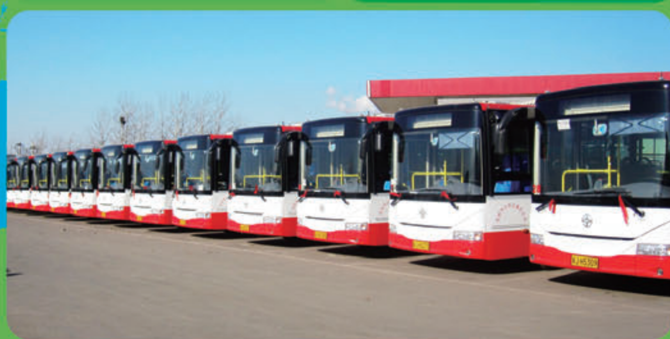
KunLun Energy Company Limited

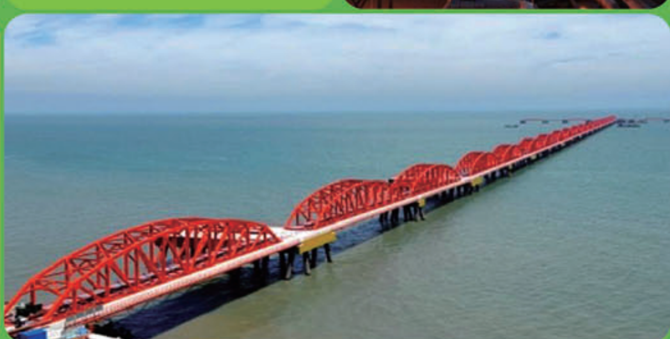
(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

Interim Report 2013





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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
KPMG

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

STOCK CODE
The Stock Exchange of Hong Kong Limited
00135.HK

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

PRINCIPAL BOARD COMMITTEES

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

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

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

SOLICITORS
Clifford Chance
Baker & McKenzie

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Clarendon House
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Hamilton HM11, Bermuda

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6 Front Street
Hamilton HM11, Bermuda

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

BUSINESS REVIEW

I am pleased to report to the shareholders on behalf of the Board of Kunlun Energy Company Limited (the "Company") the 2013 interim results of the Company and its subsidiaries (together, the "Group"). For the six months ended 30 June 2013 (the "Period"), the revenue of the Group amounted to HK$19,427 million while the unaudited profit attributable to owners of the Company amounted to HK$3,680 million, representing an increase of HK$3,822 million and HK$180 million or 24.49% and 5.14% respectively compared with the revenue and profit attributable to owners of the Company of the same period last year. During the Period, international oil prices fluctuated in a narrow range, but declined in volatility in general, while the sales of the Group's natural gas and LNG terminal business increased significantly, which contributed to the Group's revenue and profit.

I. Exploration and Production

For the Period, revenue of HK$2,906 million was derived from the exploration and production business, a decrease of HK$252 million or 7.98% compared with the corresponding period last year, accounting for 14.96% of the Group's total revenue. The sales volume of crude oil of the Group's eight petroleum projects reached 8.87 million barrels, representing an increase of 0.09 million barrels or 1.06% compared with the corresponding period last year. The Group's average realised crude oil selling price was US$97.22 per barrel, representing a decrease of US$3.48 or 3.46% compared with the corresponding period last year.

II. Natural Gas Pipeline

During the Period, the Group's natural gas pipeline business maintained stable development. The volume of natural gas transmission was 12,310 million cubic metres, representing an increase of 39 million cubic metres or 0.32% compared with the corresponding period last year. Of which, the volume of natural gas transmission of PetroChina Beijing Gas Pipeline Co., Ltd was 11,992 million cubic metres and other operating pipelines was 318 million cubic metres. Natural gas pipeline business is an important component of the Group's strategy on "Low-carbon Economy and Green Development", which bring stable investment return to the Group.

III. LNG Terminal

During the Period, Jiangsu LNG terminal and Dalian LNG terminal owned by the Group were in full operation, which unloaded 26 shipments of LNG, amounting to an aggregate of 2,715.50 thousand tonnes. Volume of gasification and LNG offloading to vehicles increased significantly, which provided stable income to the Group. These two LNG terminals are important passageway at sea for the parent company to optimise the domestic supply of natural gas resources, contributing protection of sources of natural gas to the Group's LNG "Gas in Substitution of Oil" business in the Southeast region.

IV. LNG Processing Plant

The Group further strengthened onshore LNG production and supply. Currently, 9 LNG processing plants in operation (LNG processing plant in Hotan Xinjiang was put into operation in July) with liquefaction capacity of 5.78 million cubic metres/day, and 10 LNG processing plants are under construction. Of which the LNG processing plant in Taian Shandong (processing capacity of 2.6 million cubic metres/day) and in Huanggang Hubei (processing capacity of 5 million cubic metres/day), both being localisation projects, have been progressing well.

V. Sales of Natural Gas

Sales volume of natural gas of the Group was 3,330 million cubic metres for the Period, representing an increase of 1,152 million cubic metres or 52.90% compared with 2,178 million cubic metres the corresponding period last year. Revenue derived from natural gas was HK$9,324 million, an increase of HK$3,640 million or 64.04% compared with HK$5,684 million the corresponding period last year, accounting for 48.00% of the Group's total revenue. Profit before income tax expense was HK$1,209 million, representing an increase of HK$451 million or 59.50% compared with HK$758 million the corresponding period last year. Both sales volume and revenue of natural gas achieved a rapid growth. City gas coverage extended to 17 cities and provinces; and the sales of LNG "Gas in Substitution of Oil" had substantial growth.

During the Period, the Group achieved remarkable results in market expansion of the LNG "Gas in Substitution of Oil". Over the country, totally 53,000 LNG vehicles were developed in cooperation, 390 LNG stations were completed construction and put into operation; significant breakthroughs in cooperation projects with domestic core cities and large transportation companies were achieved, of which, over thousands of LNG vehicles were developed collaboratively with both Baoding City and Jiangsu Dayun Group; large-scale development of LNG vehicles in Beijing, Chongqing and Guangzhou were accelerated. Meanwhile, the Group actively promoted the application of LNG in vessels, 24 LNG vessels were modified and operated in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Weishan Lake and Dongting Lake, 2 newly developed dual-fuel vessels, and 2 LNG refueling barges under construction, "Gasifying Changjiang" project was undergoing a practical stage.

