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				
	2012	2011	**Change**	2011	**Change**
	HK$'million	*HK$'million*	*%*	*HK$'million*	*%*
		(as previously reported in 2011 interim report)		(restated) *(Note 11)*	
Revenue	**15,605**	6,759	130.88	11,806	32.18
Profit before income tax expense	**6,841**	2,860	139.20	5,025	36.14
Profit attributable to the owners of the Company	**3,500**	1,651	111.99	2,642	32.48
EBITDA (note)	**9,562**	3,408	180.58	7,091	34.85
	HK cent	*HK cent*		*HK cent*	
Earnings per share (Basic)	**46.29**	33.33	38.88	36.96	25.24
Earnings per share (Diluted)	**46.06**	32.74	40.68	36.50	26.19
Dividend per share – Interim	**NIL**	NIL	NIL	NIL	NIL

Note: EBITDA is defined as profit before income tax, excluding interest, depreciation, depletion and amortisation.

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 2012 are as follows:

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	**2012** **HK$'million**	2011 *HK$'million* (restated) *(Note 11)*
Revenue	*3*	**15,605**	11,806
Other gains, net		**85**	77
Interest income		**83**	50
Purchases, services and others		**(5,506)**	(4,278)
Employee compensation costs		**(759)**	(550)
Exploration expenses, including exploratory dry holes		**(33)**	(129)
Depreciation, depletion and amortisation		**(2,409)**	(1,832)
Selling, general and administrative expenses		**(915)**	(667)
Taxes other than income taxes		**(549)**	(554)
Interest expenses	*4*	**(395)**	(284)
Share of profits less losses of:			
– Associates		**1,425**	1,224
– Jointly controlled entities		**209**	162
Profit before income tax expense	*5*	**6,841**	5,025
Income tax expense	*6*	**(1,639)**	(1,181)
Profit for the period		**5,202**	3,844
Other comprehensive (loss)/income:			
Currency translation differences		**(758)**	1,032
Fair value (loss)/gain on available-for-sale financial assets		**(40)**	14
Other comprehensive (loss)/income, net of tax		**(798)**	1,046
Total comprehensive income for the period		**4,404**	4,890

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2012

	Note	**2012**	2011
		HK$'million	*HK$'million*
			(restated)
			(Note 11)
Profit for the period attributable to:			
– Owners of the Company		**3,500**	2,642
– Non-controlling interest		**1,702**	1,202
		5,202	3,844
Total comprehensive income for the period attributable to:			
– Owners of the Company		**2,889**	3,306
– Non-controlling interest		**1,515**	1,584
		4,404	4,890
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (HK cents)		**46.29**	36.96
– Diluted (HK cents)		**46.06**	36.50

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	**30 June 2012** *HK$'million*	31 December 2011 *HK$'million* (restated) *(Note 11)*
Assets			
Non-current assets			
Property, plant and equipment		**57,706**	56,677
Advanced operating lease payments		**1,274**	1,218
Investments in associates		**5,513**	6,158
Investments in jointly controlled entities		**1,737**	1,732
Available-for-sale financial assets		**91**	133
Intangibles and other non-current assets		**2,495**	1,553
Deferred tax assets		**172**	125
		68,988	67,596
Current assets			
Inventories		**621**	563
Accounts receivable	*9*	**1,146**	736
Prepaid expenses and other current assets		**4,523**	3,594
Cash and cash equivalents		**22,019**	11,718
		28,309	16,611
Total assets		**97,297**	84,207
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**80**	72
Retained earnings		**17,457**	17,545
Reserves		**22,732**	12,766
		40,269	30,383
Non-controlling interest		**15,540**	15,275
Total equity		**55,809**	45,658

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2012

	Note	30 June 2012 *HK$'million*	31 December 2011 *HK$'million* (restated) *(Note 11)*
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**12,028**	8,913
Income taxes payable		**337**	459
Other taxes payable		**264**	589
Short-term borrowings		**5,531**	2,611
		18,160	12,572
Non-current liabilities			
Long-term borrowings		**22,242**	24,964
Deferred tax liabilities		**1,048**	985
Other long-term obligations		**38**	28
		23,328	25,977
Total liabilities		**41,488**	38,549
Total equity and liabilities		**97,297**	84,207
Net current assets		**10,149**	4,039
Total assets less current liabilities		**79,137**	71,635

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited interim financial information presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Company for the year ended 31 December 2011.

Except as described below, the accounting policies and methods of computation applied in the preparation of the unaudited interim financial information are consistent with those of the consolidated financial statements for the year ended 31 December 2011, as described in those annual financial statements.

The interim financial information as of 30 June 2012 and for the six months ended 30 June 2012 and 2011 included herein are unaudited but reflect, in the opinion of the Board of Directors, all adjustments (which include only normal recurring adjustments) necessary to properly prepare the unaudited interim financial information, in all material respects, in accordance with HKAS 34. The results of operations for the six months ended 30 June 2012 are not necessarily indicative of the results of operations expected for the year ending 31 December 2012.

