



KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆侖能源有限公司

(Stock Code: 00135.HK)

Interim Report 2014



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BOARD OF DIRECTORS

Executive Directors

Mr Wu Enlai (*Chairman*)
Mr Zhao Yongqi (*Chief Executive Officer*)
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
2 Church Street
Hamilton HM11, Bermuda

AUDITOR

KPMG

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

SOLICITORS

Clifford Chance
Baker & McKenzie

REGISTERED OFFICE

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PRINCIPAL OFFICE

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PRINCIPAL REGISTRARS

Codan Services Limited
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REGISTRARS IN HONG KONG

Tricor Secretaries Limited
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Hopewell Centre
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Hong Kong

BUSINESS REVIEW

I am pleased to report the 2014 interim results of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) to the shareholders on behalf of the Board. For the six months ended 30 June 2014 (the “Period”), the revenue of the Group amounted to HK\$22,763 million, representing an increase of HK\$3,336 million or 17.17% comparing the revenue for the same period of last year while the profit attributable to owners of the Company amounted to HK\$3,171 million, representing a decrease of HK\$509 million or 13.83% compared with the amount of HK\$3,680 million for the same period of last year. During the Period, the main reason for the decrease in the Group’s profit is the substantial drop in the profits of Exploration and Production and LNG Terminal. Also, profit did not increase in sales of Natural Gas business due to the increase in natural gas cost. The Natural Gas Pipeline business grew steadily and provided significant contribution to the Group’s revenue and profit.

I. Exploration and Production

For the Period, the sales volume of crude oil in the Exploration and Production business reached 8.40 million barrels, representing a decrease of 0.47 million barrels or 5.30% compared with the same period of last year. The Group’s average realised crude oil selling price was US\$87.80 per barrel for the Period, representing a decrease of US\$9.42 or 9.69% compared with the same period of last year. The revenue was HK\$2,844 million, representing 12.49% of the overall revenue of the Group and a decrease of HK\$62 million or 2.13% as compared to the same period of last year. The profit before income tax expense was HK\$1,095 million, representing a decrease of HK\$874 million or 44.39% compared to the same period of last year. The decrease in the profit before income tax expense was mainly due to the decrease in contribution of HK\$710 million of an associate company located in the Kazakhstan which included an one-off foreign exchange loss of approximately HK\$500 million arising from the substantial depreciation of its local currency of 19.00%. Besides, this associate company increased the domestic sales volume under the request by local government, which resulted in a decrease in average oil selling price by 25.27% as compared to the same period of last year.

II. Natural Gas Pipeline

During the Period, the Group's Natural Gas Pipeline had a stable operation. The transmission volume of Natural Gas Pipeline business was 15,044 million cubic metres, representing an increase of 2,734 million cubic metres or 22.21% compared with the same period of last year. Of which, the transmission volume of PetroChina Beijing Gas Pipeline Co. Ltd. was 14,695 million cubic metres. The transmission volume of other pipelines in operation was 349 million cubic metres. The revenue for the Period was HK\$6,002 million, representing an increase of HK\$240 million or 4.17% as compared to the same period of last year; the profit before income tax expense was HK\$3,952 million, representing an increase of HK\$54 million or 1.39% as compared to the same period of last year. During the Period, the construction for the No. 4 Shaanxi-Beijing Pipeline controlling work began, which will bring a new growth in the Natural Gas Pipeline business of the Group.

III. LNG Terminal

During the Period, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal owned by the Group amounted to 2,879 million cubic metres, representing a decrease of 866 million cubic metres or 23.12% compared to the same period of last year. The revenue for the Period amounted to HK\$1,112 million, representing a decrease of HK\$323 million or 22.51% compared to the same period of last year; the profit before income tax expense amounted to HK\$428 million, representing a decrease of HK\$265 million or 38.24% as compared to the same period of last year. The decrease was due to the adjustment in production plan of the parent company. These two LNG terminals had the mission to safeguard the natural gas resources of the parent company and also opened up the resources channel for the Group in the market for natural gas utilisation in the Southeastern region.

IV. LNG Processing Plant

During the Period, 2 new LNG processing plants of the Group were put into operation. The total number of LNG processing plants in operation increased to 12 with total production capacity amounting to 7.18 million cubic metres/day. Of which, the LNG localized liquefaction plant with the largest scale in the country, Hubei Huanggang (5.00 million cubic metres/day) LNG processing plant had carried out a successful trial production. It produced qualified products and reached the designed capacity during the trial operation.

V. Sales of Natural Gas

During the Period, the sales volume of the Group's natural gas was 3,354 million cubic metres, representing an increase of 24 million cubic metres or 0.71% compared with the same period of last year. The revenue from the sales of natural gas business was HK\$12,805 million, representing an increase of HK\$3,481 million or 37.33% compared with the same period of last year and representing 56.25% of the overall revenue of the Group. The profit before income tax expense was HK\$1,018 million, representing a decrease of HK\$191 million or 15.80% compared with the same period of last year. However, the increase in cost and expenses led to a decrease in profit.

During the Period, both sales volume in LNG increased by 64 million cubic metres or 6.91% and the revenue increased by HK\$1,746 million or 62.54%.

During the Period, the Group continued to target the high-end market of natural gas utilisation, promoting the application of LNG fuel in the transportation sector comprising mainly the urban public transport, long-haul passenger transport and heavy duty trucks. The Group also continued to promote the LNG vessels demonstration project and the study on the relevant standards of LNG vessels. During the Period, 9,100 LNG vehicles were newly promoted, with 90,686 LNG vehicles promoted in aggregate. Ancillary facilities such as 644 LNG stations and 290 CNG stations were in operation.

