KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

Annual Report 2015

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr Huang Weihe *(Chairman)*[1]
Mr Wu Enlai
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
Mr Sun Patrick[1]

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
Standard Chartered Bank (Hong Kong) Limited

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

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

PRINCIPAL BOARD COMMITTEES

Audit Committee
Dr Lau Wah Sum, GBS, LLD, DBA, JP *(Chairman)*
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick[1]

Remuneration Committee
Mr Li Kwok Sing Aubrey *(Chairman)*
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Dr Liu Xiao Feng
Mr Sun Patrick[1]

Nomination Committee
Mr Huang Weihe *(Chairman)*[1]
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick[1]

SOLICITOR
Clifford Chance

REGISTERED OFFICE
Clarendon House
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Hamilton HM11, Bermuda

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PRINCIPAL REGISTRARS
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG
Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Note (1): Appointed on 18 February 2016

BUSINESS REVIEW

The board of directors (the "Board") of Kunlun Energy Company Limited (the "Company") hereby report the annual result for the year ended 31 December 2015 (the "Year") of the Company and its subsidiaries (together, the "Group") to the shareholders of the Company (the "Shareholders"). During the Year, due to the significant decline of the international price of crude oil, the impairment in relation to the oil and gas properties, and the reform on exchange rate system in Kazakhstan, the exploration and production business incurred a loss which has dragged down the overall performance. Faced by the complex and tough economic situation, the Group held on tight to the development tune of "improvement in steadiness" and seriously implemented every measure to lower the cost and increase efficiency, actively promoted the adjustment of business structure and optimised the coordination in operation to control the overall operation. The Group's sales revenue was HK$41,641 million, representing a decrease of HK$6,403 million or 13.33% as compared with last year. The profit attributable to the owners of the Company was HK$137 million, representing a decrease of HK$5,473 million or 97.56%.

During the Year, the Group entered into an acquisition agreement with PetroChina Company Limited ("PetroChina"), pursuant to which the Company agreed to purchase the entire equity interest in PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") owned by PetroChina for a consideration of approximately RMB14,827 million. The acquisition will help the Group become the only subsidiary of PetroChina engaging in investing, financing and operating natural gas distribution and comprehensive utilisation business and avoid the horizontal competition between the Company and PetroChina. It will also improve the Group's business structure, generate synergies among businesses, and enhance operational efficiency and competitiveness. The transaction has been approved at the Company's special general meeting and is expected to be completed in the first half of 2016 after obtaining approvals from the relevant government departments.

During the Year, the Group issued its senior notes in the total nominal amount of US$1 billion after it obtained, for the first time, an A+, A1 and A rating from Standard & Poor's, Moody's and Fitch respectively. To the Group, this issuance of bonds not only effectively optimised its debt financing and capital structure, but also successfully broadened its financing channels and investor's scope.

I. Exploration and Production

For the Year, the sales volume of crude oil in the Exploration and Production business was 16.75 million barrels, representing a decrease of 0.13 million barrels or 0.77% compared with last year. Revenue amounted to HK$2,579 million, representing a decrease of HK$2,757 million or 51.67% as compared to last year. Loss before income tax expense was HK$3,879 million, representing a decrease in profit of HK$6,181 million or 268.51% compared to last year. The decrease in revenue and profit before income tax expense was mainly due to the Group's average realised crude oil selling price was only US$43.01 per barrel for the Year, representing a substantial decrease of US$41.46 or 49.08% compared with US$84.47 per barrel for last year. It was also due to the share of exchange loss attributable to the owner of the Company of HK$1,881 million caused by the continuous depreciation of Tenge against US dollars under the floating exchange rate system adopted by the central bank of Kazakhstan. It was also attributable to the aggregate impairment for the two oil operations in the People's Republic of China (the "PRC") which amounted to approximately HK$1,679 million due to the decline of oil price.

During the Year, the Group encountered a sharp drop in oil prices, gradual decline in oil field production volume, increase in exploration cost and other adverse impacts. The Group adopted a scientific approach in running oil and gas production so as to keep the overall production volume stable; meanwhile, it efficiently deployed its workforce and strengthened the control over investment and costs resulting in a reduction of unit operating cost.

II. Natural Gas Pipeline

During the Year, the transmission volume of Natural Gas Pipeline business was 33,978 million cubic metres, representing an increase of 3,285 million cubic metres or 10.70% as compared with last year. Revenue for the Year was HK$14,043 million, representing an increase of HK$1,352 million or 10.65% as compared to last year. Profit before income tax expense was HK$9,380 million, representing an increase of HK$1,239 million or 15.22% as compared to last year.

During the Year, the transmission volume of PetroChina Beijing Gas Pipeline Co., Ltd. under the Group was 32,933 million cubic metres, representing an increase of 9.92% as compared with last year. Its Yongqing-Dagang transmission pipeline No. 3 (Bazhou distribution station to Dagang terminal station) successfully began operation, which further improved the Group's natural gas pipeline network in Beijing, Tianjin and Hebei regions, enhanced the safety of gas transmission pipeline network and increased the gas transmission capacity of the Group in those regions.

III. LNG Terminal

During the Year, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal under the Group amounted to 3,968 million cubic metres, representing a decrease of 1,213 million cubic metres or 23.42% as compared to last year. Revenue for the Year amounted to HK$1,490 million, representing a decrease of HK$504 million or 25.28% as compared to last year. Profit before income tax expense was HK$404 million, representing a decrease of HK$402 million or 49.88% as compared to last year. The decrease in both revenue and profit was due to decline in LNG import volume compared to last year as an excessive supply in the natural gas market.

During the Year, Dalian LNG Terminal fully completed construction of its second phase project and commenced trial operation. Upon completion of construction and commencement of operation of Dalian LNG Terminal, its loading and unloading capacity can reach 6 million tons per year and the maximum supply capability can reach 8,500 million cubic metres per year. The trial operation of the second phase project of Jiangsu LNG Terminal was successful. Upon completion and commencement of operation of second phase project of Jiangsu LNG Terminal, its loading and unloading capacity can reach 6.5 million tons per year and the maximum supply capacity can reach 9,100 million cubic metres per year. The expansion of these two terminals will enable the Group to better cope with the demand for natural gas in the peak season and the demand for LNG.

IV. Sales of Natural Gas and LNG Processing

During the Year, the sales volume of natural gas was 7,256 million cubic metres, representing a decrease of 501 million cubic metres or 6.46% as compared with last year. Revenue for the Year amounted to HK$24,534 million, representing a decrease of HK$5,203 million or 17.50% as compared with last year. Loss before income tax expense was HK$378 million, representing a decrease in profit of HK$1,460 million or 134.94% as compared with last year. The decrease in revenue and profit before income tax expense was mainly due to international oil price remaining in a low range which reduced the economic advantage of using natural gas over diesel as a result of low international oil price.

During the Year, Hainan LNG storage tank which was invested and constructed by the Group began operation. Its loading and unloading capacity has reached 300,000 tons/year, and approximately 30,000 tons of LNG were successfully loaded and unloaded during the Year. The storage tank strongly secured the supply of LNG of the Group in Hainan Province.

During the Year, the Group strictly followed the market-oriented approach, closely coordinated the Group's production, transmission and marketing activities and secured resources through multiple channels for the "Gas In Substitution of Oil" business. Meanwhile, highlighting the highly efficient investment in marketing resources and leveraging on the sales network and channels of PetroChina, the construction of integrated oil and gas stations of the Group was accelerated. During the Year, the Group's sales volume of LNG was 2,941 million cubic metres, representing an increase of 25 million cubic metres or 0.86% as compared with last year.

BUSINESS PROSPECTS

2016 is the year in which the 13th 5-Year Plan begins. The China's economy is in a critical period of structural adjustment. Optimisation and adjustment of the structure of energy consumption on the national level and pollution governance will become the major driving forces of clean energy consumption. The rigid growth in demand for natural gas is likely to be maintained. The Group believes that the further deepening of natural gas market reform will strongly facilitate the fair competition of the industry, which will stimulate market vitality and the natural gas distribution and comprehensive utilisation business will have better development opportunities. In the future, the Group will focus on the natural gas distribution and comprehensive utilisation business and grasp suitable opportunities to steadily and gradually divest the exploration and production business. Especially upon the completion of the Acquisition of Kunlun Gas, the strategic positioning of the Group will be further be defined. As the sole platform for PetroChina in the investment, financing and operation of natural gas distribution and comprehensive utilisation business, the Group will undertake the important mission for PetroChina to develop the natural gas distribution market.

Based on its positioning and strategic guidelines, the Group will optimise the current the Group's and Kunlun Gas business into two aspects namely equity structure and management, to fully leverage the synergy effect and enhance the competitiveness by designing and coordinating market development, planning, investment, production, operation, logistics and information and tapping resources, integration was formed to enhance asset operation efficiency and optimise the allocation of human resources as well as further lower the consolidated management fee for sale; by further expanding and optimising the sales network and the integrating privilege customer from both parties and upward and downward channel, crossing selling is prompted and hence increase the volume; by utilising domestic and international resources and market, the advantages of the financing platform and trading entities are complemented.

Regarding the Natural Gas Pipeline business, the construction and operation of natural gas pipeline network will be coordinated, investment led by the PetroChina Beijing Gas Pipeline Co., Ltd. will be made in Shaanxi-Beijing Pipeline No. 4, the stable operation of the existing major pipelines, such as the Shaanxi-Beijing Pipeline will be maintained, and the transmission and distribution capability of the pipeline network will be increased. The leading position of the Group in the regional market will be further reinforced.

As for the LNG Terminal business, there will be further bridging of resources and market and strengthen cost control. Extending access of the Group's excess capacity of terminal facilities to third parties on a fair basis will be actively promoted, striving to enhance the Group's operation efficiency.

Regarding the Natural Gas distribution and comprehensive utilisation business, the Group will fully leverage on the advantage in security of resources upstream and mid-stream transmission and distribution of PetroChina. The city gas business has a key role in driving the branch pipeline market. It will speed up the development of pipeline radiation regional project with equal attention paid to quality, efficiency and size, and will innovate its marketing strategy and service approach. There will be further strategic co-operation with large gas enterprises to achieve centralised development of scale and efficiency, and the Group will also actively develop natural gas power generation and distributed energy resources. The Group will focus on coordinating resources allocation for its LNG/CNG business, thereby improving business structure, optimising existing layout of plants and sales network, strengthening market development, coordinating the processing and refilling of LNG, integrating CNG primary station and substation, and constantly enhancing the operation efficiency and integrated efficiency of existing LNG plants, CNG primary stations and refilling terminals. The LPG business will mainly leverage on the stable supply of oil from refinery and oil field enterprises in China, develop new import channels, maintain regional resources advantage, implement the layout and construction of LPG sales network, strengthen the development of end-user sales business, and further improve the quality and efficiency of sales network. Meanwhile, the Group will further optimise the value chain of natural gas and LPG sales, strive to increase new business growth points and realise the effective coordination, sustainable and healthy development of various businesses.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK6 cents per share (2014: HK20 cents per share) to Shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 20 May 2016 (Friday), subject to the approval at the annual general meeting of the Company (the "2016 AGM"). The payment will be made on or before 17 June 2016. The proposed 2015 final dividend amounts to a total of approximately HK$484 million and 2014 dividend of HK$1,614 million was paid in 2015, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 352.94% or 26.04% (excluding the impairment loss of HK$1,724 million) (2014: 28.77%).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2016 AGM, and entitlement to the final dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2016 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 9 May 2016 (Monday)
Closure of Shareholders Register	from 10 May 2016 (Tuesday) to 11 May 2016 (Wednesday) (both dates inclusive)
Record date	11 May 2016 (Wednesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 18 May 2016 (Wednesday)
Closure of Shareholders Register	from 19 May 2016 (Thursday) to 20 May 2016 (Friday) (both dates inclusive)
Record date	20 May 2016 (Friday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2016 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2016 AGM will be held on 12 May 2016 (Thursday). The Notice of the 2016 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2015 Annual Report. The Notice of the 2016 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited.

By the Order of the Board

Huang Weihe
Chairman & Executive Director

Hong Kong, 17 March 2016

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment during the year ended 31 December 2015 (the "Year"). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 190.91% (2014: 83.88%) of the Group's profit before income tax expense for the Year.

OPERATING RESULTS

Profit before income tax expense of the Group for the Year was approximately HK$4,927 million, representing a decrease of 58.79% as compared with HK$11,956 million for the last year. Profit attributable to owners of the Company for the Year was approximately HK$137 million, representing a decrease of 97.56% as compared with HK$5,610 million for the last year.

Revenue

Revenue for the Year was approximately HK$41,641 million, representing a decrease of 13.33% as compared with amount of HK$48,044 million for the last year. The decrease was mainly due to the decrease in realised crude oil selling price compared to the last year.

Revenue from the Exploration and Production segment accounted for 6.19% (2014: 11.11%) of the Group's total revenue amounting to approximately HK$2,579 million (2014: HK$5,336 million) while revenue from the Natural Gas Distribution business segment accounted for 93.81% (2014: 88.89%) of the Group's total revenue amounting to approximately HK$39,062 million (2014: HK$42,708 million).

The table below sets out the sales volume and revenue of different segments of the Group for the year 2015 and 2014, and percentages of change across these two years.

	Sale volume (Group's portion) for the year ended 31 December			**Revenue (Per segment information) for the year ended 31 December**		
	2015 ('000 Barrel)	2014 ('000 Barrel)	Change %	**2015 HK$'million**	2014 HK$'million	Change %
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC")	**5,258**	5,368	(2.05)	**1,648**	3,477	(52.60)
South America (note (1))	**622**	653	(4.75)	**515**	1,004	(48.71)
Central Asia	**617**	646	(4.49)	**220**	465	(52.69)
South East Asia (note (2))	**512**	545	(6.06)	**196**	390	(49.74)
Sub-total	**7,009**	7,212	(2.81)	**2,579**	5,336	(51.67)
Share of an associate in Central Asia	**5,471**	5,773	(5.23)	**–**	–	N/A
Share of a joint venture in Middle East	**4,267**	3,892	9.64	**–**	–	N/A
Total of Exploration and Production	**16,747**	16,877	(0.77)	**2,579**	5,336	(51.67)

	Revenue (Per segment information) for the year ended 31 December		
	2015	2014	Change
	HK$'million	HK$'million	%
Natural Gas Distribution business (by segments)			
Natural Gas Pipeline (note (3))	**14,043**	12,691	10.65
LNG Terminal	**1,490**	1,994	(25.28)
Natural Gas Sales	**22,464**	26,291	(14.56)
LNG Processing	**2,070**	3,446	(39.93)
Sub-total	**24,534**	29,737	(17.50)
Less: Inter-company adjustment	**(1,005)**	(1,714)	(41.37)
Total of Natural Gas Distribution	**39,062**	42,708	(8.54)
Total revenue	**41,641**	48,044	(13.33)

	Sale/processing volume for the year ended 31 December		
	2015	2014	Change
	('000 cubic metre)	('000 cubic metre)	%
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline	**33,978,095**	30,692,548	10.70
LNG Terminal	**3,967,649**	5,181,003	(23.42)
Natural Gas Sales	**6,576,776**	6,845,316	(3.92)
LNG Processing	**679,207**	911,771	(25.51)
Sub-total	**7,255,983**	7,757,087	(6.46)
Less: Inter-company adjustment	**(642,974)**	(724,460)	(11.25)
Total of Natural Gas Distribution	**44,558,753**	42,906,178	3.85

Notes:

(1) Only the Group's 50% share of sales volume from an oilfield in South America is stated while its revenue is shown as 100% per consolidation requirement.

(2) Only the Group's 96.11% share of sales volume from an oilfield in South East Asia is stated while its revenue is shown as 100% per consolidation requirement.

(3) Under the Natural Gas Pipeline segment, it included the following natural gas sales:

	Sales volume for the year ended 31 December			**Revenue for the year ended 31 December**		
	2015 ('000 cubic metre)	2014 ('000 cubic metre)	Change %	**2015 HK$'million**	2014 HK$'million	Change %
Natural Gas Sales	**47,608**	55,627	(14.42)	**174**	208	(16.35)

Other gains, net

Other gains, net for the Year was approximately HK$391 million, representing a decrease of 53.29% as compared with amount of HK$837 million for the last year. The decrease was mainly due to volatile exchange rate during the Year.

Interest income

Interest income for the Year was approximately HK$225 million, representing an increase of 3.69% as compared with amount of HK$217 million for the last year. The increase was mainly due to an increase in average balance of cash and cash equivalents.