During the Period, the Group further consolidated the collaboration with the parent company in the segment of natural gas business, equipment manufacturing and refined products marketing. The Group achieved significant progress in accelerating the optimisation of the strategic plans of the principal business and the pace of diversification in cooperation.

BUSINESS PROSPECTS

In the second half of the year, a few more LNG processing plants will gradually be put into operation, the Group's domestic onshore LNG production and supply capacity will increase substantially and the LNG resources distribution arrangement will be more rational and competitiveness will further be strengthened. At that time, there will be 4 LNG processing plants put into operation in Xinjiang region, which will be an important engine of LNG "Gas in Substitution of Oil" business in Northwest region. The construction and operation of the LNG processing plants in Taian Shandong (processing capacity of 2.6 million cubic metres/day) and Huanggang Hubei (processing capacity of 5 million cubic metres/day), two large liquefaction projects, will play an important role in enhancing the level of domestic LNG industrial technology of China. The construction of Hainan LNG storage will effectively enhance the ability to regulate the natural gas supply and "Gas in Substitution of Oil" resources supply capacity.

The Group will integrate with the country's new energy automotive-related policies to expand the area of LNG vehicles promotion and enhance the development of oil-gas hybrid and gas-electric hybrid vehicles. The Group will integrate with the "Nanshui Beidiao" pollution control projects of the country and "Gasifying Changjiang" strategy to consolidate the collaboration with China Changjiang National Shipping (Group) Corporation, Hudong-Zhonghua and Shandong Hangyu Shipping shipbuilding enterprises and foster the promotion and application of LNG vessles in Yangtze River and canals; the Group will continue the study on the safety of railway transportation of LNG on Golmud-Lhasa railway line (Golmud, Qinghai – Lhasa, Tibet).

The Group will further leverage on the overall advantages of the parent company and continue address and implement the acquisition of the high-quality natural gas assets of the parent company, further take advantage of the platform of joint ventures and actively look for investment opportunities that are in line with the development strategy of the parent company and the domestic natural gas distribution. For LNG business, the Group will consider thoroughly the factor of domestic natural gas prices adjustment to further optimise the LNG industry chain and investment structure; focus on the use of diversified natural gas resources to promote effectively the business development of LNG "Gas in Substitution of Oil"; and continue to improve the quality and operation efficiency, make contributions to the building of ecological civilisation in China and provide satisfactory returns to shareholders.

By the Order of the Board

Li Hualin
Chairman

Hong Kong, 22 August 2013

Management Discussion and Analysis

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 and the profit before income tax expense from the Natural Gas Distribution business segment contributed over 75.18% of the Group's profit before income tax expense for the six months ended 30 June 2013 (the "Period").

OPERATING RESULTS

The financial results of the Group for the Period were benefited from the expansion of natural gas business. Profit before income tax expense of the Group for the Period was approximately HK$7,715 million, representing an increase of 12.78% as compared with amount of HK$6,841 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$3,680 million representing an increase of 5.14% as compared with amount of HK$3,500 million for the same period of last year.

REVENUE

Revenue for the Period was approximately HK$19,427 million, representing an increase of 24.49% as compared with amount of HK$15,605 million for the same period of last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 14.96% of the Group's total revenue amounting to approximately HK$2,906 million while revenue from the Natural Gas Distribution business segment accounted for 85.04% of the Group's total revenue amounting to approximately HK$16,521 million.

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2013 and 2012, and percentages of change during these two periods.

	Sale volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2013 ('000 barrel)	2012 ('000 barrel)	Change %	**2013 HK$' million**	2012 HK$' million	Change %
Exploration and Production business						
The People's Republic of China (the "PRC")	**2,807**	2,915	(3.70)	**1,930**	2,133	(9.52)
South America	**299**	286	4.55	**498**	503	(0.99)
Central Asia	**327**	345	(5.22)	**248**	287	(13.59)
South East Asia	**303**	284	6.69	**230**	235	(2.13)
Sub-total	**3,736**	3,830	(2.45)	**2,906**	3,158	(7.98)
Share of an associate in Central Asia	**3,256**	3,356	(2.98)	**–**	–	N/A
Share of a joint venture in Middle East	**1,880**	1,593	18.02	**–**	–	N/A
Total of Exploration and Production	**8,872**	8,779	1.06	**2,906**	3,158	(7.98)

	Sale/processing volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2013 ('000 cubic metre)	2012 ('000 cubic metre)	Change %	**2013 HK$' million**	2012 HK$' million	Change %
Natural Gas Distribution business						
Natural Gas Sales	**3,151,109**	2,072,875	52.02	**8,513**	5,284	61.11
LNG Processing	**178,724**	104,935	70.32	**811**	400	102.75
Sub-total	**3,329,833**	2,177,810	52.90	**9,324**	5,684	64.04
Natural Gas Pipeline	**12,309,874**	12,270,773	0.32	**5,762**	5,934	(2.90)
LNG Terminal	**3,744,699**	2,228,152	68.06	**1,435**	829	73.10
Total of Natural Gas Distribution	**19,384,406**	16,676,735	16.24	**16,521**	12,447	32.73
Total revenue				**19,427**	15,605	24.49

OTHER GAINS, NET

Other gains, net for the Period was approximately HK$373 million, representing an increase of 338.82% as compared with amount of HK$85 million for the same period of last year. The increase was mainly due to the implementation of Value-Added-Tax ("VAT") Reform from government in the PRC and the Group's tax liabilities have subsequently been increased. The Group has received the VAT refunds under the transitional supportive financial policies, but no assurance that the Group will continue to receive such a refund in the future.

INTEREST INCOME

Interest income for the Period was approximately HK$90 million, representing an increase of 8.43% as compared with amount of HK$83 million for the same period of last year. The increase was mainly due to an increase in interest rates of bank deposits held by the Group.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK$8,388 million for the Period, representing an increase of 52.34% as compared with amount of HK$5,506 million for the same period of last year. This was mainly due to the increase in purchase volume of natural gas which is in line with the expansion of natural gas business.

EMPLOYEE COMPENSATION COSTS

Employee compensation costs of the Group was approximately HK$917 million for the Period, representing an increase of 20.82% as compared with amount of HK$759 million for the same period of last year. This increase was mainly due to the expansion of the Group's natural gas business.

EXPLORATION EXPENSES

Exploration expenses for the Period was approximately HK$46 million, representing an increase of 39.39% as compared with HK$33 million for the same period of last year. This was mainly related to the exploration activities undertaken by the Group's exploration and production projects.

DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period was approximately HK$2,178 million, representing a decrease of 9.59% as compared with amount of HK$2,409 million for the same period of last year. This was mainly due to the revision of the estimate useful lives of the Group's pipelines with effect from 1 July 2012.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period was approximately HK$1,109 million, representing an increase of 21.20% as compared with amount of HK$915 million for the same period of last year. This was mainly due to the expansion of the Group's natural gas business.

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK$367 million, representing a decrease of 33.15% as compared with amount of HK$549 million for the same period of last year. It was mainly due to the implementation of VAT Reform in the PRC.

INTEREST EXPENSES

Interest expenses for the Period was approximately HK$295 million, representing a decrease of 25.32% as compared with amount of HK$395 million for the same period of last year. Total interest expenses for the Period is HK$838 million of which HK$543 million has been capitalised.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period decreased by 34.53% to approximately HK$933 million (same period 2012: HK$1,425 million), it was mainly due to the increase of other taxes and decreases in sales volume and sales price of crude oil.

Management Discussion and Analysis

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period decreased 8.13% to approximately HK$192 million (same period 2012: HK$209 million), it was mainly due to the increment of royalty expense in Oman project.

PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK$7,715 million, representing an increase of 12.78% as compared with amount of HK$6,841 million for the same period of last year.

The table below sets out the profit before income tax expense for major segments of the Group for the six months ended 30 June 2013 and 2012, and percentages of change during these two periods.

	Profit before income tax expense for the six months ended 30 June		
	2013	2012	Change
	HK$'million	HK$'million	%
The Exploration and Production			
PRC	**651**	860	(24.30)
South America	**249**	255	(2.35)
Central Asia	**(17)**	(53)	67.92
South East Asia	**82**	140	(41.43)
	965	1,202	(19.72)
Share of an associate in Central Asia	**828**	1,327	(37.60)
Share of a joint venture in Middle East	**176**	205	(14.15)
Total of Exploration and Production	**1,969**	2,734	(27.98)
Natural Gas Distribution			
Natural Gas Sales	**1,172**	821	42.75
LNG Processing	**37**	(63)	158.73
Sub-total	**1,209**	758	59.50
Natural Gas Pipeline	**3,898**	3,035	28.43
LNG Terminal	**693**	266	160.53
Total of Natural Gas Distribution	**5,800**	4,059	42.89
	7,769	6,793	14.37

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK$2,046 million, representing an increase of 24.83% as compared with amount of HK$1,639 million for the same period of last year.

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

The profit for the Period of the Group was approximately HK$5,669 million, representing an increase of 8.98% as compared with amount of HK$5,202 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$3,680 million, representing an increase of 5.14% as compared with amount of HK$3,500 million for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2013, the carrying value of total assets of the Group is approximately HK$115,546 million, representing an increase of HK$7,004 million or 6.45% as compared with 31 December 2012 amount of HK$108,542 million.

The gearing ratio of the Group was 33.81% as at 30 June 2013 compared with 33.75% as at 31 December 2012. It is computed by dividing the total borrowings of HK$33,937 million (31 December 2012: HK$31,673 million) by the total equity plus borrowings of HK$100,366 million (31 December 2012: HK$93,851 million).

Profit before interest, tax, depreciation and amortisation ("EBITDA") for the Period was approximately HK$10,098 million, representing an increase of 5.61% as compared with amount of HK$9,562 million for the same period of last year.

The Group received dividends from joint ventures during the Period which mainly included HK$485 million (same period 2012: nil) from a joint venture in Middle East. No dividends received from an associate in Central Asia during the Period (same period 2012: HK$429 million).

The Group raised new borrowings of HK$5,641 million and repaid HK$3,686 million to financial institutions and related parties resulting a net increase in borrowings of HK$1,955 million during the Period.

During the Period, certain senior executives of the Company exercised their share options. As a result, the Company issued 15.6 million new shares (31 December 2012: 80.0 million new shares) and received subscription amount of HK$86 million (31 December 2012: HK$346 million).

USE OF PROCEEDS

The Group paid interest of HK$815 million (same period 2012: HK$587 million) during the Period.

2012 final dividend of HK$0.23 per share amounting to HK$1,855 million (2011: HK$0.22 per share amounting to HK$1,766 million) was distributed to owners of the Company during the Period.

PLEDGE OF ASSETS

As at 30 June 2013 and 31 December 2012, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

There is no major investment during the Period.

EMPLOYEE

On 30 June 2013, the Group had approximately 18,023 staff globally (excluding the staff under entrustment contracts) (31 December 2012: 17,475 staff). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, 2,000,000 shares of HK$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited ("Stock Exchange") and cancelled on 22 July 2013, details of which are as follows:

Month	Number of shares repurchased	Highest price HK$	Lowest price HK$	Aggregate amount paid HK$'000
June 2013	2,000,000	12.84	12.00	24,888

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

CORPORATE GOVERNANCE

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. The Board is of the view that the Company has complied with all the code provisions in the Code on Corporate Governance Practices during the Period.

REVIEW OF INTERIM FINANCIAL INFORMATION

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

The unaudited consolidated financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2013.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2013, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities Future Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below.

Ordinary shares of HK$0.01 each of the Company.

Name	Number of shares	Capacity and nature of interests	Percentage of issued shares
Li Hualin (note)	31,800,000	Beneficial owner	0.40%
Zhang Bowen (note)	14,000,000	Beneficial owner	0.17%
Cheng Cheng (note)	7,300,000	Beneficial owner	0.09%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.01%

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

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

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

SHARE OPTIONS

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

Name	Date of grant	Exercise period	Exercise price HK$	Number of Share Options: Outstanding at 1 January 2013 '000	Granted during the Period '000	Exercised during the Period '000	Outstanding at 30 June 2013 '000
Directors							
Li Hualin	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
Zhang Bowen	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	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
				37,000	–	(7,100)	29,900
Chief Executive Officer							
Jiang Changliang	17/05/12	17/08/12 – 16/05/17	12.632	2,400	–	–	2,400
Employees	26/05/08	26/08/08 – 25/05/13	4.240	6,000	–	(6,000)	–
	26/03/09	26/06/09 – 25/03/14	3.250	6,000	–	–	6,000
	26/03/10	26/06/10 – 25/03/15	10.320	6,000	–	–	6,000
	18/03/11	18/06/11 – 17/03/16	11.730	7,000	–	(1,000)	6,000
	17/05/12	17/08/12 – 16/05/17	12.632	13,000	–	(1,500)	11,500
				38,000	–	(8,500)	29,500
				77,400	–	(15,600)	61,800