BUSINESS PROSPECTS

The constant promotion of comprehensive management that aimed at improving the environment in China has enabled an extensive development of natural gas business. The construction of No. 4 Shaanxi-Beijing Pipeline and natural gas cooperation project between China and Russia will safeguard a solid foundation of resources and infrastructures for the sustainable and healthy development of natural gas market. Notwithstanding the fact that the prevailing mechanism of natural gas price was still under modification and there was an unbalanced seasonal demand and supply which resulted in the unprecedented challenges encountered by the Company in respect of the healthy development of "Gas in Substitution of Oil" business, the global reserve and production volume of natural gas remained an upward trend and the development trend of LNG as a vehicle alternative fuel was promising thanks to the mature LNG vehicle technology and competitive edges of LNG as a vehicle fuel in terms of price and environmental concern.

Looking forward, the Group will continue to uphold the general principle of "seeking progress in stability", adhere to the strategic development approach of "Gas in Substitution of Oil" and place more emphasis on the coordination among development scale, pace and quality and efficiency. We will continue to strengthen the cooperation with enterprises and the liaison with governmental authorities so as to capture the favorable policy support to the LNG fuel promotion and application. While reinforcing the communication and coordination between relevant units of parent company, we will maintain a stable development of Exploration and Production, Pipeline and Terminal business, highlight the development of natural gas end-user sales and integrated utilisation business and actively carry out the resources planning and coordination work with basis on customer development and improvement of utilisation efficiency of business assets. Furthermore, we will be dedicated to enhancing the utilisation rate of LNG processing plant and refilling stations and improving the

Chairman Statement

operating efficiency and rate of investment return of the existing assets. We, aimed at improving the operating efficiency, risk management and cost reduction, will continue to create new competitive edges through continuous restructuring of equity and assets within the enterprises.

The Group will continue to leverage on the benefits of the parent company in terms of management, technology, talent and resources. The Group will continue to deepen the cooperation with the parent company's subsidiaries, improve the management level and ability in technological innovation, enhance operation efficiency, reduce operation risk and provide satisfactory returns to shareholders.

INTERIM DIVIDEND

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

By the Order of the Board

Wu Enlai

Chairman

Hong Kong, 28 August 2014

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its natural gas business segment during the six months ended 30 June 2014 (the “Period”). The profit before income tax expense from the Natural Gas Distribution business segment contributed around 85.33% (same period 2013: 75.18%) of the Group’s profit before income tax expense for the Period.

OPERATING RESULTS

Profit before income tax expense of the Group for the Period was approximately HK\$6,326 million, representing a decrease of 18.00% as compared with amount of HK\$7,715 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK\$3,171 million, representing a decrease of 13.83% as compared with amount of HK\$3,680 million for the same period of last year.

REVENUE

Revenue for the Period was approximately HK\$22,763 million, representing an increase of 17.17% as compared with amount of HK\$19,427 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 12.49% of the Group’s total revenue amounting to approximately HK\$2,844 million while revenue from the Natural Gas Distribution business segment accounted for 87.51% of the Group’s total revenue amounting to approximately HK\$19,919 million.

Management Discussion and Analysis

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2014 and 2013, and percentages of change during these two periods.

	Sale volume (Group's portion) for the six months ended			Revenue (Per segment information) for the six months ended		
	30 June			30 June		
	2014 (‘000 barrel)	2013 (‘000 barrel)	Change %	2014 HK\$'million	2013 HK\$'million	Change %
Exploration and Production business (by geographic location)						
The People's Republic of China (the "PRC")	2,717	2,807	(3.21)	1,831	1,930	(5.13)
South America (note (1))	325	299	8.70	545	498	9.44
Central Asia	313	327	(4.28)	242	248	(2.42)
South East Asia (note (2))	294	303	(2.97)	226	230	(1.74)
Sub-total	3,649	3,736	(2.33)	2,844	2,906	(2.13)
Share of an associate in Central Asia	2,899	3,256	(10.96)	–	–	N/A
Share of a joint venture in Middle East	1,854	1,880	(1.38)	–	–	N/A
Total of Exploration and Production	8,402	8,872	(5.30)	2,844	2,906	(2.13)
Natural Gas Distribution business (by segment)						
Natural Gas Pipeline (note (3))				6,002	5,762	4.17
LNG Terminal				1,112	1,435	(22.51)
Natural Gas Sales				11,929	8,513	40.13
LNG Processing				876	811	8.01
Sub-total				12,805	9,324	37.33
Total of Natural Gas Distribution				19,919	16,521	20.57
Total revenue				22,763	19,427	17.17

Management Discussion and Analysis

Sale/processing volume for the six months ended

	30 June		
	2014 ('000 cubic metre)	2013 ('000 cubic metre)	Change %
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline	15,043,667	12,309,874	22.21
LNG Terminal	2,878,841	3,744,699	(23.12)
Natural Gas Sales	3,154,691	3,151,109	0.11
LNG Processing	198,937	178,724	11.31
Sub-total	3,353,628	3,329,833	0.71
Total of Natural Gas Distribution	21,276,136	19,384,406	9.76

Notes:

- (1) Only the Group's 50% (same period 2013: 50%) share of sale volume from South America is stated while its revenue is shown as 100% per consolidated requirement.
- (2) An oilfield in South East Asia only 96.11% (same period 2013: 95.67%) share of sales volume is stated while its revenue is shown as 100% per consolidated requirement.
- (3) Under the Natural Gas Pipeline segment, it included the following natural gas sales:

	Sales volume for the six months ended 30 June			Revenue for the six months ended 30 June		
	2014 ('000 cubic metre)	2013 ('000 cubic metre)	Change %	2014 HK\$'million	2013 HK\$'million	Change %
Natural Gas Sales	29,135	27,450	6.14	91	60	51.67

OTHER GAINS, NET

Other gains, net for the Period was approximately HK\$348 million, representing a decrease of 6.70% as compared with amount of HK\$373 million for the same period of last year. The decrease was mainly due to an exchange loss on the borrowings which are denominated in USD, amounting to HK\$87 million for the Period.

