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**KUNLUN ENERGY COMPANY LIMITED**  
(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

## ANNOUNCEMENT OF RESULTS

### HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Six months ended 30 June			
	2017 <i>RMB million</i>	2016 <i>RMB million</i> (restated)	Change <i>RMB million</i>	%
Revenue	<b>40,078</b>	33,659	6,419	19.07
Profit before income tax expense	<b>6,045</b>	5,325	720	13.52
Profit attributable to the owners of the Company	<b>2,419</b>	2,409	10	0.42
Adjusted EBITDA ( <i>note</i> )	<b>9,495</b>	8,037	1,458	18.14
	<i>RMB cent</i>	<i>RMB cent</i>	<i>RMB cent</i>	%
Earnings per share (Basic)	<b>29.97</b>	29.84	0.13	0.44
Earnings per share (Diluted)	<b>28.52</b>	29.84	(1.32)	(4.42)
Dividend per share – Interim	<b>NIL</b>	NIL	N/A	N/A
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	%
Profit/(loss) attributable to the owners of the Company (by segment)				
– Exploration and Production	<b>161</b>	(188)	349	(185.64)
– Natural Gas Sales (including LNG Processing)	<b>180</b>	833	(653)	(78.39)
– LNG Terminal	<b>313</b>	94	219	232.98
– Natural Gas Pipeline	<b>1,913</b>	1,755	158	9.00
Adjusted EBITDA (by segment)				
– Exploration and Production	<b>568</b>	190	378	198.95
– Natural Gas Sales (including LNG Processing)	<b>2,428</b>	2,511	(83)	(3.31)
– LNG Terminal	<b>983</b>	455	528	116.04
– Natural Gas Pipeline	<b>5,359</b>	4,938	421	8.53

*Note:* Adjusted EBITDA is defined as profit before income tax expense, excluding impairment loss on property, plant and equipment and accounts receivable, interest and depreciation, depletion and amortisation.

**HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP**  
**(EXCLUDING EFFECT OF IMPAIRMENT LOSS ON PROPERTY,  
PLANT AND EQUIPMENT AND ACCOUNTS RECEIVABLE)**

	Six months ended 30 June		Change %
	2017 <i>RMB million</i>	2016 <i>RMB million</i> (restated)	
Revenue	<b>40,078</b>	33,659	19.07
Core profit before income tax expense	<b>6,474</b>	5,325	21.58
Core profit attributable to the owners of the Company	<b>2,744</b>	2,409	13.91
	<i>RMB cent</i>	<i>RMB cent</i>	
Core earnings per share (Basic)	<b>33.99</b>	29.84	13.91
Core earnings per share (Diluted)	<b>32.29</b>	29.84	8.21
Dividend per share – Interim	<b>NIL</b>	NIL	N/A
	<i>RMB million</i>	<i>RMB million</i>	
Core profit/(loss) attributable to the owners of the Company (by segment)			
– Exploration and Production	<b>161</b>	(188)	(185.64)
– Natural Gas Sales (including LNG Processing)	<b>505</b>	833	(39.38)
– LNG Terminal	<b>313</b>	94	232.98
– Natural Gas Pipeline	<b>1,913</b>	1,755	9.00

*Note:*

Core profit before income tax expense is defined as profit before income tax expense excluding impairment loss on property, plant and equipment and accounts receivable.

Core profit attributable to the owners of the Company is defined as profit attributable to the owners of the Company excluding impairment loss on property, plant and equipment and accounts receivable attributable to the owners of the Company and its related tax effect.

Core earnings per share (Basic) is calculated based on the core profit attributable to owners of the Company and weighted average number of ordinary shares in issue during the year.

Core earnings per share (Diluted) is calculated based on the core profit attributable to owners of the Company and weighted average number of ordinary shares after adjusting for the effect of convertible bonds.

The Directors of Kunlun Energy Company Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2017 are as follows:

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 RMB million	2016 RMB million (restated)
Revenue	3	40,078	33,659
Other gains, net		563	493
Interest income		125	208
Purchases, services and others		(28,271)	(23,148)
Employee compensation costs		(1,839)	(1,783)
Depreciation, depletion and amortisation		(2,665)	(2,725)
Impairment loss on property, plant and equipment		(100)	—
Selling, general and administrative expenses		(1,664)	(1,182)
Taxes other than income taxes		(215)	(260)
Interest expenses	4	(481)	(195)
Share of profits less losses of:			
– Associates		402	185
– Joint ventures		112	73
<b>Profit before income tax expense</b>	5	<b>6,045</b>	5,325
Income tax expense	6	(1,878)	(1,374)
<b>Profit for the period</b>		<b>4,167</b>	3,951
<b>Other comprehensive income:</b>			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		21	(31)
– Associates		5	(21)
– Joint ventures		(17)	11
– Fair value loss on available-for-sale financial assets		(44)	(230)
<b>Other comprehensive income for the period, net of nil tax</b>		<b>(35)</b>	(271)
<b>Total comprehensive income for the period</b>		<b>4,132</b>	3,680