Costs that are incurred unevenly during the financial year are accrued or deferred in the unaudited interim financial information only if it would be also appropriate to accrue or defer such costs at the end of the financial year.

Income tax expense for the period is accrued using the tax rate that would be applicable to expected total assessable profit for the year.

The following new amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012, but they are either not currently relevant for the Group or their impact is not significant to the Group for the six months ended 30 June 2012.

HKFRS 7 (Amendment)	Disclosures-transfers of financial assets
HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets

The following new standards, new amendments to standards and interpretations have been published but are not yet effective and have not been early adopted by the Group.

HKAS 1 (Amendment)	Presentation of financial statements [1]
HKFRS 10	Consolidated financial statements [2]
HKAS 27 (revised 2011)	Separate financial statements [2]
HKFRS 11	Joint arrangements [2]
HKAS 28 (revised 2011)	Associates and joint ventures [2]
HKFRS 12	Disclosure of interests in other entities [2]
HKFRS 13	Fair value measurements [2]
HKAS 19 (Amendment)	Employee benefits [2]
HKFRS 7 (Amendment)	Financial instruments: Disclosures-offsetting financial assets and financial liabilities [2]
HK(IFRIC)-Int 20	Stripping costs in the production phase of a surface mine
HKAS 32 (Amendment)	Financial instruments: Presentation-offsetting financial assets and financial liabilities [3]
HKFRS 9	Financial Instruments [4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [4]

[1] Effective for the Group for annual period beginning on or after 1 July 2012
[2] Effective for the Group for annual period beginning on or after 1 January 2013
[3] Effective for the Group for annual period beginning on or after 1 January 2014
[4] Effective for the Group for annual period beginning on or after 1 January 2015

There are no other amendments to standards or interpretations that are not yet effective and would be expected to have a significant impact on the Group.

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 Board of 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 sale of crude oil and natural gas. It is further evaluated on a geographic basis (PRC and other territories).

The Natural Gas Distribution segment is engaged in the sale of natural gas, LNG processing and terminal and transmission of natural gas in the PRC. It is further evaluated on a business basis, Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline.

No sales between operating segments are undertaken. The Board of Directors assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and jointly controlled entities ("segment results").

Total assets exclude deferred and current taxes, available-for-sale financial assets, investments in associates and jointly controlled entities, all of which are managed on a central basis ("segment assets").

Corporate income and expenses, net, mainly refers to interest income earned from time deposits with maturities over three months and cash and cash equivalents, and general and administration expenses incurred at corporate level.

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

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2012 and 2011 are as follows:

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing and 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*
For the six months ended 30 June 2012									
Revenue from external customers	2,133	1,025	3,158	5,226	1,229	5,992	12,447	–	15,605
Segment results	860	342	1,202	731	203	3,027	3,961	44	5,207
Share of profits less losses of:									
– Associates	–	1,327	1,327	98	–	–	98	–	1,425
– Jointly controlled entities	–	205	205	–	–	–	–	4	209
Profit before income tax expense	860	1,874	2,734	829	203	3,027	4,059	48	6,841
Income tax expense									(1,639)
Profit for the period									5,202
Segment results included:									
Interest income	15	4	19	36	2	17	55	9	83
Depreciation, depletion and amortisation	(286)	(139)	(425)	(263)	(356)	(1,364)	(1,983)	(1)	(2,409)
Interest expenses	–	(28)	(28)	(60)	(109)	(230)	(399)	32	(395)
As at 30 June 2012									
Non-current assets	2,987	1,186	4,173	8,175	19,003	29,157	56,335	967	61,475
Current assets	2,863	2,710	5,573	9,287	2,373	1,836	13,496	9,240	28,309
Segment assets	5,850	3,896	9,746	17,462	21,376	30,993	69,831	10,207	89,784
Investments in associates	–	3,993	3,993	1,515	5	–	1,520	–	5,513
Investments in jointly controlled entities	–	1,086	1,086	234	–	–	234	417	1,737
Sub-total	5,850	8,975	14,825	19,211	21,381	30,993	71,585	10,624	97,034
Available-for-sale financial assets									91
Deferred tax assets									172
Total assets									97,297

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC *HK$'million*	Others *HK$'million*	Sub-total *HK$'million*	Natural Gas Sales *HK$'million* (restated) *(Note 11)*	LNG Processing and Terminal *HK$'million*	Natural Gas Pipeline *HK$'million* (restated) *(Note 11)*	Sub-total *HK$'million* (restated) *(Note 11)*	*HK$'million*	Total *HK$'million* (restated) *(Note 11)*
For the six months ended 30 June 2011									
Revenue from external customers	2,020	925	2,945	3,983	118	4,760	8,861	–	11,806
Segment results	878	144	1,022	469	(11)	2,145	2,603	14	3,639
Share of profits less losses of:									
– Associates	–	1,136	1,136	88	–	–	88	–	1,224
– Jointly controlled entities	–	160	160	–	–	–	–	2	162
Profit before income tax expense	878	1,440	2,318	557	(11)	2,145	2,691	16	5,025
Income tax expense									(1,181)
Profit for the period									3,844
Segment results included:									
Interest income	4	2	6	31	3	10	44	–	50
Depreciation, depletion and amortisation	(200)	(202)	(402)	(176)	(10)	(1,243)	(1,429)	(1)	(1,832)
Interest expenses	–	–	–	(2)	–	(282)	(284)	–	(284)

