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			
	2016	2015	Change	
	HK$'million	*HK$'million* (restated)	*HK$'million*	*%*
Revenue	**39,892**	49,289	(9,397)	(19.07)
Profit before income tax expense	**6,311**	6,399	(88)	(1.38)
Profit attributable to the owners of the Company	**2,890**	2,778	112	4.03
EBITDA (note)	**9,525**	10,141	(616)	(6.07)
	HK cent	*HK cent*	*HK cent*	*%*
Earnings per share (Basic)	**35.80**	34.42	1.38	4.01
Earnings per share (Diluted)	**35.80**	34.42	1.38	4.01
Dividend per share – Interim	**NIL**	NIL	NIL	NIL
	HK$'million	*HK$'million*	*HK$'million*	*%*
(Loss)/profit attributable to the owners of the Company (by segment)				
– Exploration and Production	**(223)**	(133)	(90)	67.67
– Natural Gas Sales (including LNG Processing)	**1,011**	759	252	33.20
– LNG Terminal	**112**	144	(32)	(22.22)
– Natural Gas Pipeline	**2,092**	2,012	80	3.98
EBITDA (by segment)				
– Exploration and Production	**225**	450	(225)	(50.00)
– Natural Gas Sales (including LNG Processing)	**2,976**	3,301	(325)	(9.85)
– LNG Terminal	**539**	699	(160)	(22.89)
– Natural Gas Pipeline	**5,853**	5,780	73	1.26

Note: EBITDA is defined as profit before income tax expense, 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 2016 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Note	***HK$'million***	*HK$'million*
			(restated)
			(Note 11)
Revenue	*3*	**39,892**	49,289
Other gains, net		**584**	615
Interest income		**247**	199
Purchases, services and others		**(27,435)**	(35,456)
Employee compensation costs		**(2,113)**	(2,348)
Depreciation, depletion and amortisation		**(3,230)**	(3,647)
Selling, general and administrative expenses		**(1,400)**	(1,672)
Taxes other than income taxes		**(308)**	(332)
Interest expenses	*4*	**(231)**	(294)
Share of profits less losses of:			
– Associates		**219**	(78)
– Joint ventures		**86**	123
Profit before income tax expense	*5*	**6,311**	6,399
Income tax expense	*6*	**(1,593)**	(1,747)
Profit for the period		**4,718**	4,652
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		**(526)**	(20)
– Associates		**(59)**	(33)
– Joint ventures		**(3)**	–
– Fair value (loss)/gain on available-for-sale financial assets		**(272)**	3
Other comprehensive income for the period, net of nil tax		**(860)**	(50)
Total comprehensive income for the period		**3,858**	4,602

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Note	***HK$'million***	*HK$'million*
			(restated)
			(Note 11)
Profit for the period attributable to:			
– Owners of the Company		**2,890**	2,778
– Non-controlling interests		**1,828**	1,874
		4,718	4,652
Total comprehensive income for the period attributable to:			
– Owners of the Company		**2,439**	2,606
– Non-controlling interests		**1,419**	1,996
		3,858	4,602
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (HK cent)		**35.80**	34.42
– Diluted (HK cent)		**35.80**	34.42

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	**30 June 2016** *HK$'million*	31 December 2015 *HK$'million* (restated) *(Note 11)*
Assets			
Non-current assets			
Property, plant and equipment		**96,352**	98,878
Advanced operating lease payments		**4,275**	4,199
Investments in associates		**2,902**	2,814
Investments in joint ventures		**1,397**	1,371
Available-for-sale financial assets		**595**	870
Intangible and other non-current assets		**1,364**	1,540
Deferred tax assets		**1,385**	1,165
		108,270	110,837
Current assets			
Inventories		**1,592**	1,518
Accounts receivable	*9*	**3,337**	3,280
Prepaid expenses and other current assets		**6,535**	10,406
Cash and cash equivalents		**19,690**	17,145
		31,154	32,349
Total assets		**139,424**	143,186
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	81
Retained earnings		**29,897**	27,580
Other reserves		**14,787**	34,100
		44,765	61,761
Non-controlling interests		**28,156**	26,858
Total equity		**72,921**	88,619

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

	Note	**30 June 2016** *HK$'million*	31 December 2015 *HK$'million* (restated) *(Note 11)*
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**36,431**	24,539
Income tax payable		**331**	626
Other tax payable		**636**	891
Short-term borrowings		**6,667**	8,076
Obligations under finance leases		**201**	208
		44,266	34,340
Non-current liabilities			
Long-term borrowings		**18,771**	16,414
Deferred tax liabilities		**1,095**	1,040
Obligations under finance leases		**476**	566
Other liabilities		**1,895**	2,207
		22,237	20,227
Total liabilities		**66,503**	54,567
Total equity and liabilities		**139,424**	143,186
Net current liabilities		**(13,112)**	(1,991)
Total assets less current liabilities		**95,158**	108,846

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 2016 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 18 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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, whose unmodified review report is included in the interim report to be sent to shareholders.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory annual consolidated financial statements for that financial year.