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**

*For the six months ended 30 June 2017*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2017</b>	2016
		<b><i>RMB million</i></b>	<i>RMB million</i> (restated)
<b>Profit for the period attributable to:</b>			
– Owners of the Company		<b>2,419</b>	2,409
– Non-controlling interests		<b>1,748</b>	1,542
		<hr/> <b>4,167</b> <hr/>	<hr/> 3,951 <hr/>
<b>Total comprehensive income for the period attributable to:</b>			
– Owners of the Company		<b>2,397</b>	2,200
– Non-controlling interests		<b>1,735</b>	1,480
		<hr/> <b>4,132</b> <hr/>	<hr/> 3,680 <hr/>
<b>Earnings per share for profit attributable to owners of the Company</b>			
	7		
– Basic (RMB cent)		<b>29.97</b>	29.84
– Diluted (RMB cent)		<b>28.52</b>	29.84
		<hr/> <b>28.52</b> <hr/>	<hr/> 29.84 <hr/>

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

*As at 30 June 2017*

	<i>Note</i>	<b>30 June 2017 RMB million</b>	31 December 2016 RMB million (restated)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		86,365	83,077
Advanced operating lease payments		3,577	3,637
Investments in associates		3,082	2,803
Investments in joint ventures		1,219	1,285
Available-for-sale financial assets		407	457
Intangible and other non-current assets		1,301	2,422
Deferred tax assets		1,204	1,050
		97,155	94,731
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<b>Current assets</b>			
Inventories		1,431	1,242
Accounts receivable	9	3,109	2,767
Prepaid expenses and other current assets		5,778	5,398
Cash and cash equivalents		16,772	19,163
		27,090	28,570
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<b>Total assets</b>		<b>124,245</b>	<b>123,301</b>
<b>Equity</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		65	65
Retained earnings		23,506	21,680
Other reserves		14,628	14,579
		38,199	36,324
<b>Non-controlling interests</b>		<b>24,232</b>	<b>22,576</b>
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<b>Total equity</b>		<b>62,431</b>	<b>58,900</b>
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**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

*As at 30 June 2017*

	<i>Note</i>	<b>30 June 2017 RMB million</b>	31 December 2016 RMB million (restated)
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	<i>10</i>	<b>23,655</b>	26,704
Income tax payable		<b>293</b>	693
Other tax payable		<b>300</b>	654
Short-term borrowings		<b>8,547</b>	14,085
Obligations under finance leases		<b>163</b>	166
		<b>32,958</b>	42,302
<b>Non-current liabilities</b>			
Long-term borrowings		<b>22,585</b>	15,920
Convertible bonds		<b>3,192</b>	3,156
Deferred tax liabilities		<b>1,223</b>	907
Obligations under finance leases		<b>263</b>	334
Other liabilities		<b>1,593</b>	1,782
		<b>28,856</b>	22,099
<b>Total liabilities</b>		<b>61,814</b>	64,401
<b>Total equity and liabilities</b>		<b>124,245</b>	123,301
<b>Net current liabilities</b>		<b>(5,868)</b>	(13,732)
<b>Total assets less current liabilities</b>		<b>91,287</b>	80,999

# NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated interim financial information set out in this announcement does not constitute the unaudited interim financial report of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) for the six months ended 30 June 2017 but is extracted from that unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 22 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out below.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

On 28 December 2015, the Group entered into the acquisition agreement with PetroChina Company Limited (“PetroChina”) (“Agreement”), pursuant to which, the Group has agreed to purchase, and PetroChina has agreed to sell, the entire equity interest in PetroChina Kunlun Gas Co., Ltd. (“Kunlun Gas”) at a cash consideration of approximately RMB14,827 million, 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 China National Petroleum Corporation, 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* 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 final consideration of RMB15,612 million payable by the Group has been treated as an equity transaction.

## **Changes in accounting policies**

### *(a) Change in presentation currency*

The previous interim financial report of the Group have been presented in Hong Kong dollars (“HK\$”). Having considered that most of the Group’s transactions are denominated and settled in Renminbi (“RMB”) following the Company’s acquisition of Kunlun Gas in 2016, the Board of Directors considers that the change of presentation currency from HK\$ to RMB in the interim financial report enables the shareholders of the Company to have a more accurate picture of the Group’s financial performance.

The change in presentation currency have been applied retrospectively. The comparative figures in the interim financial report were then translated from HK\$ to RMB using the applicable closing rates for assets and liabilities in the interim condensed consolidated statement of financial position and applicable average rates that approximated to actual rates for items in the interim condensed consolidated statement of comprehensive income. Share capital, share premium and reserves were translated at the exchange rate at the date when the respective amounts were determined (i.e. historical exchange rates).

### *(b) New and amended standards adopted by the Group*

The HKICPA has issued several amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the interim financial report.

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

## **2 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 People's Republic of China (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 centralised basis ("segment assets").

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, net exchange gains/losses and general and administrative expenses and interest expenses incurred at corporate level.

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

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2017 and 2016 are as follows:

	Exploration and Production				Natural Gas Distribution				Corporate	Inter-company adjustment	Total		
	PRC		Others		Natural Gas Sales and LNG Processing		LNG Terminal					Sub-total	RMB million
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million					
<b>For the six months ended</b>													
<b>30 June 2017</b>													
Gross revenue	385	349	734	32,325	1,032	33,357	1,097	6,196	40,650	—	41,384		
Less: Inter-company adjustment	—	—	—	(481)	(682)	(1,163)	(138)	(5)	(1,306)	—	(1,306)		
Revenue from external customers	385	349	734	31,844	350	32,194	959	6,191	39,344	—	40,078		
Segment results	(51)	76	25	906	(400)	506	672	4,452	5,630	(124)	5,531		
Share of profits less losses of:													
– Associates	—	267	267	135	—	135	—	—	135	—	402		
– Joint ventures	—	124	124	(12)	—	(12)	—	—	(12)	—	112		
Profit before income tax expense	(51)	467	416	1,029	(400)	629	672	4,452	5,753	(124)	6,045		
Income tax expense	—	—	—	—	—	—	—	—	—	—	(1,878)		
Profit for the period	—	—	—	—	—	—	—	—	—	—	4,167		
<b>Segment results included:</b>													
– Interest income	1	2	3	131	1	132	1	8	141	174	125		
– Depreciation, depletion and amortisation	(107)	(48)	(155)	(1,094)	(212)	(1,306)	(309)	(894)	(2,509)	(1)	(2,665)		
– Impairment loss on property, plant and equipment	—	—	—	—	(100)	(100)	—	—	(100)	—	(100)		
– Interest expenses	—	—	—	(76)	(120)	(196)	(3)	(21)	(220)	(454)	(481)		
<b>As at 30 June 2017</b>													
Non-current assets	456	520	976	34,821	10,050	44,871	8,238	37,138	90,247	20	91,243		
Current assets	622	651	1,273	17,937	1,335	19,272	1,224	1,545	22,041	3,645	26,959		
Segment assets	1,078	1,171	2,249	52,758	11,385	64,143	9,462	38,683	112,288	3,665	118,202		
Investments in associates	—	328	328	2,749	—	2,749	5	—	2,754	—	3,082		
Investments in joint ventures	—	1,062	1,062	104	—	104	—	—	104	53	1,219		
Sub-total	1,078	2,561	3,639	55,611	11,385	66,996	9,467	38,683	115,146	3,718	122,503		
Available-for-sale financial assets	—	—	—	—	—	—	—	—	—	—	407		
Deferred tax assets	—	—	—	—	—	—	—	—	—	—	1,204		
Others	—	—	—	—	—	—	—	—	—	—	131		
Total assets	—	—	—	—	—	—	—	—	—	—	124,245		

	Exploration and Production		Natural Gas Distribution					Corporate		Inter-company adjustment	
	PRC RMB million	Others RMB million	Sub-total RMB million	Natural Gas Sales		LNG Terminal RMB million	Natural Gas Pipeline RMB million	Sub-total RMB million	RMB million	RMB million	RMB million
				Natural Gas Sales RMB million	and LNG Processing Sub-total RMB million						
<b>For the six months ended</b>											
<b>30 June 2016, as restated</b>											
Gross revenue	452	272	724	26,506	426	576	5,713	33,221	—	—	33,945
Less: Inter-company adjustment	—	—	—	(47)	(198)	(36)	(5)	(286)	—	—	(286)
Revenue from external customers	452	272	724	26,459	228	540	5,708	32,935	—	—	33,659
Segment results	(216)	(29)	(245)	1,429	(286)	180	4,062	5,385	(73)	—	5,067
Share of profits less losses of:											
– Associates	—	21	21	164	—	—	—	164	—	—	185
– Joint ventures	—	73	73	2	—	—	—	2	(2)	—	73
Profit before income tax expense	(216)	65	(151)	1,595	(286)	180	4,062	5,551	(75)	—	5,325
Income tax expense	—	—	—	—	—	—	—	—	—	—	(1,374)
Profit for the period	—	—	—	—	—	—	—	—	—	—	3,951
Segment results included:											
– Interest income	21	1	22	155	1	1	12	169	186	(169)	208
– Depreciation, depletion and amortisation	(208)	(155)	(363)	(1,065)	(157)	(276)	(863)	(2,361)	(1)	—	(2,725)
– Interest expenses	—	—	—	(15)	(121)	—	(25)	(161)	(203)	169	(195)
<b>As at 31 December 2016, as restated</b>											
Non-current assets	564	569	1,133	34,242	11,039	8,492	34,209	87,982	21	—	89,136
Current assets	929	443	1,372	20,459	832	695	2,718	24,704	2,468	—	28,544
Segment assets	1,493	1,012	2,505	54,701	11,871	9,187	36,927	112,686	2,489	—	117,680
Investments in associates	—	216	216	2,582	—	5	—	2,587	—	—	2,803
Investments in joint ventures	—	1,114	1,114	117	—	—	—	117	54	—	1,285
Sub-total	1,493	2,342	3,835	57,400	11,871	9,192	36,927	115,390	2,543	—	121,768
Available-for-sale financial assets	—	—	—	—	—	—	—	—	—	—	457
Deferred tax assets	—	—	—	—	—	—	—	—	—	—	1,050
Others	—	—	—	—	—	—	—	—	—	—	26
Total assets	—	—	—	—	—	—	—	—	—	—	123,301

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

For the six months ended 30 June 2017, revenue of approximately RMB6,195 million (six months ended 30 June 2016 restated: RMB5,283 million) is derived from one (six months ended 30 June 2016: 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.

### 3 REVENUE

Revenue mainly represents 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 2.

### 4 INTEREST EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<i><b>RMB million</b></i>	<i>RMB million</i> (restated)
Interest expenses	773	514
Less: Amounts capitalised	<u>(292)</u>	<u>(319)</u>
Total interest expenses	<u><b>481</b></u>	<u>195</u>

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 4.08% (six months ended 30 June 2016: 4.05%) per annum for the six months ended 30 June 2017.