	Exploration and Production			Natural Gas Distribution				Corporate	
	PRC *HK$'million*	Others *HK$'million*	Sub-total *HK$'million*	Natural Gas Sales *HK$'million* (restated) *(Note 11)*	LNG Processing and Terminal *HK$'million*	Natural Gas Pipeline *HK$'million*	Sub-total *HK$'million* (restated) *(Note 11)*	*HK$'million*	Total *HK$'million* (restated) *(Note 11)*
As at 31 December 2011									
Non-current assets	3,106	1,258	4,364	6,248	19,241	28,762	54,251	833	59,448
Current assets	3,006	1,612	4,618	7,005	2,358	1,251	10,614	1,379	16,611
Segment assets	6,112	2,870	8,982	13,253	21,599	30,013	64,865	2,212	76,059
Investments in associates	–	4,732	4,732	1,420	6	–	1,426	–	6,158
Investments in jointly controlled entities	–	1,078	1,078	236	–	–	236	418	1,732
Sub-total	6,112	8,680	14,792	14,909	21,605	30,013	66,527	2,630	83,949
Available-for-sale financial assets									133
Deferred tax assets									125
Total assets									84,207

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 2012, revenue of approximately HK$7,138 million (Six months ended 30 June 2011 restated: HK$4,588 million) are derived from two single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

3. REVENUE AND TURNOVER

Turnover mainly represents revenue from the sale of crude oil and the sales of natural gas, LNG processing and terminal and transmission of natural gas. Analysis of revenue by segment is shown in Note 2.

4. INTEREST EXPENSES

	For the six months ended 30 June	
	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Interest expenses on:		
Bank loans, wholly repayable within five years	**4**	6
Loans other than bank loans, wholly repayable within five years, from:		
– An intermediate holding company	**324**	398
– An immediate holding company	**5**	1
– China Petroleum Finance Company Limited ("CP Finance")	**207**	46
– A fellow subsidiary	**33**	34
Less: Amounts capitalised	**(178)**	(201)
	395	284

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 2.86% (Six months ended 30 June 2011 restated: 3.30%) per annum for the six months ended 30 June 2012.

5. PROFIT BEFORE INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Items charged in arriving at the profit before income tax expense include:		
Amortisation on intangibles and other assets	**14**	8
Cost of inventories recognised as expense	**6,597**	4,817
Depreciation on property, plant and equipment	**2,396**	1,824
Operating lease expenses	**61**	20
Repairs and maintenance	**116**	137

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Current tax		
– PRC	**1,124**	805
– Overseas	**500**	508
	1,624	1,313
Deferred tax	**15**	(132)
	1,639	1,181

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the period (Six months ended 30 June 2011: 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 Mainland China is principally 25% (Six months ended 30 June 2011: 25%). The operations of the Group's certain regions in Mainland China were qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 20% (Six months ended 30 June 2011: 10% to 20%).

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

Included in overseas income tax expense is withholding tax of approximately HK$392 million (Six months ended 30 June 2011: HK$396 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company, which is charged at 20% (Six months ended 30 June 2011: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

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 HK$3,500 million (Six months ended 30 June 2011 restated: HK$2,642 million) and weighted average number of ordinary shares in issue during the period of approximately 7,561 million shares (2011 restated: 7,148 million shares (Note 11)).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$3,500 million (Six months ended 30 June 2011 restated: HK$2,642 million), and the weighted average number of ordinary shares of approximately 7,598 million (Six months ended 30 June 2011 restated: 7,238 million shares) which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 37 million shares (Six months ended 30 June 2011: 90 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

8. DIVIDENDS

(a) Final dividend attributable to owners of the Company in respect of 2010 of HK13.8 cents per share amounting to a total of HK$684 million were approved by the shareholders in the Annual General Meeting on 8 June 2011 and were paid on 30 June 2011.

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

(c) The actual final dividend for 2011 was approximately HK$1,766 million due to additional shares issued during the period from 30 March 2012 to 16 May 2012, the date of closure of the register of members, and were paid on 6 June 2012.

(d) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

9. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2012 and 31 December 2011 is as follows:

	30 June 2012	31 December 2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within 3 months	**921**	623
Between 3 to 6 months	**131**	29
Over 6 months	**94**	84
	1,146	736

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2012, accounts receivable of approximately HK$225 million (31 December 2011 restated: HK$113 million) were past due but for which the Group has not provided for impairment losses. These accounts receivable relate to companies for whom there is no recent history of default. The ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 30 June 2012, included in the balance is account payable of HK$1,376 million (31 December 2011 restated: HK$1,720 million).