SHARE OPTIONS (CONTINUED)

The weighted average closing prices of the Company's shares immediately before the date on which the share options were exercised was HK$15.313.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2013, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

	Number of shares		Percentage of
Name	**Direct interest**	**Indirect interest**	**issued shares**
Sun World Limited ("Sun World")[1]	4,708,302,133 (L)	–	58.38%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)")[1]	–	4,708,302,133 (L)	58.38%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong")[1]	–	4,708,302,133 (L)	58.38%
PetroChina Company Limited ("PetroChina")[1]	–	4,708,302,133 (L)	58.38%
China National Oil and Gas Exploration and Development Corporation ("CNODC")[2]	–	277,432,000 (L)	3.44%
CNPC International Ltd. ("CNPCI")[2]	–	277,432,000 (L)	3.44%
Fairy King Investments Ltd.	277,432,000 (L)	–	3.44%
China National Petroleum Corporation ("CNPC")[1][2]	–	4,985,734,133 (L)	61.82%

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..

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES (CONTINUED)

Save as disclosed above, as at 30 June 2013, the directors and the chief executive of the Company were not aware of any person (other than a director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at 30 June 2013, the directors and the chief executive of the Company were not aware of any person (other than a directors or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

By the Order of the Board

Zhang Bowen
President & Executive Director

Hong Kong, 22 August 2013

Unaudited Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2013

	Note	Six months ended 30 June 2013 HK$'million	2012 HK$'million
Revenue	4	**19,427**	15,605
Other gains, net	5	**373**	85
Interest income		**90**	83
Purchases, services and others		**(8,388)**	(5,506)
Employee compensation costs		**(917)**	(759)
Exploration expenses, including exploratory dry holes		**(46)**	(33)
Depreciation, depletion and amortisation		**(2,178)**	(2,409)
Selling, general and administrative expenses		**(1,109)**	(915)
Taxes other than income taxes	6	**(367)**	(549)
Interest expenses	7	**(295)**	(395)
Share of profits less losses of:			
– Associates		**933**	1,425
– Joint ventures		**192**	209
Profit before income tax expense	8	**7,715**	6,841
Income tax expense	9	**(2,046)**	(1,639)
Profit for the period		**5,669**	5,202
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Currency translation differences		**640**	(758)
– Fair value loss on available-for-sale financial assets		**(20)**	(40)
Other comprehensive income for the period, net of nil tax		**620**	(798)
Total comprehensive income for the period		**6,289**	4,404
Profit for the period attributable to:			
– Owners of the Company		**3,680**	3,500
– Non-controlling interest		**1,989**	1,702
		5,669	5,202
Total comprehensive income for the period attributable to:			
– Owners of the Company		**4,104**	2,889
– Non-controlling interest		**2,185**	1,515
		6,289	4,404
Earnings per share for profit attributable to owners of the Company	10		
– Basic (HK cents)		**45.68**	46.29
– Diluted (HK cents)		**45.52**	46.06

The notes are on pages 23 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2013

	Note	**30 June 2013 HK$'million**	31 December 2012 HK$'million
Assets			
Non-current assets			
Property, plant and equipment	*12*	**73,812**	69,225
Advanced operating lease payments		**2,261**	2,199
Investments in associates	*13*	**5,017**	5,606
Investments in joint ventures	*14*	**1,644**	1,541
Available-for-sale financial assets		**122**	173
Intangible and other non-current assets	*15*	**3,318**	2,360
Deferred tax assets		**234**	187
		86,408	81,291
Current assets			
Inventories		**1,046**	717
Accounts receivable	*16*	**2,047**	1,367
Prepaid expenses and other current assets	*17*	**6,543**	5,575
Cash and cash equivalents		**19,502**	19,592
		29,138	27,251
Total assets		**115,546**	108,542
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**81**	81
Retained earnings		**21,832**	20,059
Reserves		**24,776**	24,282
		46,689	44,422
Non-controlling interest		**19,740**	17,756
Total equity		**66,429**	62,178

Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2013

	Note	30 June 2013 HK$'million	31 December 2012 HK$'million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*20*	**12,410**	12,438
Income taxes payable		**395**	461
Other taxes payable		**681**	353
Short-term borrowings	*21*	**15,562**	5,111
		29,048	18,363
Non-current liabilities			
Long-term borrowings	*21*	**18,375**	26,562
Deferred tax liabilities		**1,491**	1,278
Other long-term obligations		**203**	161
		20,069	28,001
Total liabilities		**49,117**	46,364
Total equity and liabilities		**115,546**	108,542
Net current assets		**90**	8,888
Total assets less current liabilities		**86,498**	90,179

The notes are on pages 23 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2013

	Note	Attributable to owners of the Company				Non-controlling interest	Total equity
		Share capital	Retained earnings	Reserves	Sub-total		
	Note	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balance as at 1 January 2012		72	17,545	12,766	30,383	15,275	45,658
Profit for the period		–	3,500	–	3,500	1,702	5,202
Other comprehensive income		–	–	(611)	(611)	(187)	(798)
Total comprehensive income for the period		–	3,500	(611)	2,889	1,515	4,404
Transfer between reserves		–	(53)	53	–	–	–
Final dividend for 2011	*11(a)*	–	(1,766)	–	(1,766)	–	(1,766)
Recognition of equity settled share-based payments	*18(b)*	–	–	35	35	–	35
Issue of shares, net of share issue expenses upon placement	*18(a)(ii)*	8	–	10,251	10,259	–	10,259
Exercise of share options		–	–	238	238	–	238
Dividend to former owners of 2011 Natural Gas Project		–	(1,769)	–	(1,769)	–	(1,769)
Dividend to non-controlling interest		–	–	–	–	(1,661)	(1,661)
Acquisition from non-controlling interest		–	–	–	–	(12)	(12)
Capital contributions from non-controlling interest		–	–	–	–	423	423
		8	(3,588)	10,577	6,997	(1,250)	5,747
Balance as at 30 June 2012		80	17,457	22,732	40,269	15,540	55,809
Balance as at 1 January 2013		**81**	**20,059**	**24,282**	**44,422**	**17,756**	**62,178**
Profit for the period		**–**	**3,680**	**–**	**3,680**	**1,989**	**5,669**
Other comprehensive income		**–**	**–**	**424**	**424**	**196**	**620**
Total comprehensive income for the period		**–**	**3,680**	**424**	**4,104**	**2,185**	**6,289**
Transfer between reserves		**–**	**(52)**	**52**	**–**	**–**	**–**
Utilisation of reserves		**–**	**–**	**(24)**	**(24)**	**(16)**	**(40)**
Final dividend for 2012	*11(b)*	**–**	**(1,855)**	**–**	**(1,855)**	**–**	**(1,855)**
Exercise of share options		**–**	**–**	**86**	**86**	**–**	**86**
Repurchase of shares	*18(a)(iii)*	**–**	**–**	**(25)**	**(25)**	**–**	**(25)**
Dividend to non-controlling interest		**–**	**–**	**–**	**–**	**(699)**	**(699)**
Purchase of non-controlling interest in subsidiaries		**–**	**–**	**(19)**	**(19)**	**(31)**	**(50)**
Capital contributions from non-controlling interest		**–**	**–**	**–**	**–**	**473**	**473**
Acquisition of a subsidiary		**–**	**–**	**–**	**–**	**72**	**72**
		–	**(1,907)**	**70**	**(1,837)**	**(201)**	**(2,038)**
Balance as at 30 June 2013		**81**	**21,832**	**24,776**	**46,689**	**19,740**	**66,429**