### 5 PROFIT BEFORE INCOME TAX EXPENSE

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<i><b>RMB million</b></i>	<i>RMB million</i> (restated)
Amortisation of advanced operating lease payments and intangible assets	77	75
Cost of inventories recognised as expense	<b>28,510</b>	23,547
Operating lease expenses	<b>210</b>	219
Impairment loss on accounts receivable	<u><b>329</b></u>	<u>–</u>

## 6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i> (restated)
<b>Current tax</b>		
– PRC	1,660	1,486
– Overseas	47	8
	<hr/>	<hr/>
	1,707	1,494
<b>Deferred tax</b>	171	(120)
	<hr/>	<hr/>
	1,878	1,374
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in the PRC is principally 25% (six months ended 30 June 2016: 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% (six months ended 30 June 2016: 15% to 20%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2017 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

## 7 BASIC AND DILUTED EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately RMB2,419 million (six months ended 30 June 2016 restated: RMB2,409 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2017 of approximately 8,072 million shares (six months ended 30 June 2016: 8,072 million shares).
- (b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately RMB2,459 million (six months ended 30 June 2016 restated: RMB2,409 million) and the weighted average number of ordinary shares of approximately 8,623 million shares (six months ended 30 June 2016: 8,072 million shares) after adjusting for the effect of convertible bonds, calculated as follows:

(i) Profit attributable to owners of the Company (diluted)

	Six months ended 30 June	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i> (restated)
Profit attributable to owners of the Company	2,419	2,409
After tax effect of effective interest on the liability component of convertible bonds	40	—
Profit attributable to owners of the Company (diluted)	<u>2,459</u>	<u>2,409</u>

(ii) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i> (restated)
Weighted average number of ordinary shares at 30 June	8,072	8,072
Effect of conversion of convertible bonds	551	—
Weighted average number of ordinary shares (diluted) at 30 June	<u>8,623</u>	<u>8,072</u>

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2017 and 2016.

## 8 DIVIDENDS

- (a) 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 (approximately RMB407 million) was 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.
- (b) 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 (approximately RMB522 million) was approved by the shareholders in the Annual General Meeting on 2 June 2017. The amount is based on approximately 8,072 million shares in issue as at 28 March 2017 which was paid on 30 June 2017.
- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

## 9 ACCOUNTS RECEIVABLE

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	<b>30 June 2017 <i>RMB million</i></b>	31 December 2016 <i>RMB million</i> (restated)
Within 3 months	2,045	1,771
Between 3 to 6 months	561	191
Over 6 months	503	805
	<hr/> <b>3,109</b> <hr/>	<hr/> 2,767 <hr/>

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 30 June 2017, accounts receivable aged over three months of approximately RMB1,064 million (31 December 2016 restated: RMB996 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.

## 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 30 June 2017, included in the balance is accounts payable of HK\$3,427 million (31 December 2016 restated: HK\$3,214 million).

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

	<b>30 June 2017 <i>RMB million</i></b>	31 December 2016 <i>RMB million</i> (restated)
Within 3 months	1,951	2,373
Between 3 to 6 months	938	446
Over 6 months	538	395
	<hr/> <b>3,427</b> <hr/>	<hr/> 3,214 <hr/>

## **BUSINESS REVIEW**

I am pleased to report the results of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) for the six months ended 30 June 2017 (the “Period”) to the shareholders on behalf of the Board.

During the Period, macro-economy continued to improve. With the effective implementation of China’s air pollution control action plan and the supply of heat (natural gas as fuel) in northern China, the continued growth in LNG vehicle market and the increased demand for natural gas for use in power generation, chemicals and industrial fuels, the natural gas consumption increased significantly. The Group continued to improve and optimise the business structure and assets structure. As a result, the natural gas pipeline transmission volume recorded steady growth, and LNG gasification and entrucking significantly increased. City gas business showed a strong growth momentum, and LPG sales business accelerated transformation and upgrading. The Group’s operating results met the expectations and maintained a stable development momentum.

During the Period, the Group realised revenue of RMB40,078 million, representing an increase of 19.07% compared with RMB33,659 million (restated) for the same period of last year; profit before income tax expense was RMB6,045 million, representing an increase of 13.52% compared with RMB5,325 million (restated) for the same period of last year; profit attributable to owners of the Company was RMB2,419 million, representing an increase of 0.42% compared with RMB2,409 million (restated) for the same period of last year. During the Period, the Group made provision of RMB100 million for the impairment loss of the LNG plant in Zhaoqing and provision of RMB329 million for impairment loss on accounts receivable. Excluding these factors, core profit before income tax expense for the year would be RMB6,474 million, representing an increase of 21.58%; core profit attributable to shareholders and core basic earnings per share were RMB2,744 million and RMB33.99 cent respectively, representing an increase of 13.91% and 13.91% compared with the same period of last year respectively.

During the Period, the Company’s registration for issuance of medium notes in the principal of RMB10 billion was approved by the National Association of Financial Market Institutional Investors. The Company pays more attention to social responsibility and issued the first environmental, social and governance report.

## **I. Exploration and Production**

During the Period, the sales volume of crude oil in the Exploration and Production business was 6.35 million barrels, representing a decrease of 1.79 million barrels or 21.99% compared with 8.14 million barrels for the same period of last year. Revenue from sales of crude oil was RMB734 million, representing an increase of RMB10 million or 1.38% compared with the same period of last year. Due to the Company's exit from Xinjiang Contract in August 2016, sales volume of crude oil decreased by 1.33 million barrels compared with the same period of last year. During the Period, international crude oil price recovered from the same period of last year, and the average realised crude oil selling price of the Group increased to US\$45.55/barrel for the Period from US\$29.26/barrel during the same period of last year. Profit before income tax expense was RMB416 million, representing an increase of RMB567 million or 375.50% from loss of RMB151 million (restated) for the same period of last year.