Management Discussion and Analysis

INTEREST INCOME

Interest income for the Period was approximately HK\$105 million, representing an increase of 16.67% as compared with amount of HK\$90 million for the same period of last year. The increase was mainly due to an increase in proportion of time deposit held by the Group.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK\$11,766 million for the Period, representing an increase of 40.27% as compared with amount of HK\$8,388 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\$1,028 million for the Period, representing an increase of 12.10% as compared with amount of HK\$917 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\$20 million, representing a decrease of 56.52% as compared with HK\$46 million for the same period of last year. This was mainly related to the decrease in 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\$2,713 million, representing an increase of 24.56% as compared with amount of HK\$2,178 million for the same period of last year. This was mainly due to more property, plant and equipment being used during the Period following the business expansion.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period was approximately HK\$1,213 million, representing an increase of 9.38% as compared with amount of HK\$1,109 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\$380 million, representing an increase of 3.54% as compared with amount of HK\$367 million for the same period of last year. This increase was mainly due to the expansion of the Group's natural gas business.

INTEREST EXPENSES

Interest expenses for the Period was approximately HK\$222 million, representing a decrease of 24.75% as compared with amount of HK\$295 million for the same period of last year. Total interest expenses for the Period was approximately HK\$760 million of which HK\$538 million had been capitalised under construction-in-progress.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period decreased by 79.85% to approximately HK\$188 million (same period 2013: HK\$933 million). This was mainly due to the combined effect of the decrease in sales volume and crude oil realised selling price in CNPC–Aktobemunaigas Joint Stock Company and devaluation of the currency of Republic of Kazakhstan for the Period.

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period increased by 37.50% to approximately HK\$264 million (same period 2013: HK\$192 million). It was mainly due to the decrease in amortisation of the oil properties in Oman project as a result of the revision of oil reserve at the beginning of the Period and decrease in royalty expense.

PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK\$6,326 million, representing a decrease of 18.00% as compared with amount of HK\$7,715 million for the same period of last year.

Management Discussion and Analysis

The table below sets out the profit before income tax expense and percentage of change for major segments of the Group for the six months ended 30 June 2014 and 2013.

	Profit before income tax expense for the six months ended 30 June		
	2014 HK\$'million	2013 HK\$'million	Change %
Exploration and Production business			
PRC	470	651	(27.80)
South America	252	249	1.20
Central Asia	(38)	(17)	(123.53)
South East Asia	(5)	82	(106.10)
Sub-total	679	965	(29.64)
Share of an associate in Central Asia	118	828	(85.75)
Share of a joint venture in Middle East	298	176	69.32
Total of Exploration and Production	1,095	1,969	(44.39)
Natural Gas Distribution business			
Natural Gas Pipeline	3,952	3,898	1.39
LNG Terminal	428	693	(38.24)
Natural Gas Sales	999	1,172	(14.76)
LNG Processing	19	37	(48.65)
Sub-total	1,018	1,209	(15.80)
Total of Natural Gas Distribution	5,398	5,800	(6.93)
	6,493	7,769	(16.42)

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK\$1,513 million, representing a decrease of 26.05% as compared with amount of HK\$2,046 million for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period was 25.76% (same period 2013: 31.05%).

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

The profit for the Period of the Group was approximately HK\$4,813 million, representing a decrease of 15.10% as compared with amount of HK\$5,669 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK\$3,171 million, representing a decrease of 13.83% as compared with amount of HK\$3,680 million for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2014, the carrying value of total assets of the Group is approximately HK\$117,639 million, representing a decrease of HK\$1,823 million or 1.53% as compared with 31 December 2013 amount of HK\$119,462 million.

The gearing ratio of the Group was 29.04% as at 30 June 2014 compared with 30.26% as at 31 December 2013, representing a decrease of 1.22%. It is computed by dividing the total borrowings of HK\$28,935 million (31 December 2013: HK\$31,350 million) by the total equity plus borrowings of HK\$99,647 million (31 December 2013: HK\$103,618 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation for the Period was approximately HK\$9,156 million, representing a decrease of 9.33% as compared with amount of HK\$10,098 million for the same period of last year.

The Group received dividends of HK\$458 million from an associate in Central Asia during the Period (same period 2013: nil) and received no dividends from a joint venture in Middle East (same period 2013: HK\$485 million).

The Group raised new borrowings of HK\$5,243 million and repaid HK\$7,162 million to financial institutions and related parties resulting a net decrease in borrowings of HK\$1,919 million during the Period.

During the Period, a few senior executives of the Company exercised their share options. As a result, the Company issued 9.9 million new shares (31 December 2013: 15.6 million new shares) and received subscription amount of HK\$32 million (31 December 2013: HK\$86 million).

During the Period, the Company has not repurchased any of its shares. During the year ended 31 December 2013, the Company repurchased a total of 4,518,000 shares of the Company for HK\$57 million.

Management Discussion and Analysis

As at 30 June 2014, the Group had net current liabilities of HK\$1,361 million. Notwithstanding the net current liabilities of the Group at 30 June 2014, the Group's consolidated financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the Group has an undrawn facility provided by the Company's immediate holding company, amounting to HK\$2,300 million; and
- (ii) the Group expects to generate positive operating cash flows for the year ending 31 December 2014.

Consequently, the consolidated financial statements have been prepared on a going concern basis.

USE OF PROCEEDS

The Group paid interest of HK\$763 million (same period 2013: HK\$815 million) during the Period.

2013 final dividend of HK23 cents per share amounting to HK\$1,857 million (2012: HK23 cents per share amounting to HK\$1,855 million) was distributed to owners of the Company during the Period.

PLEDGE OF ASSETS

As at 30 June 2014 and 31 December 2013, 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 acquisition during the Period.

EMPLOYEE

On 30 June 2014, the Group had approximately 21,304 staff globally (excluding the staff under entrustment contracts) (31 December 2013: 21,589 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.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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 of Directors (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 2014.