The ageing analysis of accounts payable as at 30 June 2012 and 31 December 2011 is as follows:

	30 June 2012 *HK$'million*	31 December 2011 *HK$'million* (restated) *(Note 11)*
Within 3 months	**464**	1,238
Between 3 to 6 months	**269**	289
Over 6 months	**643**	193
	1,376	1,720

11. COMPARATIVES

(i) 2012 business combination under common control

It represented the acquisition agreement entered into by the Group to acquire 51% equity interests in Binhai New Energy Co., Ltd. ("2012 Natural Gas Project") for a cash consideration of RMB200 million (approximately HK$263 million). The acquisition of 2012 Natural Gas Project was by means of capital injection and completed on 15 February 2012.

The acquisition is business combination under common control since the Company and 2012 Natural Gas Project is under the common control of China National Petroleum Corporation ("CNPC"). As a result, the Company has accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at carryover predecessor values to CNPC.

The interim financial information has been restated to give effect to the acquisition with all periods presented as if the operations of the Group and 2012 Natural Gas Project have always been combined.

The summarised results of operations for the six months ended 30 June 2011 and the financial position as at 31 December 2011 for the separate entity and on a consolidation basis are set out in note (iii) below.

(ii) 2011 business combinations under common control

It mainly represented the acquisition agreements entered into by the Group to acquire (i) 75% equity interests in PetroChina Dalian LNG Co., Ltd. ("Dalian LNG") for a cash consideration of approximately RMB2,009 million (approximately HK$2,418 million) on 9 November 2009; and (ii) a 60% equity interests in PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline") for a share consideration of approximately RMB18,871 million (approximately HK$22,717 million) on 31 December 2010. The acquisitions of Dalian LNG and Beijing Pipeline are collectively referred to as the "2011 Natural Gas Project" and were completed on 31 March 2011 and 23 December 2011 respectively.

The presentation of the consolidated interim condensed statement of comprehensive income for the six months ended 30 June 2011 was revised to bring it in line with the annual financial statements for the year ended 31 December 2011 to reflect the acquisition of Beijing Pipeline. Certain comparative figures have been reclassified or restated to conform with the presentation in the current period, particularly accounting for business combination under common control. The summarised results of operations for the six months ended 30 June 2011 for the separate entity and on a consolidation basis are set out in note (iii) below.

(iii) Summary of results and financial position

The summarised results of operations for the six months ended 30 June 2011 and the financial position as at 31 December 2011 for the separate entities and on a consolidation basis are set out below:

	The Group (as previously reported) *HK$'million*	Beijing Pipeline *HK$'million*	2012 Natural Gas Project *HK$'million*	The Group (as restated) *HK$'million*
Results of operations for the six months ended 30 June 2011				
Revenue	6,759	4,760	287	11,806
Other gains, net	64	13	–	77
Interest income	40	10	–	50
Purchases, services and others	(3,272)	(746)	(260)	(4,278)
Employee compensation costs	(464)	(86)	–	(550)
Exploration expenses, including exploratory dry holes	(129)	–	–	(129)
Depreciation, depletion and amortisation	(588)	(1,244)	–	(1,832)
Selling, general and administrative expenses	(540)	(121)	(6)	(667)
Taxes other than income taxes	(396)	(157)	(1)	(554)
Interest expenses	–	(282)	(2)	(284)
Share of profits less losses of:				
–Associates	1,224	–	–	1,224
–Jointly controlled entities	162	–	–	162
Profit before income tax expense	2,860	2,147	18	5,025
Income tax expense	(663)	(515)	(3)	(1,181)
Profit for the period	2,197	1,632	15	3,844
Earnings per share for profit attributable to owners of the Company (Note)				
– Basic (HK cents)	33.33	3.63	–	36.96
– Diluted (HK cents)	32.74	3.76	–	36.50

	The Group (as previously reported) HK$'million	Beijing Pipeline HK$'million	2012 Natural Gas Project HK$'million	The Group (as restated) HK$'million
Financial position as at 31 December 2011				
Non-current assets				
Property, plant and equipment	56,613	–	64	56,677
Other non-current assets	10,908	–	11	10,919
	67,521	–	75	67,596
Current assets	16,548	–	63	16,611
	84,069	–	138	84,207
Current liabilities				
Accounts payable and accrued liabilities	8,853	–	60	8,913
Other current liabilities	3,656	–	3	3,659
	12,509	–	63	12,572
Non-current liabilities	25,973	–	4	25,977
	38,482	–	67	38,549
Net assets	45,587	–	71	45,658

Note:

The calculation of earnings per share after combining Beijing Pipeline is based on the Group's profit attributable to owners of the Company of approximately HK$2,642 million and weighted average number of ordinary shares in issue during the six months ended 30 June 2011 plus the consideration shares issued on 23 December 2011 as part of the acquisition of Beijing Pipeline of approximately 2,194 million shares.

