KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

2016

Annual Report

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr Huang Weihe *(Chairman)*[1]
Mr Wu Enlai
Mr Zhao Yongqi *(Chief Executive Officer)*
Mr Zhao Zhongxun [2]
Mr Ding Shilu [2]
Mr Zhang Yaoming [2]

Independent Non-Executive Directors
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick[1]

COMPANY SECRETARY
Mr Cheng Cheng [3]

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

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

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

PRINCIPAL BOARD COMMITTEES

Audit Committee
Mr Sun Patrick *(Chairman)*[1]
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

Remuneration Committee
Mr Li Kwok Sing Aubrey *(Chairman)*
Dr Liu Xiao Feng
Mr Sun Patrick[1]

Nomination Committee
Mr Huang Weihe *(Chairman)*[1]
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick[1]

SOLICITOR
Clifford Chance

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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
Note (2): Appointed on 12 May 2016
Note (3): Appointed on 10 July 2016

BUSINESS REVIEW

The board of directors (the "Board") of Kunlun Energy Company Limited (the "Company") hereby reports the annual result for the year ended 31 December 2016 (the "Year") of the Company and its subsidiaries (together, the "Group") to the shareholders of the Company (the "Shareholders"). During the Year, facing the severe and complex economic situations, under continuing sluggish international oil prices and the fall in natural gas price in the PRC, the Group actively optimised and adjusted its business structure and assets structure and focused on its core business of natural gas utilisation by facilitating innovative development and vigorously implementing all-around, whole-process, all-element measures to control cost and improve performance. The synergies from acquisition of PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") began to show. The overall platform of the Group was better than expected. During the Year, the Group's sales revenue was HK$81,882 million; profit before income tax expense was HK$7,115 million; and profit attributable to the owners of the Company was HK$659 million, representing decreases of 15.00%, 5.82% and 55.80%, respectively, as compared with last year (restated). Basic earnings per share for the Year were HK8.16 cents.

As the domestic LNG market recovery was slower than expected, the Group made a provision of HK$4,602 million for impairment of assets including LNG plants. Excluding such factor, core profit before income tax expense for the Year would be HK$11,717 million, representing an increase of 26.27% as compared with last year (restated). Core profit attributable to shareholders and basic core earnings per share were HK$4,392 million and HK54.41 cents, respectively, representing increases of 36.69% and 36.71% as compared with last year.

In May 2016, the Group completed the acquisition of Kunlun Gas, and became a financing platform and investment vehicle for CNPC's natural gas business and a management platform for its natural gas utilisation business. Its natural gas utilisation business covers 31 provinces and cities across China, with the capacity of the annual natural gas sales volume of nearly 18 billion cubic metres and LPG sales volume of over 6 million tons, loading and unloading volume of LNG terminals of 12.5 million tons, LNG plant capacity of 5.8 million tons/year, and over 1,200 CNG/LNG stations, leading in the PRC in terms of the number of gas stations.

During the Year, the Group made use of the synergies to facilitate management consolidation, further improved its three-level management model of "Kunlun Energy – Provincial companies – Project companies", and optimised resource allocation, adopted strong measures to reduce cost and enhance efficiency. As a result, it has initially realised centralised operation, professional management and integrated development. During the Year, labour cost decreased by 5.44% and selling, general and administrative expenses decreased by 11.04% as compared with the restated amount for last year, reflecting initial results for its management integration.

During the Year, the Group successfully issued 3.35 billion RMB-denominated US dollar-settled convertible bonds, which are the first convertible bonds issued in overseas markets that are linked to offshore Renminbi. The Group has made the application with the National Association of Financial Market Institutional Investors of the People's Republic of China for registration of RMB10 billion panda bonds. The Group has obtained A1, A+, and A ratings from Moody's, Standard & Poor's and Fitch respectively and also obtained AAA from China Lianhe Credit Rating Co., Ltd.

Exploration and Production

During the Year, the sales volume of crude oil in the exploration and production business reached 15.22 million barrels, representing a decrease of 1.53 million barrels or 9.13% compared with the volume of 16.75 million barrels for last year. The revenue was HK$1,753 million, representing a decrease of HK$826 million or 32.03% as compared with the revenue of HK$2,579 million for last year; mainly due to the realised crude oil selling price for the year of US$34.66/barrel, which represents a decrease of US$8.35 or 19.41% as compared with US$43.01/barrel for last year. Profit before income tax expense was HK$14 million, representing an increase of HK$3,893 million or 100.36% compared to loss before income tax expense of HK$3,879 million for last year, mainly due to the provision of HK$1,679 million made for the impairment of oil and gas assets as a result of the decrease in average crude oil selling price in 2015.

Natural Gas Pipeline

During the Year, the transmission volume of natural gas pipeline business was 35,731 million cubic metres, representing an increase of 566 million cubic metres or 1.61% as compared with 35,165 million cubic metres (restated) for last year. The revenue was HK$13,742 million, representing a decrease of HK$301 million or 2.14% as compared to HK$14,043 million (restated) for last year. Profit before income tax expense was HK$9,461 million, representing an increase of HK$81 million or 0.86% as compared to HK$9,380 million (restated) for last year.

During the Year, the transmission volume of PetroChina Beijing Gas Pipeline Co., Ltd. under the Group ("Beijing Pipeline Company") was 33,627 million cubic metres, representing an increase of 2.11% as compared with last year. The trunk line of No. 4 Shaanxi-Beijing Pipeline, which is invested by Beijing Pipeline Company, commenced construction in July 2016. Despite unfavourable factors such as tight schedule and difficulties in external coordination, the Baodi-Xianghe-Xiji connection line had the gas supply channel in east Beijing built in less than 100 days, enhancing total natural gas transmission and distribution capacity in Beijing, Tianjin and Hebei.

LNG Terminal

During the Year, the sales volume of LNG Terminal was 4,859 million cubic metres, representing an increase of 891 million cubic metres or 22.45% as compared with 3,968 million cubic metres for last year. The revenue was HK$1,727 million, representing an increase of HK$237 million or 15.91% as compared with HK$1,490 million for last year; profit before income tax expense was HK$704 million, representing an increase of HK$300 million or 74.26% as compared with HK$404 million for last year.

The second phase projects of Jiangsu and Dalian LNG Terminals were completed and put into operation, which has realised the storage of LNG resources in summer for use in winter and effectively improved the emergency peaking capability in winter. Dalian LNG Terminal actively conducted third-party storage and transmission business. Relying on the resources of Jiangsu LNG Terminal and existing projects in Jiangsu Province, a regional LNG trading management and resource coordination platform has been established.

Sales of Natural Gas and LNG Processing

During the Year, the sales volume of natural gas was 23,755 million cubic metres, representing an increase of 796 million cubic metres or 3.47% as compared with 22,959 million cubic metres (restated) for last year. The revenue was HK$65,452 million, representing a decrease of HK$14,028 million or 17.65% as compared with HK$79,480 million (restated) for last year; loss before income tax expense was HK$2,084 million, representing a decrease of HK$4,334 million or 192.62% as compared with profit before income tax expense of HK$2,250 million (restated) for last year. Excluding the effect of the provision for impairment of assets in respect of LNG plants, core profit before income tax expense for this business segment would be HK$2,463 million, representing an increase of 7.32% as compared with HK$2,295 million (restated) for last year.

During the Year, the sales volume of natural gas (excluding LNG processing) was 23,233 million cubic metres, representing an increase of 953 million cubic metres or 4.28% as compared with 22,280 million cubic metres (restated) for last year. The revenue was HK$63,975million, representing a decrease of HK$13,435 million or 17.36% as compared with HK$77,410 million (restated) for last year; profit before income tax expense was HK$3,238 million, representing an increase of HK$120 million or 3.85% as compared with profit before income tax expense of HK$3,118 million (restated) for last year.

Of which: City gas business recorded fast growth with sales volume of 9,225 million cubic metres, representing 38.83% of total natural gas sales volume and representing an increase of 11.00% as compared with the restated amount for last year. Sales volume in three areas including Hebei, Jiangsu and Shandong exceeded 1.5 billion cubic metres each. The development of the No. 4 Shaanxi-Beijing Pipeline and the East Pipeline between China and Russia was planned for in advance, and the Group actively participated in the construction of key projects in Beijing, Tianjin and Hebei.

LPG sales improved in terms of both sales volume and efficiency. In order to maximise overall performance, we fully optimised resource allocation manners. Its self-operated level three stations had all realised profit. LPG terminal sales increased by 10.6%.

The natural gas branch pipeline construction was progressing in an orderly manner. A new 280 kilometre branch pipeline and the Qinzhou Petrochemical Industrial Park branch pipeline commenced operation. Tengchong, Xiangyun and Shidian branch pipelines of Yunnan were almost finished. Yangzhou Power Plant branch pipeline, Bengbu branch pipeline and Taihe branch pipeline were having steady progress. Four new branch pipelines such as Changsha-Liuyang branch pipeline and Lianyuan-Xinhua branch pipeline commenced construction. The sales and sales volume of Kunming East branch pipeline, Kunming West branch pipeline, Xiangtan-Loudi-Shaoyang branch pipeline significantly increased, further showing their market coverage.

Major progress has been made for the development of the natural gas power generation and distributed energy project. With "controlling major gas supply pipeline of power plants and investing in power plants" as the major model, the Company accelerated strategic cooperation with major power generation companies including China Huadian Corporation and China Power International, and entered into cooperation framework agreements for 8 natural gas power generation projects and 4 distributed energy projects.

The Group strived to increase the production volume and performance of CNG and LNG segments. In order to actively respond to market downturn, the Group adopted multiple measures to develop users and expand marketing channels. Three CNG primary stations in Fushun, Xiaogan and Zhijiang commenced operation. The Company also partnered with refined oil sales enterprises in Inner Mongolia, Anhui and Jiangxi to facilitate the joint construction of 109 oil and gas joint stations.

During the Year, the sales volume of LNG processing was 522 million cubic metres, representing a decrease of 157 million cubic metres or 23.12% as compared with 679 million cubic metres (restated) for last year. The revenue was HK$1,477million, representing a decrease of HK$593 million or 28.65% as compared with HK$2,070 million (restated) for last year; loss before income tax expense was HK$5,322 million, representing an increase of HK$4,454 million or 513.13% as compared with loss before income tax expense of HK$868 million (restated) for last year. Excluding the effect of the provision for impairment of assets, core loss before income tax expense for this LNG processing business would be HK$800 million, representing a decrease HK$68 million or of 7.83% as compared with HK$868 million for last year.

The Group had made a provision of HK$4,522 million for the impairment of LNG processing business related assets, which would affect the profitability of the Group for 2016 but would not have any impact on its operating cash flows. The Group will continue to implement its cost control strategy, improve its operational efficiency through technical and management innovations, and accelerate the building of integrated operation advantage with relevant industries supporting each other, in order to avoid the negative impact of economic environment on the Group's results.

BUSINESS PROSPECTS

The Group believes that while the impact of the international financial crisis still exists and will continue to exist in the foreseeable future, the world economy is gradually recovering from in-depth adjustment, and China's long-term economic fundamentals remain strong. In particular, the Chinese government actively advocates the "One Belt, One Road" initiative and the implementation of five major development concepts, vigorously implements national strategies including innovation-driven development, which has created a good environment for the development of energy enterprises. The Chinese Government has adopted strict measures to control air pollution, and vigorously promoted the market-oriented natural gas reform. It introduced a series of relevant reform policies such as grant of access to oil and gas pipeline network and facilities, monitoring and review of pipeline distribution price and natural gas utilisation reform, which will have positive impacts on stimulating natural gas consumption. During the "13th Five-Year" plan, natural gas consumption as a percentage of primary energy consumption will increase from 6% to 10%. China's Government work report this year clearly specifies that the government will tackle both symptoms and root causes and fight pollution with all of its might in order to make the skies blue again. It will promote clean heating in winter in northern China. China will also accelerate the large-scale and efficient utilisation of natural gas in four major areas including urban gas, industrial fuel, gas power generation, transportation fuel, promote the coordinated development across the industrial chain from upstream to downstream and make natural gas become the major energy in China's modern energy system. As a result of favourable policies such as LNG vehicle tax incentives and inclusion of CNG and LNG vehicle into the green procurement list of government, the vehicle LNG market will gradually recover. As a clean, low carbon-emission and green energy by adding natural gas power generator, natural gas will play an important role in chain's efforts to make the skies blue again. There is still broad room for development for the PRC natural gas utilisation market and the Group will embrace the unique opportunity for development.

CNPC accelerates the development of natural gas and pipelines business as a strategic and value-added business. As an important part of the natural gas industrial chain of CNPC, the Group will receive stronger support in terms of resource protection, business allocation and network construction from CNPC and achieve faster growth relying on its overall advantages. In the future, the Group will actively seize the development opportunities of the PRC natural gas industry and accelerate the release of benefit brought by the comprehensive in-depth reform of CNPC. It will promote development led by innovations in an effort to make new breakthroughs in terms of the system reform, structure optimisation and capital operation.

For natural gas pipeline business, the Group will actively adopt measures to maintain the steady operation of its existing trunk pipelines, strictly control quality, safety, construction phase and investment to ensure that No. 4 Shaanxi-Beijing Pipeline will commence operation as scheduled.

For LNG terminal business, the Group will accelerate the development of the emergency peak protection project. The Group will closely monitor the developments of the third-party access policies for LNG terminals and strive to obtain the spot sales right in the window period to expand sales volume.

For natural gas utilisation business, the Group will focus on optimising urban gas business, developing natural gas branch pipeline business, actively participating in natural gas power generation and distributed energy business, actively developing LNG/CNG terminal business, optimising LNG processing, storage, transportation and trading business, as well as refining LPG sale business, so as to realise the combination of production with capital, greatly improve the quality and fully improve its image and enterprise value.

For city gas business, it strives to register over 700,000 new customers. For branch pipeline development, it will complete and commence operation of over 10 branch pipelines including Changsha-Liuyang branch pipeline. For natural gas power generation and distributed energy business, the Group will speed up its cooperation with major power generation companies, seek opportunities to provide gas supply to national projects, and continue to promote the cooperation between gas and electricity companies and the development of distributed energy projects. For CNG/LNG terminal business, it will strengthen the practical cooperation with refined oil sales enterprises in gas refilling for vehicles and vessels, keep a close eye on the transportation fuel upgrading projects and capture the new round of development opportunities brought by the "oil-to-gas conversion". For LNG processing, storage, transportation and trading business, the Company will conduct in-depth research of coordinated development of the LNG industrial chain, coordinate the development of terminal, plant and end business, establish a mechanism for integrated operation of regional plants and stations, and increase the overall load of LNG plants. For LPG sales business, the Group will strive to increase the percentage of end sales to above 25%.

In the meantime, the Group will adhere to its development concepts of safety and environmental protection, compliance, cooperation and sharing and open integration, vigorously implements its five major strategies in respect of market, resources, capital, quality and innovations. With "providing clean energy to serve a harmonious society" as its corporate missions, the Group will continue to implement a sound Health, Safety & Environment system and build an appropriate and effective "environmental, social and governance" risk management and internal control system. It will further strengthen its sustainable development ability, accelerate its development towards a world-class natural gas utilisation company with a leading position in the PRC and create values for shareholders through outstanding performance.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK7.4 cents per share (2015: HK6 cents per share) to Shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 14 June 2017 (Wednesday) subject to the approval at the Annual General Meeting of the Company (the "2017 AGM"). The payment will be made on or before 30 June 2017. The proposed 2016 final dividend amounts to a total of approximately HK$597 million and 2015 dividend of HK$484 million was paid in 2016, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 90.69% or 13.60% of core earnings per share (2015 restated: 32.43% or 15.08%).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2017 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 2017 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 29 May 2017 (Monday)
Closure of Shareholders Register	from 31 May 2017 (Wednesday) to 1 June 2017 (Thursday) (both dates inclusive)
Record date	1 June 2017 (Thursday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 12 June 2017 (Monday)
Closure of Shareholders Register	from 13 June 2017 (Tuesday) to 14 June 2017 (Wednesday) (both dates inclusive)
Record date	14 June 2017 (Wednesday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2017 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 2017 AGM will be held on 2 June 2017 (Friday). The Notice of the 2017 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2016 Annual Report. The Notice of the 2017 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

By the Order of the Board

Huang Weihe
Chairman & Executive Director

Hong Kong, 28 March 2017

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 2016 (the "Year"). Profit before income tax expense of the Group for the Year was approximately HK$7,115 million, representing a decrease of 5.82% as compared with HK$7,555 million (restated) for the last year. Profit attributable to owners of the Company for the Year was approximately HK$659 million, representing a decrease of 55.80% as compared with HK$1,491 million (restated) for the last year.