Management Discussion and Analysis

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2014, 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
Zhang Bowen (note)	15,776,000	Beneficial owner	0.20%
Cheng Cheng (note)	8,310,000	Beneficial owner	0.10%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.01%

Note: The interests held by 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 ("2002 Share Option Scheme") and it expired on 2 June 2012. Details of the outstanding shares options granted under the 2002 Share Option Scheme not yet exercised are set out in the section headed "Share Options" of this report.

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

Management Discussion and Analysis

SHARE OPTIONS

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

Name	Date of grant	Exercise period	Exercise price HK\$	Number of Share Options			
				Outstanding at 1 January 2014	Granted during the Period	Exercised during the Period	Outstanding at 30 June 2014
Directors							
Zhang Bowen	26/03/09	26/6/09-25/3/14	3.250	2,400	-	(2,400)	-
	26/03/10	26/6/10-25/3/15	10.320	2,400	-	-	2,400
	18/03/11	18/6/11-17/3/16	11.730	2,400	-	-	2,400
	17/05/12	17/8/12-16/5/17	12.632	2,200	-	-	2,200
Cheng Cheng	26/03/09	26/6/09-25/3/14	3.250	1,500	-	(1,500)	-
	26/03/10	26/6/10-25/3/15	10.320	1,500	-	-	1,500
	18/03/11	18/6/11-17/3/16	11.730	1,500	-	-	1,500
	17/05/12	17/8/12-16/5/17	12.632	2,000	-	-	2,000
Li Kwok Sing Aubrey	26/03/10	26/6/10-25/3/15	10.320	400	-	-	400
Liu Xiao Feng	26/03/10	26/6/10-25/3/15	10.320	400	-	-	400
Lau Wah Sum	26/03/10	26/6/10-25/3/15	10.320	400	-	-	400
				17,100	-	(3,900)	13,200
Employees							
	26/03/09	26/6/09-25/3/14	3.250	6,000	-	(6,000)	-
	26/03/10	26/6/10-25/3/15	10.320	6,000	-	-	6,000
	18/03/11	18/6/11-17/3/16	11.730	6,000	-	-	6,000
	17/05/12	17/8/12-16/5/17	12.632	11,500	-	-	11,500
				29,500	-	(6,000)	23,500
				46,600	-	(9,900)	36,700

Management Discussion and Analysis

SHARE OPTIONS (CONTINUED)

The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$13.00.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 30 June 2014, 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		Percentage of issued shares
	Direct interest	Indirect interest	
Sun World Limited ("Sun World") ⁽¹⁾	4,708,302,133 (L)	–	58.33%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
PetroChina Company Limited ("PetroChina") ⁽¹⁾	–	4,708,302,133 (L)	58.33%
China National Oil and Gas Exploration and Development Corporation ("CNODC") ⁽²⁾	–	277,432,000 (L)	3.43%
CNPC International Ltd. ("CNPCI") ⁽²⁾	–	277,432,000 (L)	3.43%
Fairy King Investments Ltd.	277,432,000 (L)	–	3.43%
China National Petroleum Corporation ("CNPC") ⁽¹⁾⁽²⁾	–	4,985,734,133 (L)	61.76%

Notes:

- (1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly-owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly-owned by PetroChina, which is in turn owned as to 86.47% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by Sun World. Mr Wu Enlai, 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 2014, 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 2014, 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, 28 August 2014

Unaudited Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 HK\$'million	2013 HK\$'million
Revenue	4	22,763	19,427
Other gains, net	5	348	373
Interest income		105	90
Purchases, services and others		(11,766)	(8,388)
Employee compensation costs		(1,028)	(917)
Exploration expenses		(20)	(46)
Depreciation, depletion and amortisation		(2,713)	(2,178)
Selling, general and administrative expenses		(1,213)	(1,109)
Taxes other than income taxes	6	(380)	(367)
Interest expenses	7	(222)	(295)
Share of profits less losses of:			
– Associates		188	933
– Joint ventures		264	192
Profit before income tax expense	8	6,326	7,715
Income tax expense	9	(1,513)	(2,046)
Profit for the period		4,813	5,669
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Currency translation differences		(1,760)	640
– Fair value loss on available-for-sale financial assets		(8)	(20)
Other comprehensive income for the period, net of nil tax		(1,768)	620
Total comprehensive income for the period		3,045	6,289
Profit for the period attributable to:			
– Owners of the Company		3,171	3,680
– Non-controlling interests		1,642	1,989
		4,813	5,669
Total comprehensive income for the period attributable to:			
– Owners of the Company		1,973	4,104
– Non-controlling interests		1,072	2,185
		3,045	6,289
Earnings per share for profit attributable to owners of the Company			
– Basic (HK cent)	10	39.30	45.68
– Diluted (HK cent)		39.27	45.52

The notes on pages 25 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2014

	Note	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Assets			
Non-current assets			
Property, plant and equipment	12	82,153	82,943
Advanced operating lease payments		2,725	2,895
Investments in associates	13	4,383	5,720
Investments in joint ventures	14	1,830	1,564
Available-for-sale financial assets		106	120
Intangible and other non-current assets	15	2,641	3,104
Deferred tax assets		424	254
		94,262	96,600
Current assets			
Inventories		1,305	1,173
Accounts receivable	16	2,411	1,893
Prepaid expenses and other current assets	17	7,578	4,899
Cash and cash equivalents		12,083	14,897
		23,377	22,862
Total assets		117,639	119,462
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	18	81	81
Retained earnings		25,814	24,530
Reserves		24,659	25,795
		50,554	50,406
Non-controlling interests		20,158	21,862
Total equity		70,712	72,268

Unaudited Consolidated Interim Statement of Financial Position

As at 30 June 2014

	<i>Note</i>	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	20	14,854	12,676
Income tax payable		379	510
Other tax payable		742	394
Short-term borrowings	21	8,763	13,551
		24,738	27,131
Non-current liabilities			
Long-term borrowings	21	20,172	17,799
Deferred tax liabilities		1,428	1,715
Other long-term obligations		589	549
		22,189	20,063
Total liabilities		46,927	47,194
Total equity and liabilities		117,639	119,462
Net current liabilities		(1,361)	(4,269)
Total assets less current liabilities		92,901	92,331