## **II. Natural Gas Pipeline**

During the Period, the transmission volume of Natural Gas Pipeline business was 20,160 million cubic metres, representing an increase of 2,593 million cubic metres or 14.76% compared with 17,567 million cubic metres for the same period of last year. Revenue was RMB6,196 million, representing an increase of RMB483 million or 8.45% compared with RMB5,713 million (restated) for the same period of last year. Profit before income tax expense was RMB4,452 million, representing an increase of RMB390 million or 9.60% compared with RMB4,062 million (restated) for last year.

During the Period, the transmission volume of PetroChina Beijing Gas Pipeline Co., Ltd. under the Group was 18,730 million cubic metres, representing an increase of 12.74% compared with the same period of last year. Construction of No. 4 Shaanxi-Beijing Pipeline project was in steady progress and is expected to be completed and commence operation by the end of 2017.

### **III. LNG Terminal**

During the Period, LNG gasification volume of Jiangsu LNG Terminal and Dalian LNG Terminal under the Group amounted to 2,858 million cubic metres, representing an increase of 1,186 million cubic metres or 70.93% compared with 1,672 million cubic metres for the same period of last year, and their LNG entrucking amounted to 771 million cubic metres, representing an increase of 535 million cubic metres or 226.69% compared with 236 million cubic metres for the same period of last year. Revenue was RMB1,097 million, representing an increase of RMB521 million or 90.45% compared with RMB576 million (restated) for the same period of last year. Profit before income tax expense was RMB672 million, representing an increase of RMB492 million or 273.33% compared with RMB180 million (restated) for the same period of last year.

### **IV. Sales of Natural Gas and LNG Processing**

During the Period, the Group's natural gas sales volume was 13,384 million cubic metres, representing an increase of 1,673 million cubic metres or 14.29% compared with 11,711 million cubic metres for the same period of last year. Revenue was RMB33,357 million, representing an increase of RMB6,425 million or 23.86% compared with RMB26,932 million (restated) for the same period of last year. Profit before income tax expense for the period was RMB629 million, representing a decrease of RMB680 million or 51.95% from RMB1,309 million (restated) for the same period of last year. Excluding the effect of impairment losses, core profit before income tax expense for this business segment would be RMB1,058 million, representing a decrease of RMB251 million or 19.17% compared with RMB1,309 million (restated) for the same period of last year.

During the Period, the sales volume of city gas business was 5,439 million cubic metres, representing an increase of 18.34% compared with the same period of last year. Lijiang and Ruili projects were put into operation, and the exclusive operating right for the projects at E'zhou Huahu Development Zone in Hubei and E'jina Banner, Alxa in Inner Mongolia were obtained. The Group developed 261,000 coal-to-gas users in rural areas in Hebei Province.

LNG sales volume for the Period was 2,108 million cubic metres, representing an increase of 51.98% compared with the same period of last year. Seven plants commenced operation during the Period and operated for a total of 902 days, with average utilisation rate increasing by 42% compared with the same period of last year. The Group continued to strengthen the development of LNG vehicle market in Beijing, Tianjin and Hebei, and developed a total of 26,000 LNG vehicles. By adhering to the principle of mutual benefits and win-win, the Group expanded the cooperation with refined oil distributors in Xinjiang, Fujian and Chongqing and facilitated 37 oil-gas stations. Leveraging on its existing business outlets and extensive marketing channels, the Group deeply explored the needs of users and fully facilitated in-house value-added services for residents.

The branch pipeline construction was progressing in an orderly manner, which will commence operation simultaneously with the development of downstream users. There was a significant increase in the completion of branch pipelines construction, with distribution volume increased by 25.4% during the Period. The Group expanded the strategic cooperation with state-owned power generation groups and local energy companies, and pushed forward the construction of natural gas generator and distributed energy projects. Cooperative framework agreements were entered into in respect of six natural gas generator projects and four distributed energy projects, and Zhoukou Power Plant entered a period of intensive equipment installation. The construction of CHD's project in Zengcheng, Guangzhou commenced.

For LPG sales, the Group strived to optimise sales structure and carry out effective marketing based on quality improvement and efficiency enhancement. The Group expanded the sources of external purchase, with the ratio of resources from external purchase 27% higher than that of the same period last year. The Group pushed forward 53 terminal network construction projects and built demonstration stations, and sales volume to residential users increased by 12% compared with the same period of last year. The Group promoted the technical integration of terminal business with the technologies for the Internet of Things and the Internet, and completed the initial design of a big data marketing platform.

## **BUSINESS PROSPECTS**

Since the beginning of the year, the PRC government issued many industrial policies to guide and support the development of the natural gas industry. The Group expects international oil price to remain volatile in the second half of the year and to stabilise and rebound in the coming years. It is expected that the PRC economy will run smoothly. With the “coal-to-gas” project, in particular the continuous implementation of the 2017 Air Pollution Control Action Plan for Beijing, Tianjin, Hebei and Neighbouring Areas, and as the Opinions on Acceleration of Use of Natural Gas and the price reform measures were gradually effective, the trend of rapid growth in the demand for natural gas in the PRC will continue in the second half of the year. As a result of excessive supply in the international natural gas market and the progress of the natural gas market reform, the import of LNG will maintain growth momentum.