REVENUE

Revenue for the Year was approximately HK$81,882 million, representing a decrease of 15.00% as compared with amount of HK$96,335 million (restated) for the last year. The decrease was mainly due to the decrease in selling price of natural gas and depreciation of Renminbi ("RMB") against HK$ compared to the last year.

Revenue mostly from the Natural Gas Distribution business segment accounted for 97.86% (2015 restated: 97.32%) of the Group's total revenue amounting to approximately HK$80,129 million (2015 restated: HK$93,756 million).

The table below sets out the sales volume and revenue of different segments of the Group for the year 2016 and 2015, and percentages of change during these two years.

	Sale volume (Group's portion) for the year ended 31 December			**Revenue (Per segment information) for the year ended 31 December**		
	2016	2015	Change	**2016**	2015	Change
	('000 Barrel)	('000 Barrel)	%	**HK$'million**	HK$'million	%
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC") (note (1))	**4,049**	5,258	(22.99)	**1,029**	1,648	(37.56)
South America (note (2))	**594**	622	(4.50)	**409**	515	(20.58)
Central Asia	**583**	617	(5.51)	**163**	220	(25.91)
South East Asia (note (3))	**516**	512	0.78	**152**	196	(22.45)
Sub-total	**5,742**	7,009	(18.08)	**1,753**	2,579	(32.03)
Share of an associate in Central Asia	**4,962**	5,471	(9.30)	**–**	–	N/A
Share of a joint venture in Middle East	**4,519**	4,267	5.91	**–**	–	N/A
Total of Exploration and Production	**15,223**	16,747	(9.10)	**1,753**	2,579	(32.03)

	Revenue (Per segment information) for the year ended 31 December		
	2016 HK$'million	2015 HK$'million (restated)	Change %
Natural Gas Distribution business (by segments)			
Natural Gas Pipeline (note (4))	**13,742**	14,043	(2.14)
LNG Terminal	**1,727**	1,490	15.91
Natural Gas Sales, as previously reported	**63,975**	22,464	184.79
Business combination under common control	**N/A**	54,946	N/A
Natural Gas Sales, as restated (note (5))	**63,975**	77,410	(17.36)
LNG Processing	**1,477**	2,070	(28.65)
Sub-total	**65,452**	79,480	(17.65)
Less: Inter-company adjustment	**(792)**	(1,257)	(36.99)
Total of Natural Gas Distribution, as restated	**80,129**	93,756	(14.53)
Total revenue, as restated	**81,882**	96,335	(15.00)

	Sale/processing volume for the year ended 31 December		
	2016 ('000 cubic metre)	2015 ('000 cubic metre) (restated)	Change %
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline, as previously reported	**35,730,794**	33,978,095	5.16
Business combination under common control	**N/A**	1,186,869	N/A
Natural Gas Pipeline, as restated	**35,730,794**	35,164,964	1.61
LNG Terminal	**4,859,400**	3,967,649	22.48
Natural Gas Sales, as previously reported	**23,233,173**	6,576,776	253.26
Business combination under common control	**N/A**	15,703,076	N/A
Natural Gas Sales, as restated	**23,233,173**	22,279,852	4.28
LNG Processing	**521,845**	679,207	(23.17)
Sub-total	**23,755,018**	22,959,059	3.47
Less: Inter-company adjustment	**(885,292)**	(651,994)	35.78
Total of Natural Gas Distribution, as restated	**63,459,920**	61,439,678	3.29

Notes:

(1) One of the oil production contracts in PRC expired on 31 August 2016.

(2) 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.

(3) 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.

(4) 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		
	2016 ('000 cubic metre)	2015 ('000 cubic metre)	Change %	**2016 HK$'million**	2015 HK$'million	Change %
Natural Gas Sales	**54,662**	47,608	14.82	**235**	174	35.06

(5) Under the Natural Gas Sales segment, it included the following natural gas pipeline sales:

	Sales volume for the year ended 31 December			Revenue for the year ended 31 December		
	2016 ('000 cubic metre)	2015 ('000 cubic metre)	Change %	**2016 HK$'million**	2015 HK$'million	Change %
Natural Gas Pipeline Sales	**2,103**	2,232	(5.78)	**331**	327	1.22

Other gains, net

Other gains, net for the Year was approximately HK$793 million, representing an increase of 14.27% as compared with amount of HK$694 million (restated) for the last year.

Interest income

Interest income for the Year was approximately HK$349 million, representing a decrease of 12.53% as compared with amount of HK$399 million (restated) for the last year. The decrease was mainly due to a decrease in interest rate and depreciation of RMB against HK$ during the Year.

Purchases, services and others

Purchases, services and others were approximately HK$56,682 million for the Year, representing a decrease of 18.66% as compared with amount of HK$69,683 million (restated) for the last year. This was mainly due to the decrease in purchase price of natural gas and depreciation of RMB against HK$.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$4,481 million for the Year, representing a decrease of 5.44% as compared with amount of HK$4,739 million (restated) for the last year. This decrease was mainly due to the depreciation of RMB against HK$ and the decrease in the number of headcount during the Year. The effect was net off by the increase in average salary level.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$6,365 million, representing a decrease of 4.86% as compared with amount of HK$6,690 million (restated) for the last year. This was mainly due to the depreciation of RMB against HK$ and the impairment of property, plant and equipment in PRC in 2015 which led to the decrease in their carrying amounts less residual value. The effect was net off by the increase in property, plant and equipment transferred from construction in progress in 2016.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment was HK$4,602 million (2015: HK$1,724 million). This was mainly due to the persistent low LNG prices and the slowdown of the economic growth both domestically and internationally which led to the impairment loss on property, plant and equipment.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately HK$3,399 million, representing a decrease of 11.04% as compared with amount of HK$3,821 million (restated) for the last year. This was mainly due to the effective cost control and the depreciation of RMB against HK$.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately HK$596 million, representing a decrease of 14.49% as compared with amount of HK$697 million (restated) for the last year. This was mainly due to the depreciation of RMB against HK$ and the decrease was in line with the decrease in sales of natural gas business.

Interest expenses

Interest expenses for the Year was approximately HK$685 million, representing of 1.78% as compared with amount of HK$673 million (restated) for the last year. Total interest expenses for the Year was approximately HK1,366 million (2015 restated: HK$1,465 million) of which HK$681 million (2015 restated: HK$792 million) was capitalised under construction-in-progress.

The decrease in total interest expenses is mainly due to decrease in the average borrowing rate and the depreciation of RMB against HK$ offsetting the effect of the increase in average borrowing balance.

Share of profits less losses of associates

Share of profits less losses of associates for the Year increased by 134.00% from loss to profit of approximately HK$710 million (2015 restated: loss of HK$2,088 million). This was mainly due to the devaluation of the Kazakhstani Tenge which resulted in the exchange loss of HK$3,136 million recognised by CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") in 2015.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was decreased by 21.07% to approximately HK$191 million (2015 restated: HK$242 million). The decrease was mainly due to the decrease in realised crude oil selling price in Oman project 2016.

Profit before income tax expense

Profit before income tax expense for the Year was approximately HK$7,115 million, representing a decrease of 5.82% as compared with amount of HK$7,555 million (restated) for the last year.

The table below sets out the profit/(loss) before income tax expense and percentage of change of different segments of the Group for the year 2016 and 2015.

	Profit/(loss) before income tax expense for the year ended 31 December		
	2016	2015	Change
	HK$'million	HK$'million (restated)	%
Exploration and Production business			
The PRC	**(625)**	(2,045)	(69.44)
South America	**91**	163	(44.17)
Central Asia	**(24)**	(21)	14.29
South East Asia	**(17)**	11	(254.55)
Sub-total	**(575)**	(1,892)	(69.61)
Share of an associate in Central Asia	**397**	(2,249)	(117.65)
Share of a joint venture in Middle East	**192**	262	(26.72)
Total of Exploration and Production	**14**	(3,879)	(100.36)
Natural Gas Distribution business			
Natural Gas Pipeline	**9,461**	9,380	0.86
LNG Terminal	**704**	404	74.26
Natural Gas Sales, as previously reported	**3,238**	490	560.82
Business combination under common control	**N/A**	2,628	N/A
Natural Gas Sales, as restated	**3,238**	3,118	3.85
LNG Processing	**(5,322)**	(868)	513.13
Sub-total	**(2,084)**	2,250	(192.62)
Total of Natural Gas Distribution, as restated	**8,081**	12,034	(32.85)
	8,095	8,155	(0.74)

Income tax expense

Income tax expense for the Year was approximately HK$3,701 million, representing an increase of 11.31% as compared with amount of HK$3,325 million (restated) for the last year. The effective tax rate (excluding joint ventures and associates) for the Year increased to 59.56% (2015 restated: 35.37%). Such increase was mainly due to the increase in impairment loss on property, plant and equipment on which deferred tax assets were not recognised in the Year and the reversal of deferred tax liabilities with respect to the dividend withholding tax on Aktobe's undistributed profit in 2015 as a result of its huge loss.

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

The profit for the Year of the Group was approximately HK$3,414 million, representing a decrease of 19.29% as compared with amount of HK$4,230 million (restated) for the last year. The profit attributable to owners of the Company for the Year was approximately HK$659 million, representing a decrease of 55.80% as compared with amount of HK$1,491 million (restated) for the last year.

Liquidity and capital resources

As at 31 December 2016, the carrying value of total assets of the Group was approximately HK$138,769 million, representing a decrease of HK$4,417 million or 3.08% as compared with HK$143,186 million (restated) as at 31 December 2015.

The gearing ratio of the Group was 36.36% as at 31 December 2016 compared with 22.18% (restated) as at 31 December 2015, representing an increase of 14.18%. It is computed by dividing the sum of interest bearing borrowings, convertible bonds and obligations under finance leases of HK$37,879 million (2015 restated: HK$25,264 million) by the total equity, interest bearing borrowings, convertible bonds and obligations under finance leases of HK$104,182 million (2015 restated: HK$113,883 million).

Adjusted (loss)/profit before income tax expense, interest, depreciation, depletion and amortisation, is defined as (loss)/profit before income tax expense excluding impairment loss on property, plant and equipment, interest, depreciation, depletion and amortisation for the year was approximately HK$18,418 million, representing an increase of 13.39% as compared with the amount of HK$16,243 million (restated) for the last year.

The Company has issued convertible bonds and two senior notes during the Year and 2015 respectively to improve the debt profile:

Items	Date of issue	Nominal Amount million	Tenor year	Annual Interest %
Convertible bonds (Stock code: 5690) (note 1)	25 July 2016	RMB3,350	3	1.625
Senior notes due 2020 (Stock code: 5510) (note 2)	13 May 2015	US$500	5	2.875
Senior notes due 2025 (Stock code: 5511) (note 2)	13 May 2015	US$500	10	3.750

Note 1: Please refer to the announcements on the issue of convertible bonds published by the Company on the websites of The Stock Exchange of Hong Kong Limited and the Company in July 2016.

Note 2: 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 2016, the Group has total borrowings of HK$33,765 million which will be repayable as follows:

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Within one year	**15,850**	8,076
Between one to two years	**1,619**	2,892
Between two to five years	**11,439**	9,014
After five years	**4,857**	4,508
	33,765	24,490

The carrying amounts of the borrowings are denominated in RMB, U.S. dollars, Hong Kong dollars, Japanese yen and Euro as fully summarised under Note 30 in the Notes to Consolidated Financial Statements.

The functional currency of the Company and most of its subsidiaries is RMB and the Company and most of its subsidiaries are 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 summarised 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.

During the Year, no share option (2015: none) has been exercised by the senior executives of the Company as the exercise price of HK$11.73 was above the market price of HK$6.40 on the share option expiry date and the share options were lapsed.

As at 31 December 2016, the Group had net current liabilities of HK$15,453 million. Notwithstanding the net current liabilities of the Group at 31 December 2016, 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 undrawn facilities provided by the Company's immediate holding company amounting of HK$2,300 million;

(ii) the Group has committed credit from China Petroleum Finance Company Limited ("CP Finance") amounting to RMB23 billion, of which RMB16.5 billion is undrawn as at 31 December 2016;

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

(iv) 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

The Group paid interest of HK$1,024 million (2015 restated: HK$1,341 million) during the Year.

2015 final dividend of HK6 cents per share amounting to HK$484 million (2014: HK20 cents per share amounting to HK$1,614 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2016, no short-term or long-term borrowings were secured by property, plant and equipment or advance operating lease payment. As at 31 December 2015, pledged borrowings were secured by shareholdings held by the subsidiaries of the Company in corresponding subsidiaries with carrying value of HK$152 million (restated).

New investment in major projects

The Company entered into 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 Kunlun Gas at a consideration of approximately RMB14,827 million subject to adjustment on gain or loss of Kunlun Gas during the transaction period, as defined in the Agreement. 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. In the second quarter of 2016, the Company obtained all the necessary approvals of the government authorities of the Acquisition and Kunlun Gas becomes a wholly-owned subsidiary of the Company.

Material Investments

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

The Group's major investment 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 summarised in Note 18 in the Notes to the Consolidation 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 summarised in Note 19 in the Notes to the Consolidated Financial Statements.

Employee

As at 31 December 2016, the Group had approximately 37,281 employees globally (excluding the employees under entrustment contracts) (2015 restated: 39,655 employees). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

Final dividend

The Board recommended the payment of a final dividend of HK7.4 cents (2015: HK6 cents) per share. The proposed dividend will be paid on or before 30 June 2017 to the shareholders whose names appear on the Company's register of the members on 14 June 2017 (Wednesday), 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 2016.

By the Order of the Board

Zhao Yongqi
Executive Director

Hong Kong, 28 March 2017

Corporate Governance Report

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 2016 (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 throughout the Year.

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

The board 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 Directors:

Executive Directors:
Mr Huang Weihe *(Chairman)*[(1)]
Mr Wu Enlai [(1)]
Mr Zhao Yongqi *(Chief Executive Officer)*
Mr Zhao Zhongxun *(appointed on 12 May 2016)*
Mr Ding Shilu *(appointed on 12 May 2016)*
Mr Zhang Yaoming *(appointed on 12 May 2016)*
Mr Zhang Bowen *(Vice President) (retired as Executive Director on 12 May 2016)*
Mr Cheng Cheng *(Vice President) (resigned as Executive Director on 12 May 2016)*

Independent Non-Executive Directors:
Mr Li Kwok Sing Aubrey *(Chairman of the Remuneration Committee and Member of the Audit Committee and the Nomination Committee)*
Dr Liu Xiao Feng *(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Mr Sun Patrick *(Chairman of the Audit Committee and Member of Remuneration Committee and the Nomination Committee)*[(2)]
Dr Lau Wah Sum [(3)]

Notes:

(1) Mr Huang Weihe was appointed as an Executive Director, the Chairman of the Board 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 of the Board 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 with effect from 18 February 2016 and appointed as the Chairman of Audit Committee on 12 May 2016.

(3) Dr Lau Wah Sum resigned as the Chairman of the Audit Committee on 12 May 2016 and continued to act as the Member of the Committee. Dr Lau resigned as an Independent Non-executive Director, the Member of Audit Committee, Remuneration Committee of the Nomination Committee with effect from 1 January 2017.

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, Mr Wu Enlai, Mr Zhao Yongqi and Mr Li Kwok Sing Aubrey will retire by rotation at the Company's forthcoming annual general meeting (the "2017 AGM"). They are eligible and will offer themselves for re-election at the 2017 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, seven Board meetings, three Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting were held.