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 (approximately HK$17,998 million or US$2,322 million), subject to adjustment on gain or loss of Kunlun Gas during the transition period, as defined in the Agreement. The acquisition was completed on 31 May 2016, and Kunlun Gas has become a wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by China National Petroleum Corporation ("CNPC"), the acquisition of Kunlun Gas was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition has been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5, *Merger Accounting for Common Control Combinations* ("AG 5") issued by the HKICPA. The interim financial information of the Group has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The opening balance at 1 January 2015 have been restated, with consequential adjustments to comparatives for the six months ended 30 June 2015. The final consideration of HK$18,951 million payable by the Group has been treated as an equity transaction. The details of the restated balances have been disclosed in Note 11 to this interim financial information.

Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group:

– *Annual Improvements to HKFRSs 2012-2014 Cycle*

– *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

In addition, the acquisition of Kunlun Gas is accounted for as a business combination of entities under common control, the accounting policies newly applied to align the accounting policies of the Group and Kunlun Gas are set out as below:

Construction contracts

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

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

Contract revenue

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

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

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 assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and joint ventures ("segment results").

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

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, net exchange gains/losses and general and administrative 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 2016 and 2015 are as follows:

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	Natural Gas Sales and LNG Processing Sub-total	LNG Terminal	Natural Gas Pipeline	Sub-total			Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
For the six months ended 30 June 2016												
Gross revenue	536	322	858	31,415	505	31,920	682	6,771	39,373	–	–	40,231
Less: Inter-company adjustment	–	–	–	(56)	(235)	(291)	(43)	(5)	(339)	–	–	(339)
Revenue from external customers	536	322	858	31,359	270	31,629	639	6,766	39,034	–	–	39,892
Segment results	(256)	(34)	(290)	1,694	(339)	1,355	213	4,814	6,382	(86)	–	6,006
Share of profits less losses of:												
– Associates	–	25	25	194	–	194	–	–	194	–	–	219
– Joint ventures	–	87	87	2	–	2	–	–	2	(3)	–	86
Profit before income tax expense	(256)	78	(178)	1,890	(339)	1,551	213	4,814	6,578	(89)	–	6,311
Income tax expense												(1,593)
Profit for the period												4,718
Segment results included:												
– Interest income	25	2	27	184	1	185	1	14	200	221	(201)	247
– Depreciation, depletion and amortisation	(247)	(183)	(430)	(1,262)	(186)	(1,448)	(327)	(1,023)	(2,798)	(2)	–	(3,230)
– Interest expenses	–	–	–	(18)	(144)	(162)	–	(30)	(192)	(240)	201	(231)
As at 30 June 2016												
Non-current assets	756	658	1,414	39,260	16,271	55,531	10,249	33,618	99,398	1,179	–	101,991
Current assets	1,014	443	1,457	22,547	241	22,788	630	3,755	27,173	2,477	–	31,107
Segment assets	1,770	1,101	2,871	61,807	16,512	78,319	10,879	37,373	126,571	3,656	–	133,098
Investments in associates	–	–	–	2,895	–	2,895	7	–	2,902	–	–	2,902
Investments in joint ventures	–	1,149	1,149	163	–	163	–	–	163	85	–	1,397
Sub-total	1,770	2,250	4,020	64,865	16,512	81,377	10,886	37,373	129,636	3,741	–	137,397
Available-for-sale financial assets												595
Deferred tax assets												1,385
Others												47
Total assets												139,424

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	Natural Gas Sales and LNG Processing Sub-total	LNG Terminal	Natural Gas Pipeline	Sub-total			Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
				(restated)		(restated)			(restated)			(restated)
				(Note 11)		*(Note 11)*			*(Note 11)*			*(Note 11)*
For the six months ended 30 June 2015												
Gross revenue	879	507	1,386	40,165	859	41,024	846	6,693	48,563	–	–	49,949
Less: Inter-company adjustment	–	–	–	(208)	(426)	(634)	(23)	(3)	(660)	–	–	(660)
Revenue from external customers	879	507	1,386	39,957	433	40,390	823	6,690	47,903	–	–	49,289
Segment results	(146)	(102)	(248)	2,127	(485)	1,642	307	4,627	6,576	26	–	6,354
Share of profits less losses of:												
– Associates	–	(71)	(71)	(7)	–	(7)	–	–	(7)	–	–	(78)
– Joint ventures	–	160	160	4	–	4	–	–	4	(41)	–	123
Profit before income tax expense	(146)	(13)	(159)	2,124	(485)	1,639	307	4,627	6,573	(15)	–	6,399
Income tax expense												(1,747)
Profit for the period												4,652
Segment results included:												
– Interest income	49	2	51	140	4	144	1	18	163	221	(236)	199
– Depreciation, depletion and amortisation	(359)	(299)	(658)	(1,432)	(123)	(1,555)	(353)	(1,080)	(2,988)	(1)	–	(3,647)
– Interest expenses	–	(2)	(2)	(68)	(183)	(251)	(40)	(91)	(382)	(146)	236	(294)
As at 31 December 2015												
Non-current assets	1,015	810	1,825	39,738	16,446	56,184	10,585	34,842	101,611	1,181	–	104,617
Current assets	718	416	1,134	23,368	692	24,060	250	590	24,900	6,251	–	32,285
Segment assets	1,733	1,226	2,959	63,106	17,138	80,244	10,835	35,432	126,511	7,432	–	136,902
Investments in associates	–	–	–	2,807	–	2,807	7	–	2,814	–	–	2,814
Investments in joint ventures	–	1,062	1,062	220	–	220	–	–	220	89	–	1,371
Sub-total	1,733	2,288	4,021	66,133	17,138	83,271	10,842	35,432	129,545	7,521	–	141,087
Available-for-sale financial assets												870
Deferred tax assets												1,165
Others												64
Total assets												143,186