Purchases, services and others

Purchases, services and others were approximately HK$22,884 million for the Year, representing a decrease of 13.17% as compared with amount of HK$26,354 million for the last year. This was mainly due to the decrease in purchase price and volume of natural gas which is in line with the decrease in sales of natural gas business.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$2,029 million for the Year, representing a decrease of 14.32% as compared with amount of HK$2,368 million for the last year. This decrease was mainly due to the decrease in the number of headcount during the Year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$5,281 million, representing a decrease of 2.06% as compared with amount of HK$5,392 million for the last year. This was mainly due to the revision of oil reserve in Exploration and Production business in South East Asia during the Year.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment was HK$1,724 million (2014: HK$2 million). This was mainly due to the drop in realised crude oil selling price which affect the recoverability of property, plant and equipment.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately HK$2,545 million, representing a decrease of 8.29% as compared with amount of HK$2,775 million for the last year. This was mainly due to the decrease in royalty expense in Exploration and Production business as a result of the decrease in realised crude oil selling price.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately HK$402 million, representing a decrease of 45.45% as compared with amount of HK$737 million for the last year. This was mainly due to the decrease in levy on petroleum as a result of the decrease in realised crude oil selling price in the Group's Exploration and Production business in the PRC.

Interest expenses

Interest expenses for the Year was approximately HK$577 million, representing an increase of 18.72% as compared with amount of HK$486 million for the last year. The increase was mainly due to the issuance of two senior notes in the total nominal amount of US$1 billion in May 2015 of interest rates 2.875% for 5 years' senior note and 3.750% for 10 years' senior note.

Total interest expenses for the Year was approximately HK$1,337 million of which HK$760 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year decreased by 396.65% to loss of approximately HK$2,124 million (2014: profit of HK$716 million). This was mainly due to the decrease in realised crude oil selling price and the depreciation of the Kazakhstan Tenge which resulted in the exchange loss of HK$3,136 million during the Year that in turn led to the decrease in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was decreased by 7.81% to approximately HK$236 million (2014: HK$256 million). The decrease in the shared operating result from Oman project was approximately HK$261 million due to decrease in realised crude oil selling price in 2015.

Profit before income tax expense

Profit before income tax expense for the Year was approximately HK$4,927 million, representing a decrease of 58.79% as compared with amount of HK$11,956 million for the last year.

The table below sets out the (loss)/profit before income tax expense and percentage of change of different segments of the Group for the year 2015 and 2014.

	(Loss)/profit before income tax expense for the year ended 31 December		
	2015	2014	Change
	HK$'million	HK$'million	%
Exploration and Production business			
The PRC	**(2,045)**	837	(344.32)
South America	**163**	423	(61.47)
Central Asia	**(21)**	(70)	(70.00)
South East Asia	**11**	(12)	191.67
Sub-total	**(1,892)**	1,178	(260.61)
Share of an associate in Central Asia	**(2,249)**	601	(474.21)
Share of a joint venture in Middle East	**262**	523	(49.90)
Total of Exploration and Production	**(3,879)**	2,302	(268.51)
Natural Gas Distribution business			
Natural Gas Pipeline	**9,380**	8,141	15.22
LNG Terminal	**404**	806	(49.88)
Natural Gas Sales	**490**	1,420	(65.49)
LNG Processing	**(868)**	(338)	156.80
Sub-total	**(378)**	1,082	(134.94)
Total of Natural Gas Distribution	**9,406**	10,029	(6.21)
	5,527	12,331	(55.18)

Income tax expense

Income tax expense for the Year was approximately HK$2,607 million, representing a decrease of 15.36% as compared with amount of HK$3,080 million for the last year. The effective tax rate (excluding joint ventures and associates) for the Year increased to 38.25% (2014: 28.04%).

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

The profit for the Year of the Group was approximately HK$2,320 million, representing a decrease of 73.86% as compared with amount of HK$8,876 million for the last year. The profit attributable to owners of the Company for the Year was approximately HK$137 million, representing a decrease of 97.56% as compared with amount of HK$5,610 million for the last year.

Liquidity and capital resources

As at 31 December 2015, the carrying value of total assets of the Group was approximately HK$108,081 million, representing a decrease of HK$9,629 million or 8.18% as compared with HK$117,710 million as at 31 December 2014.

The gearing ratio of the Group was 25.38% as at 31 December 2015 compared with 25.57% as at 31 December 2014, representing a decrease of 0.19%. It is computed by dividing the sum of interest bearing borrowings and obligations under finance leases of HK$23,913 million (2014: HK$25,532 million) by the total equity, interest bearing borrowings and obligations under finance leases of HK$94,237 million (2014: HK$99,846 million).

Adjusted (loss)/profit before income tax expense, after deduction of interest, taxation depreciation and profit before amortisation, excluding impairment loss on property, plant and equipment, interest, depreciation, depletion and amortisation for the year was approximately HK$12,284 million, representing a decrease of 30.28% as compared with the amount of HK$17,619 million for the last year.

During the Year, the Company has issued two senior notes to improve the debt profile:

Items	Date of Issue	Nominal Amount US$'million	Tenor year	Annual Interest %
Senior notes due 2020 (Stock code: 5510)	13 May 2015	500	5	2.875
Senior notes due 2025 (Stock code: 5511)	13 May 2015	500	10	3.750

Note: Please refer to the announcements on the issue of senior notes published by the Company on the websites of The Stock Exchange of Hong Kong Limited and the Company in April and May 2015.

As at 31 December 2015, the Group has total borrowings of HK$23,139 million which will be repayable as follows:

	2015	2014
	HK$'million	HK$'million
Within one year	**7,721**	8,465
Between one to two years	**2,716**	5,288
Between two to five years	**8,819**	10,936
After five years	**3,883**	–
	23,139	24,689

The carrying amounts of the borrowings are denominated in RMB, U.S. dollars and Hong Kong dollars as fully summarized under Note 31 in the Notes to Consolidated Financial Statements.

The functional currency of the Group is RMB and the Group is exposed to the exchange gain/(loss) when the RMB is appreciated/depreciated against other currencies. The details of the Group's financial risk factors (including foreign exchange rate risk) are summarized under Note 4.1 in the Notes to the Consolidated Financial Statements. Other financial risk factors are summarised in Note 4.2 and Note 4.3 in the Notes to Consolidated Financial Statements.

The Group received a dividend of HK$341 million (2014: HK$401 million) from a joint venture in Middle East and no dividend (2014: HK$1,041 million) from an associate in Central Asia during the Year.

During the Year, no share option (2014: 9.9 million shares exercised and HK$32 million received) has been exercised by the senior executives of the Company as the exercise price of HK$10.32 was above the market price of HK$7.36 on the share option expiry date and certain share options were lapsed.

As at 31 December 2015, the Group had net current liabilities of HK$1,782 million. Notwithstanding the net current liabilities of the Group at 31 December 2015, the Group's consolidated financial statements have been prepared on a going concern basis because the directors of the Company (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 certain undrawn facilities which include an undrawn facility provided by the Company's immediate holding company amounting to HK$2,300 million;

(ii) the Group expects to generate positive operating cash flows in the future; and

(iii) the Directors consider that the Group could obtain financing from various sources of funding.

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

Use of proceeds from borrowings

The Group raised new borrowings and obligations under finance leases of HK$19,737 million including the net amount of the senior notes of US$988 million (equivalent to HK$7,692 million) mentioned above. The Group repaid borrowings and obligations under finance leases in the total amount of HK$21,007 million resulting a net decrease of HK$1,270 million during the Year.

The Group paid interest of HK$1,221 million (2014: HK$1,486 million) during the Year.

2014 final dividend of HK20 cents per share amounting to HK$1,614 million (2013: HK23 cents per share amounting to HK$1,857 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2015 and 31 December 2014, no short-term or long-term borrowings were secured by property, plant and equipment or advanced operating lease payment.

New investment in major projects

The Company entered into an acquisition agreement dated 28 December 2015 with PetroChina Company Limited ("PetroChina"), pursuant to which PetroChina has conditionally agreed to sell and the Company has conditionally agreed to purchase the entire equity interest in PetroChina Kunlun Gas Co., Ltd. at a consideration of approximately RMB14,827 million. The acquisition was approved by the shareholders of the Company (the "Shareholders") in the Company's special general meeting held on 18 February 2016. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, will generate synergies among the businesses, enhance operational efficiency and increase the market competitiveness.

Material Investments

Material investments of the Group are its investments in associates and in joint ventures.

The Group's major investments in associates are mainly in its Exploration and Production segment. The Group has invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%, the detailed financial information of which is summarized in Note 19 in the Notes to the Consolidated Financial Statements.

There is no single material joint venture which significantly affects the results and/or net assets of the Group. Details of the Group's investments in joint ventures are summarized in Note 21 in the Notes to the Consolidated Financial Statements.

Employee

As at 31 December 2015, the Group had approximately 19,696 staff globally (excluding the staff under entrustment contracts) (2014: 21,751 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.

Final dividend

The Board recommended the payment of a final dividend of HK6 cents (2014: HK20 cents) per share. The proposed dividend will be paid on or before 17 June 2016 to the Shareholders whose names appear on the Company's register of members on 20 May 2016 (Friday), subject to the approval at the annual general meeting of the Company.

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 Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

By the Order of the Board

Zhang Bowen
President & Executive Director

Hong Kong, 17 March 2016

The board of directors (the "Board") of Kunlun Energy Company Limited (the "Company", and together with its subsidiaries, the "Group") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2015 (the "Year").

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

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

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

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

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

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

THE BOARD

Responsibilities

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

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

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

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

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

The Board fully supports the Chief Executive Officer and the senior management to discharge their responsibilities.

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

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

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

Composition

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

During the Year, the Board comprised the following seven Directors:

Executive Directors:
Mr Wu Enlai *(Chairman)*[(1)]
Mr Zhao Yongqi *(Chief Executive Officer)*
Mr Zhang Bowen *(President)*
Mr Cheng Cheng *(Senior Vice President)*

Independent Non-Executive Directors[(2)]*:*
Dr Lau Wah Sum *(Chairman of the Audit Committee and Member of the Remuneration Committee & the Nomination Committee)*
Mr Li Kwok Sing Aubrey *(Chairman of the Remuneration Committee and Member of the Audit Committee & the Nomination Committee)*
Dr Liu Xiao Feng *(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*

Notes:

(1) Mr Huang Weihe was appointed as an Executive Director, the Chairman and the Chairman of the Nomination Committee with effect from 18 February 2016. Upon the appointment of Mr Huang Weihe, Mr Wu Enlai ceased to be the Chairman and the Chairman of the Nomination Committee with effect from 18 February 2016 and has remained as an Executive Director.

(2) Mr Sun Patrick was appointed as an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 18 February 2016.

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

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

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

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

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

Board Diversity Policy

Under Code Provision A.5.6 of the CG Code, the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the Corporate Governance Report. The Board has adopted a Board Diversity Policy (the "Board Diversity Policy") to align the board diversity.

Selection of candidates will be based on a range of diversity criteria, including but not limited to, skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience, length of services and other qualities of candidates. Board appointments will be made on meritocracy and candidates will be considered against objective criteria, with due regard to the benefits of the diversity on the Board.

Appointment and Re-election of Directors

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

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

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

In accordance with the Company's Bye-laws Article 97, Dr Liu Xiao Feng will retire by rotation at the Company's forthcoming annual general meeting (the "2016 AGM"). Dr Liu Xiao Feng is eligible and will offer himself for re-election at the 2016 AGM.

Training for Directors

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

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

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

Board Meetings

Number of Meetings and Directors' Attendance

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

During the Year, nine Board meetings, three Audit Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings were held.

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

	Attendance/Number of Meetings			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Mr Wu Enlai	9/9	–	–	2/2
Mr Zhao Yongqi	9/9	–	–	–
Mr Zhang Bowen	9/9	–	–	–
Mr Cheng Cheng	9/9	–	–	–
Independent Non-Executive Directors:				
Dr Lau Wah Sum	8/9	3/3	2/2	2/2
Mr Li Kwok Sing Aubrey	8/9	3/3	2/2	2/2
Dr Liu Xiao Feng	9/9	3/3	2/2	2/2

Practices and Conduct of Meetings

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

The positions of the Chairman and Chief Executive Officer of the Company are held by different individuals during the Year. Mr Wu Enlai was the Chairman of the Board and Mr Zhao Yongqi acted as the Chief Executive Officer throughout the Year. There is no relationship between the Chairman and Chief Executive Officer.

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

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

The main duties of the Audit Committee include the following:

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee held two meetings during the Year to review the remuneration policy and structure of the Company, assess performance of Executive Directors, approve the terms of Executive Directors' services contracts and review and make recommendation of the remuneration packages of the Executive Directors and the senior management for the Year to the Board.

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

Senior Management emolument

	Year 2015
HK$2,500,001 – HK$3,000,000	**3**
HK$3,000,001 – HK$3,500,000	**1**
HK$3,500,001 – HK$4,000,000	**1**
	5

NOMINATION COMMITTEE

During the Year, the Nomination Committee comprised of four members including three Independent Non-executive Directors and the Chairman of the Company. Mr Wu Enlai, the-then Chairman, was the Chairman of the Nomination Committee during the Year.

The main duties of the Nomination Committee include the following:

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

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

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

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

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

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

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

The Nomination Committee held two meetings during the Year to review Board composition, proposal for Directors' re-election on retirement, the appointment of new Director as well as the objectives set for implementing the Board Diversity Policy.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

– adoption of corporate governance functions under the CG Code;

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

– review the compliance with the CG Code; and

– review of the effectiveness of the internal controls and risk management systems of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 42 and 43.

The remuneration to the independent auditor of the Company in respect of audit services and non-audit services for the Year amounted to approximately HK$19 million and approximately HK$1 million (2014: HK$20 million and HK$1 million) respectively. The said non-audit services related to the tax compliance services and other assurance services of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(1) General Meeting

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

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

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

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

During the Year, one general meeting was held on 3 June 2015. The attendance records of the Directors to the 2015 general meetings are set out below:-

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

(2) Rights of Shareholders to Convene Special General Meeting

A special general meeting shall be convened on the written requisition of shareholder(s) holding at the date of the deposit of the registration not less than one-tenth of the paid-up capital of the Company which as at the date of the deposit carries the voting right at general meetings of the Company deposited at the registered office of the Company in Bermuda (Clarendon House, 2 Church Street, Hamilton HM11, Bermuda) and the principal place of business of the Company in Hong Kong (39/F, 118 Connaught Road West, Hong Kong) for the attention of the Board.

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

(3) Shareholders' Communication

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

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

(4) Investor Relations

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

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

INTERNAL CONTROLS

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

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

The board of directors (the "Board") of Kunlun Energy Company Limited (the "Company") is pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2015 (the "Year").

BUSINESS REVIEW

A detailed review of the results of each business segment of the Company and its subsidiaries (together, the "Group"), major risks and uncertainties facing the Group's business operations, and the Group's business prospects are set out in the Chairman's Statement on pages 3 to 7 of this annual report.

(1) Analysis of key financial performance indicators

An analysis of key financial performance indicators for the Year is set out as follows:

	For the year ended 31 December	
	2015	2014
Return on Equity ("ROE") (1)	**0.28%**	10.62%
Net profit margin	**0.33%**	11.68%
Earnings per share (basic)	**1.70 HK cents**	69.52 HK cents
Earnings per share (diluted)	**1.70 HK cents**	69.49 HK cents
Dividend per share	**6.00 HK cents**	20.00 HK cents

	As at 31 December	
	2015	2014
Gearing ratio	**25.38%**	25.57%

Both the ROE and the net profit margin decreased for the year compared with last year due to the significant decline of the international price of crude oil, the impairment in relation to the oil and gas properties and the reform on exchange rate system in Kazakhstan which dragged down the performance of Exploration and Production segment.

The decline of the international price of crude oil also reduced the economic advantage of using natural gas over diesel in Natural Gas Distribution segment and caused the decrease of ROE and net profit margin.

The basic earnings per share for the Year was 1.70 HK cents, representing a decrease of 97.55% as compared to last year, mainly due to the decrease in the profit attributable to the shareholders of the Company (the "Shareholders") for the Year. The proposed final dividend for the Year represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 352.94% or 26.04% (excluding the impairment loss of HK$1,724 million) (2014: 28.77%).

The gearing ratio of the Group was 25.38% as at 31 December 2015, representing a decrease of 0.19% as compared to 25.57% as at 31 December 2014.

Further discussion and analysis of the financial performance of the Company for the Year are set out in the Management Discussion and Analysis section on pages 8 to 16 of this annual report.

Note (1): ROE is calculated by profit for the year attributable to owners of the Company divided by capital and reserves attributable to owners of the Company.

BUSINESS REVIEW (Continued)

(2) Business Strategy

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

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

Through strict purification, LNG has more pure components, thus featuring lower emission of pollutants and more remarkable advantages in energy conservation and emission reduction as compared with conventional fuels, such as gasoline and diesel oil. In order to achieve the objective, the Company constructed liquefaction plants to ensure sufficient LNG available. The corresponding countermeasures to further reduce the emission of greenhouse gases in the LNG production process was also taken.