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

		Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Mr Huang Weihe *(appointed on 18 February 2016)*	6/6	–	–	1/1
Mr Wu Enlai	7/7	–	–	–
Mr Zhao Yongqi	7/7	–	–	–
Mr Zhao Zhongxun *(appointed on 12 May 2016)*	4/4	–	–	–
Mr Ding Shilu *(appointed on 12 May 2016)*	4/4	–	–	–
Mr Zhang Yaoming *(appointed on 12 May 2016)*	4/4	–	–	–
Mr Zhang Bowen *(retired on 12 May 2016)*	3/3	–	–	–
Mr Cheng Cheng *(resigned on 12 May 2016)*	3/3	–	–	–
Independent Non-Executive Directors:				
Mr Li Kwok Sing Aubrey	7/7	2/3	1/1	1/1
Dr Liu Xiao Feng	5/7	3/3	1/1	1/1
Mr Sun Patrick *(appointed on 18 February 2016)*	4/6	3/3	1/1	1/1
Dr Lau Wah Sum *(resigned on 1 January 2017)*	7/7	3/3	1/1	1/1

Practices and Conduct of Meetings

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

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

The 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 till 18 February 2016, Mr Huang Weihe was the Chairman of the Board with effect from 18 February 2016 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 till 18 February 2016 and four Independent Non-executive Directors from 18 February 2016 to 31 December 2016 (including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). Dr Lau Wah Sum was the Chairman of the Audit Committee till 12 May 2016, and Mr Sun Patrick was the Chairman of the Audit Committee with effect from 12 May 2016. 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 till 18 February 2016 and four Independent Non-executive Directors from 18 February 2016 to 31 December 2016. 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 one meeting 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 2016
HK$0 – HK$1,000,000	**2**
HK$1,000,001 – HK$2,000,000	**3**
HK$4,000,001 – HK$5,000,000	**1**
	6

NOMINATION COMMITTEE

During the Year, the Nomination Committee comprised of four members including three Independent Non-executive Directors and the Chairman of the Company till 18 February 2016. The Nomination Committee comprised of five members, including four Independent Non-executive Directors and the Chairman of the Company effective from 18 February 2016 to 31 December 2016. Mr Wu Enlai was the Chairman of the Nomination Committee till 18 February 2016 and Mr Huang Weihe was the Chairman of the Nomination Committee with effect from 18 February 2016.

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 one meeting 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 44 to 48.

During the year, the fees charged by KPMG for the audit of the Company and its subsidiaries amounted to approximately HK$18 million (2015: HK$12 million). In addition, approximately HK$2 million (2015: HK$1 million) was charged by KPMG for non-audit services. The non-audit services mainly consist of taxation services, interim review, advisory and other professional services. The fees charged by other auditors of the Group for audit services during the year amounted to approximately HK$5 million (2015: HK$7 million).

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, two general meetings were held on 18 February 2016 and 12 May 2016 which were the special general meeting for approval of acquisition of PetroChina Kunlun Gas Co., Ltd. and the 2016 annual general meeting respectively. The attendance records of the Directors to the 2016 general meetings are set out below:-

Directors	**Attendance**
Executive Directors	
Mr Huang Weihe (appointed on 18 February 2016)	2/2
Mr Wu Enlai	1/2
Mr Zhao Yongqi	2/2
Mr Zhao Zhongxun (appointed on 12 May 2016)	1/1
Mr Ding Shilu (appointed on 12 May 2016)	1/1
Mr Zhang Yaoming (appointed on 12 May 2016)	1/1
Mr Zhang Bowen (retired on 12 May 2016)	2/2
Mr Cheng Cheng (resigned on 12 May 2016)	2/2
Independent Non-executive Directors	
Mr Li Kwok Sing Aubrey	2/2
Dr Liu Xiao Feng	1/2
Mr Sun Patrick (appointed on 18 February 2016)	1/1
Dr Lau Wah Sum (resigned on 1 January 2017)	2/2

(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.

RISK MANAGEMENT AND 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 Company also has an internal audit department, which is responsible for monitoring the internal governance of the Group and overseeing the risk management and internal control system of the Group.

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. Having reviewed the assessment report issued by an external advisory firm, the Board considers that the risk management and internal control systems of the Group are effective and adequate.

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 2016 (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 8 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	
	2016	2015 (restated)
Return on Equity ("ROE") [1]	**1.61%**	2.41%
Net profit margin	**0.80%**	1.55%
Earnings per share (basic)	**8.16 HK cents**	18.50 HK cents
Earnings per share (diluted)	**8.16 HK cents**	18.50 HK cents
Dividend per share	**7.40 HK cents**	6.00 HK cents
Core earnings per share (basic) [2]	**54.41 HK cents**	39.80 HK cents
Core earnings per share (diluted) [2]	**54.41 HK cents**	39.80 HK cents

	As at 31 December	
	2016	2015 (restated)
Gearing ratio	**36.36%**	22.18%

Both the ROE and the net profit margin decreased for the year compared with last year due to the decline of the international price of crude oil 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, and the impairment of property, plant and equipment in Natural Gas Distribution segment caused the decrease of ROE and net profit margin.

The basic earnings per share for the Year was 8.16 HK cents, representing a decrease of 55.89% 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 2016 final dividend amounts to a total of approximately HK$597 million and 2015 dividend of HK$484 million was paid in 2016, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 90.69% or 13.60% of core earnings per share) (2015 restated: 32.43% or 15.08%).

The gearing ratio of the Group was 36.36% as at 31 December 2016, representing an increase of 14.18% as compared to 22.18% (restated) as at 31 December 2015.

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 9 to 17 of this annual report.

BUSINESS REVIEW (Continued)

(1) Analysis of key financial performance indicators (Continued)

Notes:

(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.

(2) Core earnings per share is calculated based on the profit attributable to the owners of the Company excluding impairment loss on property, plant and equipment attributable to the owners of the Company and its related tax effect and weighted average number of ordinary shares in issue during the year.

(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. The Directors participated in the general meetings 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 and distribution 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 49 and 50.

A final dividend for the year ended 31 December 2015 of HK6 cents per share amounting to approximately HK$484 million was paid during the Year. The Directors recommended the payment of a final dividend of HK7.4 cents per share for the Year, totalling approximately HK$597 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 147.

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 53 and 54, and Note 28 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 27 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 2016 and 2015 were as follows:

	2016	2015
	HK$'million	HK$'million
Contributed surplus	**134**	134
Retained earnings	**15,886**	17,168
	16,020	17,302

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 Zhao Zhongxun (appointed on 12 May 2016)
Mr Ding Shilu (appointed on 12 May 2016)
Mr Zhang Yaoming (appointed on 12 May 2016)
Mr Zhang Bowen (retired on 12 May 2016)
Mr Cheng Cheng (resigned on 12 May 2016)

Independent Non-Executive Directors:

Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng
Mr Sun Patrick (appointed on 18 February 2016)
Dr Lau Wah Sum (resigned on 1 January 2017)

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 59, 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 Company Limited ("PetroChina"), the general manager of the Natural Gas Sales Branch (previously known PetroChina Natural Gas and Pipelines Company) and the chairman of PetroChina Pipelines Company Limited. 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 57, was appointed as an Executive Director of the Company in December 2013, and served as the Chairman from June 2014 to 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 scopes, such as the oil refining and petrochemical and industry in China, overseas project operation, M&A, management of listed companies. Mr Wu obtained a bachelor's degree from China University of Petroleum (formerly known 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, Canada. Mr Wu served as the deputy director general of PetroChina Tarim Petrochemical Engineering Construction Headquarters from August 1997 to December 1999, the deputy director general of M&A department of China National Petroleum Corporation ("CNPC") from August 2002 to December 2003, the deputy general manager of China National Oil and Gas Exploration and Development Corporation ("CNODC") from January 2004 to April 2005, the head of the Preparatory Work Team for PetroChina Guangxi Petrochemical Company from May to September 2005, the general manager of Guangxi Petrochemical Company from October 2005 to October 2013 and the head of Enterprise Coordination Team of PetroChina in Guangxi since September 2010. He was appointed as the secretary to the Board of PetroChina in November 2013, and served as the executive director and general manager of China Petroleum Hong Kong (Holding) Limited from December 2013 to February 2016; Mr Wu has been the Executive Director of the Company since December 2013 and was its Chairman of the Board from December 2013 to February 2016.

Mr Zhao Yongqi *(Chief Executive Officer)*

Aged 56, was appointed as a Chief Executive Officer in December 2013, appointed as an Executive Director in June 2014 and appointed as a general manager in February 2016. Mr Zhao is a professor-level senior economist and he has over 30 years of experience in the oil and gas industry in China. 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 PetroChina 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 Co., Ltd. ("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 Ding Shilu

Aged 60, was appointed as an Executive Director of the Company in May 2016. He was appointed as the deputy general manager of M&A department of CNPC and PetroChina and the director of investment companies. Mr Ding is a professor-level senior economist. He has over 40 years of working experience in China's oil industry. Mr Ding obtained a Bachelor of Engineering from Nanchang Institute of Aeronautical Technology with a major in aviation casting profession in 1982, and obtained a Master's degree in Economics from Heilongjiang Academy of Social Sciences in 1988. Mr Ding was appointed as the deputy director general of M&A department of CNPC and the deputy general manager of PetroChina since October 2003, and was appointed as the deputy general manager of M&A department of CNPC and PetroChina and the director of investment companies in June 2012.

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

Executive Directors (Continued)

Mr Zhao Zhongxun

Aged 51, was appointed as an Executive Director of the Company in May 2016. He is currently the deputy general manager of department of planning and programming of CNPC and PetroChina. Mr Zhao is a senior economist. He has nearly 30 years of working experience in the oil industry in China. Mr Zhao obtained a Bachelor of Engineering from China University of Petroleum (Huadong) with a major in management of industrial engineering in 1988, and obtained a EMBA degree from the Business School of the University of Texas (Arlington) in 2006. Mr Zhao was appointed as the deputy general manager of department of planning and programming of PetroChina since October 2006, the deputy director general of department of planning and programming of CNPC and the deputy general manager of department of planning and programming of PetroChina since June 2007, the deputy general manager of department of planning and programming of CNPC and PetroChina in May 2011.

Mr Zhang Yaoming

Aged 59, was appointed as the Executive Director of the Company in May 2016. He is currently the chief accountant of PetroChina Natural Gas Sales Branch Company (previously known PetroChina Natural Gas and Pipelines Company) and the director of the natural gas sales and settlement center. Mr Zhang is a senior accountant. He has nearly 40 years of work experience in the oil industry in China. Mr Zhang was appointed as the head of financial asset department of PetroChina Dagang Oil Fields Sales Branch Company in November 1999, the chief accountant of PetroChina Natural Gas and Pipelines Company in April 2002, and appointed currently position in November 2011.

Independent Non-Executive Directors

Mr Li Kwok Sing Aubrey

Aged 67, 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. 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 54, was appointed as an Independent Non-Executive Director of the Company on 16 April 2004. Dr Liu has more than 23 years of experience in corporate finance and has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited, China Resources Capital Holdings Company Limited. He was an independent non-executive director of Haier Electronics Group Company Limited (stock code: 1169) since June 2007 up to June 2014, an independent non-executive director of Honghua Group Limited (stock code: 196) since January 2008 and an independent non-executive director of Cinda International Holdings Limited (stock code: 111) since July 2016, the issued shares of all of which are listed on the Stock Exchange. He is also currently an independent director of UBS Securities Co., Ltd. Dr Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1994 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics, China (previously known as Sichuan Institute of Finance and Economics, China) in 1983.

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

Independent Non-Executive Directors (Continued)

Mr Sun Patrick

Aged 58, 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.

Chief Financial Officer

Mr Wang Gang

Aged 52, was appointed as Chief Financial Officer on 12 May 2016. He is a professor-level senior accountant and is currently the chief accountant of the Company. Mr Wang graduated from Beijing Institute of Finance and Trade majoring in financial accounting, and obtained an Executive Master of Business Administration (EMBA) degree from the College of Business of the University of Houston in the United States. Mr Wang has about 30 years of working experience in the petroleum industry in China. He previously worked in the supply and sales unit of the Finance Bureau of the Ministry of Petroleum Industry of the PRC, and the infrastructure financing division, financial management division and taxation and prices division of the Finance Bureau of CNPC. He was also previously the deputy head of taxation and prices division of the finance and assets department of CNPC, and the deputy head, and later head, of taxation and prices division of the finance department of PetroChina. Mr Wang was the chief accountant of West-East Gas Pipeline Branch from February 2006, the chief accountant of Kunlun Gas from August 2008, and his current position commenced from February 2016.

Company Secretary

Mr Cheng Cheng (Vice President, Company Secretary)
Aged 49, was appointed as the Company Secretary in July 2016. He served as an Executive Director from June 2004 to May 2016 and is currently a 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's degree of Business Administration from the University of Calgary, Canada, a master's degree 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.

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 2016, 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
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.012%

Note:

The interests held by 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 27 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 2016 '000	Granted during the Year '000	Exercised during the Year '000	Reclassified during the Year '000	Lapsed during the Year '000	Outstanding at 31 December 2016 '000
Directors (Note)	18/03/11	18/06/11 – 17/03/16	11.730	3,900	–	–	(3,900)	–	–
	17/05/12	17/08/12 – 16/05/17	12.632	4,200	–	–	(4,200)	–	–
Employees	18/03/11	18/06/11 – 17/03/16	11.730	6,000	–	–	3,900	(9,900)	–
	17/05/12	17/08/12 – 16/05/17	12.632	11,500	–	–	4,200	(1,500)	14,200
				25,600	–	–	–	(11,400)	14,200

Note: During the year ended 31 December 2016, Mr Zhang Bowen and Mr Cheng Cheng ceased to be the directors and their share options were reclassified to share options held by employees as at 31 December 2016.

The weighted average closing price of the Company's shares immediately before the date on which the share options were lapsed was HK$6.38.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2016, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

	Number of Shares		Percentage of the total number of
Name	**Direct Interest**	**Indirect Interest**	**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%

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES (Continued)

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 Huang Weihe, an Executive Director of the Company and Mr Zhang Bowen, an Executive Director of the Company who retired on 12 May 2016 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 2016, 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 2016, 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 27 and the issuance of RMB3,350 million in aggregate principle amount of 1.625% USD settled convertible bonds due 2019 with conversion price of HK$7.13 per share set out in Note 31 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 2016 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 2016 HK$' million	Annual cap for 2016 HK$' 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 28 December 2015 and circular dated 22 January 2016	3,586	17,252
(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	1,049	3,605
(iii)	Rental payments	As disclosed in the Company's announcement dated 28 December 2015 and circular dated 22 January 2016	11	37
(iv)	Purchase of oil and gas products from the CNPC Group by the Group	As disclosed in the Company's announcement dated 28 December 2015 and circular dated 22 January 2016	32,081	72,498
(v)	Provision of products and services by the Group to the CNPC Group	As disclosed in the Company's announcement dated 28 December 2015 and circular dated 22 January 2016	11,738	25,369
(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	6,004	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 124 and 125 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 announcements dated 7 November 2014 and 28 December 2015 and circulars dated 11 November 2014 and 22 January 2016 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 and PetroChina Beijing Gas Pipeline Co., Ltd. Xinjiang Contract has been expired on 31 August 2016.

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	15%
Percentage of purchases attributable to the Group's five largest suppliers	18%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer	16%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers	27%

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 28 March 2017, 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
Huang Weihe	PetroChina	Vice President	Exploration, development and product and marketing of crude oil and natural gas
Wu Enlai	PetroChina	Secretary to the Board of directors	Exploration, development and product and marketing of crude oil and natural gas
Ding Shilu	PetroChina	Deputy General Manager	Exploration, development and product and marketing of crude oil and natural gas
Zhao Zhongxun	PetroChina	Deputy General Manager	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

On 26 January 2017, the Company made the application with the National Association of Financial Market Institutional Investor for the registration of medium-term notes (the "Mid-Term Notes") in the principal amount of not more than RMB10 billion and the first tranche of the Mid-Term Notes in the principal amount of not more than RMB6.5 billion in the PRC.