The notes are on pages 23 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Net cash generated from operating activities	**7,692**	4,885
Net cash used in investing activities	**(6,196)**	(3,034)
Net cash (used in)/generated from financing activities	**(1,733)**	8,632
(Decrease)/increase in cash and cash equivalents	**(237)**	10,483
Cash and cash equivalents at 1 January	**19,592**	11,718
Effect of foreign exchange rate changes	**147**	(182)
Cash and cash equivalents at 30 June	**19,502**	22,019

The notes are on pages 23 to 47 form part of this interim financial report.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC"), which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World"), which is a company incorporated in the British Virgin Islands. PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, is an intermediate holding company of the Company and indirectly owned a 58.38% (31 December 2012: 58.48%) equity interest in the Company as at 30 June 2013.

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

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 22 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2 BASIS OF PREPARATION (CONTINUED)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 48.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2013.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investments from joint controlled entity to joint ventures. The investments continue to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 19. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, it does not have any impact on the Group's interim financial report and the Group has continued to disclose segment assets.

Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

4 REVENUE AND TURNOVER

Turnover mainly represents revenue from the sales of crude oil, the sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas. Analysis of revenue by segment is shown in Note 22.

5 OTHER GAINS, NET

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Net exchange gains	**46**	68
Rental income	**15**	12
Government grants	**298**	–
Others	**14**	5
	373	85

Government grants for the six months ended 30 June 2013 primarily represent compensation of reduction in income due to the implementation of Value-Added-Tax Reform from the government. There were no unfulfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future. The Group did not receive any government grant during the six months ended 30 June 2012.

6 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levies on the PRC domestic sales of crude oil of approximately HK$209 million (six months ended 30 June 2012: HK$277 million) for the six months ended 30 June 2013.

7 INTEREST EXPENSES

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Interest expenses on:		
Bank loans, wholly repayable within five years	**7**	4
Loans other than bank loans, wholly repayable within five years, from:		
– An intermediate holding company	**396**	324
– An immediate holding company	**6**	5
– China Petroleum Finance Company Limited ("CP Finance")	**410**	207
– A fellow subsidiary	**19**	33
Less: Amounts capitalised	**(543)**	(178)
	295	395

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 2.76% (six months ended 30 June 2012: 2.86%) per annum for the six months ended 30 June 2013.

8 PROFIT BEFORE INCOME TAX EXPENSE

Items charged in arriving at the profit before income tax expense include:

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Amortisation on intangible and other non-current assets	**24**	14
Cost of inventories recognised as expense	**9,232**	6,597
Depreciation on property, plant and equipment	**2,154**	2,396
Operating lease expenses	**76**	61
Repairs and maintenance	**98**	116

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Current tax		
– PRC	**1,417**	1,124
– Overseas	**465**	500
	1,882	1,624
Deferred tax	**164**	15
	2,046	1,639

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2013 (six months ended 30 June 2012: 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 the PRC is principally 25% (six months ended 30 June 2012: 25%). The operations of the Group's certain regions in the PRC were qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 15% (six months ended 30 June 2012: 10% to 20%).

Income tax on overseas (other than the PRC) profits has been calculated on the estimated assessable profit for the six months ended 30 June 2013 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas income tax expense is withholding tax of approximately HK$320 million (six months ended 30 June 2012: HK$392 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (six months ended 30 June 2012: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$3,680 million (six months ended 30 June 2012: HK$3,500 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2013 of approximately 8,056 million shares (six months ended 30 June 2012: 7,561 million shares).

(b) Diluted earnings per share is calculated on the Group's profit attributable to owners of the Company of approximately HK$3,680 million (six months ended 30 June 2012: HK$3,500 million), and the weighted average number of ordinary shares of approximately 8,085 million shares (six months ended 30 June 2012: 7,598 million shares) which is the weighted average number of ordinary shares in issue during the six months ended 30 June 2013 plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 29 million shares (six months ended 30 June 2012: 37 million shares) deemed to be issued at no consideration as if all outstanding share option granted had been exercised.

11 DIVIDENDS

(a) Final dividend attributable to owners of the Company in respect of 2011 of HK22.0 cents per share amounting to a total of approximately HK$1,590 million were approved by the shareholders in the Annual General Meeting on 16 May 2012. The amount is based on approximately 7,228 million shares in issue as at 29 March 2012. 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 which was paid on 6 June 2012.

(b) Final dividend attributable to owners of the Company in respect of 2012 of HK23.0 cents per share amounting to a total of approximately HK$1,852 million were approved by the shareholders in the Annual General Meeting on 20 May 2013. The amount is based on approximately 8,051 million shares in issue as at 31 March 2013. The actual final dividend for 2012 was approximately HK$1,855 million due to additional shares issued during the period from 22 March 2013 to 22 May 2013, the date of closure of the register of members, and which was paid on 3 June 2013.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Cost:		
Balance as at 1 January	**96,518**	79,019
Currency translation differences	**1,035**	(783)
Additions through business combinations	**127**	–
Additions	**5,934**	4,035
Disposals	**(117)**	(52)
Balance as at 30 June	**103,497**	82,219
Accumulated depletion, depreciation and impairment:		
Balance as at 1 January	**27,293**	22,342
Currency translation differences	**249**	(215)
Charge for the period	**2,154**	2,395
Disposals	**(11)**	(9)
Balance as at 30 June	**29,685**	24,513
Net book value:		
Balance as at 30 June	**73,812**	57,706

13 INVESTMENTS IN ASSOCIATES

	30 June 2013 HK$'million	31 December 2012 HK$'million
Share of net assets	**4,552**	5,166
Loans to associates	**19**	–
Goodwill	**446**	440
	5,017	5,606

Movements in share of net assets of associates for the six months ended 30 June 2013 and 2012 are as follows:

	Six months ended 30 June 2013 HK$'million	2012 HK$'million
Balance as at 1 January	**5,166**	5,725
Capital contributions	**45**	13
Share of profits less losses	**933**	1,425
Dividend income received and receivable	**(1,610)**	(1,962)
Share of exchange reserves	**18**	(116)
Balance as at 30 June	**4,552**	5,085

Loans to associates are unsecured, interest-bearing at 8% per annum and repayable in November 2013 or October 2014.