CHAIRMAN STATEMENT

BUSINESS REVIEW

I am pleased to report to the shareholders on behalf of the Board of Kunlun Energy Company Limited (the "Company") the 2012 interim results of the Company and its subsidiaries (together, the "Group"). For the six months ended 30 June 2012 (the "Period"), the revenue of the Group amounted to HK$15,605 million while the unaudited profit attributable to owners of the Company amounted to HK$3,500 million, representing an increase of HK$8,846 million and HK$1,849 million or 130.88% and 111.99% respectively compared with the unrestated revenue and profit attributable to owners of the Company of the same period last year. During the Period, international oil prices increased and then fell, but remained high in general, which together with the substantial growth of the Group's natural gas business, contributed to the Group's revenue and profit.

I. Exploration and Production

For the Period, revenue of HK$3,158 million was derived from the exploration and production business, an increase of HK$213 million or 7.23% (same as restated figure) compared with the corresponding period last year, accounting for 20.24% of the Group's total revenue. The production of the Group's nine oil fields remained stable, with sales volume of crude oil reaching 8.78 million barrels, representing an increase of 0.41 million barrels or 4.91% compared with the corresponding period last year. During the Period, the Group's average realised crude oil selling price was US$100.70 per barrel, representing an increase of US$0.89 or 0.90% compared with the corresponding period last year.

II. Natural Gas Pipeline

During the Period, the Group's natural gas pipeline business has further developed. The volume of natural gas transmission was 12,271 million cubic metres of which, the volume of natural gas transmission of PetroChina Beijing Gas Pipeline Co., Ltd. was 12,048 million cubic metres and that of other operating pipelines was 223 million cubic metres. The number of the Group's natural gas transmission pipelines in operation and under construction further increased. The main construction work of Wuyin line (Wuhai, Inner Mongolia – Yinchuan, Ningxia), the first long-distance coke oven gas transmission pipelines in China, has been completed and will be put into operation soon. The commission of this pipeline will not only make important contribution to the local energy saving and emission reduction, but also bring fruitful investment return to the Group.

III. LNG Terminal

During the Period, Jiangsu LNG terminal and Dalian LNG terminal owned by the Group unloaded 16 barges of LNG, amounting to an aggregate of 1.66 million tonnes. These two LNG terminals are important passageway at sea for the parent company to optimise the supply of natural gas resources, contributing stable income and sources of natural gas to the Group.

IV. LNG Processing Plant

The Group expedited the development of LNG resources and commenced the construction of 12 LNG processing plants, of which the LNG Taian processing plant (processing capacity of 2.6 million cubic metres/day) in Shandong and the Huanggang LNG processing plant (processing capacity of 5 million cubic metres/day) in Hubei, both being localisation projects, have commenced construction. The Guangan LNG processing plant (processing capacity of 1 million cubic metres/day) in Sichuan has commenced operation and the Ansai LNG processing plant (processing capacity of 2 million cubic metres/day) in Shaanxi successfully produced qualified LNG on 19 August 2012, representing the success of DMR for double cycle hybrid refrigerant self-developed by China National Petroleum Corporation which made up the deficiency of domestic liquefaction technique of natural gas. The plant will commence operation soon. The Group will have 6 LNG processing plants in operation, with total production capacity of 4.38 million cubic metres/day. The remaining processing plants will commence production successively in the next two years, upon which the Group will become the largest domestic onshore LNG producer and supplier.

V. Sales of Natural Gas

Sales volume of natural gas of the Group was 2,178 million cubic metres for the Period, representing an increase of 588 million cubic metres or 36.98% (unrestated) compared with the corresponding period last year. Revenue derived from natural gas was HK$12,447 million, an increase of HK$8,633 million or 226.35% (unrestated) compared with the corresponding period last year, accounting for 79.70% of the Group's total revenue. Profit before tax was HK$4,059 million, representing an increase of HK$3,533 million or 671.67% (unrestated) compared with the corresponding period last year. Both sales and revenue of natural gas achieved a rapid growth and the sales proportion of LNG and CNG has increased substantially.

During the Period, the construction of natural gas distribution infrastructure has been expedited. The gradual improvement of distribution facilities has enhanced and strengthened the end-users sales results of natural gas business.

During the Period, the Group made further effort to expand the market and continue to develop the LNG business by implementing the "Gas in Substitution of Oil" strategy, accelerating the promotion of the utilisation of LNG as a fuel for urban public transport, long-distance passenger transportation, heavy duty trucks, vessels and oilfield drilling rigs. The promotion of LNG projects for urban public transport and heavy duty trucks were put forward steadily in accordance with the annual plan and the LNG collaborative project for urban public transport conducted by Beijing and Chongqing attained remarkable demonstration effect. The Group collaborated with China Classification Society, China Changjiang National Shipping (Group) Corporation and Jinan Diesel Engine Co., Ltd. to commence the LNG gasification for vessels in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Dongting Lake and Weishan Lake, and carried out the trial voyage of the first diesel-LNG hybrid bulk carrier of 3,000 tons in Yangtze River. In the meantime, the first diesel-LNG hybrid dredging engineering vessel was modified and commenced operation in Weishan Lake. The application of LNG as a fuel in oilfield drilling operations such as Xinjiang Oilfield and Changqing Oilfield was promoted and significant breakthrough has been achieved.