The Group will continue to adhere to the development concepts of safety and environmental protection, compliance, cooperation and sharing and open integration. The Group will make use of the industrial structure advantage, carefully analyse the market opportunities brought by the promulgation of the “Several Opinions on the Deepening of Oil and Natural Gas System Reform”, continue to promote innovations and development with strong support from PetroChina, the parent company, strive to balance market risks, maintain the strong ability of the assets to strengthen performance, make full use of the strengths of vertically-integrated industrial chain from LNG trading business, LNG terminal, LNG factory to end users, and focus on the development of natural gas utilisation business.

The Group will be committed to innovations and breakthroughs, and will go all out to realise quality improvement and efficiency enhancement and strongly facilitate the improvement in both sales volume and efficiency of city gas. The Group will continue to improve the ability to increase LPG sales, deeply facilitate the integrated operation of LNG, and continue to explore the potential of LNG and CNG terminals. The Group will push forward the steady development of key branch pipelines, and actively promote the development of natural gas generator and distributed energy. The Group will accelerate the creation of sources of profit of non-natural gas business, effectively promote strategic cooperation and capital operation, and continue to improve the development of the environmental, social and governance system, in order to capture the development opportunities in the PRC natural gas industry, to constantly improve the values and to provide the shareholders with satisfactory returns.

## **INTERIM DIVIDEND**

The Board does not recommend the declaration of interim dividend for the Period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its natural gas business segment during the period ended 30 June 2017 (the “Period”). Profit before income tax expense of the Group for the Period was approximately RMB6,045 million, representing an increase of 13.52% as compared with RMB5,325 million (restated) for the last period. Profit attributable to owners of the Company for the Period was approximately RMB2,419 million, representing an increase of 0.42% as compared with RMB2,409 million (restated) for the last period.

### **Revenue**

Revenue for the Period was approximately RMB40,078 million, representing an increase of 19.07% as compared with amount of RMB33,659 million (restated) for the last period. The increase was mainly due to the expansion of natural gas business.

Revenue from the Natural Gas Distribution business segment accounted for 98.17% (same period of 2016: 97.85%) of the Group’s total revenue amounting to approximately RMB39,344 million (same period of 2016 restated: RMB32,935 million).

The table below sets out the sales volume and revenue of different segments of the Group for the period ended 30 June 2017 and 2016, and percentages of change during these two periods.

	Sale volume			Revenue		
	for the period ended 30 June			for the period ended 30 June		
	2017	2016	Change	2017	2016	Change
( <i>'000 Barrel</i> )	( <i>'000 Barrel</i> )	%	RMB million	RMB million	%	
					(restated)	
<b>Exploration and Production business</b>						
The People's Republic of						
China (the "PRC") ( <i>note (1)</i> )	1,109	2,505	(55.73)	385	452	(14.82)
South America ( <i>note (2)</i> )	262	293	(10.58)	189	154	22.73
Central Asia	295	312	(5.45)	92	61	50.82
South East Asia ( <i>note (3)</i> )	200	264	(24.24)	68	57	19.30
	<hr/>	<hr/>		<hr/>	<hr/>	
Sub-total	1,866	3,374	(44.69)	734	724	1.38
	<hr/>	<hr/>		<hr/>	<hr/>	
Share of an associate in Central Asia	2,322	2,537	(8.47)	–	–	N/A
Share of a joint venture in Middle East	2,158	2,225	(3.01)	–	–	N/A
	<hr/>	<hr/>		<hr/>	<hr/>	
Total of Exploration and Production	6,346	8,136	(22.00)	734	724	1.38
	<hr/> <hr/>	<hr/> <hr/>		<hr/> <hr/>	<hr/> <hr/>	

*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.

	<b>Sale/processing volume</b>		
	<b>for the period ended 30 June</b>		
	<b>2017</b>	2016	Change
	<i>('000</i>	<i>('000</i>	%
	<i>cubic metre)</i>	<i>cubic metre)</i>	
<b>Natural Gas Distribution business</b>			
Natural Gas Pipeline	<b>20,159,577</b>	17,567,429	14.76
LNG Terminal	<b>3,629,672</b>	1,907,856	90.25
Natural Gas Sales <i>(note (4))</i>	<b>12,878,225</b>	11,533,490	11.66
LNG Processing	<b>505,630</b>	177,843	184.31
Sub-total	<b>13,383,855</b>	11,711,333	14.28
Less: Inter-company adjustment	<b>(1,068,395)</b>	(298,949)	257.38
Total of Natural Gas Distribution	<b>36,104,709</b>	30,887,669	16.89

Notes:

- (4) Under the Natural Gas Sales volume, it included LPG of 4,054,430 thousand cubic meter (2016: 4,141,470 thousand cubic meter), equivalent to 3,219,037 tonnes (2016: 3,266,675 tonnes).

	<b>Revenue</b>		
	<b>for the period ended 30 June</b>		
	<b>2017</b>	2016	Change
	<i>RMB million</i>	<i>RMB million</i>	%
		(restated)	
<b>Natural Gas Distribution business</b>			
Natural Gas Pipeline	<b>6,196</b>	5,713	8.45
LNG Terminal	<b>1,097</b>	576	90.45
Natural Gas Sales	<b>32,325</b>	26,506	21.95
LNG Processing	<b>1,032</b>	426	142.25
Sub-total	<b>33,357</b>	26,932	23.86
Less: Inter-company adjustment	<b>(1,306)</b>	(286)	356.64
Total of Natural Gas Distribution	<b>39,344</b>	32,935	19.46
Total revenue	<b>40,078</b>	33,659	19.07

### **Other gains, net**

Other gains, net for the Period was approximately RMB563 million, representing an increase of 14.20% as compared with amount of RMB493 million (restated) for the last period. The increase was mainly due to the appreciation of RMB against US\$ during the Period.