The notes on pages 25 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2014

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Retained earnings	Reserves	Sub-total		
		HK\$'million	HK\$'million	HK\$'million	HK\$'million		
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 reserve		-	-	(24)	(24)	(16)	(40)
Final dividend for 2012	11(a)	-	(1,855)	-	(1,855)	-	(1,855)
Issue of shares upon exercise of share options		-	-	86	86	-	86
Repurchase of shares	18(a)(ii)	-	-	(25)	(25)	-	(25)
Dividend to non-controlling interests		-	-	-	-	(699)	(699)
Acquisition from non-controlling interests		-	-	(19)	(19)	(31)	(50)
Capital contributions from non-controlling interests		-	-	-	-	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
Balance as at 1 January 2014		81	24,530	25,795	50,406	21,862	72,268
Profit for the period		-	3,171	-	3,171	1,642	4,813
Other comprehensive income		-	-	(1,198)	(1,198)	(570)	(1,768)
Total comprehensive income for the period		-	3,171	(1,198)	1,973	1,072	3,045
Transfer between reserves		-	(30)	30	-	-	-
Final dividend for 2013	11(b)	-	(1,857)	-	(1,857)	-	(1,857)
Issue of shares upon exercise of share options		-	-	32	32	-	32
Dividend to non-controlling interests		-	-	-	-	(3,460)	(3,460)
Capital contributions from non-controlling interests		-	-	-	-	684	684
		-	(1,887)	62	(1,825)	(2,776)	(4,601)
Balance as at 30 June 2014		81	25,814	24,659	50,554	20,158	70,712

The notes on pages 25 to 47 form part of this interim financial report.

Unaudited Consolidated Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'million	2013 HK\$'million
Operating activities		
Cash generated from operations	8,186	9,640
Tax paid	(2,100)	(1,948)
Net cash generated from operating activities	6,086	7,692
Investing activities		
Capital expenditure	(3,978)	(6,567)
Other cash flows arising from investing activities	602	371
Net cash used in investing activities	(3,376)	(6,196)
Financing activities		
Dividends paid to equity shareholders of the Company	(1,857)	(1,855)
Dividends paid to non-controlling interests	(1,613)	(1,544)
Capital contribution from non-controlling interests	684	473
Increase in borrowings	5,243	5,641
Repayments in borrowings	(7,162)	(3,686)
Other cash flows arising from financing activities	(731)	(762)
Net cash used in financing activities	(5,436)	(1,733)
Net decrease in cash and cash equivalents	(2,726)	(237)
Cash and cash equivalents at 1 January	14,897	19,592
Effect of foreign exchange rate changes	(88)	147
Cash and cash equivalents at 30 June	12,083	19,502

The notes on pages 25 to 47 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

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 30 June 2014, PetroChina indirectly owned 58.33% (31 December 2013: 58.40%) 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, 2 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, 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 (the “Listing Rules”), 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 28 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any 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 2013 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”).

Notes to the Unaudited Interim Financial Report

2 BASIS OF PREPARATION (CONTINUED)

As at 30 June 2014, the Group had net current liabilities of HK\$1,361 million. Notwithstanding the net current liabilities of the Group at 30 June 2014, the Group's condensed consolidated interim financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the Group has an undrawn facility provided by the Company's immediate holding company, amounting to HK\$2,300 million; and
- (ii) the Group expects to generate positive operating cash flows for the year ending 31 December 2014.

Consequently, the consolidated financial statements have been prepared on a going concern basis.

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 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2014.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation 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 HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

Notes to the Unaudited Interim Financial Report

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recovered amount is based on fair value less costs of disposal. These amendments do not have an impact on the Group's interim financial report as the Company does not have any significant impaired non-financial assets.

HK(IFRIC) 21, *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

4 REVENUE AND TURNOVER

Turnover mainly represents revenue from the sale 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	
	2014	2013
	HK\$'million	HK\$'million
Net exchange (losses)/gains	(91)	46
Rental income	27	15
Government grants	349	298
Dividend income from available-for-sale financial assets	40	–
Impairment loss on available-for-sale financial assets	(6)	–
Others	29	14
	348	373

Government grants for the six months ended 30 June 2014 and 2013 primarily represented 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. During the six months ended 30 June 2014, the Group has recognised related government grants of HK\$335 million (six months ended 30 June 2013: HK\$273 million).

Notes to the Unaudited Interim Financial Report

6 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levies on PRC domestic sales of crude oil of approximately HK\$192 million (six months ended 30 June 2013: HK\$209 million) for the six months ended 30 June 2014.

7 INTEREST EXPENSES

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Interest expenses on:		
Bank loans, wholly repayable within five years	7	7
Loans other than bank loans, wholly repayable within five years, to:		
– An intermediate holding company	273	396
– An immediate holding company	8	6
– China Petroleum Finance Company Limited (“CP Finance”)	432	410
– Fellow subsidiaries	40	19
Less: Amounts capitalised	(538)	(543)
	222	295

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 5.08% (six months ended 30 June 2013: 5.52%) per annum for the six months ended 30 June 2014.