During the Period, the Group established KunLun Energy (Gansu) Company Limited and Jilin Jigang Clean Energy Company Limited through cooperation and joint ventures with the Yumen Oilfield and Jilin Oilfield owned by the parent company respectively, which strengthened the win-win cooperation with the parent company and further optimized the strategic plans of the Group's principal business.

BUSINESS PROSPECTS

The Group will continue to adhere to the "Gas in Substitution of Oil" strategy and expedite the development of natural gas business. In the second half of the year, several LNG processing plants currently under construction, crucial network infrastructure projects and a portion of construction work of natural gas pipeline will be gradually put into operation, contributing to the stable natural gas supply and revenue for the Group.

With a view to realise effective linkage between resources and the market, the Group will increase its marketing efforts in the second half of the year by taking Beijing, Shanghai, Chongqing and Guangzhou as exemplary cities and long-distance passenger and cargo routes as demonstration in order to substantially promote the development of LNG vehicles in the year. In addition, the Group will further consolidate the "Gasifying Changjiang" collaboration with China Changjiang National Shipping (Group) Corporation to speed up the application of LNG vessels while focusing on the oilfield enterprises of the parent company to further promote the utilisation of LNG as a fuel for oilfield drilling rigs. The Group will also accelerate the study on the safety of LNG railway transportation for Golmud-Lhasa line (Golmud, Qinghai – Lhasa, Tibet) to attain early realization of LNG container rail transportation.

The Group will further leverage on the overall advantages of the parent company and continue its in-depth cooperation with the enterprises owned by the parent company. We will also actively look for investment opportunities that are in line with the development strategy of our natural gas distribution business in China to enhance the scale and efficiency of the natural gas business, so as to provide satisfactory returns to shareholders while making contributions to the energy savings, emission reduction and green development in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and profit before income tax expense from the Natural Gas Distribution business segment has exceeded that from the Exploration and Production segment. The profit before income tax expense from the Natural Gas Distribution business segment contributed over 59.33% of the Group's profit before income tax expense for the six months Period ended 30 June 2012 (the "Period").

The Group continued to develop its natural gas business segment through business development and acquisitions. During the Period, the capital increase in Binhai New Energy Co., Ltd. ("Binhai New Energy") was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. Comparative financial information in this announcement has been restated to reflect the effect of merging this subsidiary with the Group. Details of which are set out in Note 11 to the announcement. The Company also established Kunlun Energy (Gansu) Company Ltd and Jilin Jigang Clean Energy Company Limited with Yumen Oilfield and Jilin Oilfield respectively.

OPERATING RESULTS

The financial results of the Group for the Period were benefited from the acquisition of PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline"), the upsurge of international crude oil price and the expansion of natural gas business. Profit before income tax expense of the Group for the Period was approximately HK$6,841 million, representing an increase of 139.20% as compared with unrestated amount of HK$2,860 million (36.14% as compared with restated amount of HK$5,025 million) for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$3,500 million representing an increase of 111.99% as compared with unrestated amount of HK$1,651 million (32.48% as compared with restated amount of HK$2,642 million) for the same period of last year.

Revenue

Revenue for the Period was approximately HK$15,605 million, representing an increase of 130.88% as compared with unrestated amount of HK$6,759 million (or 32.18% as compared with restated amount of HK$11,806 million) for the same period of last year. The increase was mainly due to the acquisition of Beijing Pipeline, the increase in volume of sales of crude oil and natural gas.

Revenue from the Exploration and Production segment accounted for 20.24% of the Group's total revenue amounting to approximately HK$3,158 million while revenue from the Natural Gas Distribution business segment accounted for 79.76% of the Group's total revenue amounting to approximately HK$12,447 million.

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2012 and 2011, and percentages of change during these two periods.

	Sale/processing volume For the six months ended 30 June			**Revenue For the six months ended 30 June**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
	('000 barrel)	*('000 barrel)*	*%*	*HK$ million*	*HK$ million*	*%*
Exploration and Production business						
The People's Republic of China (the "PRC")	2,915	2,832	2.93	2,133	2,020	5.59
South America	286	256	11.72	503	435	15.63
Central Asia	345	378	(8.73)	287	300	(4.33)
South East Asia	284	240	18.33	235	190	23.68
	3,830	3,706	3.35	3,158	2,945	7.23
Share of associates in Central Asia	3,356	3,376	(0.59)	–	–	N/A
Share of jointly controlled entities in Middle East	1,593	1,286	23.87	–	–	N/A
Total of Exploration and Production	8,779	8,368	4.91	3,158	2,945	7.23