### **Interest income**

Interest income for the Period was approximately RMB125 million, representing a decrease of 39.90% as compared with amount of RMB208 million (restated) for the last period. The decrease was mainly due to a decrease in average balance of cash and cash equivalents.

### **Purchases, services and others**

Purchases, services and others were approximately RMB28,271 million for the Period, representing an increase of 22.13% as compared with amount of RMB23,148 million (restated) for the last period. The increase was mainly due to the increase in purchase volume of natural gas which is in line with the increase in sales of natural gas business.

### **Employee compensation costs**

Employee compensation costs of the Group was approximately RMB1,839 million for the Period, representing an increase of 3.14% as compared with amount of RMB1,783 million (restated) for the last period.

### **Depreciation, depletion and amortisation**

Depreciation, depletion and amortisation for the Period was approximately RMB2,665 million, representing a decrease of 2.20% as compared with amount of RMB2,725 million (restated) for the last period. The decrease was mainly due to one of the oil production contracts in PRC expired on 31 August 2016.

### **Impairment loss on property, plant and equipment**

Impairment loss on property, plant and equipment was RMB100 million (same period of 2016: Nil). This was mainly due to the increased competition from imported LNG.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the Period were approximately RMB1,664 million, representing an increase of 40.78% as compared with amount of RMB1,182 million (restated) for the last period. The increase was mainly due to the impairment loss on accounts receivables of RMB329 million recognised during the Period. Besides, the increase in variable selling, general and administrative expenses was in line with the expansion of natural gas business. In addition, the increase in royalty expenses in Exploration and Production business was due to the increase in realised crude oil selling price.

### **Taxes other than income taxes**

Taxes other than income taxes for the Period was approximately RMB215 million, representing a decrease of 17.31% as compared with amount of RMB260 million (restated) for the last period. The decrease was mainly due to the implementation of VAT Reform that eliminated business tax in the PRC.

### **Interest expenses**

Interest expenses for the Period was approximately RMB481 million, representing an increase of 146.67% as compared with amount of RMB195 million (restated) for the last period. The increase was mainly due to new interest bearing borrowings for settling the consideration for the acquisition of Kunlun Gas in May 2016.

Total interest expenses for the Period was approximately RMB773 million of which RMB292 million was capitalised under construction-in-progress.

### **Share of profits less losses of associates**

Share of profits less losses of associates for the Period increased by 117.30% to approximately RMB402 million (same period of 2016 restated: RMB185 million). The increase was mainly due to the increase in realised crude oil selling price during the Period that in turn led to the increase in the shared operating result from CNPC–Aktobemunaigas Joint Stock Company (“Aktobe”).

### **Share of profits less losses of joint ventures**

Share of profits less losses of joint ventures for the Period increased by 53.42% to approximately RMB112 million (same period of 2016 restated: RMB73 million). The increase was mainly due to the increase in realised crude oil selling price during the Period that in turn led to the increase in shared operating result from Oman project.

## Profit before income tax expense

Profit before income tax expense for the Period was approximately RMB6,045 million, representing an increase of 13.52% as compared with amount of RMB5,325 million (restated) for the last period.

The table below sets out the profit/(loss) before income tax expense and percentage of change of different segments of the Group for the period ended 30 June 2017 and 2016.

	Profit/(loss) before income tax expense for the period ended 30 June		
	2017 <i>RMB million</i>	2016 <i>RMB million</i> (restated)	Change %
<b>Exploration and Production business</b>			
The PRC	(51)	(216)	(76.39)
South America	41	28	46.43
Central Asia	19	(42)	(145.24)
South East Asia	16	(15)	(206.67)
	<hr/>	<hr/>	
Sub-total	25	(245)	(110.20)
	<hr/>	<hr/>	
Share of an associate in Central Asia	267	21	1,171.43
Share of a joint venture in Middle East	124	73	69.86
	<hr/>	<hr/>	
Total of Exploration and Production	416	(151)	375.50
	<hr/>	<hr/>	
<b>Natural Gas Distribution business</b>			
Natural Gas Pipeline	4,452	4,062	9.60
LNG Terminal	672	180	273.33
	<hr/>	<hr/>	
Natural Gas Sales	1,029	1,595	(35.49)
LNG Processing	(400)	(286)	39.86
	<hr/>	<hr/>	
Sub-total	629	1,309	(51.95)
	<hr/>	<hr/>	
Total of Natural Gas Distribution	5,753	5,551	3.64
	<hr/>	<hr/>	
	<b>6,169</b>	<b>5,400</b>	14.24
	<hr/> <hr/>	<hr/> <hr/>	

## **Income tax expense**

Income tax expense for the Period was approximately RMB1,878 million, representing an increase of 36.68% as compared with amount of RMB1,374 million (restated) for the last period. The increase was mainly due to an increase in taxable income.

## **Profit for the Period and profit attributable to owners of the Company**

The profit for the Period of the Group was approximately RMB4,167 million, representing an increase of 5.47% as compared with amount of RMB3,951 million (restated) for the last period. The profit attributable to owners of the Company for the Period was approximately RMB2,419 million, representing an increase of 0.42% as compared with amount of RMB2,409 million (restated) for the last period.