14 INVESTMENTS IN JOINT VENTURES

	30 June 2013 HK$'million	31 December 2012 HK$'million
Share of net assets	1,553	1,496
Loans to joint ventures	91	45
	1,644	1,541

Movements in share of net assets of joint ventures for the six months ended 30 June 2013 and 2012 are as follows:

	Six months ended 30 June 2013 HK$'million	2012 HK$'million
Balance as at 1 January	1,496	1,687
Capital contributions	31	–
Share of profits less losses	192	209
Dividend income received and receivable	(8)	(198)
Share of exchange reserves	(7)	(6)
Disposal	(151)	–
Balance as at 30 June	1,553	1,692

Included in loans to joint ventures is an amount of HK$45 million which is unsecured, interest-free and repayable on 31 December 2015. Except as disclosed above, loans to joint ventures are unsecured, interest-bearing at 8% per annum and repayable within one year.

15 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	30 June 2013 HK$'million	31 December 2012 HK$'million
Intangible assets	**354**	343
Prepaid construction costs	**2,220**	1,431
Loans to third parties (note)	**740**	570
Others	**4**	16
	3,318	2,360

Note: Loans to third parties are unsecured, interest-bearing at 4.80% to 6.65% (31 December 2012: 4.80% to 6.65%) per annum and not repayable within one year.

16 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2013 and 31 December 2012 is as follows:

	30 June 2013 HK$'million	31 December 2012 HK$'million
Within 3 months	**1,547**	1,104
Between 3 to 6 months	**286**	176
Over 6 months	**214**	87
	2,047	1,367

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2013 and 2012, none of the accounts receivable were considered to be impaired.

17 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Included in prepaid expenses and other current assets are dividend receivables from Aktobe and loans to third parties amounting to approximately HK$1,602 million (31 December 2012: Nil) and HK$269 million (31 December 2012: HK$192 million) respectively. Loans to third parties are unsecured, interest-bearing at 4.80% to 6.65% per annum and repayable within one year.

18 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK$'million
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2012, 30 June 2012, 31 December 2012, 1 January 2013 and 30 June 2013	**16,000**	**160**
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2012	7,171	72
Issue of shares upon exercise of share options (note (i))	57	–
Issue of shares upon placement of shares (note (ii))	800	8
At 30 June 2012 and 1 July 2012	8,028	80
Issue of shares upon exercise of share options (note (i))	23	1
At 31 December 2012 and 1 January 2013	**8,051**	**81**
Issue of shares upon exercise of share option (note (i))	**16**	**–**
Repurchase of shares (note (iii))	**(2)**	**–**
At 30 June 2013	**8,065**	**81**

Notes:

(i) During the six months ended 30 June 2012, the Company allotted and issued approximately 57 million shares of HK$0.01 each for cash as a result of the exercise of share options at the weighted average exercise price of HK$4.186 per share.

During the six months ended 31 December 2012, the Company allotted and issued approximately 23 million shares of HK$0.01 each for cash as a result of the exercise of share options at the weighted average exercise price of HK$4.670 per share.

During the six months ended 30 June 2013, the Company allotted and issued approximately 15.6 million shares of HK$0.01 each for cash as a result of the exercise of share options at the weighted average exercise price of HK$5.527 per share.

(ii) On 3 April 2012, the Company, Sun World, a number of placing agents and independent third parties ("Purchasers") entered into a placing and subscription agreement pursuant to which (i) Sun World appointed the placing agents, as agents and underwriters to procure Purchasers to purchase 800 million shares held by Sun World at HK$13.10 during the placing period; and (ii) Sun World has conditionally agreed to subscribe for 800 million shares at the same price. The transaction was completed on 16 April 2012 and the equity interests in the Company held by Sun World decreased to 58.64% as at 30 June 2012. 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, after 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.

(iii) Purchase of own shares

During the six months ended 30 June 2013, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'million
June 2013	**2,000,000**	**12.84**	**12.00**	**25**

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$25 million was charged to share premium.

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme

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

The 2002 Share Option Scheme expired on 2 June 2012.

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

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

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

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

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

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

The fair value of the options granted to directors and employees of the Company during the six months ended 30 June 2012 were HK$21 million and HK$51 million, respectively. Share-based payment expense of HK$35 million has been recognised over the vesting period up to 30 June 2012.

No new shares option scheme was adopted after the expiration of 2002 Share Option Shares on 2 June 2012. No new option was granted during the six months ended 30 June 2013.

During the six months ended 30 June 2013, 7.1 million (six months ended 30 June 2012: 55 million) and 8.5 million (six months ended 30 June 2012: 2 million) share options have been exercised by the directors and employees of the Company, respectively. The weighted average closing price of the Company’s shares at the date on which the share options were exercised for the six months ended 30 June 2013 was HK$15.313 (six months ended 30 June 2012: HK$11.200).