As the sole platform for PetroChina Company Limited ("PetroChina"), the intermediate holding company, in the investment, financing and operation of natural gas distribution and comprehensive utilisation business, the Group undertakes the important mission for PetroChina to develop the natural gas distribution market. By fully utilising PetroChina's strengths in upstream resources and midstream transmission, and concentrating on the development of natural gas distribution and comprehensive utilisation business such as city gas, CNG, LNG, relevant natural gas branch pipeline networks, LPG and natural gas power generation etc., the Company is committed to being a "domestically leading and internationally advanced" enterprise in the natural gas distribution and comprehensive utilisation business.

(3) Compliance with laws and regulations

During the Year, to the best of the knowledge and information of the directors of the Company (the "Directors"), the Group has complied with the relevant laws, regulations and other applicable requirements that have a significant impact on the Group.

BUSINESS REVIEW (Continued)

(4) Key relationships with stakeholders

The Group recognises the importance of good corporate governance to its healthy growth and strives to maintain effective communication with its stakeholders, including its Shareholders, investors, employees, customers and suppliers. This has facilitated the Group's sustainable development in various aspects, including its business operation, environmental protection and work environment.

Corporate communications are provided to the shareholders of the Company in a timely manner. All Directors participated in the general meeting held during the Year to enable effective communication with the Shareholders. The Company also continues to enhance communications and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the development of the Company.

The Group adheres to the principle of fair recruitment and treatment of its employees, and has established sound occupational health safety policies to create a desirable work environment to its employees. Remuneration package and benefits of the employees are determined in accordance with market terms, industry practice as well as duties, performance, qualification and experience of the employees.

The Group adopts a market-oriented approach to closely monitor the demand for its products and coordinate its production, transmission and marketing activities with an aim to provide greater value to its customers. At the same time, the Group adopts scientific approach in managing its supply chain and controlling costs of raw materials. The Group has also received strong support from its largest supplier, PetroChina, in maintaining stable supply for its midstream and downstream natural gas business.

The Group has upheld its mission of "Low-Carbon Economy Green Development" in its long-term business strategy. It has placed a great emphasis on environmental protection by promoting energy conservation and emission reduction with a view to contributing to the sustainable development of the environment and maintaining long-term growth of the Group.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on pages 44 and 45.

A final dividend for the year ended 31 December 2014 of HK20 cents per share amounting to approximately HK$1,614 million was paid during the Year. The Directors recommended the payment of a final dividend of HK6 cents per share for the Year, totalling approximately HK$484 million.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 131.

RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on pages 48 and 49, and Note 29 in the Notes to the Consolidated Financial Statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in Note 28 in the Notes to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2015 and 2014 were as follows:

	2015 **HK$'million**	2014 HK$'million
Contributed surplus	**134**	134
Retained earnings	**17,168**	16,984
	17,302	17,118

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

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

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS

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

Executive Directors:

Mr Huang Weihe (appointed on 18 February 2016)
Mr Wu Enlai
Mr Zhao Yongqi
Mr Zhang Bowen
Mr Cheng Cheng

Independent Non-Executive Directors:

Dr Lau Wah Sum
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick (appointed on 18 February 2016)

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

PERMITTED INDEMNITY

During the Year, the Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Huang Weihe *(Chairman)*

Aged 58, was appointed as an Executive Director of the Company and elected as Chairman on 18 February 2016. He is currently the vice president of PetroChina and the general manager of PetroChina Natural Gas and Pipelines Company. Mr. Huang is a professor-level senior engineer and obtained a doctorate degree in petroleum storage and transportation engineering from China University of Petroleum (Beijing) in 2005. He has nearly 30 years of working experience in China's oil and gas industry. Mr. Huang was appointed as deputy director of the Survey & Design Institute of China Petroleum Pipeline Bureau ("CPPB"), director of the Survey & Design Institute of CPPB, assistant to director of the Survey & Design Institute of CPPB, deputy director and chief engineer of CPPB, general manager of PetroChina Pipeline Company, and general manager of PetroChina West-East Gas Pipeline Company. In December 2002, he was appointed as the general manager of PetroChina Natural Gas and Pipeline Company. In May 2008, Mr. Huang was appointed as the chief engineer of PetroChina. In October 2011, Mr. Huang was appointed as the vice president of PetroChina.

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

Executive Directors (Continued)

Mr Wu Enlai
Aged 56, was appointed as an Executive Director in December 2013, elected as Chairman in June 2014 and ceased to be the Chairman on 18 February 2016. He currently is the secretary to the Board of PetroChina. As a professor-level senior engineer, Mr Wu has over 30 years of work experience in oil industry in China. Mr Wu obtained a bachelor's degree from China University of Petroleum (Huadong) with a major in refining and petrochemical in August 1982, and obtained a master's degree in Management Science & Engineering from China University of Petroleum in June 1999. He also obtained an MBA degree in June 2002 from University of Calgary. Mr Wu served as the deputy director general of Tarim Petrochemical Engineering Construction Headquarters from August 1997 to July 2002, the deputy director general of M&A department of China National Petroleum Corporation ("CNPC") from August 2002 to December 2003 and the deputy general manager of China National Oil and Gas Exploration and Development Corporation ("CNODC") from January 2004 to April 2005. Mr Wu was appointed as the head of the Preparatory Work Team for PetroChina Guangxi Petrochemical Company in May 2005, and has been its general manager since October 2005 and the head of Enterprise Coordination Team of PetroChina in Guangxi since September 2010.

Mr Zhao Yongqi *(Chief Executive Officer)*
Aged 55, was appointed as a Chief Executive Officer in December 2013, appointed as an Executive Director in June 2014. Mr Zhao is a professor-level senior economist and he has over 30 years of experience in the Chinese oil and gas industry. Mr Zhao became the deputy general manager of PetroChina Dagang Oil Fields Sales Company in May 1997, the deputy general manager of PetroChina North China Sales Company in December 1999, the general manager of PertroChina Inner Mongolia Sales Company in October 2004. He became the general manager of China Marine Bunker Co., Ltd. in November 2009, the general manager of PetroChina Kunlun Gas in August 2011, and began to concurrently serve as an executive director of the same company in October 2011. Mr Zhao was elected a representative to the 11th National People's Congress of the PRC in January 2008.

Mr Zhang Bowen *(President)*
Aged 49, joined the Company as an Executive Director in January 2007. He holds a Bachelor degree from Xidian University in computer science and a Master degree in petroleum geology from Daqing Petroleum Institute. Since he graduated, Mr Zhang joined CNODC, a subsidiary of CNPC. He has 26 years of working experience in the oil and gas industry. Immediately before he joined the Company, he was the executive vice president of CNPC America Limited. Mr Zhang is also a director of certain subsidiaries of the Company.

Mr Cheng Cheng *(Senior Vice President)*
Aged 48, was appointed as an Executive Director in June 2004. He is currently a Senior Vice President of the Company. Before joining the Company, Mr Cheng has over 25 years industry experience working at various departments and sections of CNPC including 3 years in Canada as Vice President of CNPC International (Canada) Limited. Mr Cheng has a Master of Business Administration from the University of Calgary, Canada, a Master in Energy and Environment Economy from Scuola Superiore Enrico Mattei, Milan Italy and Diploma in Petroleum Technical Economy from Jianghan Institute of Petroleum, the PRC.

Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP
Aged 88, is a Fellow of the Chartered Institute of Management Accountants. He was the Chairman of Urban Renewal Authority. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Honorary Court Member of the University of Science and Technology of Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

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

Independent Non-Executive Directors (Continued)

Mr Li Kwok Sing Aubrey
Aged 66, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of IAM Holdings (Hong Kong) Limited, a Hong Kong based investment firm, and has over 35 years' experience in merchant banking and commercial banking. He is a non-executive director of The Bank of East Asia, Limited, an independent non-executive director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kowloon Development Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited. He is also a non-executive director of Affin Bank Berhad. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

Dr Liu Xiao Feng
Aged 53, was appointed as an Independent Non-Executive Director of the Company on 16 April 2004. He is currently an independent non-executive director of Honghua Group Limited, which is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was a Managing Director at China Resources Capital Holdings Company Limited. He was also an independent non-executive director of Haier Electronics Group Co., Ltd., which is listed on the Stock Exchange, from June 2007 to June 2014. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, JP Morgan, and DBS. He has many years of experience in corporate finance. Dr Liu has a Ph.D and Master degrees from the Faculty of Economics, University of Cambridge and a Bachelor of Economics from Sichuan Institute of Finance and Economics, China.

Mr Sun Patrick
Aged 57, was appointed as an Independent Non-Executive Director of the Company on 18 February 2016. He is currently an independent non-executive director of Trinity Limited, Sihuan Pharmaceutical Holdings Group Ltd, China NT Pharma Group Company Limited and China Railway Signal & Communication Corporation Limited, all of which are listed on the Stock Exchange. He is also an independent non-executive director of CRRC Corporation Limited and China Railway Construction Corporation Limited, both of which are listed on the Stock Exchange and the Shanghai Stock Exchange. He is a vice-chairman of The Chamber of Hong Kong Listed Companies and was its chairman (2013 – 2015) and Honorary Chief Executive Officer.

Mr Sun was an independent non-executive director and non-executive chairman of Solomon Systech (International) Limited, a non-executive director of Renhe Commercial Holdings Company Limited, an executive director of Value Convergence Holdings Limited and SW Kingsway Capital Holdings Limited (all of which are listed companies in Hong Kong), and an independent non-executive director of China Railway Group Limited (listed on the Stock Exchange and the Shanghai Stock Exchange), China CNR Corporation Limited (which was delisted from the Stock Exchange in May 2015 due to merger with CRRC Corporation Limited) and The Link Management Limited (the manager of The Link Real Estate Investment Trust which is also listed in Hong Kong), the Senior Country Officer and Head of Investment Banking for Hong Kong of JP Morgan Chase, group executive director and Head of Investment Banking for Greater China at Jardine Fleming Holdings Limited. He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission, Deputy Convenor of the Listing Committee of the Stock Exchange and a council member of the Stock Exchange.

Mr Sun graduated from the Wharton School of the University of Pennsylvania, the United States, with a Bachelor of Science degree in Economics in 1981. Mr Sun also completed the Stanford Executive Program of Stanford Business School, the United States, in 2000. Mr Sun is a fellow of the Association of Chartered Certified Accountants, the United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants.

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

Senior Management

Mr Fa Yuxiao *(Senior Vice President)*
Aged 51, is a senior engineer having 27 years' experience in the oil and gas field. He studied earth physics and exploration technologies in the Southwest Petroleum University and was awarded a bachelor's degree in engineering in 1984. After his graduation, he worked for the Research Institute of Petroleum Exploration and Development, the Tarim Petroleum Exploration and Development Headquarters, CNPC and PetroChina. He was once the Deputy Chief Economist under the Human Resources Department of the CNPC and PetroChina. He joined the Company as Senior Vice President in September 2011.

Mr Zhong Wenxu *(Senior Vice President)*
Aged 51, is a senior engineer with 25 years' experience in the oil and gas field. He majored in oil drilling engineering in the Southwest Petroleum Institute and was awarded a bachelor's degree in engineering in 1986. After his graduation, he worked for various entities including CNPC Xinjiang Petroleum Administration, CNPC Tarim Oilfield Company and Shenzhen Petroleum Industrial Co., Ltd. In 2005, Mr Zhong graduated from the Oil and Gas Field Development Engineering Specialty of the China University of Petroleum in Beijing, obtaining a master's degree in engineering. After that, he worked as the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation as well as the General Manager of 華油天然氣股份有限公司. He joined the Company as Senior Vice President in September 2011.

Mr Xia Yu *(Assistant Chief Executive Officer)*
Aged 52, is a senior engineer with 28 years' experience in the oil and gas field. He majored in irrigation for agricultural land in the Shandong Water Polytechnic. After he graduated with a bachelor's degree in engineering in 1983, he joined Hubei Petroleum Administration. In 1998, he was awarded a master's degree in business administration by Tianjin University. After that, he worked for a number of companies including China International (Kazakhstan) Company, CNPC Shennan Oil Technology Development Co., Ltd. and Shenzhen Petroleum Industrial Co., Ltd. He was also the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation. He joined the Company as Assistant Chief Executive Officer in September 2011.

Mr Lau Hak Woon *(Chief Financial Officer & Company Secretary)*
Aged 63, member of Hong Kong Institute of Certified Public Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 30 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Chief Financial Officer of several large companies in Hong Kong and overseas.

DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements or 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 or any entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS

As at 31 December 2015, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Commencement of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange are set out below.

Ordinary Shares of HK$0.01 Each of the Company

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Zhang Bowen (note)	15,336,000	Beneficial owner	0.190%
Cheng Cheng (note)	7,772,000	Beneficial owner	0.096%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.012%

Note:

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

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

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

SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in Note 28 in the Notes to the Consolidated Financial Statements.

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

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

				Number of Share Options				
Name	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1 January 2015 '000	Granted during the Year '000	Exercised during the Year '000	Lapsed during the Year '000	Outstanding at 31 December 2015 '000
Directors								
Zhang Bowen	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	26/03/10	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)	–
				13,200	–	–	(5,100)	8,100
Employees	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	6,000	–	–	–	6,000
	17/05/12	17/08/12 – 16/05/17	12.632	11,500	–	–	–	11,500
				23,500	–	–	(6,000)	17,500
				36,700	–	–	(11,100)	25,600

The weighted average closing price of the Company's shares immediately before the date on which the share options were lapsed was HK$7.41.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2015, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

Name	Number of Shares Direct Interest	Number of Shares Indirect Interest	Percentage of the total number of Shares in issue
Sun World Limited ("Sun World") [1]	4,708,302,133 (L)	–	58.33%
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 [1]	–	4,708,302,133 (L)	58.33%
CNODC [2]	–	277,432,000 (L)	3.43%
CNPC International Ltd.("CNPCI") [2]	–	277,432,000 (L)	3.43%
Fairy King Investments Ltd. [2]	277,432,000 (L)	–	3.43%
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, an Executive Director of the Company and Mr Zhang Bowen, the President and an Executive Director of the Company are also the directors of Sun World, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).

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

Save as disclosed above, as at 31 December 2015, the directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at 31 December 2015, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in Note 28 in the Notes to the Consolidated Financial Statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2015 and there had been no other exercise of convertible securities, options, warrants or similar rights during the Year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

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

	Nature of transactions	Details	Amount incurred for 2015 HK$' million	Annual cap for 2015 HK$' million
(i)	Provision of products and services by CNPC and its subsidiaries ("CNPC Group") to the Group	As disclosed in the Company's announcement dated 7 November 2014 and circular dated 11 November 2014	4,516	20,179
(ii)	Purchase of the Group's share of crude oil by the CNPC Group	As disclosed in Company's announcement dated 7 November 2014 and circular dated 11 November 2014	1,648	3,732
(iii)	Rental payments	As disclosed in the Company's announcement dated 7 November 2014 and circular dated 11 November 2014	18	18
(iv)	Purchase of oil and gas products from the CNPC Group by the Group	As disclosed in the Company's announcement dated 7 November 2014 and circular dated 11 November 2014	9,761	27,396
(v)	Provision of products and services by the Group to the CNPC Group	As disclosed in the Company's announcement dated 7 November 2014 and circular dated 11 November 2014	11,278	19,439
(vi)	Pipeline transmission fee for the transmission of natural gas received and receivable from Beijing Enterprises Holdings Limited and its subsidiaries	As disclosed in the Company's circular dated 19 February 2011	5,239	N/A

The aforesaid continuing connected transactions have been reviewed by Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Board engaged the independent auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has issued its unqualified letter containing its following findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 117 and 118 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

Nothing has come to the independent auditor's attention that the disclosed continuing connected transactions:

(i) have not received the approval of the Company's Board of Directors;

(ii) are not in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;

(iii) have not been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have exceeded the cap disclosed in previous announcement dated 7 November 2014 and circular dated 11 November 2014 with respect to the aggregated amount of each transaction involved.

A copy of the auditor's report has been provided by the Company to the Stock Exchange.

The Company has confirmed that it has complied with the disclosure requirements in respect of the aforesaid continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

The Group has entered into certain entrustment management contracts in relation to the management and operation of the Xinjiang Contract, the Leng Jiapu Contract, PetroChina Jiangsu LNG Co. Ltd., PetroChina Dalian LNG Co. Ltd. and PetroChina Beijing Gas Pipeline Co., Ltd.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's purchases and revenue from sales of goods or rendering of services attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	43%
Percentage of purchases attributable to the Group's five largest suppliers	51%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer	36%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers	56%

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

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

DONATIONS

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

EMOLUMENT POLICY

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING BUSINESS

Save as disclosed below, as at 17 March 2016, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

Name of Director	Name of company	Nature of interest	Nature of competing business
Wu Enlai	PetroChina	Secretary to the Board of directors	Exploration, development and product and marketing of crude oil and natural gas

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

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

There is no significant event affecting the Company after the date of the statement of financial position.