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

Zhao Yongqi
Executive Director

Hong Kong, 28 March 2017

KPMG

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

OPINION

We have audited the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 146, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Assessing impairment of liquefied natural gas ("LNG") processing plants</th></tr>
<tr><td colspan="2">Refer to note 16 to the consolidated financial statements and the accounting policy 3(e) on pages 64 to 65.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>In view of the persistent low LNG prices, management considered that there were indicators that the Group's property, plant and equipment attributable to different LNG processing plants may be impaired as at 31 December 2016.

During the year ended 31 December 2016, the Group recognised impairment of HKD2,362 million and HKD2,160 million in respect of equipment and machinery and construction in progress, respectively, in certain of the Group's LNG processing plants.

Management performs impairment assessments of the Group's LNG processing plants whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

Each LNG processing plant operated by the Group has been identified as a separate cash-generating unit ("CGU") for impairment assessment purposes. Management compares the carrying amount of the property, plant and equipment allocated to each CGU with respective recoverable amount, which is estimated by preparing a discounted cash flow forecast, to determine the amount of impairment loss, if any. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement in determining the relevant inputs to the discounted cash flow forecasts and the assumptions adopted therein, including forecast LNG selling prices, forecast production costs and expenses and the discount rates applied.</td><td>Our audit procedures to assess impairment of LNG processing plants included the following:

• assessing management's identification of CGU, the allocation of assets to each CGU and the methodology adopted in the preparation of the discounted cash flow forecasts with reference to our understanding of the Group's LNG processing business and the requirements of the prevailing accounting standards;

• assessing management's cash flow forecast for each CGU by comparing the key assumptions adopted by management, in particular, forecast LNG selling prices, forecast production costs and expenses and the discount rate applied, with our understanding, experience and knowledge of the Group's LNG processing business and the LNG industry in general;

• comparing the forecast LNG selling prices with external market data;

• comparing key financial data, including revenue, production costs and expenses, in the cash flow forecasts with the budgets approved by the board of directors;

• engaging our internal valuation specialists to assist us in assessing whether the discount rates applied in the cash flow forecasts were within the range of those adopted by other companies in the same industry;</td></tr>
</table>

<table>
<tr><td colspan="2">Assessing impairment of liquefied natural gas ("LNG") processing plants</td></tr>
<tr><td colspan="2">Refer to note 16 to the consolidated financial statements and the accounting policy 3(e) on pages 64 to 65.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>We identified assessing impairment of LNG processing plants as a key audit matter because the impairment assessments involve the exercise of significant management judgement, particularly in forecasting LNG selling prices, production costs and expenses and in determining appropriate discount rates, all of which could be subject to management bias in their selection.</td><td>• comparing the actual results for the current year with management's estimates in their cash flow forecasts prepared in the previous year to assess the historical accuracy of the management's forecasting process;

• performing sensitivity analyses of the key assumptions adopted by management, including forecast LNG selling prices, forecast production costs and expenses and the discount rates applied, to assess what changes thereto, either individually or collectively, would result in a different conclusion being reached and assessing whether there were any indicators of management bias in the selection of key assumptions; and

• assessing the disclosures in the consolidated financial statements in respect of the impairment assessment of LNG processing plants with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group’s internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Wai Shun, Wilson.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Revenue	6	**81,882**	96,335
Other gains, net	7	**793**	694
Interest income	8	**349**	399
Purchases, services and others		**(56,682)**	(69,683)
Employee compensation costs	9	**(4,481)**	(4,739)
Depreciation, depletion and amortisation		**(6,365)**	(6,690)
Impairment loss on property, plant and equipment	16	**(4,602)**	(1,724)
Selling, general and administrative expenses		**(3,399)**	(3,821)
Taxes other than income taxes		**(596)**	(697)
Interest expenses	10	**(685)**	(673)
Share of profits less losses of:			
– Associates		**710**	(2,088)
– Joint ventures	19	**191**	242
Profit before income tax expense	11	**7,115**	7,555
Income tax expense	13	**(3,701)**	(3,325)
Profit for the year		**3,414**	4,230
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		**(3,241)**	(4,597)
– Associates		**(324)**	(310)
– Joint ventures		**(10)**	(18)
– Fair value (loss)/gain on available-for-sale financial assets		**(313)**	768
Other comprehensive income, net of nil tax		**(3,888)**	(4,157)
Total comprehensive income for the year		**(474)**	73

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	**2016** **HK$'million**	2015 HK$'million (restated) (Note 38)
Profit for the year attributable to:			
– Owners of the Company		**659**	1,491
– Non-controlling interests		**2,755**	2,739
		3,414	4,230
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(1,621)**	(1,683)
– Non-controlling interests		**1,147**	1,756
		(474)	73
Earnings per share for profit attributable to owners of the Company	*14*		
– Basic (HK cent)		**8.16**	18.50
– Diluted (HK cent)		**8.16**	18.50

The notes on pages 57 to 146 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 15.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Assets			
Non-current assets			
Property, plant and equipment	*16*	**93,488**	98,878
Advanced operating lease payments	*17*	**4,093**	4,199
Investments in associates	*18*	**3,154**	2,814
Investments in joint ventures	*19*	**1,461**	1,371
Available-for-sale financial assets	*21*	**514**	870
Intangible and other non-current assets	*22*	**2,725**	1,540
Deferred tax assets	*32*	**1,182**	1,165
		106,617	110,837
Current assets			
Inventories	*23*	**1,397**	1,518
Accounts receivable	*24*	**3,114**	3,280
Prepaid expenses and other current assets	*25*	**6,075**	10,406
Cash and cash equivalents	*26*	**21,566**	17,145
		32,152	32,349
Total assets		**138,769**	143,186

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*27*	**81**	81
Retained earnings	*28*	**27,087**	27,580
Other reserves	*28*	**13,763**	34,100
		40,931	61,761
Non-controlling interests		**25,372**	26,858
Total equity		**66,303**	88,619
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*29*	**30,052**	24,539
Income tax payable	*32*	**780**	626
Other tax payable		**736**	891
Short-term borrowings	*30*	**15,850**	8,076
Obligations under finance leases	*33*	**187**	208
		47,605	34,340
Non-current liabilities			
Long-term borrowings	*30*	**17,915**	16,414
Convertible bonds	*31*	**3,551**	–
Deferred tax liabilities	*32*	**1,014**	1,040
Obligations under finance leases	*33*	**376**	566
Other liabilities		**2,005**	2,207
		24,861	20,227
Total liabilities		**72,466**	54,567
Total equity and liabilities		**138,769**	143,186
Net current liabilities		**(15,453)**	(1,991)
Total assets less current liabilities		**91,164**	108,846

Approved and authorised for issue by the board of directors on 28 March 2017.

Zhao Yongqi
Executive Director

Zhang Yaoming
Executive Director

The notes on pages 57 to 146 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		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 31 December 2014, as previously reported		81	27,765	25,042	52,888	21,426	74,314
Business combination under common control	*2(b)*	–	1,946	11,463	13,409	5,298	18,707
Balances at 1 January 2015, as restated		81	29,711	36,505	66,297	26,724	93,021
Changes in equity for 2015:							
Profit for the year		–	1,491	–	1,491	2,739	4,230
Other comprehensive income		–	–	(3,174)	(3,174)	(983)	(4,157)
Total comprehensive income for the year		–	1,491	(3,174)	(1,683)	1,756	73
Transfer between reserves		–	(798)	798	–	–	–
Final dividend for 2014		–	(1,614)	–	(1,614)	–	(1,614)
Dividend declared to former owner of PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas")		–	(1,241)	–	(1,241)	–	(1,241)
Lapsed share options		–	31	(31)	–	–	–
Acquisition from non-controlling interests		–	–	–	–	(323)	(323)
Dividend to non-controlling interests		–	–	–	–	(3,140)	(3,140)
Capital contributions from non-controlling interests		–	–	–	–	2,027	2,027
Disposal of subsidiaries		–	–	2	2	(186)	(184)
Balances at 31 December 2015, as restated		81	27,580	34,100	61,761	26,858	88,619

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		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 31 December 2015, as previously reported		81	25,680	23,362	49,123	21,201	70,324
Business combination under common control	*2(b), 38*	–	1,900	10,738	12,638	5,657	18,295
Balances at 1 January 2016, as restated		81	27,580	34,100	61,761	26,858	88,619
Changes in equity for 2016:							
Profit for the year		–	659	–	659	2,755	3,414
Other comprehensive income		–	–	(2,280)	(2,280)	(1,608)	(3,888)
Total comprehensive income for the year		–	659	(2,280)	(1,621)	1,147	(474)
Transfer between reserves		–	(707)	707	–	–	–
Final dividend for 2015	*15*	–	(484)	–	(484)	–	(484)
Lapsed share options		–	39	(39)	–	–	–
Acquisition of Kunlun Gas	*2(b), 38*	–	–	(18,951)	(18,951)	–	(18,951)
Issuance of convertible bonds	*31*	–	–	226	226	–	226
Acquisition of subsidiaries		–	–	–	–	22	22
Dividend to non-controlling interests		–	–	–	–	(3,067)	(3,067)
Capital contributions from non-controlling interests		–	–	–	–	413	413
Disposal of subsidiaries		–	–	–	–	(1)	(1)
Balances at 31 December 2016		81	27,087	13,763	40,931	25,372	66,303

The notes on pages 57 to 146 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Cash flows from operating activities			
Profit for the year		**3,414**	4,230
Adjustments for:			
Income tax expense		**3,701**	3,325
Depreciation, depletion and amortisation		**6,365**	6,690
Share of profits less losses of associates		**(710)**	2,088
Share of profits less losses of joint ventures		**(191)**	(242)
Impairment loss on property, plant and equipment	*16*	**4,602**	1,724
Impairment loss on available-for-sale financial assets		**–**	6
Impairment loss on other receivables		**–**	83
Net losses on disposals of property, plant and equipment		**41**	39
Net losses on disposals of subsidiaries		**–**	210
Net exchange losses		**487**	371
Interest income		**(349)**	(399)
Interest expense		**685**	673
Changes in working capital:			
Accounts receivable		**(19)**	(294)
Prepaid expenses and other current assets		**(602)**	1,221
Inventories		**36**	42
Accounts payable and accrued liabilities		**1,892**	790
Other tax payable		**(109)**	564
Cash generated from operations		**19,243**	21,121
Income tax paid		**(3,494)**	(4,386)
Net cash generated from operating activities		**15,749**	16,735

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million (restated) (Note 38)
Cash flows from investing activities			
Dividends received from associates		**199**	36
Dividends received from available-for-sale financial assets		**–**	8
Dividends received from joint ventures		**8**	345
Acquisitions of available-for-sale financial assets		**(19)**	–
Acquisitions of subsidiaries		**(18,895)**	(6)
Capital contributions to associates		**(37)**	(22)
Capital contributions to a joint venture		**(18)**	–
Proceeds from disposal of advance operating lease payments		**77**	75
Proceeds from disposal of subsidiaries		**–**	18
Proceeds from disposal of associates		**–**	65
Proceeds from disposal of joint ventures		**–**	4
Proceeds from disposal of property, plant and equipment		**687**	216
Increase in amount due from an intermediate holding company		**4,119**	(1,495)
Capital expenditure		**(9,894)**	(7,375)
Interest received		**357**	398
Loans to joint ventures		**66**	–
Loans repaid by third parties		**223**	316
Net cash used in investing activities		**(23,127)**	(7,417)
Cash flows from financing activities			
Capital contributions from non-controlling interests		**334**	613
Dividends paid to owners of the Company	*28*	**(484)**	(1,614)
Dividends paid to non-controlling interests		**(836)**	(2,882)
Increase in borrowings		**17,287**	20,338
Repayments of borrowings		**(6,730)**	(21,547)
Interest paid		**(1,024)**	(1,341)
Proceeds from issuance of convertible bonds		**3,921**	–
Capital element of finance lease rentals paid		**(172)**	(178)
Interest element of finance lease rentals paid		**(37)**	(35)
Acquisition from non-controlling interests		**–**	(266)
Net cash generated from/(used in) financing activities		**12,259**	(6,912)
Increase in cash and cash equivalents		**4,881**	2,406
Cash and cash equivalents at 1 January		**17,145**	15,940
Effect of foreign exchange rate changes		**(460)**	(1,201)
Cash and cash equivalents at 31 December	*26*	**21,566**	17,145

The notes on pages 57 to 146 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 2016, PetroChina indirectly owned 58.33% (2015: 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 principal 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 and distribution 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 two (2015: 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. The Xinjiang Contract expired on 31 August 2016. 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. Significant accounting policies adopted by the Group are disclosed 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. Note 3(y) 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 2016 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)

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 Kunlun Gas at a cash consideration of approximately RMB14,827 million (approximately HK$17,998 million or US$2,322 million), subject to adjustment on gain or loss of Kunlun Gas during the transition period, as defined in the Agreement. The acquisition was completed on 31 May 2016, and Kunlun Gas has become a wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by CNPC, the acquisition of Kunlun Gas was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition has been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5, *Merger Accounting for Common Control Combinations* ("AG 5") issued by the HKICPA. The financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The opening balance at 1 January 2015 have been restated, with consequential adjustments to comparatives for the year ended 31 December 2015. The final consideration of HK$18,951 million payable by the Group has been treated as an equity transaction. The details of the restated balances have been disclosed in Note 38 to these financial statements.

As at 31 December 2016, the Group had net current liabilities of HK$15,453 million. Notwithstanding the net current liabilities of the Group at 31 December 2016, 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 undrawn facilities provided by the Company's immediate holding company amounting to HK$2,300 million;

(ii) the Group has committed credit from China Petroleum Finance Company Limited ("CP Finance") amounting to RMB23 billion, of which RMB16.5 billion is undrawn as at 31 December 2016;

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

(iv) 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.

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(o) and 3(p) 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 41.

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.

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 Notes 42 and 43, 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(r)(iv) and (v).

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(r)(iv) and (v), 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, liquefied petroleum gas, compressed 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) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 3(r)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customer are included under “Accounts receivable”. Amounts received before the related work is performed are presented as “Advances from customers” under “Accounts payable and accrued liabilities”.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

(m) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bond equity reserve until either the bond is converted or redeemed.

If the bond is converted, the convertible bond equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

(n) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Accounts payable

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

(p) Borrowings

Borrowings are recognised initially at fair value 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 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.

(q) Taxation

Income tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Taxation (Continued)

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 tax. "Taxes other than income taxes", which form part of operating expenses, primarily comprise resource tax, urban construction tax, education surcharges and business tax.

(r) 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 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition (Continued)

(iii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) 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.

(v) Interest income

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

(s) 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) 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.

(v) 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 profit or loss, with a corresponding adjustment to equity.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Share-based compensation (Continued)

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.

(w) 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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Related parties (Continued)

(b) (Continued)

(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.

(x) 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.

(y) Changes in accounting policies

The HKICPA has issued a number of 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:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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)			
	2016		2015	
	US dollar HK$'million	**Hong Kong dollar HK$'million**	US dollar HK$'million (restated) (Note 38)	Hong Kong dollar HK$'million (restated) (Note 38)
Accounts receivable and other current assets	**5**	**14**	2	14
Cash and cash equivalents	**665**	**265**	1,534	402
Accounts payable and accrued liabilities	**(33)**	**(27)**	(32)	(41)
Borrowings	**(8,612)**	**(2,396)**	(7,692)	(1,646)
Gross exposure arising from recognised assets and liabilities	**(7,975)**	**(2,144)**	(6,188)	(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.

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.

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

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

	2016		2015	
	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 (restated) (Note 38)
US dollar	**5%**	**(299)**	5%	(232)
	(5%)	**299**	(5%)	232
Hong Kong dollar	**5%**	**(80)**	5%	(48)
	(5%)	**80**	(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 2015.

(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 24.

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 2016, the Group had net current liabilities of HK$15,453 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 29, 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 21).

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 2016, it is estimated that an increase/(decrease) of 10% (2015: 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:

	2016			2015		
		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 (restated) (Note 38)
Change in the relevant equity price risk variable:						
Increase	**10%**	**–**	**36**	10%	–	55
Decrease	**10%**	**–**	**(36)**	(10%)	–	(55)

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 2015.