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

Details of share options exercised during the six months ended 30 June 2013 and 2012 are as follows:

	Six months ended 30 June			
	2013		2012	
	Exercised	**Exercise price per share**	Exercised	Exercise price per share
	'000	**HK$**	'000	HK$
Directors	**–**	**4.186**	55,000	4.186
	7,100	**4.240**	–	4.240
	–	**11.730**	–	11.730
	–	**12.632**	–	12.632
Employees	**–**	**4.186**	2,000	4.186
	6,000	**4.240**	–	4.240
	1,000	**11.730**	–	11.730
	1,500	**12.632**	–	12.632
	15,600		57,000	

Details of the options granted under the scheme outstanding as at 30 June 2013 and 31 December 2012 are as follows:

	Date of grant	Exercise period	Exercise price per share HK$	Number of shares subject to the options **30 June 2013 '000**	31 December 2012 '000
Directors	26 May 2008	26 August 2008-25 May 2013	4.240	**–**	7,100
	26 March 2009	26 June 2009-25 March 2014	3.250	**7,100**	7,100
	26 March 2010	26 June 2010-25 March 2015	10.320	**8,300**	8,300
	18 March 2011	18 June 2011-17 March 2016	11.730	**7,100**	7,100
	17 May 2012	17 August 2012-16 May 2017	12.632	**7,400**	7,400
Employees	26 May 2008	26 August 2008-25 May 2013	4.240	**–**	6,000
	26 March 2009	26 June 2009-25 March 2014	3.250	**6,000**	6,000
	26 March 2010	26 June 2010-25 March 2015	10.320	**6,000**	6,000
	18 March 2011	18 June 2011-17 March 2016	11.730	**6,000**	7,000
	17 May 2012	17 August 2012-16 May 2017	12.632	**13,900**	15,400
				61,800	77,400

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

	Fair value at 30 June 2013 HK$'million	Fair value measurements as at 30 June 2013 using Quoted prices in active market for identical assets (Level 1) HK$'million	Significant other observable inputs (Level 2) HK$'million	Significant unobservable inputs (Level 3) HK$'million
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets:				
– Listed equity securities in Hong Kong	**34**	**34**	**–**	**–**
– Listed equity securities in Australia	**41**	**41**	**–**	**–**
– Unlisted equity securities in the PRC	**47**	**–**	**–**	**47**
	122	**75**	**–**	**47**

	Fair value at 31 December 2012 HK$'million	Fair value measurements as at 31 December 2012 using Quoted prices in active market for identical assets (Level 1) HK$'million	Significant other observable inputs (Level 2) HK$'million	Significant unobservable inputs (Level 3) HK$'million
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets:				
– Listed equity securities in Hong Kong	27	27	–	–
– Listed equity securities in Australia	69	69	–	–
– Unlisted equity securities in the PRC	77	–	–	77
	173	96	–	77

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets measured at fair value (Continued)

(ii) Information about fair value measurements

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 respective stock exchange. The equity securities in the PRC amounted to approximately HK$47 million (31 December 2012: HK$77 million) are stated at cost. These securities do not have quoted market price in an active market and their fair value cannot be reliably measured.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 30 June 2013 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2013		At 31 December 2012	
	Carrying amount HK$'million	**Fair value HK$'million**	Carrying amount HK$'million	Fair value HK$'million
Long-term borrowings	**31,111**	**30,887**	27,486	25,530

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2013 HK$'million	31 December 2012 HK$'million
Accounts payable	**1,855**	1,935
Advances from customers	**1,242**	1,181
Salaries and welfare payable	**154**	215
Accrued expenses	**551**	44
Dividends payable by subsidiaries to non-controlling interest	**80**	925
Interest payables	**65**	42
Construction fee and equipment cost payables	**6,082**	6,390
Amounts due to non-controlling interest	**1,016**	1,005
Amounts due to related parties	**2**	2
Other payables	**1,363**	699
	12,410	12,438

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

The ageing analysis of accounts payable as at 30 June 2013 and 31 December 2012 is as follows:

	30 June 2013 HK$'million	31 December 2012 HK$'million
Within 3 months	**1,020**	1,469
Between 3 to 6 months	**316**	200
Over 6 months	**519**	266
	1,855	1,935

21 BORROWINGS

	30 June 2013 HK$'million	31 December 2012 HK$'million
Short-term borrowings – unsecured	**2,826**	4,187
Current portion of long-term borrowings	**12,736**	924
	15,562	5,111
Long-term borrowings – unsecured	**31,111**	27,486
Less: Current portion of long-term borrowings	**(12,736)**	(924)
	18,375	26,562
	33,937	31,673

21 BORROWINGS (CONTINUED)

The borrowings can be analysed as follows:

	Short-term borrowings		Long-term borrowings	
	30 June 2013 HK$'million	31 December 2012 HK$'million	**30 June 2013 HK$'million**	31 December 2012 HK$'million
Bank loans				
– Wholly repayable within five years	**64**	63	**350**	92
Loans other than bank loans				
– Wholly repayable within five years	**2,762**	4,124	**30,760**	27,393
– Not wholly repayable within five years	**–**	–	**1**	1
	2,826	4,187	**31,111**	27,486

As at 30 June 2013 and 31 December 2012, the Group's short-term borrowings are repayable within one year and the Group's long-term borrowings are repayable as follows:

	Bank loans		Loans other than bank loans	
	30 June 2013 HK$'million	31 December 2012 HK$'million	**30 June 2013 HK$'million**	31 December 2012 HK$'million
Within one year	**10**	10	**12,726**	914
Between one to two years	**277**	30	**8,908**	14,902
Between two to five years	**63**	52	**9,126**	11,577
After five years	**–**	–	**1**	1
	350	92	**30,761**	27,394

As at 30 June 2013 and 31 December 2012, the loans other than bank loans were unsecured borrowings from an immediate holding company, an intermediate holding company, a fellow subsidiary and CP Finance, which bore interest ranging from 1.6761% to 8.00% and 1.85% to 8.00% per annum respectively.

22 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM 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 sales 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 sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas in the PRC. It is evaluated on a business basis, 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 joint ventures ("segment results").

Total assets exclude deferred and current taxes, available-for-sale financial assets, investments in associates and joint ventures, 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 administrative expenses incurred at corporate level.