AUDITOR

The financial statements for the Year have been audited by Messrs KPMG, who retire and, being eligible, offer themselves for re-appointment. A resolution for reappointment of Messrs KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Zhang Bowen
President and Executive Director

Hong Kong, 17 March 2016

Independent auditor's report to the shareholders of
Kunlun Energy Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 130, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

17 March 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 HK$'million	2014 HK$'million
Revenue	6	**41,641**	48,044
Other gains, net	7	**391**	837
Interest income	8	**225**	217
Purchases, services and others		**(22,884)**	(26,354)
Employee compensation costs	9	**(2,029)**	(2,368)
Depreciation, depletion and amortisation		**(5,281)**	(5,392)
Impairment loss on property, plant and equipment	17	**(1,724)**	(2)
Selling, general and administrative expenses		**(2,545)**	(2,775)
Taxes other than income taxes	10	**(402)**	(737)
Interest expenses	11	**(577)**	(486)
Share of profits less losses of:			
– Associates		**(2,124)**	716
– Joint ventures	20	**236**	256
Profit before income tax expense	12	**4,927**	11,956
Income tax expense	14	**(2,607)**	(3,080)
Profit for the year		**2,320**	8,876
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		**(3,849)**	(1,283)
– Associates		**(310)**	(572)
– Joint ventures		**(18)**	(9)
– Fair value gain/(loss) on available-for-sale financial assets		**768**	(29)
Other comprehensive income, net of nil tax		**(3,409)**	(1,893)
Total comprehensive income for the year		**(1,089)**	6,983

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 HK$'million	2014 HK$'million
Profit for the year attributable to:			
– Owners of the Company		**137**	5,610
– Non-controlling interests		**2,183**	3,266
		2,320	8,876
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(2,153)**	4,307
– Non-controlling interests		**1,064**	2,676
		(1,089)	6,983
Earnings per share for profit attributable to owners of the Company	*15*		
– Basic (HK cent)		**1.70**	69.52
– Diluted (HK cent)		**1.70**	69.49

The notes on pages 52 to 130 form part of these financial statements. Details of dividends payable to owners of the Company attributable to the profit for the year are set out in Note 16.

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	2015 HK$'million	2014 HK$'million
Assets			
Non-current assets			
Property, plant and equipment	*17*	**80,390**	86,442
Advanced operating lease payments	*18*	**3,205**	3,379
Investments in associates	*19*	**2,266**	4,775
Investments in joint ventures	*20*	**1,321**	1,451
Available-for-sale financial assets	*22*	**812**	83
Intangible and other non-current assets	*23*	**1,045**	1,509
Deferred tax assets	*32*	**586**	456
		89,625	98,095
Current assets			
Inventories	*24*	**916**	1,157
Accounts receivable	*25*	**1,837**	1,988
Prepaid expenses and other current assets	*26*	**3,932**	5,741
Cash and cash equivalents	*27*	**11,771**	10,729
		18,456	19,615
Total assets		**108,081**	117,710

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	2015 HK$'million	2014 HK$'million
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*28*	**81**	81
Retained earnings	*29*	**25,680**	27,765
Other reserves	*29*	**23,362**	25,042
		49,123	52,888
Non-controlling interests		**21,201**	21,426
Total equity		**70,324**	74,314
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*30*	**11,479**	14,776
Income tax payable	*32*	**582**	805
Other tax payable		**248**	262
Short-term borrowings	*31*	**7,721**	8,465
Obligations under finance leases	*33*	**208**	194
		20,238	24,502
Non-current liabilities			
Long-term borrowings	*31*	**15,418**	16,224
Deferred tax liabilities	*32*	**941**	1,414
Obligations under finance leases	*33*	**566**	649
Other long-term obligations		**594**	607
		17,519	18,894
Total liabilities		**37,757**	43,396
Total equity and liabilities		**108,081**	117,710
Net current liabilities		**(1,782)**	(4,887)
Total assets less current liabilities		**87,843**	93,208

Approved and authorised for issue by the board of directors on 17 March 2016.

Zhang Bowen	**Cheng Cheng**
President	*Senior Vice President*

The notes on pages 52 to 130 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

		Attributable to owners of the Company					
	Note	Share capital HK$'million	Retained earnings HK$'million	Other reserves HK$'million	Sub-total HK$'million	Non-controlling interests HK$'million	Total equity HK$'million
Balances at 1 January 2014		81	24,530	25,795	50,406	21,862	72,268
Changes in equity for 2014:							
Profit for the year		–	5,610	–	5,610	3,266	8,876
Other comprehensive income		–	–	(1,303)	(1,303)	(590)	(1,893)
Total comprehensive income for the year		–	5,610	(1,303)	4,307	2,676	6,983
Transfer between reserves		–	(518)	518	–	–	–
Final dividend for 2013		–	(1,857)	–	(1,857)	–	(1,857)
Issue of shares upon exercise of share options	*28(a) & (b)*	–	–	32	32	–	32
Acquisition from non-controlling interests		–	–	–	–	(13)	(13)
Dividend to non-controlling interests		–	–	–	–	(3,888)	(3,888)
Capital contributions from non-controlling interests		–	–	–	–	789	789
Balances at 31 December 2014		81	27,765	25,042	52,888	21,426	74,314

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital HK$'million	Retained earnings HK$'million	Other reserves HK$'million	Sub-total HK$'million	HK$'million	HK$'million
Balances at 1 January 2015		**81**	**27,765**	**25,042**	**52,888**	**21,426**	**74,314**
Changes in equity for 2015:							
Profit for the year		–	137	–	137	2,183	2,320
Other comprehensive income		–	–	(2,290)	(2,290)	(1,119)	(3,409)
Total comprehensive income for the year		–	137	(2,290)	(2,153)	1,064	(1,089)
Transfer between reserves		–	(639)	639	–	–	–
Final dividend for 2014	*16*	–	(1,614)	–	(1,614)	–	(1,614)
Lapsed share options		–	31	(31)	–	–	–
Acquisition from non-controlling interests		–	–	–	–	(323)	(323)
Dividend to non-controlling interests		–	–	–	–	(2,807)	(2,807)
Capital contributions from non-controlling interests		–	–	–	–	2,027	2,027
Disposal of subsidiaries		–	–	2	2	(186)	(184)
Balances at 31 December 2015		**81**	**25,680**	**23,362**	**49,123**	**21,201**	**70,324**

The notes on pages 52 to 130 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 HK$'million	2014 HK$'million
Cash flows from operating activities			
Profit for the year		**2,320**	8,876
Adjustments for:			
Income tax expense		**2,607**	3,080
Taxes other than income taxes		**402**	737
Depreciation, depletion and amortisation		**5,281**	5,392
Share of profits less losses of associates		**2,124**	(716)
Share of profits less losses of joint ventures		**(236)**	(256)
Impairment loss on property, plant and equipment	*17*	**1,724**	2
Impairment loss on available-for-sale financial assets		**6**	6
Impairment loss on other receivables		**83**	–
Net losses on disposals of property, plant and equipment	*7*	**34**	16
Net losses on disposals of subsidiaries		**225**	–
Net exchange losses		**411**	123
Interest income		**(225)**	(217)
Interest expense		**577**	486
Changes in working capital:			
Accounts receivable		**39**	(135)
Prepaid expenses and other current assets		**1,403**	(683)
Inventories		**184**	(7)
Accounts payable and accrued liabilities		**275**	1,129
Other tax payable		**(401)**	(955)
Cash generated from operations		**16,833**	16,878
Income tax paid		**(3,463)**	(3,180)
Net cash generated from operating activities		**13,370**	13,698

	Note	2015 HK$'million	2014 HK$'million
Cash flows from investing activities			
Dividends received from associates		**16**	1,041
Dividends received from available-for-sale financial assets		**8**	–
Dividends received from joint ventures		**341**	401
Acquisitions of subsidiaries		**(6)**	–
Capital contributions to associates		**(4)**	(84)
Proceeds from disposal of advance operating lease payments		**57**	–
Proceeds from disposal of associates		**63**	–
Proceeds from disposal of joint ventures		**4**	–
Proceeds from disposal of property, plant and equipment		**178**	158
Capital expenditure		**(5,917)**	(9,553)
Interest received		**225**	210
Loans repaid by associates		**–**	13
Loans to joint ventures		**–**	(33)
Loans repaid by third parties		**316**	246
Net cash used in investing activities		**(4,719)**	(7,601)
Cash flows from financing activities			
Capital contributions from non-controlling interests		**300**	789
Dividends paid to owners of the Company	*29*	**(1,614)**	(1,857)
Dividends paid to non-controlling interests		**(2,592)**	(3,865)
Issue of shares, net of share issue expenses		**–**	32
Increase in borrowings		**19,599**	9,193
Repayments of borrowings		**(20,794)**	(15,402)
Interest paid		**(1,221)**	(1,486)
Proceeds from sale-and-leaseback arrangements		**–**	861
Capital element of finance lease rentals paid		**(178)**	(40)
Interest element of finance lease rentals paid		**(35)**	(1)
Acquisition from non-controlling interests		**(266)**	(13)
Increase in an amount due to ultimate holding company		**–**	631
Increase in an amount due to non-controlling interests		**–**	1,009
Net cash used in financing activities		**(6,801)**	(10,149)
Increase/(decrease) in cash and cash equivalents		**1,850**	(4,052)
Cash and cash equivalents at 1 January		**10,729**	14,897
Effect of foreign exchange rate changes		**(808)**	(116)
Cash and cash equivalents at 31 December	*27*	**11,771**	10,729

The notes on pages 52 to 130 form part of these financial statements.

1 GENERAL INFORMATION

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World"), which is a company incorporated in the British Virgin Islands. On 18 December 2008, PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, acquired 100% equity interest in Sun World. Since then, PetroChina has become an intermediate holding company of the Company. As at 31 December 2015, PetroChina indirectly owned 58.33% (2014: 58.33%) 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 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 ("Oman"), Peru, the Kingdom of Thailand ("Thailand") and the Azerbaijan Republic ("Azerbaijan"), the sales of natural gas, liquefied natural gas ("LNG") processing, LNG terminal business and transmission of natural gas in the PRC.

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(w) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for available-for-sale financial assets which are stated at their fair value as explained in the accounting policies set out in Note 3(h).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

2 BASIS OF PREPARATION (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

As at 31 December 2015, the Group had net current liabilities of HK$1,782 million. Notwithstanding the net current liabilities of the Group at 31 December 2015, 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 certain undrawn facilities which include an undrawn facility provided by the Company's immediate holding company amounting to HK$2,300 million;

(ii) the Group expects to generate positive operating cash flows in the future; and

(iii) the directors consider that the Group could obtain financing from various sources of funding.

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

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 3(m) and 3(n) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 3(b)).

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment losses.

A listing of the Group's principal subsidiaries is set out in Note 39.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment.

Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised as profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(h)).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Associates and joint ventures (Continued)

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses.

Impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the investment's recoverable amount is estimated.

– ***Calculation of recoverable amount***

The recoverable amount is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the investment. Where an investment does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of investments that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in profit or loss if the carrying amount of an investment, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– ***Reversals of impairment losses***

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Listings of the Group's principal associates and joint ventures are shown in Note 40 and Note 41, respectively.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Accounting for production sharing contracts

Production sharing contracts constitute joint operations. The Group shall recognise in relation to its interest in joint operations:

(i) its assets, including its share of any assets held jointly;

(ii) its liabilities, including its share of any liabilities incurred jointly;

(iii) its revenue from the sale of its share of the output arising from the joint operations;

(iv) its share of the revenue from the sale of the output by the joint operations; and

(v) its expenses, including its share of any expenses incurred jointly.

(d) Foreign currencies

(i) Functional and presentation currency

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

(ii) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies (Continued)

(ii) Translation of foreign currencies (Continued)

The results of foreign operations are translated into presentation currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into presentation currency at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(e) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3(f)) and construction in progress, are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. For construction in progress, cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortisation (including any impairment).

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

The Group uses the following useful lives for depreciation purposes:

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

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

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

(f) Oil and gas properties

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Oil and gas properties (Continued)

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

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

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

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (Continued)

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in profit or loss. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the estimated net present value of future cash flows to be derived from the assets.

(h) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in Notes 3(p)(iii) and (iv).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other investments in debt and equity securities (Continued)

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Notes 3(p)(iii) and (iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 3(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 3(e). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Leased assets (Continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of lease term.

(j) Inventories

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

(k) Accounts receivable

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, deposits held with banks and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Accounts payable

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

(n) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit or loss as follows:

(i) Sales of goods

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

(ii) Rendering of services

Revenue from the rendering of services is recognised in the consolidated profit or loss upon performance of the services. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of service being rendered, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the assets.

(q) Government grants

Government grants are the gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Government grants (Continued)

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on the amount received or receivable, whereas non-monetary assets are measured at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in profit or loss over the assets' useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

(r) Provisions

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

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

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

(s) Retirement benefit plans

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Share-based compensation

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

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital for the shares issued. When the options expire or are lapsed, the equity amount recognised in the employee share-based compensation reserve is released directly to retained earnings.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

(b) (Continued)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management and Executive Directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Changes in accounting policies

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

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

4.1 Financial risk factors

Exposure to foreign exchange rate risk, credit risk and liquidity risk arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

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

(a) Foreign exchange rate risk

The Group is exposed to foreign exchange rate risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currencies of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States dollar ("US dollar"). The Group is also exposed to foreign exchange rate risk in respect of the borrowings and cash and cash equivalents which are denominated in Hong Kong dollar and US dollar.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

The following table details the Group's exposure at the end of the reporting period to foreign exchange rate risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2015		2014	
	US dollar HK$'million	**Hong Kong dollar HK$'million**	US dollar HK$'million	Hong Kong dollar HK$'million
Accounts receivable and other current assets	**2**	**14**	2	11
Cash and cash equivalents	**1,534**	**402**	994	406
Accounts payable and accrued liabilities	**(32)**	**(41)**	(3)	(42)
Borrowings	**(7,692)**	**(1,646)**	(4,265)	(1,646)
Gross exposure arising from recognised assets and liabilities	**(6,188)**	**(1,271)**	(3,272)	(1,271)

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

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained earnings HK$'million**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK$'million
US dollar	**5%**	**(232)**	5%	(123)
	(5%)	**232**	(5%)	123
Hong Kong dollar	**5%**	**(48)**	5%	(48)
	(5%)	**48**	(5%)	48

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained earnings measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(b) Credit risk

Credit risk arises primarily from cash and cash equivalents, accounts receivable, other receivables, amounts due from related parties and loans to third parties.

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

The Group performs ongoing assessment of the credit quality of its customers. The ageing analysis of accounts receivable is presented in Note 25.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, amounts due from related parties and loans to third parties included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(c) Liquidity risk

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

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligations as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

As at 31 December 2015, the Group had net current liabilities of HK$1,782 million. The Group will continue to undertake various measures in order to further improve its liquidity position in the short and longer term.

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

Analysis of the Group's financial liabilities based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity dates are presented in Notes 30 and 31.

(d) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (Note 22).

The Group's listed investments are listed on the stock exchanges in Australia, Hong Kong and the PRC. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. All of the Group's unquoted investments are held for long term strategic purposes.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.1 Financial risk factors (Continued)

(d) Equity price risk (Continued)

At 31 December 2015, it is estimated that an increase/(decrease) of 10% (2014: 10%) in the relevant stock market indices (for listed investments) with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained earnings) and other components of consolidated equity as follows:

		2015			2014	
		Effect on profit after tax and retained earnings HK$'million	**Effect on other components of equity HK$'million**		Effect on profit after tax and retained earnings HK$'million	Effect on other components of equity HK$'million
Change in the relevant equity price risk variable:						
Increase	**10%**	**–**	**55**	10%	–	2
Decrease	**(10%)**	**–**	**(55)**	(10%)	–	(2)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise assuming that the changes in the stock market indices or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market indices, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market indices, and that all other variables remain constant. The analysis is performed on the same basis for 2014.

4.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio which is calculated as the sum of interest-bearing borrowings and obligations under finance leases divided by the sum of total equity, interest-bearing borrowings and obligations under finance leases. The gearing ratio at 31 December 2015 is 25.38% (2014: 25.57%).

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.2 Capital risk management (Continued)

There were no changes in the management's approach to capital management of the Group during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4.3 Fair value estimation

(a) *Financial assets measured at fair value*

Fair value hierarchy

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 31 December 2015	**Fair value measurements as at 31 December 2015 categorised into**			Fair value at 31 December 2014	Fair value measurements as at 31 December 2014 categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	HK$'million	**HK$'million**	**HK$'million**	**HK$'million**	HK$'million	HK$'million	HK$'million	HK$'million
Recurring fair value measurements								
Available-for-sale financial assets								
– Listed	**775**	**775**	**–**	**–**	43	43	–	–
– Unlisted	**37**	**–**	**–**	**37**	40	–	–	40

During the years ended 31 December 2014 and 2015, there were no transfers between Level 1 and Level 2.