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

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, convertible bonds and obligations under finance leases divided by the sum of total equity, interest-bearing borrowings, convertible bonds and obligations under finance leases. The gearing ratio at 31 December 2016 is 36.36% (2015 restated: 22.18%).

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.

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)

	Fair value at 31 December 2016	**Fair value measurements as at 31 December 2016 categorised into**			Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	HK$'million	**HK$'million**	**HK$'million**	**HK$'million**	HK$'million (restated) (Note 38)	HK$'million	HK$'million	HK$'million
Recurring fair value measurements								
Available-for-sale financial assets								
– Listed	**431**	**431**	**–**	**–**	775	775	–	–
– Unlisted	**83**	**–**	**–**	**83**	95	–	–	95

During the years ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. 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 occurred.

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$83 million (31 December 2015 restated: HK$95 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.

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

	HK$'million
Unlisted available-for-sale equity securities:	
At 31 December 2014, as previously reported	40
Business combination under common control	61
At 1 January 2015, as restated	101
Currency translation differences	(5)
Transfer out of Level 3 to Level 1	(1)
At 31 December 2015, as restated	95
Unlisted available-for-sale equity securities:	
At 31 December 2015, as previously reported	**37**
Business combination under common control	**58**
At 1 January 2016, as restated	**95**
Additions	**19**
Currency translation differences	**(31)**
31 December 2016	**83**

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 2015 and 2016.

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

4.3 Fair value estimation (Continued)

(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 2016 and 2015 are not materially different from their fair values.

The fair value of convertible bonds is based on discounted cash flow using an appropriate debt yield from comparable bonds in the market, which is similar to the interest rate applied for the recognition of amortised costs.

The fair values other than convertible bonds 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% (2015 restated: 4.35% to 4.90%) per annum as at 31 December 2016 depending on the type of the borrowings. An analysis of the carrying amounts of long-term borrowings is presented in Note 30.

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 and natural gas, 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.

6 REVENUE

Revenue mainly represents revenue from the sales of crude oil, the sales and distribution 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

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Net exchange losses	**(487)**	(371)
Rental income	**135**	151
Government grants	**957**	1,001
Others	**188**	(87)
	793	694

Government grants for the year ended 31 December 2016 mainly represented compensation of reduction in income due to the implementation of Value-Added-Tax Reform from the PRC 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 2016, the Group have recognised and received related government grants of HK$753 million (2015: HK$791 million).

8 INTEREST INCOME

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Interest income on:		
– Amounts due from related parties	**172**	182
– Bank deposits	**177**	217
	349	399

9 EMPLOYEE COMPENSATION COSTS

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Salaries, wages and allowances	**3,992**	4,207
Retirement benefits scheme contributions	**489**	532
	4,481	4,739

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 2016 were HK$489 million (2015 restated: HK$532 million).

10 INTEREST EXPENSES

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Interest expenses on:		
Bank loans	**289**	216
Senior notes	**269**	167
Debentures payable (Note 30)	**26**	48
Convertible bonds (Note 31)	**64**	–
Other loans, from:		
– An intermediate holding company	**152**	281
– An immediate holding company	**160**	116
– CP Finance	**304**	522
– Fellow subsidiaries	**69**	61
Finance charges on obligations under finance leases, from:		
– A fellow subsidiary	**21**	37
– A third party	**12**	17
Less: Amounts capitalised	**(681)**	(792)
	685	673

10 INTEREST EXPENSES (CONTINUED)

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 4.06% (2015 restated: 4.55%) per annum for the year ended 31 December 2016.

11 PROFIT BEFORE INCOME TAX EXPENSE

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

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Amortisation of advanced operating lease payments and intangible assets	**176**	176
Auditors' remuneration:		
– audit services	**23**	19
– non-audit services	**2**	1
Cost of inventories recognised as expense	**57,470**	71,092
Depreciation and depletion of property, plant and equipment	**6,189**	6,514
Operating lease expenses	**542**	288
Impairment loss on property, plant and equipment	**4,602**	1,724
Impairment loss on other receivables	**–**	83

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors for the years ended 31 December 2016 and 2015 are as follows:

	2016				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2016 Total HK$'000
Directors:					
Mr Huang Weihe (appointed on 18 February 2016)	–	–	–	–	–
Mr Wu Enlai	–	–	–	–	–
Mr Zhao Yongqi	–	469	–	13	482
Mr Zhao Zhongxun (appointed on 12 May 2016)	–	–	–	–	–
Mr Ding Shilu (appointed on 12 May 2016)	–	–	–	–	–
Mr Zhang Yaoming (appointed on 12 May 2016)	–	–	–	–	–
Mr Zhang Bowen (retired on 12 May 2016)	–	1,147	–	143	1,290
Mr Cheng Cheng (resigned on 12 May 2016)	–	918	–	114	1,032
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
Mr Sun Patrick (appointed on 18 February 2016)	217	–	–	–	217
Dr Lau Wah Sum (resigned on 1 January 2017)	450	–	–	–	450
	1,217	2,534	–	270	4,021

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

	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

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.

The five individuals whose emoluments were the highest in the Group for the year including three (2015: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2015: three) individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other emoluments	**5,016**	7,992
Discretionary bonuses	**–**	342
Retirement scheme contributions	**335**	885
	5,351	9,219
The emoluments fell within the following band:		
HK$1,000,001 to HK$1,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	2
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	–

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

None of the directors has waived their remuneration during the year ended 31 December 2016 (2015: Nil).

During the year ended 31 December 2016, 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 (2015: Nil).

13 INCOME TAX EXPENSE

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Current tax		
– PRC	**3,729**	3,892
– Overseas	**27**	69
	3,756	3,961
Deferred tax (Note 32(b))	**(55)**	(636)
	3,701	3,325

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2015: 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% (2015: 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% (2015: 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.

13 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:

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Profit before income tax expense	**7,115**	7,555
Tax calculated at a tax rate of 25% (2015: 25%)	**1,778**	1,888
Under-provision in prior years	**27**	189
Effect of income taxes from overseas operations with tax rates different from the PRC statutory tax rate	**(1)**	244
Effect of preferential tax rates	**142**	(56)
Tax effect of income not subject to tax	**(80)**	(73)
Tax effect of expenses not deductible for tax purposes	**270**	546
Tax effect of share of profits less losses of associates	**(124)**	359
Tax effect of share of profits less losses of joint ventures	**(32)**	(39)
Tax effect of deferred tax not recognised	**1,539**	463
Tax effect of (recognition of deferred tax not recognised in prior years)/ derecognition of deferred tax recognised in prior years	**(21)**	67
Tax effect of withholding tax/(reversal of withholding tax) on dividends received and receivable	**203**	(263)
Income tax expense	**3,701**	3,325

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.

14 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$659 million (2015 restated: HK$1,491 million) and weighted average number of ordinary shares in issue during the year of approximately 8,072 million shares (2015: 8,072 million shares).

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2016 whereas the effect of the Company's share option was anti-dilutive for the year ended 31 December 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

15 DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2016 **HK$'million**	2015 HK$'million
Proposed final dividend attributable to owners of the Company for 2016 (note (a))	**597**	–
Final dividend attributable to owners of the Company for 2015 (note (b))	**–**	484

Notes:

(a) At the meeting on 28 March 2017, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2016 of HK7.4 cents per share amounting to a total of approximately HK$597 million. The amount is based on approximately 8,072 million shares in issue as at 28 March 2017. This financial information does 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 2017 when approved at the 2017 Annual General Meeting.

(b) 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 were approved by the shareholders in the Annual General Meeting on 12 May 2016. The amount is based on approximately 8,072 million shares in issue as at 17 March 2016 which was paid on 17 June 2016.

16 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 31 December 2014, as previously reported	2,533	14,895	40,888	39,148	2,462	1,231	22,219	123,376
Business combination under common control	1,972	–	–	18,180	1,483	279	3,415	25,329
Balances at 1 January 2015, as restated	4,505	14,895	40,888	57,328	3,945	1,510	25,634	148,705
Currency translation differences	(254)	(796)	(2,377)	(3,399)	(216)	(87)	(1,357)	(8,486)
Additions	57	295	5	125	70	11	6,766	7,329
Disposals	(28)	(12)	(15)	(276)	(59)	–	(45)	(435)
Transfers	120	172	3,176	4,218	–	170	(7,856)	–
Balances at 31 December 2015, as restated	4,400	14,554	41,677	57,996	3,740	1,604	23,142	147,113
Balances at 31 December 2015, as previously reported	2,466	14,554	41,677	39,199	2,337	1,340	20,281	121,854
Business combination under common control	1,934	–	–	18,797	1,403	264	2,861	25,259
Balances at 1 January 2016, as restated	4,400	14,554	41,677	57,996	3,740	1,604	23,142	147,113
Currency translation differences	**(253)**	**(636)**	**(2,474)**	**(3,579)**	**(204)**	**(90)**	**(1,137)**	**(8,373)**
Additions	**45**	**205**	**4**	**49**	**46**	**88**	**11,128**	**11,565**
Disposals	**(22)**	**(38)**	**(19)**	**(456)**	**(118)**	**(4)**	**(369)**	**(1,026)**
Transfers	**129**	**191**	**3,865**	**9,548**	**–**	**10**	**(13,743)**	**–**
Balances at 31 December 2016	**4,299**	**14,276**	**43,053**	**63,558**	**3,464**	**1,608**	**19,021**	**149,279**
Accumulated depreciation and depletion:								
Balances at 31 December 2014, as previously reported	721	10,877	13,348	10,622	1,031	335	–	36,934
Business combination under common control	323	–	–	4,657	837	67	–	5,884
Balances at 1 January 2015, as restated	1,044	10,877	13,348	15,279	1,868	402	–	42,818
Currency translation differences	(63)	(664)	(794)	(976)	(116)	(21)	–	(2,634)
Charge for the year	156	887	1,308	3,688	389	86	–	6,514
Disposals	(21)	(28)	–	(99)	(39)	–	–	(187)
Impairment loss	–	1,679	–	43	2	–	–	1,724
Balances at 31 December 2015, as restated	1,116	12,751	13,862	17,935	2,104	467	–	48,235

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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
Balances at 31 December 2015, as previously reported	767	12,751	13,862	12,501	1,200	383	–	41,464
Business combination under common control	349	–	–	5,434	904	84	–	6,771
Balances at 1 January 2016, as restated	1,116	12,751	13,862	17,935	2,104	467	–	48,235
Currency translation differences	**(67)**	**(539)**	**(835)**	**(1,247)**	**(129)**	**(26)**	**(93)**	**(2,936)**
Charge for the year	**151**	**666**	**1,346**	**3,594**	**320**	**112**	**–**	**6,189**
Disposals	**(15)**	**(38)**	**(13)**	**(172)**	**(57)**	**(4)**	**–**	**(299)**
Impairment loss	**3**	**55**	**–**	**2,378**	**–**	**6**	**2,160**	**4,602**
Balances at 31 December 2016	**1,188**	**12,895**	**14,360**	**22,488**	**2,238**	**555**	**2,067**	**55,791**
Net book value:								
Balances at 31 December 2016	**3,111**	**1,381**	**28,693**	**41,070**	**1,226**	**1,053**	**16,954**	**93,488**
Balances at 31 December 2015, as restated	3,284	1,803	27,815	40,061	1,636	1,137	23,142	98,878

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 2016, the legal title registration of certain of the Group's properties with carrying amount of approximately HK$723 million (2015 restated: HK$771 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 2016, 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% (2015: 5.04% to 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 2016, no additions to equipment and machinery of the Group were financed by new finance leases from a fellow subsidiary (2015: HK$141 million). As at 31 December 2016, the net book value of equipment and machinery held under finance leases of the Group was HK$814 million (2015: HK$911 million).

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year ended 31 December 2016, the Group recognised impairment losses on property, plant and equipment of HK$4,602 million, including HK$4,522 million for LNG processing plants. In view of the persistent low LNG prices during the year, the Group reassessed the risk exposures of certain of its LNG processing plants (each of these LNG processing plants being a cash generating unit) that the carrying amount of the property, plant and equipment as at 31 December 2016 exceeded its estimated recoverable amount. Accordingly, impairment losses amounting to HK$2,362 million and HK$2,160 million were recognised under “Impairment loss on property, plant and equipment” in the Group’s consolidated statement of comprehensive income with respect to equipment and machinery and construction in progress respectively.

The recoverable amounts of the property, plant and equipment with respect to the LNG processing plants amounting to HK$3,487 million were determined based on the value in use calculations applying a pre-tax discount rate of 14.8%. LNG price assumptions were primarily based on market expectations.

During the year ended 31 December 2015, the Group recognised impairment losses on property, plant and equipment of HK$1,724 million, including HK$1,679 million for Exploration and Production segment. In view of the persistent low crude oil prices, the Group 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 for oil and gas properties with respect to Xinjiang Contract and Leng Jiapu Contract, amounting to HK$1,679 million were recognised, under “Impairment loss on property, plant and equipment” in the Group’s consolidated statement of comprehensive income.

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 primarily based on market expectations.

17 ADVANCED OPERATING LEASE PAYMENTS

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

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Balance as at 31 December, as previously stated	**3,205**	3,379
Business combination under common control	**994**	985
Balance as at 1 January, as restated	**4,199**	4,364
Currency translation differences	**(249)**	(254)
Additions	**333**	275
Amortisation for the year	**(113)**	(110)
Disposals	**(77)**	(76)
Balance as at 31 December	**4,093**	4,199

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

18 INVESTMENTS IN ASSOCIATES

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Share of net assets	**2,760**	2,396
Goodwill	**394**	418
	3,154	2,814

Details of the principal associates are set out in Note 42.

18 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	
	2016	2015
	HK$'million	HK$'million
Gross amounts of the associate's		
Current assets	**5,640**	2,709
Non-current assets	**17,333**	18,082
Current liabilities	**(6,043)**	(5,006)
Non-current liabilities	**(16,045)**	(16,553)
Equity/(deficit)	**885**	(768)
Attributable to non-controlling interest	**(70)**	(136)
Attributable to the associate's shareholders	**955**	(632)
Revenue	**9,264**	11,392
Profit/(loss) from continuing operations	**1,651**	(9,386)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**2**	(1,333)
Total comprehensive income	**1,653**	(10,719)
Attributable to non-controlling interest	**66**	(419)
Attributable to the associate's shareholders	**1,587**	(10,300)
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
Total comprehensive income attributable to the Group	**399**	(2,588)
Dividend received during the year	**–**	–
Group's interest in net assets/(liabilities) of the associate at end of the year	**399**	(160)
(Elimination of)/cumulative unrecognised share of total comprehensive income (note (ii))	**(160)**	160
Carrying amount of interest in the associate at end of the year	**239**	–

18 INVESTMENTS IN ASSOCIATES (CONTINUED)

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) During the year ended 31 December 2015, share of negative total comprehensive income from Aktobe amounting to HK$160 million 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). During the year ended 31 December 2016, share of total comprehensive income from Aktobe amounts to HK$399 million and therefore all the previously unrecognised negative total comprehensive income has been eliminated as at 31 December 2016.

Aggregate information of associates that are not individually material:

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**2,915**	2,814
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	**311**	161
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**311**	161

19 INVESTMENTS IN JOINT VENTURES

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Share of net assets	**1,416**	1,259
Loans to joint ventures	**45**	112
	1,461	1,371

Details of the principal joint ventures are set out in Note 43.

19 INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at 31 December 2016, included in loans to joint ventures is an amount of HK$45 million (2015: 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 2016 and 2015, the loans to joint ventures are not past due and not impaired.

Dividends declared from joint ventures are approximately HK$8 million (2015: HK$345 million) for the year ended 31 December 2016.

Share of loss from one joint venture amounting to HK$118 million during the year ended 31 December 2016 (2015: HK$28 million) 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 2016.