8 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Amortisation on intangibles and other non-current assets	32	24
Cost of inventories recognised as expense	12,771	9,232
Depreciation and depletion of property, plant and equipment	2,681	2,154
Operating lease expenses	121	76

Notes to the Unaudited Interim Financial Report

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Current tax		
– PRC	1,590	1,417
– Overseas	379	465
	1,969	1,882
Deferred tax	(456)	164
	1,513	2,046

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2013: 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 2013: 10% to 15%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2014 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\$217 million (six months ended 30 June 2013: HK\$320 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 2013: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2014 (six months ended 30 June 2013: 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\$3,171 million (six months ended 30 June 2013: HK\$3,680 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2014 of approximately 8,068 million shares (six months ended 30 June 2013: 8,056 million shares).
- (b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK\$3,171 million (six months ended 30 June 2013: HK\$3,680 million) and the weighted average number of ordinary shares of approximately 8,075 million shares (six months ended 30 June 2013: 8,085 million shares) which is the weighted average number of ordinary shares in issue during the six months ended 30 June 2014 plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 7 million shares (six months ended 30 June 2013: 29 million shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

Notes to the Unaudited Interim Financial Report

11 DIVIDENDS

- (a) 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 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 28 May 2013, the date of closure of the register of members, and which was paid on 3 June 2013.
- (b) Final dividend attributable to owners of the Company in respect of 2013 of HK23 cents per share amounting to a total of approximately HK\$1,854 million were approved by the shareholders in the Annual General Meeting on 12 June 2014. The amount is based on approximately 8,062 million shares in issue as at 20 March 2014. The actual final dividend for 2013 was approximately HK\$1,857 million due to additional shares issued during the period from 21 March 2014 to 19 June 2014, the date of closure of the register of members, and which was paid on 30 June 2014.
- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Cost:		
Balance as at 1 January	115,257	96,518
Currency translation differences	(2,139)	1,035
Additions through business combinations	–	127
Additions	3,556	5,934
Disposals	(69)	(117)
Balance as at 30 June	116,605	103,497
Accumulated depreciation and depletion:		
Balance as at 1 January	32,314	27,293
Currency translation differences	(537)	249
Charge for the period	2,681	2,154
Disposals	(6)	(11)
Balance as at 30 June	34,452	29,685
Net book value:		
Balance as at 30 June	82,153	73,812

Notes to the Unaudited Interim Financial Report

13 INVESTMENTS IN ASSOCIATES

	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Share of net assets	3,940	5,255
Goodwill	443	452
Loans to associates	–	13
	4,383	5,720

Movements in share of net assets of associates for the six months ended 30 June 2014 and 2013 are as follows:

	Six months ended 30 June	
	2014 HK\$'million	2013 HK\$'million
Balance as at 1 January	5,255	5,166
Capital contributions	68	45
Share of profits less losses	188	933
Dividend income received and receivable	(1,100)	(1,610)
Share of exchange reserves	(471)	18
Balance as at 30 June	3,940	4,552

Notes to the Unaudited Interim Financial Report

14 INVESTMENTS IN JOINT VENTURES

	30 June 2014	31 December 2013
	HK\$'million	HK\$'million
Share of net assets	1,735	1,481
Loans to joint ventures	95	83
	1,830	1,564

Movements in share of net assets of joint ventures for the six months ended 30 June 2014 and 2013 are as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Balance as at 1 January	1,481	1,496
Capital contributions	-	31
Share of profits less losses	264	192
Dividend income received and receivable	(1)	(8)
Share of exchange reserves	(9)	(7)
Disposal	-	(151)
Balance as at 30 June	1,735	1,553

Loans to joint ventures are unsecured, interest-free and repayable in 2015.

Notes to the Unaudited Interim Financial Report

15 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Intangible assets	496	503
Prepaid construction costs	1,879	2,006
Loans to third parties (note)	261	592
Others	5	3
	2,641	3,104

Note: Loans to third parties are unsecured, interest-bearing at a range of 4.80% to 6.15% (31 December 2013: 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 2014 and 31 December 2013, based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Within 3 months	1,754	1,352
Between 3 to 6 months	390	397
Over 6 months	267	144
	2,411	1,893

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services 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 2014, accounts receivable of approximately HK\$657 million (31 December 2013: HK\$541 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group. As of 30 June 2014 and 31 December 2013, 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.

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\$629 million (31 December 2013: Nil) and HK\$529 million (31 December 2013: HK\$357 million) respectively. Loans to third parties are unsecured, interest-bearing at 4.80% to 6.65% per annum and repayable within one year.

Notes to the Unaudited Interim Financial Report

18 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares 'million	Nominal value of ordinary shares HK\$'million
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2013, 30 June 2013, 31 December 2013, 1 January 2014 and 30 June 2014	16,000	160
Issue and fully paid:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 January 2013	8,051	81
Issue of shares upon exercise of share options (note (i))	16	–
Repurchase of shares (note (ii))	(2)	–
At 30 June 2013 and 1 July 2013	8,065	81
Repurchase of share (note (ii))	(3)	–
At 31 December 2013 and 1 January 2014	8,062	81
Issue of shares upon exercise of share options (note (i))	10	–
At 30 June 2014	8,072	81

Notes:

(i) During the six months ended 30 June 2014, the Company allotted and issued 9.9 million shares (six months ended 30 June 2013: 15.6 million shares) of HK\$0.01 each for cash at the weighted average exercise price of HK\$3.25 (six months ended 30 June 2013: HK\$5.527) per share as a result of the exercise of share options. The nominal value of ordinary shares has increased by HK\$99,000 (six months ended 30 June 2013: HK\$156,000).

(ii) Purchase of own shares

During the six months ended 30 June 2014, the Company did not repurchase its own shares on the Stock Exchange. The Company repurchased its own share on the Stock Exchange for the year ended 31 December 2013 as follows:

	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
July 2013	2,518,000	12.84	12.40	32

The repurchased shares for the year ended 31 December 2013 were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of HK\$45,000 of these shares. The premium paid on the repurchase of the shares of HK\$57 million was charged to share premium for the year ended 31 December 2013.

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes

Pursuant to executive share option scheme (the “2002 Share Option Scheme”) of the Company dated 3 June 2002, 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 lapsed 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.

No new shares option scheme was adopted after the expiration of 2002 Share Option Scheme. No new option was granted during the six months ended 30 June 2014 and 2013.

During the six months ended 30 June 2014, 3.9 million (six months ended 30 June 2013: 7.1 million) and 6.0 million (six months ended 30 June 2013: 8.5 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 2014 was HK\$12.90 (six months ended 30 June 2013: HK\$15.313).