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

22 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2013 and 2012 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$'million	Natural Gas Sales and LNG Processing Sub-total HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the six months ended 30 June 2013											
Revenue from external customers	1,930	976	2,906	8,513	811	9,324	1,435	5,762	16,521	–	19,427
Segment results	651	314	965	1,067	37	1,104	693	3,898	5,695	(70)	6,590
Share of profits less losses of:											
– Associates	–	828	828	105	–	105	–	–	105	–	933
– Joint ventures	–	176	176	–	–	–	–	–	–	16	192
Profit before income tax expense	651	1,318	1,969	1,172	37	1,209	693	3,898	5,800	(54)	7,715
Income tax expense											(2,046)
Profit for the period											5,669
Segment results included:											
– Interest income	10	3	13	36	2	38	2	13	53	24	90
– Depreciation, depletion and amortisation	(300)	(122)	(422)	(320)	(127)	(447)	(437)	(871)	(1,755)	(1)	(2,178)
– Interest expenses	–	(20)	(20)	–	(31)	(31)	(92)	(91)	(214)	(61)	(295)
As at 30 June 2013											
Non-current assets	3,136	1,164	4,300	16,147	9,676	25,823	11,591	35,898	73,312	1,779	79,391
Current assets	2,378	2,219	4,597	13,333	2,308	15,641	1,288	1,577	18,506	6,035	29,138
Segment assets	5,514	3,383	8,897	29,480	11,984	41,464	12,879	37,475	91,818	7,814	108,529
Investments in associates	–	2,913	2,913	2,098	–	2,098	6	–	2,104	–	5,017
Investments in joint ventures	–	1,076	1,076	126	–	126	–	–	126	442	1,644
Sub-total	5,514	7,372	12,886	31,704	11,984	43,688	12,885	37,475	94,048	8,256	115,190
Available-for-sale financial assets											122
Deferred tax assets											234
Total assets											115,546

22 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	LNG Processing HK$'million	Natural Gas Sales and LNG Processing Sub-total HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the six months ended 30 June 2012											
Revenue from external customers	2,133	1,025	3,158	5,284	400	5,684	829	5,934	12,447	–	15,605
Segment results	860	342	1,202	723	(63)	660	266	3,035	3,961	44	5,207
Share of profits less losses of:											
– Associates	–	1,327	1,327	98	–	98	–	–	98	–	1,425
– Joint ventures	–	205	205	–	–	–	–	–	–	4	209
Profit before income tax expense	860	1,874	2,734	821	(63)	758	266	3,035	4,059	48	6,841
Income tax expense											(1,639)
Profit for the period											5,202
Segment results included:											
– Interest income	15	4	19	37	-	37	2	16	55	9	83
– Depreciation, depletion and amortisation	(286)	(139)	(425)	(272)	(34)	(306)	(322)	(1,355)	(1,983)	(1)	(2,409)
– Interest expenses	–	(28)	(28)	(60)	-	(60)	(109)	(230)	(399)	32	(395)
As at 31 December 2012											
Non-current assets	3,203	1,205	4,408	13,816	8,433	22,249	11,850	33,500	67,599	1,777	73,784
Current assets	2,446	2,580	5,026	10,077	1,819	11,896	722	2,668	15,286	6,939	27,251
Segment assets	5,649	3,785	9,434	23,893	10,252	34,145	12,572	36,168	82,885	8,716	101,035
Investments in associates	–	3,687	3,687	1,913	–	1,913	6	–	1,919	–	5,606
Investments in joint ventures	–	900	900	211	–	211	–	–	211	430	1,541
Sub-total	5,649	8,372	14,021	26,017	10,252	36,269	12,578	36,168	85,015	9,146	108,182
Available-for-sale financial assets											173
Deferred tax assets											187
Total assets											108,542

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

For the six months ended 30 June 2013, revenue of approximately HK$7,929 million (six months ended 30 June 2012: HK$7,138 million) are derived from two single customers. The revenue is attributable to both the Exploration and Production and Natural Gas Distribution segments.

23 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 30 June 2013 and 31 December 2012 under non-cancellable operating leases are as follows:

	30 June 2013 HK$'million	31 December 2012 HK$'million
Not later than one year	**119**	96
Later than one year and not later than five years	**240**	232
More than five years	**227**	202
	586	530

(b) Capital commitments

	30 June 2013 HK$'million	31 December 2012 HK$'million
Contracted but not provided for:		
– Oil field development costs	**97**	552
– Other property, plant and equipment	**4,074**	2,924
	4,171	3,476
Authorised but not contracted for:		
– Oil field development costs	**355**	687
– Acquisitions of/capital contributions to investments	**835**	656
– Other property, plant and equipment	**20,980**	29,133
	22,170	30,476

24 RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with CNPC Group, associates and joint ventures

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 joint ventures 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 rental services. The master agreement expired on 31 December 2011. On 14 November 2011, the Group and CNPC entered into the fourth supplement agreement for the purpose of renewing the term of the master agreement for the three years ending 31 December 2014.

– Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$3,616 million (six months ended 30 June 2012: HK$1,234 million) for the six months ended 30 June 2013.

– Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$1,930 million (six months ended 30 June 2012: HK$2,133 million) for the six months ended 30 June 2013.

– 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$9 million (six months ended 30 June 2012: HK$5 million) for the six months ended 30 June 2013.

– Purchase of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the Group from the CNPC Group amounted to approximately HK$4,641 million (six months ended 30 June 2012: HK$2,945 million) for the six months ended 30 June 2013.

– Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$3,372 million (six months ended 30 June 2012: HK$2,821 million) for the six months ended 30 June 2013.

24 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC Group, associates and joint ventures (Continued)

(i) (Continued)

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

(ii) Purchases of financial service principally represent interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries. The total amount of these transactions amounted to approximately HK$831 million for the six months ended 30 June 2013 (six months ended 30 June 2012: HK$569 million). Information on loans from related parties is included in Note 21.

(iii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK$73 million for the six months ended 30 June 2013 (six months ended 30 June 2012: HK$100 million).

(iv) As at 30 June 2013 and 31 December 2012, amounts due from and to CNPC Group, associates and joint ventures of the Group, which are unsecured and interest-free, are included in the following accounts captions and summarised as follows:

	30 June 2013 HK$'million	31 December 2012 HK$'million
Intangible and other non-current assets	**264**	77
Accounts receivable	**456**	342
Accounts payable and accrued liabilities	**1,120**	1,044
Borrowings	**33,523**	31,518

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

PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline") has entered into an agreement with PetroChina (the "Natural Gas Transmission Agreement"), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. The term of the Natural Gas Transmission Agreement is effective from 1 January 2006 until both parties agree to terminate the agreement. Under the Natural Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interest in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK$2,575 million (six months ended 30 June 2012: HK$2,364 million) for the six months ended 30 June 2013. 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.

24 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Six months ended 30 June	
	2013	2012
	HK$'million	HK$'million
Salaries and allowances	**10**	5
Retirement benefits-defined contribution scheme	**1**	1
Share-based payments	**–**	28
	11	34

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

Apart from transactions with CNPC, its subsidiaries, associates and joint ventures, 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.

Review Report

KPMG

TO THE BOARD OF DIRECTORS OF KUNLUN ENERGY COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 18 to 47 which comprises the consolidated interim statement of financial position of Kunlun Energy Company Limited (the "Company") as of 30 June 2013 and the related consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim condensed statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 August 2013