During the year ended 31 December 2015, there was a transfer of HK$1 million out of Level 3 to Level 1 due to the initial public offering of the unlisted available-for-sale equity securities in the PRC. During the year ended 31 December 2014, there were no transfers between Level 1 into or out of Level 3.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

4.3 Fair value estimation (Continued)

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

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.

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 exchanges. The equity securities in the PRC amounted to approximately HK$37 million (31 December 2014: HK$40 million) are stated at cost. These securities do not have quoted market price in an active market and their fair values cannot be reliably measured.

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

	2015 **HK$'million**	2014 HK$'million
Unlisted available-for-sale equity securities:		
At 1 January	**40**	41
Currency translation differences	**(2)**	(1)
Transfer out of Level 3 to Level 1	**(1)**	–
At 31 December	**37**	40

There were no gains or losses from Level 3 fair value measurements recognised in profit or loss and other comprehensive income for the years ended 31 December 2014 and 2015.

(b) Fair value 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 as of 31 December 2015 and 2014 are short-term in nature and are not materially different from their fair values.

The fair values are based on discounted cash flow using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 4.35% to 4.90% (2014: 5.45% to 6.15%) per annum as at 31 December 2015 depending on the type of the borrowings. An analysis of the carrying amounts of long-term borrowings is presented in Note 31.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty and judgement are described as follows:

(a) Estimation of oil and natural gas reserves

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

(b) Estimation of impairment of non-financial assets

The Group tests at least annually whether goodwill was suffered any impairment. Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil, discount rate used in discounting the projected cash flows and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of impairment of accounts and other receivables

The Group's management estimates impairment losses for accounts and other receivables resulting from the inability of the Group's customers and other parties to make the required payments. Management bases the estimates on the customers' and other parties' credit worthiness, past collection history and historical write-off experience. If the financial condition of the customers and other parties were to deteriorate, actual write-offs would be higher than estimated, which would affect the net profits in future years.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Estimation of useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment, other than oil and gas properties. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technological advancement and innovations in the oil and gas industry. Management will adjust the depreciation charge where residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual residual values may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation in the future periods.

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

The determination of the obligations for taxes and duties for each statement of financial position date of the associate operating in Kazakhstan requires the interpretation of tax and other legislations. Whilst the directors believe that the associate's judgements are appropriate, significant differences in actual experience may materially affect its future tax and duty obligations.

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

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

6 REVENUE

Revenue 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 37.

7 OTHER GAINS, NET

	2015 **HK$'million**	2014 HK$'million
Net exchange losses	**(411)**	(123)
Rental income	**95**	87
Net losses on disposals of property, plant and equipment	**(34)**	(16)
Government grants	**921**	778
Others	**(180)**	111
	391	837

Government grants for the year ended 31 December 2015 mainly 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 year ended 31 December 2015, the Group have recognised and received related government grants of HK$791 million (2014: HK$665 million).

8 INTEREST INCOME

	2015 **HK$'million**	2014 HK$'million
Interest income on:		
– Amounts due from related parties	**77**	83
– Bank deposits	**148**	134
	225	217

9 EMPLOYEE COMPENSATION COSTS

	2015 HK$'million	2014 HK$'million
Salaries, wages and allowances	**1,796**	2,141
Retirement benefits scheme contributions	**233**	227
	2,029	2,368

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 12% to 21% of the salaries, bonus and certain allowances of its staff. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2015 were HK$233 million (2014: HK$227 million).

10 TAXES OTHER THAN INCOME TAXES

There are no special levies on PRC domestic sales of crude oil included in taxes other than income taxes (2014: HK$331 million) for the year ended 31 December 2015 as no special levies would be charged on the sales of crude oil with realised selling price lower than US$65 per barrel (2014: US$55 per barrel), in accordance with relevant PRC regulations.

11 INTEREST EXPENSES

	2015 HK$'million	2014 HK$'million
Interest expenses on:		
Bank loans	**184**	26
Senior notes	**167**	–
Debentures payable (Note 31)	**48**	29
Other loans, from:		
– An intermediate holding company	**280**	509
– An immediate holding company	**116**	35
– China Petroleum Finance Company Limited ("CP Finance")	**427**	850
– Fellow subsidiaries	**61**	64
Finance charges on obligations under finance leases, from:		
– A fellow subsidiary	**37**	1
– A third party	**17**	7
Less: Amounts capitalised	**(760)**	(1,035)
	577	486

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 4.71% (2014: 5.08%) per annum for the year ended 31 December 2015.

12 PROFIT BEFORE INCOME TAX EXPENSE

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

	2015 HK$'million	2014 HK$'million
Amortisation of advanced operating lease payments and intangible assets	**90**	81
Auditors' remuneration:		
– audit services	**19**	20
– non-audit services	**1**	1
Cost of inventories recognised as expense	**24,194**	28,354
Depreciation and depletion of property, plant and equipment	**5,191**	5,311
Operating lease expenses	**279**	433
Impairment loss on property, plant and equipment	**1,724**	2
Impairment loss on available-for-sale financial assets	**6**	6
Impairment loss on other receivables	**83**	–

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors for the years ended 31 December 2015 and 2014 are as follows:

	2015				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2015 Total HK$'000
Directors:					
Mr Wu Enlai	–	–	–	–	–
Mr Zhao Yongqi	–	–	–	–	–
Mr Zhang Bowen	–	3,000	–	375	3,375
Mr Cheng Cheng	–	2,400	–	300	2,700
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	1,000	5,400	–	675	7,075

	2014				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2014 Total HK$'000
Directors:					
Mr Wu Enlai	–	–	–	–	–
Mr Zhao Yongqi	–	–	–	–	–
Mr Zhang Bowen	–	5,250	1,125	375	6,750
Mr Cheng Cheng	–	3,733	800	300	4,833
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	1,000	8,983	1,925	675	12,583

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

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

The five individuals whose emoluments were the highest in the Group for the year including two (2014: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2014: three) individuals during the year are as follows:

	2015 HK$'000	2014 HK$'000
Salaries and other emoluments	7,992	11,199
Discretionary bonuses	342	2,400
Retirement scheme contributions	885	900
	9,219	14,499
The emoluments fell within the following band:		
HK$2,500,001 to HK$3,000,000	2	–
HK$3,500,001 to HK$4,000,000	1	–
HK$4,500,001 to HK$5,000,000	–	3

None of the directors has waived their remuneration during the year ended 31 December 2015 (2014: Nil).

During the year ended 31 December 2015, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company (2014: Nil).

14 INCOME TAX EXPENSE

	2015	2014
	HK$'million	HK$'million
Current tax		
– PRC	**3,152**	3,101
– Overseas	**69**	481
	3,221	3,582
Deferred tax (Note 32(b))	**(614)**	(502)
	2,607	3,080

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2014: 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% (2014: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2014: 15% to 20%).

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

During the year ended 31 December 2014, included in overseas income tax expenses was withholding tax of approximately HK$217 million in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which was charged at 20%. During the year ended 31 December 2015, there is no withholding tax included in overseas income tax expense as there is no dividend received/receivable from Aktobe.

14 INCOME TAX EXPENSE (CONTINUED)

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

	2015 HK$'million	2014 HK$'million
Profit before income tax expense	**4,927**	11,956
Tax calculated at a tax rate of 25% (2014: 25%)	**1,232**	2,989
Under-provision in prior years	**157**	110
Effect of income taxes from overseas operations with tax rates different from the PRC statutory tax rate	**244**	(63)
Effect of preferential tax rates	**(10)**	(124)
Tax effect of income not subject to tax	**(52)**	(45)
Tax effect of expenses not deductible for tax purposes	**509**	68
Tax effect of share of profits less losses of associates	**350**	(119)
Tax effect of share of profits less losses of joint ventures	**(39)**	(43)
Tax effect of unused tax losses not recognised	**412**	42
Tax effect of derecognition of tax losses recognised in prior years/ (recognition of tax losses not recognised in prior years)	**67**	(73)
Tax effect of (reversal of)/withholding tax on dividends received and receivable	**(263)**	338
Income tax expense	**2,607**	3,080

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

15 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$137 million (2014: HK$5,610 million) and weighted average number of ordinary shares in issue during the year of approximately 8,072 million shares (2014: 8,070 million shares).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$137 million (2014: HK$5,610 million) and the weighted average number of ordinary shares of approximately 8,072 million shares (2014: 8,073 million shares), calculated as follows:

	2015 **million shares**	2014 million shares
Weighted average number of ordinary shares as at 31 December	**8,072**	8,070
Effect of deemed issue of shares, under the Company's share option scheme for nil consideration (note 28(b))	**–**	3
Weighted average number of ordinary shares (diluted) as at 31 December	**8,072**	8,073

The effect of the Company's share options was anti-dilutive for the year ended 31 December 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

16 DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2015 **HK$'million**	2014 HK$'million
Proposed final dividend attributable to owners of the Company for 2015 (note (a))	**484**	–
Final dividend attributable to owners of the Company for 2014 (note (b))	**–**	1,614

Notes:

(a) At the meeting on 17 March 2016, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2015 of HK6 cents per share amounting to a total of approximately HK$484 million. The amount is based on approximately 8,072 million shares in issue as at 17 March 2016. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2016 when approved at the 2016 Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2014 of HK20 cents per share amounting to a total of approximately HK$1,614 million were approved by the shareholders in the Annual General Meeting on 3 June 2015. The amount is based on approximately 8,072 million shares in issue as at 26 March 2015 which was paid on 19 June 2015.

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'million	Oil and gas properties HK$'million	Natural gas Pipelines HK$'million	Equipment and machinery HK$'million	Motor Vehicles HK$'million	Others HK$'million	Construction in progress HK$'million	Total HK$'million
Cost:								
Balances at 1 January 2014	2,729	14,206	40,876	33,669	2,362	2,529	18,886	115,257
Currency translation differences	(53)	(234)	(824)	(719)	(47)	(127)	(314)	(2,318)
Additions	13	479	–	888	147	49	9,951	11,527
Disposals	(1)	–	–	(1,005)	(8)	(2)	(74)	(1,090)
Transfers	124	444	1,004	4,613	–	45	(6,230)	–
Reclassification	(279)	–	(168)	1,702	8	(1,263)	–	–
Balances at 31 December 2014	2,533	14,895	40,888	39,148	2,462	1,231	22,219	123,376
Balances at 1 January 2015	**2,533**	**14,895**	**40,888**	**39,148**	**2,462**	**1,231**	**22,219**	**123,376**
Currency translation differences	**(142)**	**(796)**	**(2,377)**	**(2,320)**	**(134)**	**(71)**	**(1,180)**	**(7,020)**
Additions	**2**	**295**	**5**	**69**	**33**	**11**	**5,420**	**5,835**
Disposals	**(6)**	**(12)**	**(15)**	**(230)**	**(24)**	**–**	**(50)**	**(337)**
Transfers	**79**	**172**	**3,176**	**2,532**	**–**	**169**	**(6,128)**	**–**
Balances at 31 December 2015	**2,466**	**14,554**	**41,677**	**39,199**	**2,337**	**1,340**	**20,281**	**121,854**
Accumulated depreciation and depletion:								
Balances at 1 January 2014	673	9,733	12,377	8,340	789	402	–	32,314
Currency translation differences	(14)	(165)	(260)	(184)	(12)	(3)	–	(638)
Charge for the year	82	1,309	1,277	2,249	251	143	–	5,311
Disposals	(1)	–	–	(49)	(4)	(1)	–	(55)
Reclassification	(19)	–	(46)	264	7	(206)	–	–
Impairment loss	–	–	–	2	–	–	–	2
Balances at 31 December 2014	721	10,877	13,348	10,622	1,031	335	–	36,934

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings	Oil and gas properties	Natural gas Pipelines	Equipment and machinery	Motor Vehicles	Others	Construction in progress	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances at 1 January 2015	**721**	**10,877**	**13,348**	**10,622**	**1,031**	**335**	**–**	**36,934**
Currency translation differences	**(43)**	**(664)**	**(794)**	**(677)**	**(65)**	**(17)**	**–**	**(2,260)**
Charge for the year	**89**	**887**	**1,308**	**2,585**	**257**	**65**	**–**	**5,191**
Disposals	**–**	**(28)**	**–**	**(72)**	**(25)**	**–**	**–**	**(125)**
Impairment loss	**–**	**1,679**	**–**	**43**	**2**	**–**	**–**	**1,724**
Balances at 31 December 2015	**767**	**12,751**	**13,862**	**12,501**	**1,200**	**383**	**–**	**41,464**
Net book value:								
Balances at 31 December 2015	**1,699**	**1,803**	**27,815**	**26,698**	**1,137**	**957**	**20,281**	**80,390**
Balances at 31 December 2014	1,812	4,018	27,540	28,526	1,431	896	22,219	86,442

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

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

As at 31 December 2015, the legal title registration of certain of the Group's properties with carrying amount of approximately HK$771 million (2014: HK$831 million) is subject to certain administrative procedures to be completed by the relevant local government authorities. However, the Board of Directors of the Company is of the opinion that the risks and rewards of using these assets have been transferred to the Group.

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

As at 31 December 2015, the Group held certain equipment and machinery under finance leases expiring from 4 to 5 years at an effective interest rate of ranging from 5.04% to 5.32% (2014: 5.32%). At the end of the lease term the Group has the option to purchase the leased equipment and machinery at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year ended 31 December 2015, additions to equipment and machinery of the Group financed by new finance leases from a fellow subsidiary and a third party were HK$141 million (2014: HK$519 million) and HK$Nil (2014: HK$364 million) respectively. As at 31 December 2015, the net book value of equipment and machinery held under finance leases of the Group was HK$911 million (2014: HK$859 million).

In view of the persistent low crude oil prices during the current year, the Group has reassessed the risk exposures of its exploration and production business and estimated that the carrying amount of the oil and gas properties with respect to Xinjiang Contract and Leng Jiapu Contract as at 31 December 2015 exceeded their estimated recoverable amounts by HK$302 million and HK$1,377 million, respectively. Accordingly, impairment losses amounting to HK$302 million and HK$1,377 million, respectively, were recognised for oil and gas properties with respect to Xinjiang Contract and Leng Jiapu Contract, respectively, under "Impairment loss on property, plant and equipment" in the Group's consolidated statement of comprehensive income.

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The recoverable amounts of the oil and gas properties with respect to Xinjiang Contract and Leng Jiapu Contract amounting to HK$236 million and HK$673 million, respectively, were determined based on the value in use calculations applying a discount rate of 9.5%. Crude oil price assumptions were based on market expectations.

18 ADVANCED OPERATING LEASE PAYMENTS

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

	2015	2014
	HK$'million	HK$'million
Balance as at 1 January	**3,379**	2,895
Currency translation differences	**(195)**	(72)
Additions	**159**	632
Amortisation for the year	**(80)**	(70)
Disposals	**(58)**	(6)
Balance as at 31 December	**3,205**	3,379

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

19 INVESTMENTS IN ASSOCIATES

	2015	2014
	HK$'million	HK$'million
Share of net assets	**1,848**	4,332
Goodwill	**418**	443
	2,266	4,775

Details of the principal associates are set out in Note 40.

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised financial information of a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Aktobe	
	2015	2014
	HK$'million	HK$'million
Gross amounts of the associate's		
Current assets	**2,709**	3,921
Non-current assets	**18,082**	33,062
Current liabilities	**(5,006)**	(8,292)
Non-current liabilities	**(16,553)**	(18,611)
(Deficit)/Equity	**(768)**	10,080
Attributable to non-controlling interest	**(136)**	412
Attributable to the associate's shareholders	**(632)**	9,668
Revenue	**11,392**	22,170
(Loss)/profit from continuing operations	**(9,386)**	2,550
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**(1,333)**	(2,137)
Total comprehensive income	**(10,719)**	413
Attributable to non-controlling interest	**(419)**	106
Attributable to the associate's shareholders	**(10,300)**	309
Reconciled to the Group's interests in the associate		
Group's interest (note (i))	**25.12%**	25.12%
Group's interest in net assets of the associate at beginning of the year	**2,428**	3,371
Total comprehensive income attributable to the Group	**(2,588)**	77
Dividend received during the year	**–**	(1,020)
Group's interest in net (liabilities)/assets of the associate at end of the year	**(160)**	2,428
Cumulative unrecognised share of total comprehensive income (note (ii))	**160**	–
Carrying amount of interest in the associate at end of the year	**–**	2,428

Notes:

(i) The effective equity interest of Aktobe attributable to the Group is 15.07%, representing 25.12% equity interest in Aktobe held by a 60% owned subsidiary.

(ii) Share of total comprehensive income from Aktobe amounting to HK$160 million during the year ended 31 December 2015 (2014: Nil) was not recognised as the carrying amount of interest in Aktobe has been reduced to zero and the Group has not incurred legal or constructive obligations or made payment on behalf of Aktobe, in accordance with accounting policy set out in Note 3(b).