	Sale/processing volume For the six months ended 30 June			Revenue For the six months ended 30 June		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
	('000 cubic metre)	*('000 cubic metre)*	*%*	*HK$ million*	*HK$ million*	*%*
Natural Gas Distribution business						
Natural gas Sales, as previously reported	2,177,810	1,590,342	36.94	5,226	3,696	41.40
Effect of business combination under common controls	N/A	82,852	N/A	N/A	287	N/A
Natural Gas Sales, as restated	2,177,810	1,673,194	30.16	5,226	3,983	31.21
Natural Gas Pipelines, as previously reported	12,270,773	–	N/A	5,992	–	N/A
Effect of business combination under common controls	N/A	9,988,657	N/A	N/A	4,760	N/A
Natural Gas Pipelines, as restated	12,270,773	9,988,657	22.85	5,992	4,760	25.88
LNG Processing and Terminal	2,228,152	–	N/A	1,229	118	941.53
Total of Natural Gas Distribution	16,676,735	11,661,851	43.00	12,447	8,861	40.47
Total Revenue				15,605	11,806	32.18

Other Gains, Net

Other gains, net for the six months ended 30 June 2012 was approximately HK$85 million, representing an increase of 32.81% as compared with unrestated amount of HK$64 million (10.39% as compared with restated amount of HK$77 million) for the same period of last year. The increase was mainly due to gain on exchange difference.

Interest Income

Interest income for the six months ended 30 June 2012 was approximately HK$83 million, representing an increase of 107.50% as compared with unrestated amount of HK$40 million (66.00% as compared with restated amount of HK$50 million) for the same period of last year. The increase was mainly due to an increase in interest rates and bank deposits held by the Group. During the Period, the Group has obtained net additional borrowings from China Petroleum Finance Company Limited amounting to approximately HK$1,193 million and share placement amounting to approximately HK$10,259 million, net of transaction costs.

Purchases, Services and Others

Purchases, services and others were approximately HK$5,506 million for the Period, representing an increase of 68.28% as compared with unrestated amount of HK$3,272 million (28.71% as compared with restated amount of HK$4,278 million) for the same period of last year. This was mainly due to the acquisition of Beijing Pipeline and an increase in purchase volume of natural gas which is in line with the market condition.

Employee Compensation Costs

Employee compensation costs of the Group was approximately HK$759 million for the Period, representing an increase of 63.58% as compared with unrestated amount of HK$464 million (38.00% as compared with restated amount of HK$550 million) for the same period of last year. This increase was mainly due to the acquisition of Beijing Pipeline and the expansion of the Group's natural gas business.

Exploration Costs

Exploration costs for the Period was approximately HK$33 million, representing a decrease of 74.42% as compared with HK$129 million for the same period of last year. This was mainly due to less exploration activities undertaken by the Group's exploration and product projects.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation for the Period was approximately HK$2,409 million, representing an increase of 309.69% as compared with unrestated amount of HK$588 million (31.50% as compared with restated amount of HK$1,832 million) for the period of last year. This was mainly due to acquisition of Beijing Pipeline and additions of property, plant and equipment during the Period following the business expansion.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Period was approximately HK$915 million, representing an increase of 69.44% as compared with unrestated amount of HK$540 million (37.18% as compared with restated amount of HK$667 million) for the same period of last year. This was mainly due to acquisition of Beijing Pipeline and an expansion of the Group's natural gas business.

Taxes other than Income Taxes

Taxes other than income taxes for the Period was approximately HK$549 million, representing an increase of 38.64% as compared with unrestated amount of HK$396 million (a decrease of 0.90% as compared with restated amount of HK$554 million) for the same period of last year. It was mainly due to the acquisition of Beijing Pipeline.

Interest Expenses

Interest expenses for the Period was approximately HK$395 million, representing an increase 39.08% as compared with restated amount of HK$284 million (same period 2011: nil (unrestated)) for the same period of last year.

Share of Profits less Losses of Associates

Share of profits less losses of associates for the Period increased 16.42% to approximately HK$1,425 million (same period 2011: HK$1,224 million (same as restated figures)), it was mainly due to the decrease of other taxes in Aktobe project.

Share of Profits less Losses of Jointly Controlled Entities

Share of profits less losses of jointly controlled entities for the Period increased 29.01% to approximately HK$209 million (2011: HK$162 million (same as restated figures)), it was mainly due to the increment of sales volume in Oman project.

Profit before Income Tax Expense

Profit before income tax expense for the Period was approximately HK$6,841 million, representing an increase of 139.20% as compared with unrestated amount of HK$2,860 million (36.14% as compared with restated amount of HK$5,025 million) for the same period of last year.

The table below sets out the profit before income tax expense for major segments of the Group for the six months ended 30 June 2012 and 2011, and percentages of change during these two periods.