Aggregate information of joint ventures that are not individually material:

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,416**	1,259
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**191**	242
– Post-tax profit or loss from discontinued operations	**–**	–
– Other comprehensive income	**–**	–
– Total comprehensive income	**191**	242

20 INVESTMENTS IN SUBSIDIARIES

Details of the principal subsidiaries are set out in Note 41.

The following tables list out the information related to PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline"), a subsidiary of the Group which has material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Beijing Pipeline	
	2016	2015
	HK$'million	HK$'million
NCI percentage	**40%**	40%
Current assets	**3,008**	532
Non-current assets	**38,262**	34,365
Current liabilities	**(11,457)**	(3,508)
Non-current liabilities	**(1,059)**	(2,201)
Net assets	**28,754**	29,188
Carrying amount of NCI	**11,506**	11,680
Revenue	**13,688**	13,989
Profit for the year	**7,101**	6,983
Total comprehensive income	**5,422**	5,307
Profit allocated to NCI	**2,842**	2,795
Dividend paid to NCI	**2,342**	2,090
Cash flows from operating activities	**8,821**	9,768
Cash flows from investing activities	**(5,228)**	(1,038)
Cash flows from financing activities	**(1,403)**	(8,977)

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Available-for-sale equity securities:		
– Listed in Australia	**7**	8
– Listed in Hong Kong	**14**	19
– Listed in the PRC	**410**	748
– Unlisted in the PRC	**83**	95
	514	870

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).

22 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Intangible assets (note (i))	**563**	649
Prepaid construction costs	**2,053**	602
Loans to third parties	**81**	88
Others	**28**	201
	2,725	1,540

Note:

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

		2016			2015	
	Goodwill HK$'million	**Others HK$'million**	**Total HK$'million**	Goodwill HK$'million	Others HK$'million (restated) (Note 38)	Total HK$'million (restated) (Note 38)
At 31 December, as previously reported	**281**	**142**	**423**	367	130	497
Business combinations under common control	**–**	**226**	**226**	–	294	294
At 1 January, as restated	**281**	**368**	**649**	367	424	791
Currency translation differences	**(16)**	**(19)**	**(35)**	(18)	(22)	(40)
Additions	**9**	**3**	**12**	4	32	36
Amortisation for the year	**–**	**(63)**	**(63)**	–	(66)	(66)
Disposals	**–**	**–**	**–**	(72)	–	(72)
At 31 December	**274**	**289**	**563**	281	368	649

23 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Natural gas	**926**	1,020
Materials for oil and gas properties and natural gas pipelines	**417**	442
Crude oil in tanks and others	**54**	56
	1,397	1,518

24 ACCOUNTS RECEIVABLE

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

	2016	2015
	HK$'million	HK$'million (restated) (Note 38)
Within 3 months	**1,994**	1,589
Between 3 to 6 months	**214**	509
Over 6 months	**906**	1,182
	3,114	3,280

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 and distribution of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2016, accounts receivable of approximately HK$1,120 million (2015 restated: HK$1,691 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 2016 and 2015, 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.

25 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Other receivables	**1,069**	1,177
Advances to suppliers	**196**	259
Amounts due from related parties		
– Intermediate holding company	**655**	4,869
– Others	**2**	73
	1,922	6,378
Less: Provision for impairment	**(30)**	(28)
	1,892	6,350
Loans to third parties	**175**	216
Dividends receivable from associates	**106**	115
Value-added tax recoverable	**1,440**	1,480
Prepaid expenses	**1,644**	1,548
Other current assets	**818**	697
	6,075	10,406

All of the amounts due from related parties are expected to be settled within one year. Except for the amounts due from intermediate holding company of HK$655 million (2015 restated: HK$4,869 million) which are unsecured and interest bearing at 1.65% per annum (2015: 1.65% per annum), the other amounts due from related parties are interest free and unsecured.

26 CASH AND CASH EQUIVALENTS

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Cash at bank and on hand	**20,333**	14,679
Short-term bank deposits	**1,233**	2,466
Cash and cash equivalents	**21,566**	17,145

26 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash at bank and bank deposits carry interest at prevailing market rate at 0.32% per annum (2015 restated: 1.16% per annum).

Included in bank deposits, bank balances and cash are amounts of approximately HK$20,238 million or RMB17,983 million (2015 restated: HK$14,894 million or RMB12,490 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.

27 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 2015, 31 December 2015 and 31 December 2016	**16,000**	**160**
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2015, 31 December 2015 and 31 December 2016	**8,072**	**81**

27 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 2016 and 2015.

During the year ended 31 December 2016 and 2015, no share options have been exercised by the directors and employees of the Company respectively as the exercise prices of the outstanding share options were above the market price of the Company's shares.

27 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 2015 and 2016 are shown in the following table:

Name of category of participants	Option type	Outstanding at 1 January 2015 '000	Lapsed during the year '000	Outstanding at 31 December 2015 and 1 January 2016 '000	Reclassified during the year '000	Lapsed during the year '000	Outstanding at 31 December 2016 '000
		Number of share options					
Directors							
Mr Zhang Bowen (note (iv))	2010 (note (i))	2,400	(2,400)	–	–	–	–
	2011 (note (ii))	2,400	–	2,400	(2,400)	–	–
	2012 (note (iii))	2,200	–	2,200	(2,200)	–	–
Mr Cheng Cheng (note (iv))	2010 (note (i))	1,500	(1,500)	–	–	–	–
	2011 (note (ii))	1,500	–	1,500	(1,500)	–	–
	2012 (note (iii))	2,000	–	2,000	(2,000)	–	–
Dr Lau Wah Sum	2010 (note (i))	400	(400)	–	–	–	–
Mr Li Kwok Sing Aubrey	2010 (note (i))	400	(400)	–	–	–	–
Dr Liu Xiao Feng	2010 (note (i))	400	(400)	–	–	–	–
Subtotal		13,200	(5,100)	8,100	(8,100)	–	–
Other employees	2010 (note (i))	6,000	(6,000)	–	–	–	–
	2011 (note (ii))	6,000	–	6,000	3,900	(9,900)	–
	2012 (note (iii))	11,500	–	11,500	4,200	(1,500)	14,200
Subtotal		23,500	(6,000)	17,500	8,100	(11,400)	14,200
Total		36,700	(11,100)	25,600	–	(11,400)	14,200

Notes:

(i) 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.

(ii) 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.

(iii) 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.

(iv) During the year ended 2016, certain directors of the Company ceased to be the directors and their share options were reclassified to share options held by employees as at 31 December 2016.

28 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$'million note (iv)	Convertible bond equity reserve HK$'million note (v)	Translation reserve HK$'million note (vi)	Others HK$'million note (vii)	Retained earnings HK$'million	Total HK$'million
Balances at 31 December 2014, as previously reported	39,924	134	115	(20,469)	14	–	2,437	2,887	27,765	52,807
Business combination under common control	–	–	–	10,793	–	–	343	327	1,946	13,409
Balances at 1 January 2015, as restated	39,924	134	115	(9,676)	14	–	2,780	3,214	29,711	66,216
Total comprehensive income for the year	–	–	–	–	598	–	(3,772)	–	1,491	(1,683)
Transfer between reserves	–	–	–	–	–	–	–	798	(798)	–
Final dividend for 2014	–	–	–	–	–	–	–	–	(1,614)	(1,614)
Dividend declared to former owner of Kunlun Gas	–	–	–	–	–	–	–	–	(1,241)	(1,241)
Lapsed share options	–	–	(31)	–	–	–	–	–	31	–
Disposal of subsidiary	–	–	–	–	–	–	–	2	–	2
Balances at 31 December 2015, as restated	39,924	134	84	(9,676)	612	–	(992)	4,014	27,580	61,680
Balances at 31 December 2015, as previously reported	**39,924**	**134**	**84**	**(20,469)**	**612**	**-**	**(451)**	**3,528**	**25,680**	**49,042**
Business combination under common control	**-**	**-**	**-**	**10,793**	**-**	**-**	**(541)**	**486**	**1,900**	**12,638**
Balances at 1 January 2016, as restated	**39,924**	**134**	**84**	**(9,676)**	**612**	**-**	**(992)**	**4,014**	**27,580**	**61,680**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(245)**	**-**	**(2,035)**	**-**	**659**	**(1,621)**
Transfer between reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**707**	**(707)**	**-**
Final dividend for 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(484)**	**(484)**
Lapsed share options	**-**	**-**	**(39)**	**-**	**-**	**-**	**-**	**-**	**39**	**-**
Issuance of convertible bonds	**-**	**-**	**-**	**-**	**-**	**226**	**-**	**-**	**-**	**226**
Acquisition of Kunlun Gas	**-**	**-**	**-**	**(18,951)**	**-**	**-**	**-**	**-**	**-**	**(18,951)**
Balances at 31 December 2016	**39,924**	**134**	**45**	**(28,627)**	**367**	**226**	**(3,027)**	**4,721**	**27,087**	**40,850**

28 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$'million	Convertible bond equity reserve HK$'million note (v)	Retained earnings HK$'million	Translation reserve HK$'million note (vi)	Total HK$'million
Balances at 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
Balances at 31 December 2015 and 1 January 2016	**39,924**	**134**	**84**	**–**	**17,168**	**(2,240)**	**55,070**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(837)**	**(3,073)**	**(3,910)**
Final dividend for 2015	**–**	**–**	**–**	**–**	**(484)**	**–**	**(484)**
Issuance of convertible bonds	**–**	**–**	**–**	**226**	**–**	**–**	**226**
Lapsed share options	**–**	**–**	**(39)**	**–**	**39**	**–**	**–**
Balances at 31 December 2016	**39,924**	**134**	**45**	**226**	**15,886**	**(5,313)**	**50,902**

28 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(b).

(v) The convertible bond equity reserve represents the equity component of the convertible bonds at initial recognition.

(vi) 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).

(vii) 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 2016, 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$16,020 million (2015: HK$17,302 million). After the end of the reporting period the directors proposed a final dividend of HK7.4 cents per ordinary share (2015: HK6 cents per share), amounting to HK$597 million (2015: HK$484 million) (Note 15). This dividend has not been recognised as a liability at the end of the reporting period.

29 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Accounts payable	**3,617**	3,151
Advances from customers	**8,040**	7,779
Salaries and welfare payable	**286**	484
Accrued expenses	**24**	33
Dividend payable	**3,653**	1,608
Interest payable	**230**	111
Construction fee and equipment cost payables	**10,989**	8,579
Amounts due to related parties		
– Non-controlling interests	**208**	221
– Others	**13**	2
Other payables	**2,992**	2,571
	30,052	24,539

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

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Within 3 months	**2,670**	2,268
Between 3 to 6 months	**502**	189
Over 6 months	**445**	694
	3,617	3,151

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.

30 BORROWINGS

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Short-term borrowings – unsecured	**10,859**	2,648
Current portion of long-term borrowings	**4,991**	5,428
	15,850	8,076
Long-term borrowings – secured	**188**	450
Long-term borrowings – unsecured	**22,718**	21,392
Less: Current portion of long-term borrowings	**(4,991)**	(5,428)
	17,915	16,414
	33,765	24,490

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

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Renminbi	**22,650**	15,029
US dollar	**8,612**	7,693
Hong Kong dollar	**2,396**	1,646
Japanese yen	**64**	78
Euro	**43**	44
	33,765	24,490

30 BORROWINGS (CONTINUED)

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Total borrowings:		
– At fixed rates	**30,913**	22,475
– At floating rates	**2,852**	2,015
	33,765	24,490
Weighted average effective interest rates:		
– Bank loans	**3.75%**	4.88%
– Loans from an immediate holding company	**4.19%**	4.16%
– Loans from an intermediate holding company	**2.77%**	4.41%
– Loans from CP Finance	**4.82%**	4.70%
– Loans from fellow subsidiaries	**3.58%**	4.15%
– Senior notes	**3.31%**	3.31%
– Debentures payable:		
– 14 Huayou Tian MTN001	**N/A**	5.63%
– 15 Huayou Tian CP001	**N/A**	3.96%

As at 31 December 2016, debentures amounting to HK$Nil (2015: HK$952 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.

As at 31 December 2016 and 2015, the borrowings of the Group were repayable as follows:

	Bank loans		Loans other than bank loans	
	2016 HK$'million	2015 HK$'million (restated) (Note 38)	**2016 HK$'million**	2015 HK$'million (restated) (Note 38)
Within one year	**4,105**	2,958	**11,745**	5,118
Between one to two years	**1,564**	1,088	**55**	1,804
Between two to five years	**1,797**	1,094	**9,642**	7,920
After five years	**1,017**	666	**3,840**	3,842
	8,483	5,806	**25,282**	18,684

30 BORROWINGS (CONTINUED)

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

	Bank loans		**Loans other than bank loans**	
	2016	2015	**2016**	2015
	HK$'million	HK$'million (restated) (Note 38)	**HK$'million**	HK$'million (restated) (Note 38)
Within one year	**4,413**	4,220	**12,336**	5,747
Between one to two years	**1,728**	1,209	**565**	2,272
Between two to five years	**1,985**	1,206	**10,463**	8,965
After five years	**1,218**	861	**4,348**	4,533
	9,344	7,496	**27,712**	21,517

31 CONVERTIBLE BONDS

	31 December 2016		
	Liability HK$'million	**Equity HK$'million**	**Total HK$'million**
Par value of convertible bonds issued during 2016	**3,695**	**228**	**3,923**
Transaction costs	**(33)**	**(2)**	**(35)**
Carrying amount on initial recognition	**3,662**	**226**	**3,888**
Accumulated interest expense accrued at effective interest rate of 4.03%	**64**	**–**	**64**
Accumulated interest paid (inclusive of arrangement fee)	**(28)**	**–**	**(28)**
Currency translation differences	**(147)**	**–**	**(147)**
Carrying amount as at 31 December 2016	**3,551**	**226**	**3,777**

31 CONVERTIBLE BONDS (CONTINUED)

On 13 July 2016, the Company entered into a subscription agreement, pursuant to which the Company agreed to issue convertible bonds due in 2019 (the "Convertible Bonds") with principal amount of RMB3,350 million to third parties. The Convertible Bonds are denominated in RMB bear interest of 1.625% and will be settled in United States dollars. The conversion price is HK$7.13 per share (translated into HKD at the fixed RMB to HKD exchange rate of 0.8625) and is subject to anti-dilutive adjustments. The issuance of Convertible Bonds was completed on 25 July 2016.

During the year ended 31 December 2016, there was no conversion of the convertible bonds into shares in the Company by the bondholders.

The following table details the Group's remaining contractual maturity for its financial liability. 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:

	2016
	HK$'million
Within one year	**61**
Between one to two years	**61**
Between two to five years	**3,832**
	3,954

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Tax payables in respect of subsidiaries in:		
– PRC	**597**	588
– Overseas	**–**	7
	597	595
Withholding tax on dividend distributed by the subsidiaries	**183**	31
	780	626

(b) Deferred tax assets and liabilities recognised:

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

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
At 1 January, as previously reported	**(355)**	(958)
Business combination under common control	**480**	485
At 1 January, as restated	**125**	(473)
Currency translation differences	**(12)**	(38)
Credited to the consolidated profit or loss (Note 13)	**55**	636
At 31 December	**168**	125
Representing:		
Deferred tax assets	**1,182**	1,165
Deferred tax liabilities	**(1,014)**	(1,040)
	168	125

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	Deferred income HK$'million	Others HK$'million	Total HK$'million
At 31 December 2014, as previously reported	(421)	(746)	–	209	(958)
Business combination under common control	–	–	253	232	485
At 1 January 2015, as restated	(421)	(746)	253	441	(473)
Currency translation differences	4	–	(15)	(27)	(38)
Credited to the consolidated profit or loss	72	456	28	80	636
At 31 December 2015, as restated	(345)	(290)	266	494	125
At 31 December 2015, as previously reported	**(345)**	**(290)**	**–**	**280**	**(355)**
Business combination under common control	**–**	**–**	**266**	**214**	**480**
At 1 January 2016, as restated	**(345)**	**(290)**	**266**	**494**	**125**
Currency translation differences	**19**	**16**	**(17)**	**(30)**	**(12)**
Credited/(charged) to the consolidated profit or loss	**21**	**(38)**	**57**	**15**	**55**
At 31 December 2016	**(305)**	**(312)**	**306**	**479**	**168**

33 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2016, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	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	**187**	**191**	208	212
After 1 year but within 2 years	**170**	**182**	188	202
After 2 years but within 5 years	**206**	**236**	378	443
After 5 years	**–**	**–**	–	–
	376	**418**	566	645
	563	**609**	774	857
Less: Total future interest expenses		**(46)**		(83)
Present value of lease obligations		**563**		774

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 2016 and 2015 under non-cancellable operating leases are as follows:

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Not later than one year	**283**	298
Later than one year and not later than five years	**567**	667
More than five years	**602**	621
	1,452	1,586

34 COMMITMENTS (CONTINUED)

(b) Capital commitments

	2016 **HK$'million**	2015 HK$'million (restated) (Note 38)
Contracted but not provided for:		
Oil field development costs	**–**	366
Acquisitions of/capital contributions to investments	**–**	17,681
Other property, plant and equipment	**7,665**	3,367
	7,665	21,414
Authorised but not contracted for:		
Oil field development costs	**587**	428
Acquisitions of/capital contributions to investments	**3,965**	720
Other property, plant and equipment	**14,489**	32,667
	19,041	33,815

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. The Xinjiang Contract expired on 31 August 2016.