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material:

	2015 HK$'million	2014 HK$'million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**2,266**	2,347
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	**125**	115
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**125**	115

20 INVESTMENTS IN JOINT VENTURES

	2015 HK$'million	2014 HK$'million
Share of net assets	**1,209**	1,336
Loans to joint ventures	**112**	115
	1,321	1,451

Details of the principal joint ventures are set out in Note 41.

20 INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at 31 December 2015, included in loans to joint ventures is an amount of HK$45 million (2014: HK$45 million) which is unsecured, interest-free and recoverable on demand. Except as disclosed above, loans to joint ventures are unsecured, interest-bearing ranging from 4.60% to 7.00% per annum and recoverable within one year.

As at 31 December 2015 and 2014, the loans to joint ventures are not past due and not impaired.

Dividends declared from joint ventures are approximately HK$341 million (2014: HK$393 million) for the year ended 31 December 2015.

Share of loss from one joint venture amounting to HK$28 million during the year ended 31 December 2015 (2014: Nil) was not recognised as the carrying amount of the Group's equity interest in the joint venture has been reduced to zero. The Group has not incurred legal or constructive obligations or made payment on behalf of the joint venture, in accordance with accounting policy set out in Note 3(b).

There is no individually material joint venture which significantly affects the results and/or net assets of the Group at 31 December 2015.

Aggregate information of joint ventures that are not individually material:

	2015 HK$'million	2014 HK$'million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,209**	1,336
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**236**	256
– Post-tax profit or loss from discontinued operations	**–**	–
– Other comprehensive income	**–**	–
– Total comprehensive income	**236**	256

21 INVESTMENTS IN SUBSIDIARIES

Details of the principal subsidiaries are set out in Note 39.

The following tables list out the information related to PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline") and CNPC International (Caspian) Limited ("Caspian"), the two subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Beijing Pipeline		**Caspian**	
	2015	2014	**2015**	2014
	HK$'million	HK$'million	**HK$'million**	HK$'million
NCI percentage	**40%**	40%	**40%**	40%
Current assets	**532**	2,206	**–**	659
Non-current assets	**34,365**	38,026	**–**	2,428
Current liabilities	**(3,508)**	(11,938)	**–**	(198)
Non-current liabilities	**(2,201)**	(4,171)	**–**	(459)
Net assets	**29,188**	24,123	**–**	2,430
Carrying amount of NCI	**11,680**	9,656	**–**	972
Revenue	**13,989**	12,649	**–**	–
Profit for the year	**6,983**	5,965	**(1,792)**	366
Total comprehensive income	**5,307**	5,467	**(1,792)**	366
Profit allocated to NCI	**2,795**	2,388	**(717)**	146
Dividend paid to NCI	**2,090**	2,732	**184**	472
Cash flows from operating activities	**9,768**	9,583	**–**	–
Cash flows from investing activities	**(1,038)**	(2,316)	**–**	802
Cash flows from financing activities	**(8,977)**	(6,969)	**(659)**	(1,394)

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 HK$'million	2014 HK$'million
Available-for-sale equity securities:		
– Listed in Australia	**8**	15
– Listed in Hong Kong	**19**	28
– Listed in the PRC	**748**	–
– Unlisted in the PRC	**37**	40
	812	83

The carrying amounts of the Group's available-for-sale financial assets in the consolidated statement of financial position by the measurement hierarchy are set out in Note 4.3(a).

23 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	2015 HK$'million	2014 HK$'million
Intangible assets (note (i))	**423**	497
Prepaid construction costs	**512**	814
Loans to third parties	**88**	178
Others	**22**	20
	1,045	1,509

Note:

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

	2015			2014		
	Goodwill HK$'million	**Others HK$'million**	**Total HK$'million**	Goodwill HK$'million	Others HK$'million	Total HK$'million
At 1 January	**367**	**130**	**497**	375	128	503
Currency translation differences	**(18)**	**(8)**	**(26)**	(8)	(3)	(11)
Additions	**4**	**30**	**34**	–	16	16
Amortisation for the year	**–**	**(10)**	**(10)**	–	(11)	(11)
Disposals	**(72)**	**–**	**(72)**	–	–	–
At 31 December	**281**	**142**	**423**	367	130	497

24 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2015 **HK$'million**	2014 HK$'million
Natural gas	**418**	530
Materials for oil and gas properties and natural gas pipelines	**442**	549
Crude oil in tanks and others	**56**	78
	916	1,157

25 ACCOUNTS RECEIVABLE

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date is as follows:

	2015 **HK$'million**	2014 HK$'million
Within 3 months	**933**	1,329
Between 3 to 6 months	**303**	254
Over 6 months	**601**	405
	1,837	1,988

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 31 December 2015, accounts receivable of approximately HK$904 million (2014: HK$659 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 31 December 2015 and 2014, 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.

26 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	2015 HK$'million	2014 HK$'million
Other receivables	**994**	1,058
Advances to suppliers	**207**	365
Amounts due from related parties		
– Intermediate holding company	**22**	1,207
– Others	**73**	105
	1,296	2,735
Less: Provision for impairment	**(22)**	(21)
	1,274	2,714
Loans to third parties	**216**	525
Dividends receivable from associates	**115**	119
Value-added tax recoverable	**1,165**	992
Prepaid expenses	**906**	1,210
Other current assets	**256**	181
	3,932	5,741

Except for the amounts due from intermediate holding company of HK$22 million (2014: HK$1,207 million) which are unsecured and interest bearing at 1.65% per annum (2014: 3.30% per annum). The other amounts due from related parties are interest free and unsecured. All of the amounts due from related parties are expected to be settled within one year.

27 CASH AND CASH EQUIVALENTS

	2015 HK$'million	2014 HK$'million
Cash at bank and on hand	**9,305**	6,381
Short-term bank deposits	**2,466**	4,348
Cash and cash equivalents	**11,771**	10,729

27 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash at bank and bank deposits carry interest at prevailing market rate at 1.53% per annum (2014: 0.80% per annum).

Included in bank deposits, bank balances and cash are amounts of approximately HK$9,520 million or RMB7,983 million (2014: HK$8,222 million or RMB6,510 million) denominated in Renminbi which are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

28 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 2014, 31 December 2014 and 31 December 2015	16,000	160
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2014	8,062	81
Issue of shares upon exercise of share options (note (i))	10	–
At 31 December 2014, 1 January 2015 and 31 December 2015	**8,072**	**81**

Note:

(i) During the year ended 31 December 2014, the Company allotted and issued approximately 9.9 million shares of HK$0.01 each for cash at the average exercise price of HK$3.250 per share as a result of the exercise of share options. The nominal value of ordinary shares has increased by HK$99,000.

28 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 share option scheme was adopted after the expiration of 2002 Share Option Scheme on 2 June 2012. No new option was granted for the year ended 31 December 2015 and 2014.

During the year ended 31 December 2015, no share options (2014: 3.9 million and 6.0 million) have been exercised by the directors and employees of the Company respectively as the exercise prices of the outstanding share options are above the market price of the Company's shares, and certain share options were lapsed.

28 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The movements in the share options granted under the 2002 Share Option Scheme during the year ended 31 December 2014 and 2015 are shown in the following table:

Name of category of participants	Option type	Outstanding at 1 January 2014 '000	Exercised during the year '000	Outstanding at 31 December 2014 and 1 January 2015 '000	Lapsed during the year '000	Outstanding at 31 December 2015 '000
		Number of share options				
Directors						
Mr Zhang Bowen	2009 (note (i))	2,400	(2,400)	–	–	–
	2010 (note (ii))	2,400	–	**2,400**	**(2,400)**	–
	2011 (note (iii))	2,400	–	**2,400**	–	**2,400**
	2012 (note (iv))	2,200	–	**2,200**	–	**2,200**
Mr Cheng Cheng	2009 (note (i))	1,500	(1,500)	–	–	–
	2010 (note (ii))	1,500	–	**1,500**	**(1,500)**	–
	2011 (note (iii))	1,500	–	**1,500**	–	**1,500**
	2012 (note (iv))	2,000	–	**2,000**	–	**2,000**
Dr Lau Wah Sum	2010 (note (ii))	400	–	**400**	**(400)**	–
Mr Li Kwok Sing Aubrey	2010 (note (ii))	400	–	**400**	**(400)**	–
Dr Liu Xiao Feng	2010 (note (ii))	400	–	**400**	**(400)**	–
Subtotal		17,100	(3,900)	**13,200**	**(5,100)**	**8,100**
Other employees	2009 (note (i))	6,000	(6,000)	–	–	–
	2010 (note (ii))	6,000	–	**6,000**	**(6,000)**	–
	2011 (note (iii))	6,000	–	**6,000**	–	**6,000**
	2012 (note (iv))	11,500	–	**11,500**	–	**11,500**
Subtotal		29,500	(6,000)	**23,500**	**(6,000)**	**17,500**
Total		46,600	(9,900)	**36,700**	**(11,100)**	**25,600**

Notes:

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

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

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

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

(v) The closing price of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2014 was HK$12.900.

29 OTHER RESERVES

(a) Movements in components of other reserves

	Group								
	Share premium HK$'million note (i)	Contributed surplus HK$'million note (ii)	Employee share-based compensation reserve HK$'million	Merger reserve HK$'million note (iii)	Available-for-sale financial assets reserve HK$'million note (iv)	Translation reserve HK$'million note (v)	Others HK$'million note (vi)	Retained earnings HK$'million	Total HK$'million
Balances at 1 January 2014	39,882	134	125	(20,469)	43	3,711	2,369	24,530	50,325
Total comprehensive income for the year	–	–	–	–	(29)	(1,274)	–	5,610	4,307
Transfer between reserves	–	–	–	–	–	–	518	(518)	–
Issue of shares upon exercise of share options	42	–	(10)	–	–	–	–	–	32
Final dividend for 2013	–	–	–	–	–	–	–	(1,857)	(1,857)
Balances at 31 December 2014	39,924	134	115	(20,469)	14	2,437	2,887	27,765	52,807
Balances at 31 December 2014 and 1 January 2015	**39,924**	**134**	**115**	**(20,469)**	**14**	**2,437**	**2,887**	**27,765**	**52,807**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**598**	**(2,888)**	**–**	**137**	**(2,153)**
Transfer between reserves	**–**	**–**	**–**	**–**	**–**	**–**	**639**	**(639)**	**–**
Final dividend for 2014	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,614)**	**(1,614)**
Lapsed share options	**–**	**–**	**(31)**	**–**	**–**	**–**	**–**	**31**	**–**
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**–**	**2**
Balances at 31 December 2015	**39,924**	**134**	**84**	**(20,469)**	**612**	**(451)**	**3,528**	**25,680**	**49,042**

29 OTHER RESERVES (CONTINUED)

(a) Movements in components of other reserves (Continued)

	Company					
	Share premium HK$'million note (i)	Contributed surplus HK$'million note (ii)	Employee share-based compensation reserve HK$'million	Retained earnings HK$'million	Translation reserve HK$'million note (v)	Total HK$'million
Balances at 1 January 2014	39,882	134	125	11,905	319	52,365
Total comprehensive income for the year	–	–	–	6,936	(211)	6,725
Final dividend for 2013	–	–	–	(1,857)	–	(1,857)
Issue of shares upon exercise of share options	42	–	(10)	–	–	32
Balances at 31 December 2014	39,924	134	115	16,984	108	57,265
Balances at 31 December 2014 and 1 January 2015	**39,924**	**134**	**115**	**16,984**	**108**	**57,265**
Total comprehensive income for the year	**–**	**–**	**–**	**1,767**	**(2,348)**	**(581)**
Final dividend for 2014	**–**	**–**	**–**	**(1,614)**	**–**	**(1,614)**
Lapsed share options	**–**	**–**	**(31)**	**31**	**–**	**–**
Balances at 31 December 2015	**39,924**	**134**	**84**	**17,168**	**(2,240)**	**55,070**

29 OTHER RESERVES (CONTINUED)

(b) Nature and purpose of other reserves

Notes:

(i) Under the Bermuda Companies Act 1981, the share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

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

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

(iv) Available-for-sale financial assets reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in Notes 3(h).

(v) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3(d)(ii).

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

(c) Distributability of other reserves

At 31 December 2015, the aggregate amount of other reserves available for distribution to equity shareholders of the Company, as calculated under the Company's Act 1981 of Bermuda (as amended) was HK$17,302 million (2014: HK$17,118 million). After the end of the reporting period the directors proposed a final dividend of HK6 cents per ordinary share (2014: HK20 cents per share), amounting to HK$484 million (2014: HK$1,614 million) (Note 16). This dividend has not been recognised as a liability at the end of the reporting period.

30 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015 HK$'million	2014 HK$'million
Accounts payable	**1,887**	1,871
Advances from customers	**1,464**	1,785
Salaries and welfare payable	**199**	374
Accrued expenses	**33**	40
Dividend payable to non-controlling interests	**297**	95
Interest payable	**102**	94
Construction fee and equipment cost payables	**5,666**	6,809
Amounts due to related parties		
– Ultimate holding company	**–**	631
– Non-controlling interests	**220**	1,991
– Others	**2**	2
Other payables	**1,609**	1,084
	11,479	14,776

As of the end of the reporting period, the ageing analysis of accounts payable, based on the invoice date, is as follows:

	2015 HK$'million	2014 HK$'million
Within 3 months	**1,279**	1,278
Between 3 to 6 months	**161**	194
Over 6 months	**447**	399
	1,887	1,871

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

31 BORROWINGS

	2015 HK$'million	2014 HK$'million
Short-term borrowings – unsecured	**2,550**	5,341
Current portion of long-term borrowings	**5,171**	3,124
	7,721	8,465
Long-term borrowings – unsecured	**20,589**	19,348
Less: Current portion of long-term borrowings	**(5,171)**	(3,124)
	15,418	16,224
	23,139	24,689

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

	2015 HK$'million	2014 HK$'million
Renminbi	**13,801**	18,587
US dollar	**7,692**	4,456
Hong Kong dollar	**1,646**	1,646
	23,139	24,689

31 BORROWINGS (CONTINUED)

	2015	2014
	HK$'million	HK$'million
Total borrowings:		
– At fixed rates	**21,124**	18,407
– At floating rates	**2,015**	6,282
	23,139	24,689
Weighted average effective interest rates:		
– Bank loans	**4.91%**	5.03%
– Loans from an immediate holding company	**4.16%**	3.19%
– Loans from an intermediate holding company	**4.38%**	6.29%
– Loans from CP Finance	**4.62%**	4.30%
– Loans from fellow subsidiaries	**4.15%**	4.62%
– Senior notes	**3.31%**	–
– Debentures payable:		
– 14 Huayou Tian CP001	**–**	5.20%
– 14 Huayou Tian MTN001	**5.63%**	5.63%
– 15 Huayou Tian CP001	**3.96%**	–

As at 31 December 2015, debentures amounting to HK$952 million (2014: HK$1,005 million) issued by 華油天然氣股份有限公司, a subsidiary of the Group, were included as borrowings of the Group.