Notes to the Unaudited Interim Financial Report

18 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (continued)

Details of share options exercised during the six months ended 30 June 2014 and 2013 are as follows:

	Six months ended 30 June			
	2014		2013	
	Exercised '000	Exercise price per share HK\$	Exercised '000	Exercise price per share HK\$
Directors	3,900	3.250	–	3.250
	–	4.240	7,100	4.240
	–	10.320	–	10.320
	–	11.730	–	11.730
	–	12.632	–	12.632
Employees	6,000	3.250	–	3.250
	–	4.240	6,000	4.240
	–	10.320	–	10.320
	–	11.730	1,000	11.730
	–	12.632	1,500	12.632
	9,900		15,600	

Details of the options granted under the 2002 Share Option Scheme outstanding as at 30 June 2014 and 31 December 2013 are as follows:

	Date of grant	Exercise period	Exercise price per share HK\$	Number of shares subject to the options	
				30 June 2014 '000	31 December 2013 '000
				Directors	26 March 2009
	26 March 2010	26 June 2010 – 25 March 2015	10.320	5,100	5,100
	18 March 2011	18 June 2011 – 17 March 2016	11.730	3,900	3,900
	17 May 2012	17 August 2012 – 16 May 2017	12.632	4,200	4,200
Employees	26 March 2009	26 June 2009 – 25 March 2014	3.250	–	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	6,000
	17 May 2012	17 August 2012 – 16 May 2017	12.632	11,500	11,500
				36,700	46,600

Notes to the Unaudited Interim Financial Report

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

Available-for-sale financial assets are the Group's only assets that are measured at fair value. The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2014 HK\$'million	Fair value measurements as at 30 June 2014 categorised into		
		Level 1 HK\$'million	Level 2 HK\$'million	Level 3 HK\$'million
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets:				
– Listed equity securities in Hong Kong	48	48	–	–
– Listed equity securities in Australia	17	17	–	–
– Unlisted equity securities in the PRC	41	–	–	41
	106	65	–	41

	Fair value at 31 December 2013 HK\$'million	Fair value measurements as at 31 December 2013 categorised into		
		Level 1 HK\$'million	Level 2 HK\$'million	Level 3 HK\$'million
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets:				
– Listed equity securities in Hong Kong	38	38	–	–
– Listed equity securities in Australia	41	41	–	–
– Unlisted equity securities in the PRC	41	–	–	41
	120	79	–	41

Notes to the Unaudited Interim Financial Report

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(i) Fair value hierarchy (continued)

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: 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.

(ii) Information about fair value measurements

As 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\$41 million (31 December 2013: HK\$41 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.

The movements during the period in the balance of the Level 3 fair value measurements are as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Unlisted available-for-sale equity securities:		
At 1 January	41	77
Disposals	-	(30)
At 30 June	41	47

(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 30 June 2014 and 31 December 2013.

Notes to the Unaudited Interim Financial Report

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2014	31 December 2013
	HK\$'million	HK\$'million
Accounts payable	1,941	1,542
Advances from customers	1,647	1,518
Salaries and welfare payable	194	294
Accrued expenses	556	26
Dividends payable to non-controlling interests	1,919	72
Interest payable	67	68
Construction fee and equipment cost payables	6,028	7,248
Amounts due to related parties		
– Non-controlling interests	1,195	982
– Others	6	2
Other payables	1,301	924
	14,854	12,676

The ageing analysis of accounts payable as at 30 June 2014 and 31 December 2013, based on the invoice date, is as follows:

	30 June 2014	31 December 2013
	HK\$'million	HK\$'million
Within 3 months	1,182	923
Between 3 to 6 months	499	254
Over 6 months	260	365
	1,941	1,542

21 BORROWINGS

	30 June 2014	31 December 2013
	HK\$'million	HK\$'million
Short-term borrowings – unsecured	3,485	929
Current portion of long-term borrowings	5,278	12,622
	8,763	13,551
Long-term borrowings – unsecured	25,450	30,421
Less: Current portion of long-term borrowings	(5,278)	(12,622)
	20,172	17,799
	28,935	31,350

Notes to the Unaudited Interim Financial Report

21 BORROWINGS (CONTINUED)

The borrowings can be analysed as follows:

	Short-term borrowings		Long-term borrowings	
	30 June 2014 HK\$'million	31 December 2013 HK\$'million	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Bank loans				
– Wholly repayable within five years	164	–	815	339
Loans other than bank loans				
– Wholly repayable within five years	3,321	929	24,635	30,081
– Not wholly repayable within five years	–	–	–	1
	3,485	929	25,450	30,421

As at 30 June 2014 and 31 December 2013, 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 2014 HK\$'million	31 December 2013 HK\$'million	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Within one year	78	17	5,200	12,605
Between one to two years	244	26	6,517	9,132
Between two to five years	493	296	12,918	8,344
After five years	–	–	–	1
	815	339	24,635	30,082

As at 30 June 2014 and 31 December 2013, 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 2.35% to 8.00% and 1.6761% to 8.00% per annum respectively. As at 30 June 2014, loans other than bank loans included debentures issued by the Group's PRC subsidiary to third parties of HK\$1,010 million (31 December 2013: Nil), which bore interest ranging from 5.20% to 5.63% per annum.

22 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 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.