## **Liquidity and capital resources**

As at 30 June 2017, the carrying value of total assets of the Group was approximately RMB124,245 million, representing an increase of RMB944 million or 0.77% as compared with RMB123,301 million (restated) as at 31 December 2016.

The gearing ratio of the Group was 35.76% as at 30 June 2017 compared with 36.37% as at 31 December 2016, representing a decrease of 0.61%. It is computed by dividing the sum of interest bearing borrowings, convertible bonds and obligations under finance leases of RMB34,750 million (31 December 2016 restated: RMB33,661 million) by the total equity, interest bearing borrowings, convertible bonds and obligations under finance leases of RMB97,181 million (31 December 2016 restated: RMB92,561 million).

Adjusted profit before income tax expense, excluding impairment loss on property, plant and equipment and account receivable, interest and depreciation, depletion and amortisation for the Period was approximately RMB9,495 million, representing an increase of 18.14% as compared with the amount of RMB8,037 million (restated) for the last period.

The Company issued convertible bonds in 2016 to improve the debt profile:

<b>Items</b>	<b>Date of issue</b>	<b>Nominal Amount RMB million</b>	<b>Tenor year</b>	<b>Annual Interest %</b>
Convertible bonds (Stock code: 5690) (note)	25 July 2016	3,350	3	1.625

*Note:* 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.

As at 30 June 2017, the Group has total borrowings of RMB31,132 million which will be repayable as follows:

	<b>2017</b>	31 December 2016
	<b>RMB million</b>	RMB million (restated)
Within one year	<b>8,547</b>	14,085
Between one to two years	<b>1,142</b>	1,440
Between two to five years	<b>17,168</b>	10,164
After five years	<b>4,275</b>	4,316
	<b>31,132</b>	30,005

The carrying amounts of the borrowings are mainly denominated in RMB, US\$ and HK\$.

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.

During the Period, no share option (same period of 2016: no share option) has been exercised by the senior executives of the Company as the exercise price of HK\$12.632 was above the market price of HK\$7.06 on the share option expiry date and the share options were lapsed. The share option scheme was expired in 2012 and there was no more outstanding share option as at 30 June 2017.

As at 30 June 2017, the Group had net current liabilities of RMB5,868 million, representing a decrease of RMB7,864 million or 57.27% as compared with RMB13,732 million (restated) as at 31 December 2016. Notwithstanding the net current liabilities of the Group at 30 June 2017, the Group's consolidated interim 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 committed credit from China Petroleum Finance Company Limited amounting to RMB20 billion, of which RMB11 billion is undrawn as at 30 June 2017;
- (ii) the Group expects to generate positive operating cash flows in the future; and
- (iii) the Directors consider that the Group could obtain financing from various sources of funding.

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

## **Use of proceeds**

### ***Use of Net Proceeds from Issuance of Convertible Bonds***

Reference is made to the Company's announcements dated 14 July 2016 and 25 July 2016 in relation to, among other things, the issuance of RMB3,350 million in aggregate principal amount of 1.625% US\$ settled convertible bonds due 2019 (stock code: 5690) (the "Convertible Bonds") (the "CB Announcements"). Consistent with the intended use as disclosed in the CB Announcements, the Company has utilised all of the net proceeds from the issuance of the Convertible Bonds of approximately US\$497 million for the payment for the acquisition of Kunlun Gas. As of 30 June 2017, the net proceeds from the issuance of Convertible Bonds have been fully utilised.

### ***Interest paid***

The Group paid interest of RMB621 million (same period of 2016 restated: RMB393 million) during the Period.

### ***Dividend paid***

2016 final dividend of HK7.4 cents per share amounting to RMB522 million (restated) (2016: 2015 final dividend of HK6.0 cents per share amounting to RMB407 million (restated)) was distributed to owners of the Company during the Period.

### **Pledge of assets**

As at 30 June 2017 and 31 December 2016, no short-term and long-term borrowings were secured by property, plant and equipment or advanced operating lease payment.

### **New investment in major projects**

There is no investment in major project during the Period.

### **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%.

There is no single material joint venture which significantly affects the results and/or net assets of the Group.

### **Employee**

As at 30 June 2017, the Group had approximately 35,005 employees globally (excluding the employees under entrustment contracts) (same period of 2016: 39,523 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.

### **Interim dividend**

The Board has resolved not to recommend the payment of any interim dividend for the Period ended 30 June 2017.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **CORPORATE GOVERNANCE**

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

## **REVIEW OF INTERIM FINANCIAL INFORMATION**

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

The unaudited consolidated financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and has also been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity* issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2017.

## **DETAILED INFORMATION OF INTERIM RESULTS**

Detailed interim results containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be released on or before 15 September 2017 on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.kunlun.com.hk](http://www.kunlun.com.hk)).

By the Order of the Board  
**KUNLUN ENERGY COMPANY LIMITED**  
**Huang Weihe**  
*Chairman*

Hong Kong, 22 August 2017

*The Board of Directors as at the date of this announcement comprises of Mr Huang Weihe as the Chairman and Executive Director, Mr Wu Enlai as the Executive Director, Mr Zhao Yongqi as Chief Executive Officer and Executive Director, Mr Zhao Zhongxun as Executive Director, Mr Ding Shilu as Executive Director, Mr Zhang Yaoming as Executive Director, and Mr Li Kwok Sing Aubrey, Dr Liu Xiao Feng and Mr Sun Patrick as Independent Non-Executive Directors.*