31 BORROWINGS (CONTINUED)

As at 31 December 2015 and 2014, the borrowings of the Group were repayable as follows:

	Bank loans		Loans other than bank loans	
	2015	2014	**2015**	2014
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**2,860**	849	**4,861**	7,616
Between one to two years	**1,070**	868	**1,646**	4,420
Between two to five years	**1,027**	1,112	**7,792**	9,824
After five years	**48**	–	**3,835**	–
	5,005	2,829	**18,134**	21,860

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

	Bank loans		Loans other than bank loans	
	2015	2014	**2015**	2014
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**3,042**	988	**5,472**	8,423
Between one to two years	**1,158**	954	**2,107**	4,924
Between two to five years	**1,056**	1,152	**8,835**	10,250
After five years	**59**	–	**5,257**	–
	5,315	3,094	**21,671**	23,597

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax in the statement of financial position represents:

	2015 HK$'million	2014 HK$'million
Tax payables in respect of subsidiaries in:		
– PRC	**544**	450
– Overseas	**7**	42
	551	492
Withholding tax on dividend distributed by the subsidiaries	**31**	313
	582	805

(b) Deferred tax assets and liabilities recognised:

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

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

	2015 HK$'million	2014 HK$'million
At 1 January	**(958)**	(1,461)
Currency translation differences	**(11)**	1
Credited to the consolidated profit or loss (Note 14)	**614**	502
At 31 December	**(355)**	(958)
Representing:		
Deferred tax assets	**586**	456
Deferred tax liabilities	**(941)**	(1,414)
	(355)	(958)

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised (Continued):

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

	Accelerated tax depreciation HK$'million	Undistributed profits of PRC and overseas subsidiaries, associate and joint ventures HK$'million	Others HK$'million	Total HK$'million
At 1 January 2014	(705)	(868)	112	(1,461)
Currency translation differences	4	–	(3)	1
Credited to the consolidated profit or loss	280	122	100	502
At 31 December 2014	(421)	(746)	209	(958)
At 1 January 2015	**(421)**	**(746)**	**209**	**(958)**
Currency translation differences	**4**	**–**	**(15)**	**(11)**
Credited to the consolidated profit or loss	**72**	**456**	**86**	**614**
At 31 December 2015	**(345)**	**(290)**	**280**	**(355)**

33 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2015, the Group had obligations under finance leases repayable as follows:

	2015		2014	
	Present value of the minimum lease payments HK$'million	**Total minimum lease payments HK$'million**	Present value of the minimum lease payments HK$'million	Total minimum lease payments HK$'million
Within 1 year	**208**	**212**	194	199
After 1 year but within 2 years	**188**	**202**	176	190
After 2 years but within 5 years	**378**	**443**	431	518
After 5 years	**–**	**–**	42	57
	566	**645**	649	765
	774	**857**	843	964
Less: Total future interest expenses		**(83)**		(121)
Present value of lease obligations		**774**		843

34 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 31 December 2015 and 2014 under non-cancellable operating leases are as follows:

	2015 HK$'million	2014 HK$'million
Not later than one year	**149**	140
Later than one year and not later than five years	**378**	384
More than five years	**433**	567
	960	1,091

34 COMMITMENTS (CONTINUED)

(b) Capital commitments

	2015 HK$'million	2014 HK$'million
Contracted but not provided for:		
Oil field development costs	**366**	404
Acquisitions of/capital contributions to investments	**17,681**	–
Other property, plant and equipment	**2,219**	7,179
	20,266	7,583
Authorised but not contracted for:		
Oil field development costs	**428**	623
Acquisitions of/capital contributions to investments	**720**	5,841
Other property, plant and equipment	**31,478**	–
	32,626	6,464

35 OIL PRODUCTION SHARING CONTRACTS

(a) Xinjiang Contract

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

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

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

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(a) Xinjiang Contract (Continued)

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

	2015 **HK$'million**	2014 HK$'million
(i) Results for the year		
Income	**789**	1,769
Expenses	**(1,193)**	(1,140)
(ii) Assets and liabilities		
Non-current assets	**236**	555
Current assets	**280**	318
Current liabilities	**(86)**	(135)
Net assets	**430**	738
(iii) Capital commitments		
Contracted but not provided for	**199**	182

(b) Leng Jiapu Contract

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

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

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(b) Leng Jiapu Contract (Continued)

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

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

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

	2015 **HK$'million**	2014 HK$'million
(i) Results for the year		
Income	**871**	1,723
Expenses	**(2,598)**	(1,850)
(ii) Assets and liabilities		
Non-current assets	**779**	2,643
Current assets	**407**	664
Current liabilities	**(179)**	(484)
Non-current liabilities	**–**	(160)
Net assets	**1,007**	2,663
(iii) Capital commitments		
Contracted but not provided for	**167**	222

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(c) K&K Contract

K&K Contract provides twenty-five consecutive years of production sharing which commences on 5 November 1999 and may be extended by additional five years subject to the approval of The State Oil Company of the Azerbaijan Republic.

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

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

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

		2015 **HK$'million**	2014 HK$'million
(i)	**Results for the year**		
	Income	**229**	464
	Expenses	**(248)**	(450)
(ii)	**Assets and liabilities**		
	Non-current assets	**73**	73
	Current assets	**20**	61
	Current liabilities	**(6)**	(7)
	Net assets	**87**	127
(iii)	**Capital commitments**		
	Authorised but not contracted for	**17**	7

36 RELATED PARTY TRANSACTIONS

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(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, the third supplemental agreement in 2010 and the fourth supplemental agreement in 2011.

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 2014. On 6 November 2014, the Group and CNPC entered into the fifth supplemental agreement for the purpose of renewing the term of the master agreement for three years ending on 31 December 2017.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$4,516 million (2014: HK$8,218 million) for the year ended 31 December 2015 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK$921 million (2014: HK$1,459 million).

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$1,648 million (2014: HK$3,477 million) for the year ended 31 December 2015.

- 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$18 million (2014: HK$15 million) for the year ended 31 December 2015.

- 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$9,761 million (2014: HK$12,687 million) for the year ended 31 December 2015.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$11,140 million (2014: HK$10,809 million) for the year ended 31 December 2015.

(ii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounting to approximately HK$138 million (2014: HK$145 million) for the year ended 31 December 2015.

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

(iii) As at 31 December 2015 and 2014, 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:

	2015	2014
	HK$'million	HK$'million
Intangible and other non-current assets	**22**	239
Accounts receivable	**283**	435
Accounts payable and accrued liabilities	**2,415**	2,769
Borrowings	**10,444**	21,860
Prepaid expenses and other current assets	**95**	1,312
Obligations under finance leases	**504**	504

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

Beijing Pipeline has entered into an agreement with PetroChina (the "Natural Gas Transmission Agreement"), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. Under the terms of 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 interests 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$5,239 million (2014: HK$4,690 million) for the year ended 31 December 2015. This transaction constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	2015	2014
	HK$'million	HK$'million
Salaries and allowances	**16**	36
Retirement benefits – defined contribution scheme	**2**	2
	18	38

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

During the year ended 31 December 2015, the Group acquired 49% equity interest of PetroChina Tianjin Natural Gas Pipeline Company Limited, a subsidiary of the Group, from the non-controlling interest which is also a state-controlled entity in the PRC, for an amount of HK$280 million.

Apart from the aforementioned transactions and the transactions with 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.

37 SEGMENT INFORMATION

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

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

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. It is further evaluated on a geographic basis (the Peoples' Republic of China (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, net exchange gains/losses and general and administration expenses incurred at corporate level.

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

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2015 and 2014 are as follows:

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	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	HK$'million	Total HK$'million
For the year ended 31 December 2015												
Gross revenue	1,648	931	2,579	22,464	2,070	24,534	1,490	14,043	40,067	–	–	42,646
Less: Inter-company adjustment	–	–	–	(61)	(867)	(928)	(65)	(12)	(1,005)	–	–	(1,005)
Revenue from external customers	1,648	931	2,579	22,403	1,203	23,606	1,425	14,031	39,062	–	–	41,641
Segment results	(2,045)	153	(1,892)	357	(868)	(511)	403	9,380	9,272	(565)	–	6,815
Share of profits less losses of:												
– Associates	–	(2,249)	(2,249)	124	–	124	1	–	125	–	–	(2,124)
– Joint ventures	–	262	262	9	–	9	–	–	9	(35)	–	236
(Loss)/profit before income tax expense	(2,045)	(1,834)	(3,879)	490	(868)	(378)	404	9,380	9,406	(600)	–	4,927
Income tax expense												(2,607)
Profit for the year												2,320
Segment results included:												
– Interest income	86	4	90	104	6	110	1	33	144	436	(445)	225
– Depreciation, depletion and amortisation	(718)	(148)	(866)	(1,313)	(272)	(1,585)	(689)	(2,138)	(4,412)	(3)	–	(5,281)
– Impairment loss on property, plant and equipment	(1,679)	–	(1,679)	(45)	–	(45)	–	–	(45)	–	–	(1,724)
– Interest expenses	–	(3)	(3)	(118)	(370)	(488)	(57)	(126)	(671)	(348)	445	(577)
As at 31 December 2015												
Non-current assets	1,015	810	1,825	19,761	16,446	36,207	10,585	34,842	81,634	1,181	–	84,640
Current assets	718	416	1,134	9,475	692	10,167	250	590	11,007	6,251	–	18,392
Segment assets	1,733	1,226	2,959	29,236	17,138	46,374	10,835	35,432	92,641	7,432	–	103,032
Investments in associates	–	–	–	2,259	–	2,259	7	–	2,266	–	–	2,266
Investments in joint ventures	–	1,062	1,062	170	–	170	–	–	170	89	–	1,321
Sub-total	1,733	2,288	4,021	31,665	17,138	48,803	10,842	35,432	95,077	7,521	–	106,619
Available-for-sale financial assets												812
Deferred tax assets												586
Others												64
Total assets												108,081

37 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	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	HK$'million	Total HK$'million
For the year ended 31 December 2014												
Gross revenue	3,477	1,859	5,336	26,291	3,446	29,737	1,994	12,691	44,422	–	–	49,758
Less: Inter-company adjustment	–	–	–	–	(1,654)	(1,654)	(48)	(12)	(1,714)	–	–	(1,714)
Revenue from external customers	3,477	1,859	5,336	26,291	1,792	28,083	1,946	12,679	42,708	–	–	48,044
Segment results	837	341	1,178	1,303	(338)	965	805	8,141	9,911	(105)	–	10,984
Share of profits less losses of:												
– Associates	–	601	601	114	–	114	1	–	115	–	–	716
– Joint ventures	–	523	523	3	–	3	–	–	3	(270)	–	256
Profit/(loss) before income tax expense	837	1,465	2,302	1,420	(338)	1,082	806	8,141	10,029	(375)	–	11,956
Income tax expense												(3,080)
Profit for the year												8,876
Segment results included:												
– Interest income	140	8	148	86	6	92	2	61	155	245	(331)	217
– Depreciation, depletion and amortisation	(672)	(596)	(1,268)	(1,109)	(211)	(1,320)	(702)	(2,100)	(4,122)	(2)	–	(5,392)
– Impairment loss on property, plant and equipment	–	–	–	(2)	–	(2)	–	–	(2)	–	–	(2)
– Interest expenses	–	(17)	(17)	(212)	(142)	(354)	(85)	(203)	(642)	(158)	331	(486)
As at 31 December 2014												
Non-current assets	3,152	792	3,944	21,726	14,934	36,660	11,032	38,529	86,221	1,165	–	91,330
Current assets	1,028	1,233	2,261	9,475	1,241	10,716	475	2,476	13,667	3,679	–	19,607
Segment assets	4,180	2,025	6,205	31,201	16,175	47,376	11,507	41,005	99,888	4,844	–	110,937
Investments in associates	–	2,428	2,428	2,341	–	2,341	6	–	2,347	–	–	4,775
Investments in joint ventures	–	1,136	1,136	179	–	179	–	–	179	136	–	1,451
Sub-total	4,180	5,589	9,769	33,721	16,175	49,896	11,513	41,005	102,414	4,980	–	117,163
Available-for-sale financial assets												83
Deferred tax assets												456
Others												8
Total assets												117,710

37 SEGMENT INFORMATION (CONTINUED)

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

For the year ended 31 December 2015, revenue of approximately HK$20,341 million (2014: HK$14,431 million) are derived from two (2014: one) customers 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.

38 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 17 March 2016 and will be submitted to the shareholders for approval at the 2016 Annual General Meeting to be held on 12 May 2016 (Thursday).

39 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2015, are as follows:

Name of subsidiary	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in the PRC				
Hafnium Limited	British Virgin Islands ("BVI")	US$1	Limited liability company	100.00% (note (i))
Beckbury International Limited	BVI	US$1	Limited liability company	100.00% (note (i))
Exploration, production and sales of crude oil in Peru				
SAPET Development Corporation ("SAPET")	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (note (ii))
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (note (ii))
Exploration, production and sales of crude oil in Thailand				
Central Place Company Limited	Hong Kong	160 ordinary shares	Limited liability company	100.00%
Sino-U.S. Petroleum Inc	United States of America	US$1,000	Limited liability company	100.00%
CNPCHK (Thailand) Limited	Thailand	Baht100 million	Limited liability company	100.00%
Exploration, production and sales of crude oil in Azerbaijan				
Fortunemate Assets Limited	BVI	US$1	Limited liability company	100.00% (note (i))

39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Kazakhstan				
CNPC International (Caspian) Limited	BVI	US$100	Limited liability company	60.00%
Natural gas distribution in the PRC				
PetroChina Beijing Gas Pipeline Co., Ltd	PRC	RMB15,222 million	Limited liability company	60.00% (note (i))
CNPC Shennan Oil Technology Development Co., Ltd.	PRC	RMB1,102 million	Limited liability company	100.00% (note (i))
華油天然氣股份有限公司	PRC	RMB2,082 million	Limited liability company	77. 88% (note (i))
Xinjiang Xinjie Co., Ltd.	PRC	RMB4,370 million	Limited liability company	98.50% (note (i))
Huagang Gas Group Company Limited	PRC	RMB1,500 million	Limited liability company	51.00% (note (i))
Xi'an Qinggang Clean Energy Technology Company Limited	PRC	RMB330 million	Limited liability company	51.00% (note (i))
新疆博瑞能源有限公司	PRC	RMB500 million	Limited liability company	94.00% (note (i))
四川川港燃氣有限責任公司	PRC	RMB310 million	Limited liability company	51.00% (note (i))
Kunlun Energy Investment Shandong Company Limited	PRC	RMB1,500 million	Limited liability company	100.00% (note (i))
Petrochina Tianjin Gas Pipeline Co., Ltd.	PRC	RMB255 million	Limited liability company	100.00% (note (i))
昆侖能源青海有限公司	PRC	RMB195 million	Limited liability company	100.00% (note (i))
Cangzhou Gas Limited Company Petrochina	PRC	RMB200 million	Limited liability company	51.00% (note (i))
PetroChina Jiangsu LNG Co., Ltd.	PRC	RMB2,651 million	Limited liability company	55.00% (note (i))

39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC (Continued)				
PetroChina Dalian LNG Co., Ltd.	PRC	RMB2,600 million	Limited liability company	75.00% (note (i))
KunLun Energy (LiaoNing) Company Limited	PRC	RMB192 million	Limited liability company	100.00% (note (i))
昆侖能源西藏有限公司	PRC	RMB48 million	Limited liability company	100.00% (note (i))
Binhai New Energy Co., Ltd	PRC	RMB224 million	Limited liability company	51.00% (note (i))
昆侖能源(甘肅)有限公司	PRC	RMB105 million	Limited liability company	100.00% (note (i))
Jilin Jigang Clean Energy Company Limited	PRC	RMB657 million	Limited liability company	51.00% (note (i))

Notes:

(i) Shares are held directly by the Company.

(ii) In accordance with the share purchase agreement dated 8 September 2001, the Group has the rights to variable returns from its involvement with SAPET and has the ability to affect those returns through its power over SAPET. As a result, SAPET is accounted for as a subsidiary of the Company.

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

(iii) Apart from the debentures of 華油天然氣股份有限公司 disclosed in Note 31, no other subsidiaries had any debt securities at 31 December 2015 or at any time during the year.

40 PRINCIPAL ASSOCIATES

At 31 December 2015 and 2014, the Group had interest in the following principal associates:

Name of associates	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Kazakhstan				
Aktobe	Kazakhstan	8,946,470 common shares of 1,500 tenge each (note (i))	Joint-stock company	15.07% (note (ii))
Natural gas distribution in the PRC				
China City Natural Gas Investment Group Co., Ltd.	PRC	RMB1,000 million	Equity joint venture	49.00% (note (iii))

Notes:

(i) Issued and paid up share capital of Aktobe consists of 8,946,470 ordinary shares and 943,955 preference shares. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights generally.

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

(iii) Shares held directly by the Company.

41 PRINCIPAL JOINT VENTURES

As at 31 December 2015 and 2014, the Group had interest in the following principal joint ventures:

Name of joint ventures	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Oman				
Mazoon Petrogas (BVI) Limited	British Virgin Islands	50,000 ordinary shares of US$1 each	Limited liability company	50.00% (note (i))
Manufacturing of steel pipe in the PRC				
華油鋼管有限公司	PRC	RMB468 million	Equity joint venture	39.56% (note (i) and (ii))
Production of petro-chemical products in the PRC				
青島慶昕塑料有限公司	PRC	RMB223 million	Equity joint venture	25.00% (note (i))

Notes:

(i) The shares of the above principal joint ventures are held directly by the Company.

(ii) In accordance with the joint venture agreement, the Group and the other investor agreed to share control of the entity and have rights to the net assets of the arrangement.

42 COMPANY - LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 HK$'million	2014 HK$'million
Assets			
Non-current assets			
Property, plant and equipment		**1**	3
Investments in associates		**1,110**	1,153
Investments in joint ventures		**96**	122
Investments in subsidiaries		**46,845**	44,298
Intangible and other non-current assets		**478**	1,264
		48,530	46,840
Current assets			
Prepaid expenses and other current assets		**11,592**	15,130
Cash and cash equivalents		**4,662**	1,586
		16,254	16,716
Total assets		**64,784**	63,556
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*28*	**81**	81
Retained earnings	*29*	**17,168**	16,984
Other reserves	*29*	**37,902**	40,281
		55,151	57,346
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**292**	296
Income tax payable		**3**	5
		295	301
Non-current liabilities			
Long-term borrowings		**9,338**	5,909
Total liabilities		**9,633**	6,210
Total equity and liabilities		**64,784**	63,556
Net current assets		**15,959**	16,415
Total assets less current liabilities		**64,489**	63,255

43 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Proposed acquisition

On 28 December 2015, the Group entered into the acquisition agreement with PetroChina ("Agreement"), pursuant to which, the Group has agreed to purchase, and PetroChina has agreed to sell, the entire equity interest in PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") at a cash consideration of approximately RMB14,827 million (approximately HK$17,998 million or US$2,322 million). The Group will pay no less than 30% of the consideration to PetroChina on the date of completion, while the remainder of the consideration shall be settled in full by the Group within 12 months of the completion date (including settlement of no less than 60% of the consideration within 6 months of completion date).