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:

		2016	2015
		HK$'million	HK$'million
(i)	**Results for the year**		
	Income	**385**	789
	Expenses	**(815)**	(1,193)
(ii)	**Assets and liabilities**		
	Non-current assets	**–**	236
	Current assets	**–**	280
	Current liabilities	**–**	(86)
	Net assets	**–**	430
(iii)	**Capital commitments**		
	Contracted but not provided for	**–**	199

(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:

		2016 HK$'million	2015 HK$'million
(i)	**Results for the year**		
	Income	**652**	871
	Expenses	**(901)**	(2,598)
(ii)	**Assets and liabilities**		
	Non-current assets	**634**	779
	Current assets	**367**	407
	Current liabilities	**(150)**	(179)
	Non-current liabilities	**–**	–
	Net assets	**851**	1,007
(iii)	**Capital commitments**		
	Contracted but not provided for	**–**	167

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:

	2016 HK$'million	2015 HK$'million
(i) Results for the year		
Income	**161**	229
Expenses	**(185)**	(248)
(ii) Assets and liabilities		
Non-current assets	**62**	73
Current assets	**47**	20
Current liabilities	**(4)**	(6)
Net assets	**105**	87
(iii) Capital commitments		
Authorised but not contracted for	**10**	17

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$3,586 million (2015 restated: HK$4,742 million) for the year ended 31 December 2016 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK$706 million (2015 restated: HK$1,017 million).

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$1,049 million (2015 restated: HK$1,648 million) for the year ended 31 December2016.

- Rental payments by the Group for leasing of certain offices and warehouses in Hong Kong and the PRC from the CNPC Group amounted to approximately HK$11 million (2015 restated: HK$18 million) for the year ended 31 December 2016.

- 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$32,081 million (2015 restated: HK$33,710 million) for the year ended 31 December 2016.

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$11,655 million (2015 restated: HK$13,322 million) for the year ended 31 December 2016.

(ii) The Group has entered into agreements for the sales of natural gas with certain associates of the Group amounting to approximately HK$83 million (2015 restated: HK$138 million) for the year ended 31 December 2016.

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 2016 and 2015, amounts due from and to CNPC Group, associates and joint ventures of the Group, which are unsecured and interest free, except borrowings and obligations under finance leases, are included in the following accounts captions and summarised as follows:

	2016 HK$'million	2015 HK$'million (restated) (Note 38)
Intangible and other non-current assets	**1,588**	22
Accounts receivable	**559**	333
Accounts payable and accrued liabilities	**3,527**	2,518
Borrowings	**17,622**	10,931
Prepaid expenses and other current assets	**657**	4,943
Obligations under finance leases	**360**	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$6,004 million (2015: HK$5,239 million) for the year ended 31 December 2016. 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

	2016 **HK$'million**	2015 HK$'million
Salaries and allowances	**8**	16
Retirement benefits – defined contribution scheme	**1**	2
	9	18

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

During the year ended 31 December 2016, the Company has acquired the entire equity interest in Kunlun Gas owned by PetroChina pursuant to the terms and conditions of the acquisition agreement dated 28 December 2015 and entered into between the Company and PetroChina in respect of the acquisition.

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 PRC and other territories).

The Natural Gas Distribution segment is engaged in the sales and distribution 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 assess 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, general and administration expenses and interest 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 2016 and 2015 are as follows:

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	Natural Gas Sales and LNG Processing Sub-total	LNG Terminal	Natural Gas Pipeline	Sub-total			Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
For the year ended 31 December 2016												
Gross revenue	1,029	724	1,753	63,975	1,477	65,452	1,727	13,742	80,921	–	–	82,674
Less: Inter-company adjustment	–	–	–	(71)	(544)	(615)	(166)	(11)	(792)	–	–	(792)
Revenue from external customers	1,029	724	1,753	63,904	933	64,837	1,561	13,731	80,129	–	–	81,882
Segment results	(625)	50	(575)	2,915	(5,322)	(2,407)	704	9,461	7,758	(969)	–	6,214
Share of profits less losses of:												
– Associates	–	397	397	313	–	313	–	–	313	–	–	710
– Joint ventures	–	192	192	10	–	10	–	–	10	(11)	–	191
(Loss)/profit before income tax expense	(625)	639	14	3,238	(5,322)	(2,084)	704	9,461	8,081	(980)	–	7,115
Income tax expense												(3,701)
Profit for the year												3,414
Segment results included:												
– Interest income	31	3	34	507	4	511	1	41	553	426	(664)	349
– Depreciation, depletion and amortisation	(440)	(226)	(666)	(2,548)	(420)	(2,968)	(668)	(2,060)	(5,696)	(3)	–	(6,365)
– Impairment loss on property, plant and equipment	–	(55)	(55)	(25)	(4,522)	(4,547)	–	–	(4,547)	–	–	(4,602)
– Interest expenses	–	–	–	(205)	(374)	(579)	(12)	(51)	(642)	(707)	664	(685)
As at 31 December 2016												
Non-current assets	634	640	1,274	38,531	12,423	50,954	9,556	38,498	99,008	24	–	100,306
Current assets	1,046	497	1,543	23,025	937	23,962	782	3,058	27,802	2,776	–	32,121
Segment assets	1,680	1,137	2,817	61,556	13,360	74,916	10,338	41,556	126,810	2,800	–	132,427
Investments in associates	–	243	243	2,905	–	2,905	6	–	2,911	–	–	3,154
Investments in joint ventures	–	1,253	1,253	132	–	132	–	–	132	76	–	1,461
Sub-total	1,680	2,633	4,313	64,593	13,360	77,953	10,344	41,556	129,853	2,876	–	137,042
Available-for-sale financial assets												514
Deferred tax assets												1,182
Others												31
Total assets												138,769

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 (restated) (Note 38)	LNG Processing HK$'million	Natural Gas Sales and LNG Processing Sub-total HK$'million (restated) (Note 38)	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million (restated) (Note 38)	HK$'million	HK$'million	Total HK$'million (restated) (Note 38)
For the year ended 31 December 2015												
Gross revenue	1,648	931	2,579	77,410	2,070	79,480	1,490	14,043	95,013	–	–	97,592
Less: Inter-company adjustment	–	–	–	(313)	(867)	(1,180)	(65)	(12)	(1,257)	–	–	(1,257)
Revenue from external customers	1,648	931	2,579	77,097	1,203	78,300	1,425	14,031	93,756	–	–	96,335
Segment results	(2,045)	153	(1,892)	2,943	(868)	2,075	403	9,380	11,858	(565)	–	9,401
Share of profits less losses of:												
– Associates	–	(2,249)	(2,249)	160	–	160	1	–	161	–	–	(2,088)
– Joint ventures	–	262	262	15	–	15	–	–	15	(35)	–	242
(Loss)/profit before income tax expense	(2,045)	(1,834)	(3,879)	3,118	(868)	2,250	404	9,380	12,034	(600)	–	7,555
Income tax expense												(3,325)
Profit for the year												4,230
Segment results included:												
– Interest income	86	4	90	278	6	284	1	33	318	436	(445)	399
– Depreciation, depletion and amortisation	(718)	(148)	(866)	(2,722)	(272)	(2,994)	(689)	(2,138)	(5,821)	(3)	–	(6,690)
– Impairment loss on property, plant and equipment	(1,679)	–	(1,679)	(45)	–	(45)	–	–	(45)	–	–	(1,724)
– Interest expenses	–	(3)	(3)	(214)	(370)	(584)	(57)	(126)	(767)	(348)	445	(673)
As at 31 December 2015												
Non-current assets	1,015	810	1,825	40,892	16,446	57,338	10,585	34,842	102,765	27	–	104,617
Current assets	718	416	1,134	23,368	692	24,060	250	590	24,900	6,251	–	32,285
Segment assets	1,733	1,226	2,959	64,260	17,138	81,398	10,835	35,432	127,665	6,278	–	136,902
Investments in associates	–	–	–	2,807	–	2,807	7	–	2,814	–	–	2,814
Investments in joint ventures	–	1,062	1,062	220	–	220	–	–	220	89	–	1,371
Sub-total	1,733	2,288	4,021	67,287	17,138	84,425	10,842	35,432	130,699	6,367	–	141,087
Available-for-sale financial assets												870
Deferred tax assets												1,165
Others												64
Total assets												143,186

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 2016, revenue of approximately HK$12,787 million (2015 restated: HK$15,108 million) are derived from one (2015 restated: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

38 ACQUISITION

2016 business combination under common control

As mentioned in Note 2 to these consolidated financial statements, the acquisition of Kunlun Gas has been accounted for based on AG 5. Accordingly, the assets and liabilities of Kunlun Gas acquired by the Group have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the financial position and results of operation of Kunlun Gas on a combined basis. The details of the restated balances are as follows:

38 ACQUISITION (CONTINUED)

2016 business combination under common control (Continued)

The summarised results of operations for the year ended 31 December 2015 and the financial position as at 31 December 2015 are set out below:

	The Group HK$'million (as previously reported)	Kunlun Gas HK$'million	Inter-company eliminations HK$'million	The Group HK$'million (restated)
Results of operations for the year ended 31 December 2015				
Revenue	41,641	54,946	(252)	96,335
Other gains, net	391	303	–	694
Interest income	225	174	–	399
Purchases, services and others	(22,884)	(47,051)	252	(69,683)
Employee compensation costs	(2,029)	(2,710)	–	(4,739)
Depreciation, depletion and amortisation	(5,281)	(1,409)	–	(6,690)
Impairment loss on property, plant and equipment	(1,724)	–	–	(1,724)
Selling, general and administrative expenses	(2,545)	(1,276)	–	(3,821)
Taxes other than income taxes	(402)	(295)	–	(697)
Interest expenses	(577)	(96)	–	(673)
Share of profits less losses of:				
– Associates	(2,124)	36	–	(2,088)
– Joint ventures	236	6	–	242
Profit before income tax expense	4,927	2,628	–	7,555
Income tax expense	(2,607)	(718)	–	(3,325)
Profit for the year	2,320	1,910	–	4,230
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of:				
– Subsidiaries	(3,849)	(748)	–	(4,597)
– Associates	(310)	–	–	(310)
– Joint ventures	(18)	–	–	(18)
– Fair value gain on available-for-sale financial assets	768	–	–	768
Other comprehensive income net of nil tax	(3,409)	(748)	–	(4,157)
Total comprehensive income for the year	(1,089)	1,162	–	73

38 ACQUISITION (CONTINUED)

2016 business combination under common control (Continued)

	The Group HK$'million (as previously reported)	Kunlun Gas HK$'million	Inter-company eliminations HK$'million	The Group HK$'million (restated)
Results of operations for the year ended 31 December 2015 (Continued)				
Profit for the year attributable to:				
– Owners of the Company	137	1,354	–	1,491
– Non-controlling interests	2,183	556	–	2,739
	2,320	1,910	–	4,230
Total comprehensive income for the year attributable to:				
– Owners of the Company	(2,153)	470	–	(1,683)
– Non-controlling interests	1,064	692	–	1,756
	(1,089)	1,162	–	73
Earnings per share for profit attributable to owners of the Company				
– Basic (HK cents)	1.70	16.80	–	18.50
– Diluted (HK cents)	1.70	16.80	–	18.50
Financial position as at 31 December 2015				
Non-current assets				
Property, plant and equipment	80,390	18,488	–	98,878
Advanced operating lease payments	3,205	994	–	4,199
Investments in associates	2,266	548	–	2,814
Investments in joint ventures	1,321	50	–	1,371
Available-for-sale financial assets	812	58	–	870
Intangibles and other non-current assets	1,045	495	–	1,540
Deferred tax assets	586	579	–	1,165
	89,625	21,212	–	110,837
Current assets				
Inventories	916	602	–	1,518
Accounts receivable	1,837	1,443	–	3,280
Prepaid expenses and other current assets	3,932	6,474	–	10,406
Cash and cash equivalents	11,771	5,374	–	17,145
	18,456	13,893	–	32,349
Total assets	108,081	35,105	–	143,186

38 ACQUISITION (CONTINUED)

2016 business combination under common control (Continued)

	The Group HK$'million (as previously reported)	Kunlun Gas HK$'million	Inter-company eliminations HK$'million	The Group HK$'million (restated)
Financial position as at 31 December 2015 (Continued)				
Equity				
Capital and reserves attributable to owners of the Company				
Share capital	81	10,666	(10,666)	81
Retained earnings	25,680	1,900	–	27,580
Other reserves	23,362	72	10,666	34,100
	49,123	12,638	–	61,761
Non-controlling interests	21,201	5,657	–	26,858
Total equity	70,324	18,295	–	88,619
Current liabilities				
Accounts payable and accrued liabilities	11,479	13,060	–	24,539
Income tax payable	582	44	–	626
Other tax payable	248	643	–	891
Short-term borrowings	7,721	355	–	8,076
Obligations under finance leases	208	–	–	208
	20,238	14,102	–	34,340
Non-current liabilities				
Long-term borrowings	15,418	996	–	16,414
Deferred tax liabilities	941	99	–	1,040
Obligations under finance leases	566	–	–	566
Other liabilities	594	1,613	–	2,207
	17,519	2,708	–	20,227
Total liabilities	37,757	16,810	–	54,567
Total equity and liabilities	108,081	35,105	–	143,186
Net current liabilities	(1,782)	(209)	–	(1,991)
Total assets less current liabilities	87,843	21,003	–	108,846

38 ACQUISITION (CONTINUED)

2016 business combination under common control (Continued)

	The Group HK$'million (as previously reported)	Kunlun Gas HK$'million	Inter-company eliminations HK$'million	The Group HK$'million (restated)
Cash flows for the year ended 31 December 2015				
Net cash generated from operating activities	13,370	3,365	–	16,735
Net cash used in investing activities	(4,719)	(2,698)	–	(7,417)
Net cash generated from financing activities	(6,801)	(111)	–	(6,912)
Net increase/(decrease) in cash and cash equivalents	**1,850**	**556**	**–**	**2,406**
Cash and cash equivalents at 1 January 2015	**10,729**	**5,211**	**–**	**15,940**
Effect of foreign exchange rate changes	**(808)**	**(393)**	**–**	**(1,201)**
Cash and cash equivalents at 31 December 2015	**11,771**	**5,374**	**–**	**17,145**

39 COMPARATIVE FIGURES

As a result of the application of AG 5, certain comparative figures have been restated. Further details are disclosed in Notes 2 and 38.

40 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 28 March 2017 and will be submitted to the shareholders for approval at the 2017 Annual General Meeting to be held on 2 June 2017 (Friday).

41 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2016, 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))
Exploration, production and sales of crude oil in Kazakhstan				
CNPC International (Caspian) Limited	BVI	US$100	Limited liability company	60.00%

41 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				
PetroChina Kunlun Gas Co., Ltd.	PRC	RMB10,666 million	Limited liability company	100.00% (note (i))
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))

41 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 30, no other subsidiaries had any debt securities at 31 December 2016 or at any time during the year.