	Profit before income tax expense For the six months ended 30 June		
	2012	**2011**	**Change**
	HK$ million	*HK$ million*	*%*
Exploration and Production			
PRC	860	878	(2.05)
South America	255	230	10.87
Central Asia	(53)	(46)	(15.22)
South East Asia	140	(40)	450.00
	1,202	1,022	17.61
Share of an associate in Central Asia	1,327	1,136	16.81
Share of a jointly controlled entity in Middle East	205	160	28.13
Total of Exploration and Production	2,734	2,318	17.95
Natural Gas Distribution			
Natural gas Sales, as previously reported	829	537	54.38
Effect of business combination under common controls	N/A	20	N/A
Natural Gas Sales, as restated	829	557	48.83
Natural Gas Pipelines, as previously reported	3,027	–	N/A
Effect of business combination under common controls	N/A	2,145	N/A
Natural Gas Pipelines, as restated	3,027	2,145	41.12
LNG Processing and Terminal	203	(11)	1,945.45
Total of Natural Gas Distribution	4,059	2,691	50.84
	6,793	5,009	35.62

Income Tax Expense

Income tax expense for the Period was approximately HK$1,639 million, representing an increase of 147.21% as compared with unrestated amount of HK$663 million (38.78% as compared with restated amount of HK$1,181 million) for the same period of last year.

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

The profit for the Period of the Group was approximately HK$5,202 million, representing an increase of 136.78% as compared with unrestated amount of HK$2,197 million (35.33% as compared with restated amount of HK$3,844 million) for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$3,500 million, representing an increase of 111.99% as compared with unrestated amount of HK$1,651 million (32.48% as compared with restated amount of HK$2,642 million) for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2012, the carrying value of total assets of the Group is approximately HK$97,297 million, representing an increase of HK$13,228 million or 15.73% as compared with 31 December 2011 unrestated amount of HK$84,069 million or increase of HK$13,090 million or 15.55% as compared with 31 December 2011 restated amount of HK$84,207 million.

The gearing ratio of the Group was 33.23% as at 30 June 2012 compared with 37.69% (unrestated) or 37.65% (restated) as at 31 December 2011. It is computed by dividing the total borrowings of HK$27,773 million (31 December 2011: HK$27,572 million (both unrestated and restated)) by the total equity plus borrowings of HK$83,582 million (31 December 2011: HK$73,159 million (unrestated); HK$73,233 million (restated)).

Profit before interest, tax, depreciation and amortisation ("EBITDA") for the Period was approximately HK$9,562 million, representing an increase of 180.58% as compared with unrestated amount of HK$3,408 million (or 34.85% as compared with restated amount of HK$7,091 million) for the same period of last year.

The Group received dividends from associates during the Period which included HK$429 million (same period 2011: HK$634 million (same as restated figures)) from an associate in Central Asia.

The Group raised new borrowings of HK$2,299 million and repaid HK$1,893 million to financial institutions and related parties resulting a net increase in borrowings of HK$406 million during the Period.

During the Period, certain senior executives of the Company exercised their share options. As a result, the Company issued 57 million new shares (2011: 23 million new shares) and received subscription amount of HK$239 million (2011: HK$96 million). In April 2012, the Company issued 800 million shares at HK$13.10 per share to public and received amount of HK$10,259 million net of the direct transaction costs.

USE OF PROCEEDS

The Group paid interest of HK$587 million (same period 2011: HK$171 million (unrestated); HK$484 million (restated)) during the Period.

2011 final dividend of HK$0.22 per share amounting HK$1,766 million (2010: HK$0.138 per share amounting HK$684 million) was distributed to owners of the Company during the Period.

PLEDGED OF ASSETS

As at 30 June 2012 and 31 December 2011, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

During the Period, the capital increase in Binhai New Energy was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. The Company also established Kunlun Energy (Gansu) Company Ltd and Jilin Jigang Clean Energy Company Limited with Yumen Oilfield and Jilin Oilfield respectively.

EMPLOYEE

On 30 June 2012, the Group had approximately 14,763 staff globally (excluding the staff under entrustment contracts) (2011: 12,868 staff (restated)). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

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 2012.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, the Company has not repurchased any of its 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 is of the view that the Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "Former CG Code") (formerly set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules")). The Former CG Code was amended and renamed as the Corporate Governance Code ("Revised CG Code"). The Revised CG Code is applicable to financial reports covering a period after 1 April 2012. The Company has also complied with all the code provisions in the Revised CG Code during the period from 1 April 2012 to 30 June 2012, except that in respect of code provision D.1.4, the Board has approved on 23 August 2012 the formal letters of appointment for Directors setting out the key terms and conditions of their appointment which will be subsequently executed by all Directors no later than September 2012.

REVIEW OF INTERIM FINANCIAL INFORMATION

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

The unaudited consolidated interim condensed financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and by the Company's auditor, PricewaterhouseCoopers, 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.

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 2012.

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 7 September 2012 on The Stock Exchange of Hong Kong Limited's website (www.hkex.com.hk) and the Company's website (www.irasia.com/listco/hk/kunlun/index.htm or www.kunlun.com.hk).

MEMBERS OF THE BOARD

The board of directors as at the date of this announcement comprises Mr. Li Hualin as the Chairman and Executive Director, Mr. Zhang Bowen as the President and Executive Director and Mr. Cheng Cheng as the Senior Vice President and Executive Director, and Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng as Independent Non-Executive Directors.

By Order of the Board
Li Hualin
Chairman

Hong Kong, 23 August 2012