On 18 February 2016, the acquisition of the entire equity interest in Kunlun Gas was approved by the shareholders of the Company in a special general meeting. As at the date of this report, the approval of the acquisition agreement from government authority is outstanding.

As part of the funding arrangement, the Group has obtained a committed credit facility in the amount of RMB23 billion from CP Finance for a period of 18 months from 23 January 2016.

44 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors consider the immediate parent and ultimate controlling party of the Group to be Sun World and CNPC which are incorporated in the BVI and the PRC respectively. PetroChina, an intermediate holding company, produces financial statements available for public use.

45 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Results	Year ended 31 December 2015 HK$'million	2014 HK$'million	2013 HK$'million	2012 HK$'million	2011 HK$'million (unrestated) (note)
Revenue	**41,641**	48,044	43,430	32,953	25,398
Profit before income tax expense	**4,927**	11,956	14,353	13,306	10,450
Income tax expense	**(2,607)**	(3,080)	(3,845)	(3,392)	(2,281)
Profit for the year	**2,320**	8,876	10,508	9,914	8,169
Non-controlling interests	**(2,183)**	(3,266)	(3,657)	(3,396)	(2,560)
Profit attributable to owners of the Company	**137**	5,610	6,851	6,518	5,609
Earnings per share					
– Basic (HK cent)	**1.70**	69.52	85.01	83.54	78.44
– Diluted (HK cent)	**1.70**	69.49	84.83	83.13	77.52

Assets and liabilities	As at 31 December 2015 HK$'million	2014 HK$'million	2013 HK$'million	2012 HK$'million	2011 HK$'million (unrestated) (note)
Total assets	**108,081**	117,710	119,462	108,542	84,069
Total liabilities	**(37,757)**	(43,396)	(47,194)	(46,364)	(38,482)
Total equity	**70,324**	74,314	72,268	62,178	45,587

Note:

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

INFORMATION ON EXPLORATION AND PRODUCTION SEGMENT

In accordance with the Listing Rule 18.18, this section provides supplemental information on oil and gas producing activities of the Group.

Proved Oil and Gas Reserve Estimates

The following table sets forth the Company's estimated proved developed reserves and proved reserves as at December 2013, 2014 and 2015. The tables are formulated on the basis of reports prepared by DeGolyer and MacNaughton, an independent engineering consultancy company.

Proved developed reserves (Estimation)

CRUDE OIL:

	PRC (million barrels)	Others (million barrels)	Total (million barrels)
Reserve as at 31 December 2012	22.0	43.5	65.5
2013 Revision	12.8	18.9	31.7
2013 Production	(5.4)	(12.4)	(17.8)
Reserve as at 31 December 2013	29.4	50.0	79.4
2014 Revision	2.8	0.1	2.9
2014 Production	(5.4)	(11.9)	(17.3)
Reserve as at 31 December 2014	26.8	38.2	65.0
2015 Revision	**0.0**	**21.7**	**21.7**
2015 Production	**(5.6)**	**(11.6)**	**(17.2)**
Reserve as at 31 December 2015	**21.2**	**48.3**	**69.5**

NATURAL GAS

	PRC (million cu feet)	Others (million cu feet)	Total (million cu feet)
Reserve as at 31 December 2012	0.0	37,701.8	37,701.8
2013 Revision	0.0	60,788.1	60,788.1
2013 Production	0.0	(19,756.6)	(19,756.6)
Reserve as at 31 December 2013	0.0	78,733.3	78,733.3
2014 Revision	0.0	21,848.7	21,848.7
2014 Production	0.0	(20,629.4)	(20,629.4)
Reserve as at 31 December 2014	0.0	79,952.6	79,952.6
2015 Revision	**0.0**	**103,375.7**	**103,375.7**
2015 Production	**0.0**	**(722.9)**	**(722.9)**
Reserve as at 31 December 2015	**0.0**	**182,605.4**	**182,605.4**

Proved reserves (Estimation)

CRUDE OIL

	PRC (million barrels)	Others (million barrels)	Total (million barrels)
Reserve as at 31 December 2012	28.8	66.7	95.5
2013 Revision	6.0	28.9	34.9
2013 Production	(5.4)	(12.4)	(17.8)
Reserve as at 31 December 2013	29.4	83.2	112.6
2014 Revision	2.8	(13.3)	(10.5)
2014 Production	(5.4)	(11.9)	(17.3)
Reserve as at 31 December 2014	26.8	58.0	84.8
2015 Revision	**0.0**	**16.7**	**16.7**
2015 Production	**(5.6)**	**(11.6)**	**(17.2)**
Reserve as at 31 December 2015	**21.2**	**63.1**	**84.3**

NATURAL GAS

	PRC (million cu feet)	Others (million cu feet)	Total (million cu feet)
Reserve as at 31 December 2012	0.0	138,461.4	138,461.4
2013 Revision	0.0	23,381.2	23,381.2
2013 Production	0.0	(19,756.6)	(19,756.6)
Reserve as at 31 December 2013	0.0	142,086.0	142,086.0
2014 Revision	0.0	6,377.9	6,377.9
2014 Production	0.0	(20,629.4)	(20,629.4)
Reserve as at 31 December 2014	0.0	127,834.5	127,834.5
2015 Revision	**0.0**	**82,795.9**	**82,795.9**
2015 Production	**0.0**	**(722.9)**	**(722.9)**
Reserve as at 31 December 2015	**0.0**	**209,907.5**	**209,907.5**

Definition:

The petroleum reserves are classified as follows:

Proved oil and gas reserves – Proved oil and gas reserves are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The areas of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contracts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contracts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required from recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

Results of Operations for Exploration and Production Segments

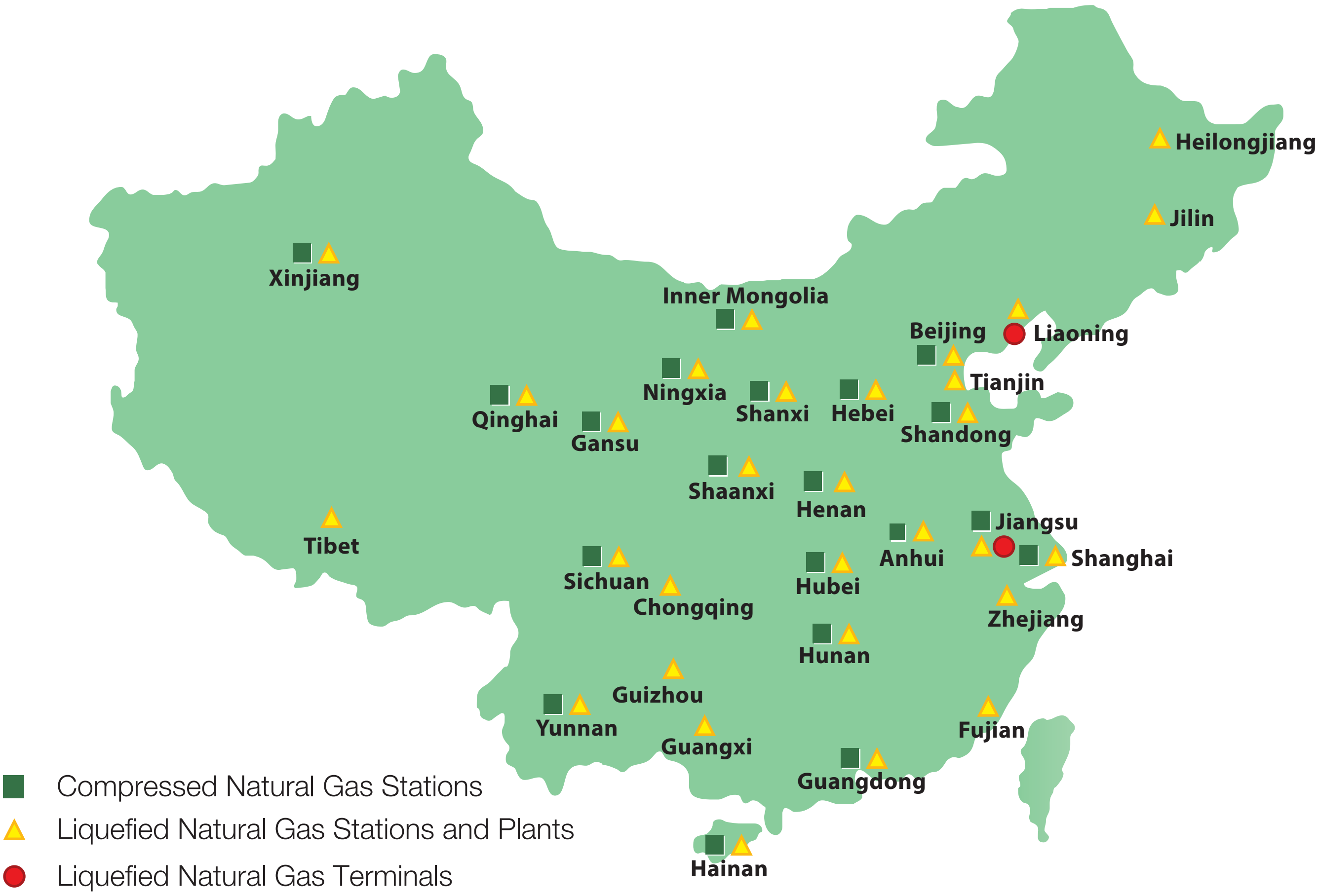
	PRC HK$'million	Others HK$'million	Sub-total HK$'million
For the year ended 31 December 2015			
Gross revenue	**1,648**	**931**	**2,579**
Less: Inter-company adjustment	**–**	**–**	**–**
Revenue from external customers	**1,648**	**931**	**2,579**
Segment results	**(2,045)**	**153**	**(1,892)**
Share of profits less losses of:			
– Associates	**–**	**(2,249)**	**(2,249)**
– Joint ventures	**–**	**262**	**262**
Profit before income tax expense	**(2,045)**	**(1,834)**	**(3,879)**
Income tax expense			
Profit for the year			
Segment results included:			
– Interest income	**86**	**4**	**90**
– Depreciation, depletion and amortisation	**(718)**	**(148)**	**(866)**
– Impairment loss on property, plant and equipment	**(1,679)**	**–**	**(1,679)**
– Interest expenses	**–**	**(3)**	**(3)**
For the year ended 31 December 2014			
Gross revenue	3,477	1,859	5,336
Less: Inter-company adjustment	–	–	–
Revenue from external customers	3,477	1,859	5,336
Segment results	837	341	1,178
Share of profits less losses of:			
– Associates	–	601	601
– Joint ventures	–	523	523
Profit before income tax expense	837	1,465	2,302
Income tax expense			
Profit for the year			
Segment results included:			
– Interest income	140	8	148
– Depreciation, depletion and amortisation	(672)	(596)	(1,268)
– Interest expenses	–	(17)	(17)

Costs Incurred for Property Acquisitions, Exploration and Production:

Costs Incurred for Property Acquisitions, Exploration and Development Activities

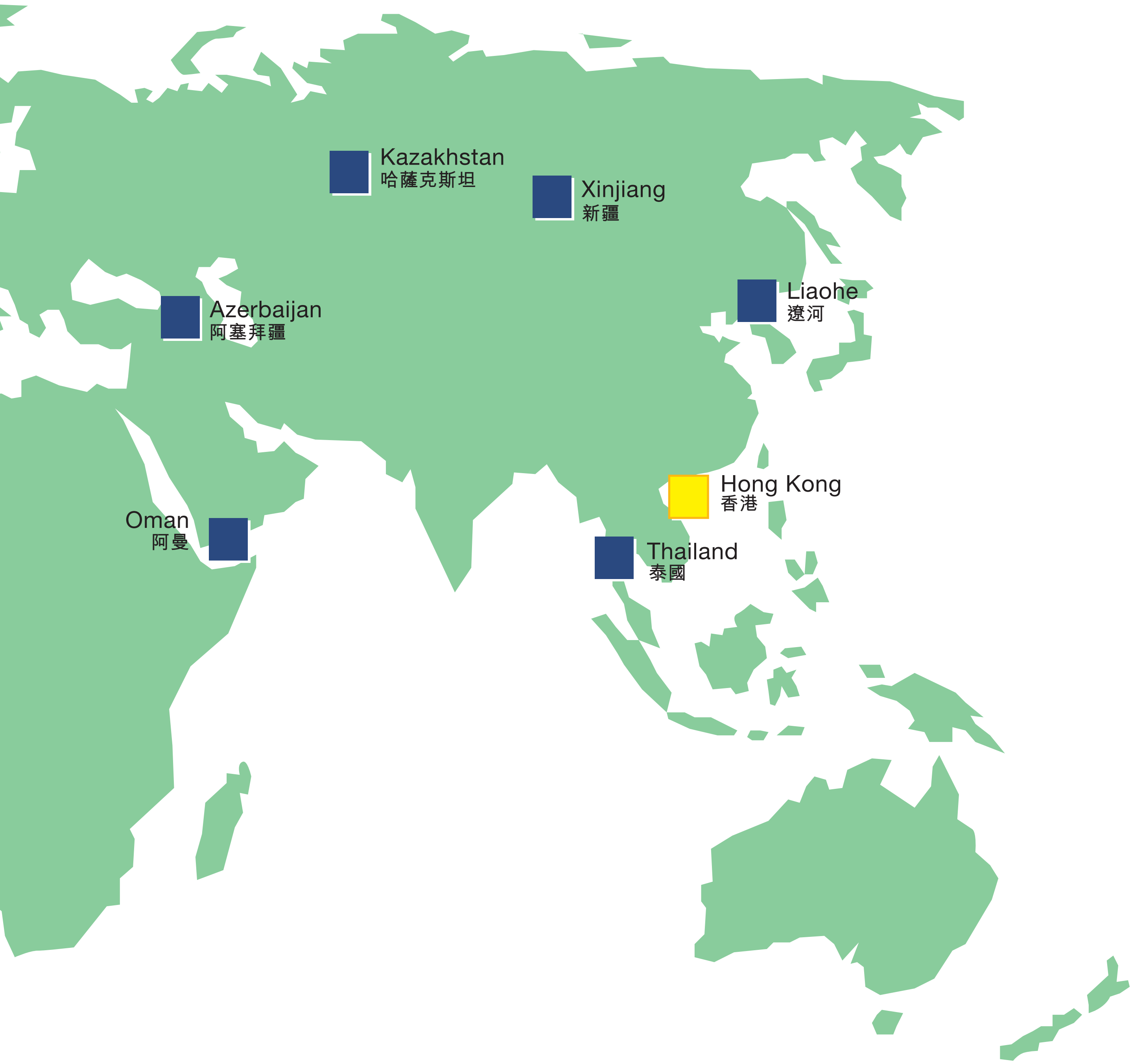
	2015 **HK$'million**	2014 HK$'million
The Group		
Property acquisition costs	**–**	–
Exploration costs	**–**	–
Development cost	**512**	866
Total	**512**	866
Equity method investments		
Share of costs of property acquisition, exploration and development of associates and joint ventures	**435**	1,406

Locations of Natural Gas Distribution Activities in PRC



Province	CNG Station in operation	LNG Station in operation	LNG Plant in operation	LNG Terminal in operation	Total
1. Xinjiang	177	46	2	–	225
2. Hebei	44	133	1	–	178
3. Shandong	40	81	1	–	122
4. Henan	10	63	–	–	73
5. Shanxi	2	66	–	–	68
6. Sichuan	18	39	1	–	58
7. Inner Mongolia	10	43	2	–	55
8. Jiangsu	4	49	–	1	54
9. Liaoning	–	47	1	1	49
10. Shaanxi	8	36	1	–	45
11. Tianjin	–	42	1	–	43
12. Hubei	–	38	–	–	38
13. Ningxia	9	26	–	–	35
14. Guangdong	2	25	–	–	27
15. Hainan	12	13	1	–	26
16. Guizhou	–	17	–	–	17
17. Fujian	–	14	–	–	14
18. Yunnan	–	14	–	–	14
19. Chongqing	–	13	–	–	13
20. Zhejiang	–	10	–	–	10
21. Gansu	3	6	–	–	9
22. Qinghai	–	5	1	–	6
23. Beijing	–	5	–	–	5
24. Jilin	–	5	–	–	5
25. Shanghai	3	2	–	–	5
26. Anhui	–	5	–	–	5
27. Hunan	–	2	–	–	2
28. Guangxi	–	2	–	–	2
29. Tibet	–	2	–	–	2
30. Heilongjiang	–	–	–	–	–
31. Jiangxi	–	–	–	–	–
	342	849	12	2	1,205

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


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