42 PRINCIPAL ASSOCIATES

At 31 December 2016 and 2015, 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.

43 PRINCIPAL JOINT VENTURES

As at 31 December 2016 and 2015, 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	BVI	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.

44 COMPANY - LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'million	2015 HK$'million
Assets			
Non-current assets			
Property, plant and equipment		**–**	1
Investments in associates		**1,047**	1,110
Investments in joint ventures		**93**	96
Investments in subsidiaries		**59,320**	46,845
Intangible and other non-current assets		**451**	478
		60,911	48,530
Current assets			
Prepaid expenses and other current assets		**13,443**	11,592
Cash and cash equivalents		**1,208**	4,662
		14,651	16,254
Total assets		**75,562**	64,784
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*27*	**81**	81
Retained earnings	*28*	**15,886**	17,168
Other reserves	*28*	**35,016**	37,902
		50,983	55,151
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**1,311**	292
Short-term borrowings		**8,961**	–
Income tax payable		**11**	3
		10,283	295
Non-current liabilities			
Long-term borrowings		**10,745**	9,338
Convertible bonds	*31*	**3,551**	–
		14,296	9,338
Total liabilities		**24,579**	9,633
Total equity and liabilities		**75,562**	64,784
Net current assets		**4,368**	15,959
Total assets less current liabilities		**65,279**	64,489

45 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 26 January 2017, the Company has made an application (the "Application") with the National Association of Financial Market Institution Investors of the PRC (the "NAFMII") for the registration of medium-term notes in the principal amount of not more than RMB10 billion (the "Mid-Term Notes") and the first tranche of the Mid-term Notes in the principal amount of not more than RMB6.5 billion in the PRC. The Company proposes to issue the Mid-Term Notes to the institutional investors in the inter-bank bond market in the PRC in several tranches at appropriate timing. As at the date of this report, the Application has not been approved by the NAFMII.

46 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, 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.

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 9, *Financial instruments* (continued)

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in Note 3(h). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 9, *Financial instruments* (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 3(r). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 15, *Revenue from contracts with customers* (continued)

(a) Timing of revenue recognition (continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's construction contract activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on construction contracts recognised.

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

HKFRS 16, *Leases*

As disclosed in note 3(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 34(a), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$1,452 million for leasing of land and buildings and equipment, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

Results	2016 HK$'million	2015 HK$'million (restated) (note 1)	2015 HK$'million (unrestated) (note 2)	2014 HK$'million (unrestated) (note 2)	2013 HK$'million (unrestated) (note 2)	2012 HK$'million (unrestated) (note 2)
	Year ended 31 December					
Revenue	**81,882**	96,335	41,641	48,044	43,430	32,953
Profit before income tax expense	**7,115**	7,555	4,927	11,956	14,353	13,306
Income tax expense	**(3,701)**	(3,325)	(2,607)	(3,080)	(3,845)	(3,392)
Profit for the year	**3,414**	4,230	2,320	8,876	10,508	9,914
Non-controlling interests	**(2,755)**	(2,739)	(2,183)	(3,266)	(3,657)	(3,396)
Profit attributable to owners of the Company	**659**	1,491	137	5,610	6,851	6,518
Earnings per share						
– Basic (HK cent)	**8.16**	18.50	1.70	69.52	85.01	83.54
– Diluted (HK cent)	**8.16**	18.50	1.70	69.49	84.83	83.13

Assets and liabilities	2016 HK$'million	2015 HK$'million (restated) (note 1)	2015 HK$'million (unrestated) (note 2)	2014 HK$'million (unrestated) (note 2)	2013 HK$'million (unrestated) (note 2)	2012 HK$'million (unrestated) (note 2)
	As at 31 December					
Total assets	**138,769**	143,186	108,081	117,710	119,462	108,542
Total liabilities	**(72,466)**	(54,567)	(37,757)	(43,396)	(47,194)	(46,364)
Total equity	**66,303**	88,619	70,324	74,314	72,268	62,178

Notes:

(1) Due to business combinations under common control completed in 2016, the financial information of the Group has been restated to include the financial position and results of operation of Kunlun Gas on a combined basis.

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

Reserve Quantities Information

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 2014, 2015 and 2016. The tables are formulated on the basis of reports prepared by DeGolyer and MacNaughton and Ryder Scott Company, independent engineering consultancy companies.

Proved developed reserves (Estimation)

CRUDE OIL:

	PRC (million barrels)	**Others** (million barrels)	**Total** (million barrels)
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
2016 Revision	**(10.8)**	**9.3**	**(1.5)**
2016 Production	**(4.3)**	**(11.3)**	**(15.6)**
Reserve as at 31 December 2016	**6.1**	**46.3**	**52.4**

NATURAL GAS

	PRC (million cu feet)	Others (million cu feet)	Total (million cu feet)
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
2016 Revision	**0.0**	**66,155.8**	**66,155.8**
2016 Production	**0.0**	**(31,291.0)**	**(31,291.0)**
Reserve as at 31 December 2016	**0.0**	**217,470.2**	**217,470.2**

Reserve Quantities Information

Proved reserves (Estimation)

CRUDE OIL

	PRC (million barrels)	**Others** (million barrels)	**Total** (million barrels)
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
2016 Revision	**(10.8)**	**10.4**	**(0.4)**
2016 Production	**(4.3)**	**(11.3)**	**(15.6)**
Reserve as at 31 December 2016	**6.1**	**62.2**	**68.3**

NATURAL GAS

	PRC (million cu feet)	**Others** (million cu feet)	**Total** (million cu feet)
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
2016 Revision	**0.0**	**63,508.0**	**63,508.0**
2016 Production	**0.0**	**(31,291.0)**	**(31,291.0)**
Reserve as at 31 December 2016	**0.0**	**242,124.5**	**242,124.5**

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 2016			
Gross revenue	**1,029**	**724**	**1,753**
Less: Inter-company adjustment	**–**	**–**	**–**
Revenue from external customers	**1,029**	**724**	**1,753**
Segment results	**(625)**	**50**	**(575)**
Share of profits less losses of:			
– Associates	**–**	**397**	**397**
– Joint ventures	**–**	**192**	**192**
Profit before income tax expense	**(625)**	**639**	**14**
Income tax expense			
Profit for the year			
Segment results included:			
– Interest income	**31**	**3**	**34**
– Depreciation, depletion and amortisation	**(440)**	**(226)**	**(666)**
– Impairment loss on property, plant and equipment	**–**	**(55)**	**(55)**
– Interest expenses	**–**	**–**	**–**
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)

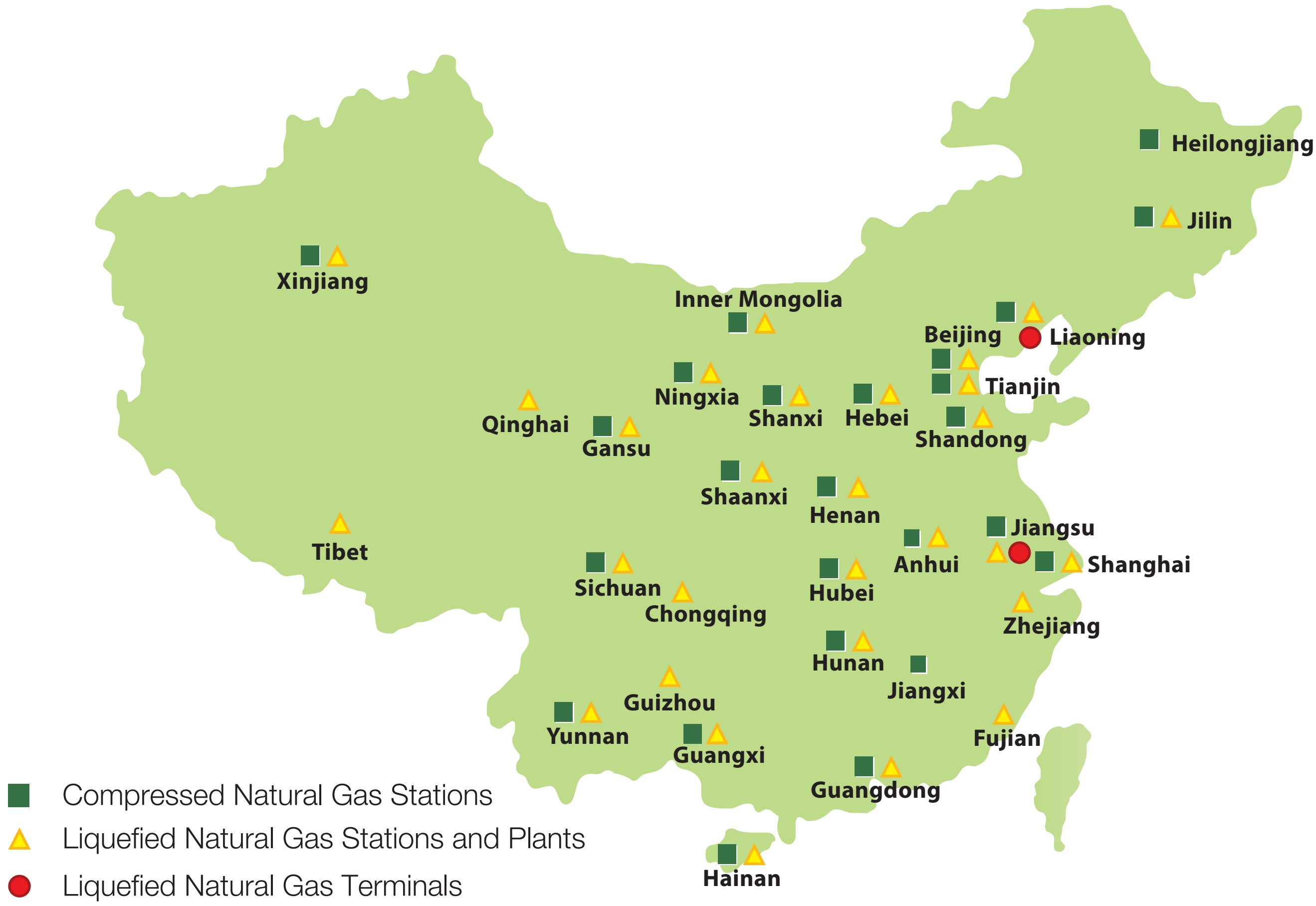
Reserve Quantities Information

Costs Incurred for Property Acquisitions, Exploration and Production:

Costs Incurred for Property Acquisitions, Exploration and Development Activities

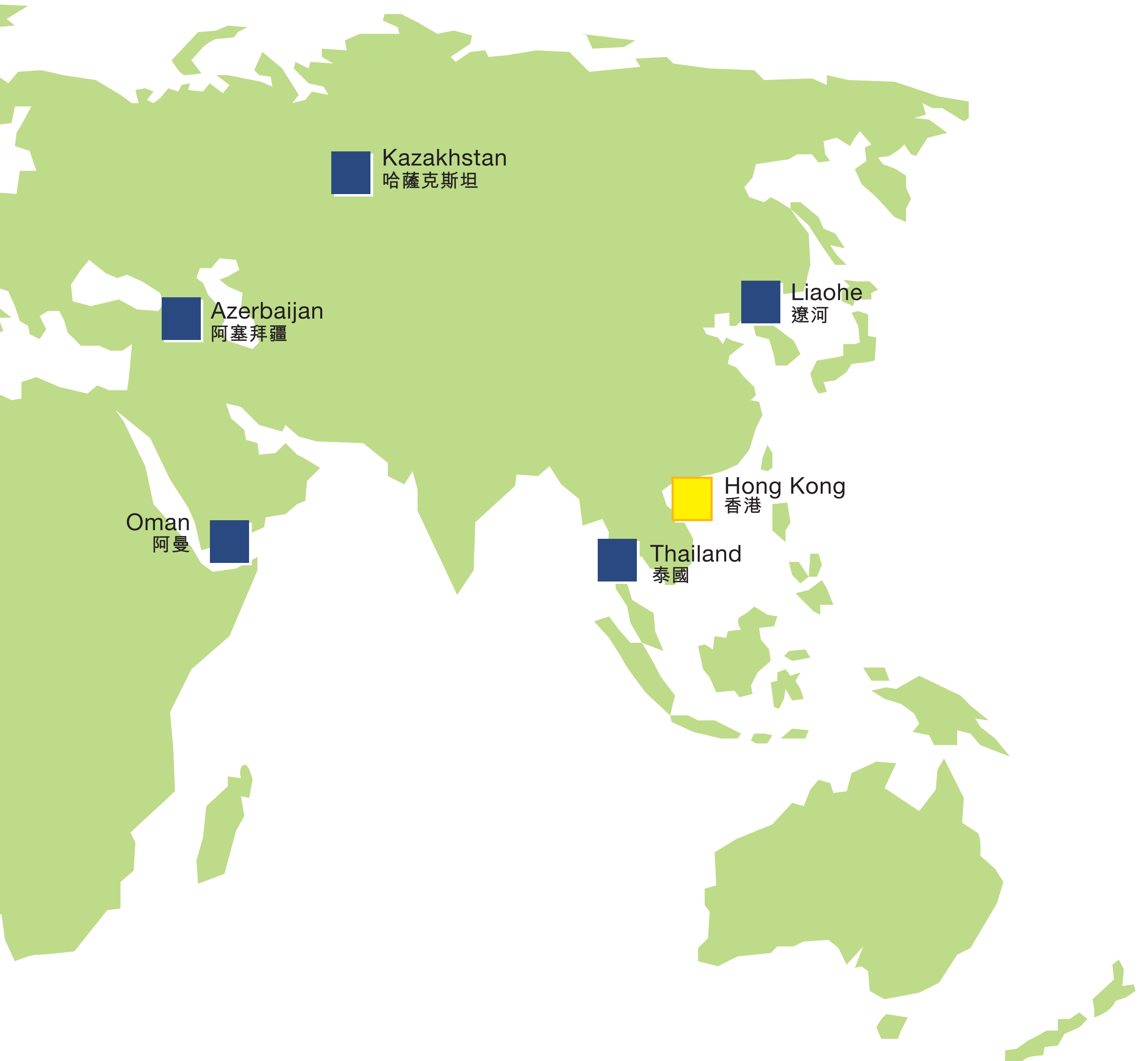
	2016 HK$'million	2015 HK$'million
The Group		
Property acquisition costs	**–**	–
Exploration costs	**–**	–
Development cost	**198**	512
Total	**198**	512
Equity method investments		
Share of costs of property acquisition, exploration and development of associates and joint ventures	**579**	435

Locations of Natural Gas Distribution Activities in PRC



Province	CNG station and LNG station in operation	LNG Plant in operation	LNG Terminal in operation	Total
1. Xinjiang	214	2	–	216
2. Hebei	155	1	–	156
3. Shandong	160	1	–	161
4. Henan	54	–	–	54
5. Shanxi	39	–	–	39
6. Sichuan	58	1	–	59
7. Inner Mongolia	40	2	–	42
8. Jiangsu	78	–	1	79
9. Liaoning	51	1	1	53
10. Shaanxi	35	1	–	36
11. Tianjin	35	1	–	36
12. Hubei	58	–	–	58
13. Ningxia	38	–	–	38
14. Guangdong	31	–	–	31
15. Hainan	24	1	–	25
16. Guizhou	20	–	–	20
17. Fujian	11	–	–	11
18. Yunnan	17	–	–	17
19. Chongqing	10	–	–	10
20. Zhejiang	8	–	–	8
21. Gansu	21	–	–	21
22. Qinghai	5	1	–	6
23. Beijing	3	–	–	3
24. Jilin	7	–	–	7
25. Shanghai	3	–	–	3
26. Anhui	12	–	–	12
27. Hunan	9	–	–	9
28. Guangxi	3	–	–	3
29. Tibet	2	–	–	2
30. Heilongjiang	17	–	–	17
31. Jiangxi	2	–	–	2
	1,220	12	2	1,234

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
Azerbaijan
阿塞拜疆
Liaohe
遼河
Hong Kong
香港
Oman
阿曼
Thailand
泰國