Notes to the Unaudited Interim Financial Report

22 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2014 and 2013 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		LNG Terminal HK\$ million	Natural Gas Pipeline HK\$ million	Sub-total HK\$ million	Sub-total HK\$ million	Total HK\$ million
						Processing HK\$ million	Sub-total HK\$ million					
For the six months ended 30 June 2014												
Gross revenue	1,831	1,013	2,844	12,015	1,707	13,722	1,158	6,008	20,888	-	23,732	
Less: Inter-company adjustment	-	-	-	(86)	(831)	(917)	(46)	(6)	(969)	-	(969)	
Revenue from external customers	1,831	1,013	2,844	11,929	876	12,805	1,112	6,002	19,919	-	22,763	
Segment results	470	209	679	929	19	948	428	3,952	5,328	(133)	5,874	
Share of profits less losses of:												
- Associates	-	118	118	70	-	70	-	-	70	-	188	
- Joint ventures	-	298	298	-	-	-	-	-	-	(34)	264	
Profit before income tax expense	470	625	1,095	999	19	1,018	428	3,952	5,398	(167)	6,326	
Income tax expense											(1,513)	
Profit for the period											4,813	
Segment results included:												
- Interest income	8	4	12	49	3	52	1	24	77	16	105	
- Depreciation, depletion and amortisation	(321)	(292)	(613)	(509)	(106)	(615)	(439)	(1,045)	(2,099)	(1)	(2,713)	
- Interest expenses	-	(10)	(10)	(10)	-	(10)	(57)	(87)	(154)	(58)	(222)	
As at 30 June 2014												
Non-current assets	3,133	960	4,093	20,703	11,742	32,445	11,115	38,701	82,261	1,165	87,519	
Current assets	1,350	1,805	3,155	12,101	2,250	14,351	431	3,151	17,933	2,274	23,362	
Segment assets	4,483	2,765	7,248	32,804	13,992	46,796	11,546	41,852	100,194	3,439	110,881	
Investments in associates	-	1,970	1,970	2,407	-	2,407	6	-	2,413	-	4,383	
Investments in joint ventures	-	1,304	1,304	156	-	156	-	-	156	370	1,830	
Sub-total	4,483	6,039	10,522	35,367	13,992	49,359	11,552	41,852	102,763	3,809	117,094	
Available-for-sale financial assets											106	
Deferred tax assets											424	
Others											15	
Total assets											117,639	

Notes to the Unaudited Interim Financial Report

22 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production				Natural Gas Distribution				Corporate							
	PPC		Others		Sub-total		Natural Gas Sales and LNG Processing		LNG Terminal		Natural Gas Pipeline		Sub-total		Total	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	
For the six months ended																
30 June 2013																
Gross revenue	1,930	976	2,906	8,584	1,470	10,054	1,474	5,888	17,416	-	20,322					
Less: Inter-company adjustment	-	-	-	(71)	(659)	(730)	(39)	(126)	(895)	-	(895)					
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 31 December 2013																
Non-current assets	3,261	1,153	4,414	20,807	11,456	32,263	11,733	39,429	83,425	1,103	88,942					
Current assets	1,413	1,800	3,213	11,804	2,270	14,074	598	1,692	16,364	3,242	22,819					
Segment assets	4,674	2,953	7,627	32,611	13,726	46,337	12,331	41,121	99,789	4,345	111,761					
Investments in associates	-	3,371	3,371	2,343	-	2,343	6	-	2,349	-	5,720					
Investments in joint ventures	-	1,005	1,005	147	-	147	-	-	147	412	1,564					
Sub-total	4,674	7,329	12,003	35,101	13,726	48,827	12,337	41,121	102,285	4,757	119,045					
Available-for-sale financial assets											120					
Deferred tax assets											254					
Others											43					
Total assets											119,462					

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 2014, revenue of approximately HK\$9,250 million (six months ended 30 June 2013: HK\$7,929 million) are derived from one (six months ended 30 June 2013: two) single customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

Notes to the Unaudited Interim Financial Report

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 five years and usually do not contain renewal options. Future minimum lease payments as of 30 June 2014 and 31 December 2013 under non-cancellable operating leases are as follows:

	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Within one year	152	108
Between two to five years	332	275
After five years	514	274
	998	657

(b) Capital commitments

	30 June 2014 HK\$'million	31 December 2013 HK\$'million
Contracted but not provided for:		
– Oil field development costs	310	547
– Other property, plant and equipment	6,486	5,045
	6,796	5,592
Authorised but not contracted for:		
– Oil field development costs	598	601
– Acquisitions of/capital contributions to investments	3,902	4,350
– Other property, plant and equipment	39,851	15,514
	44,351	20,465

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, joint control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

Notes to the Unaudited Interim Financial Report

24 RELATED PARTY TRANSACTIONS (CONTINUED)

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 three years ending 31 December 2014.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK\$4,952 million (six months ended 30 June 2013: HK\$3,616 million) for the six months ended 30 June 2014 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK\$753 million (six months ended 30 June 2013: HK\$831 million).
- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK\$1,831 million (six months ended 30 June 2013: HK\$1,930 million) for the six months ended 30 June 2014.
- 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\$8 million (six months ended 30 June 2013: HK\$9 million) for the six months ended 30 June 2014.
- 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\$6,106 million (six months ended 30 June 2013: HK\$4,641 million) for the six months ended 30 June 2014.
- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK\$7,551 million (six months ended 30 June 2013: HK\$3,372 million) for the six months ended 30 June 2014.

Notes to the Unaudited Interim Financial Report

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 Listing Rules.

(ii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK\$85 million (six months ended 30 June 2013: HK\$73 million) for the six months ended 30 June 2014.

(iii) As at 30 June 2014 and 31 December 2013, 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 2014 HK\$'million	31 December 2013 HK\$'million
Intangible and other non-current assets	232	150
Accounts receivable	781	434
Accounts payable and accrued liabilities	3,899	2,565
Borrowings	26,946	31,011

(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”), a subsidiary of the Company, 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. Under the terms of 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\$1,752 million (six months ended 30 June 2013: HK\$2,575 million) for the six months ended 30 June 2014. This transaction constituted connected transactions in accordance with Chapter 14A of the Listing Rules and was accounted for in a manner similar to a uniting of interests basis.

Notes to the Unaudited Interim Financial Report

24 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Six months ended 30 June	
	2014	2013
	HK\$'million	HK\$'million
Salaries and allowances	10	10
Retirement benefits – defined contribution scheme	1	1
	11	11

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

Apart from transactions with the CNPC Group, 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.



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 20 to 47 which comprises the consolidated interim statement of financial position of Kunlun Energy Company Limited (the “Company”) as of 30 June 2014 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 2014 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

28 August 2014