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 2016, revenue of approximately HK$6,261 million (six months ended 30 June 2015 restated: HK$6,474 million) is derived from one (six months ended 30 June 2015 restated: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

3 REVENUE

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

4 INTEREST EXPENSES

	Six months ended 30 June	
	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Interest expenses	**609**	707
Less: Amounts capitalised	**(378)**	(413)
Total interest expenses	**231**	294

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 4.05% (six months ended 30 June 2015 restated: 4.38%) per annum for the six months ended 30 June 2016.

5 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Amortisation of advanced operating lease payments and intangible assets	**89**	85
Cost of inventories recognised as expense	**27,904**	36,388
Operating lease expenses	**256**	281

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Current tax		
– PRC	**1,761**	2,010
– Overseas	**9**	55
	1,770	2,065
Deferred tax	**(177)**	(318)
	1,593	1,747

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in the PRC is principally 25% (six months ended 30 June 2015: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (six months ended 30 June 2015: 15% to 20%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2016 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

7 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$2,890 million (six months ended 30 June 2015 restated: HK$2,778 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2016 of approximately 8,072 million shares (six months ended 30 June 2015: 8,072 million shares).

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2016 and 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

8 DIVIDENDS

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

(b) Final dividend attributable to owners of the Company in respect of 2015 of HK6 cents per share amounting to a total of approximately HK$484 million were approved by the shareholders in the Annual General Meeting on 12 May 2016. The amount is based on approximately 8,072 million shares in issue as at 17 March 2016 which was paid on 17 June 2016.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: 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:

	30 June 2016 *HK$'million*	31 December 2015 *HK$'million* (restated) *(Note 11)*
Within 3 months	**1,712**	1,589
Between 3 to 6 months	**362**	509
Over 6 months	**1,263**	1,182
	3,337	3,280

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales and distribution of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2016, accounts receivable aged over three months of approximately HK$1,625 million (31 December 2015 restated: HK$1,691 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 30 June 2016, included in the balance is accounts payable of HK$3,711 million (31 December 2015 restated: HK$3,151 million).

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

	30 June 2016 *HK$'million*	31 December 2015 *HK$'million* (restated) *(Note 11)*
Within 3 months	**2,158**	2,268
Between 3 to 6 months	**221**	189
Over 6 months	**1,332**	694
	3,711	3,151

11 COMPARATIVE FIGURES

2016 business combination under common control

As mentioned in Note 1 to this interim financial information, the acquisition of Kunlun Gas has been accounted for based on AG 5. Accordingly, the assets and liabilities of Kunlun Gas acquired by the Group have been accounted for at historical cost and the financial statements of the Group for period prior to the combination have been restated to include the financial position and results of operation of Kunlun Gas on a combined basis. The details of the restated balances are as follows:

The summarised results of operations for the six months ended 30 June 2015 and the financial position as at 31 December 2015 are set out below:

	The Group *HK$'million* (as previously reported)	Kunlun Gas *HK$'million*	Inter-company eliminations *HK$'million*	The Group *HK$'million* (restated)
Results of operations for the six months ended 30 June 2015				
Revenue	20,879	28,537	(127)	49,289
Other gains, net	488	127	–	615
Interest income	103	96	–	199
Purchases, services and others	(11,315)	(24,268)	127	(35,456)
Employee compensation costs	(1,012)	(1,336)	–	(2,348)
Depreciation, depletion and amortisation	(2,899)	(748)	–	(3,647)
Selling, general and administrative expenses	(1,145)	(527)	–	(1,672)
Taxes other than income taxes	(195)	(137)	–	(332)
Interest expenses	(258)	(36)	–	(294)
Share of profits less losses of:				
– Associates	(62)	(16)	–	(78)
– Joint ventures	121	2	–	123
Profit before income tax expense	4,705	1,694	–	6,399
Income tax expense	(1,257)	(490)	–	(1,747)
Profit for the period	3,448	1,204	–	4,652
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of:				
– Subsidiaries	(20)	–	–	(20)
– Associates	(33)	–	–	(33)
– Joint ventures	–	–	–	–
– Fair value gain on available-for-sale financial assets	3	–	–	3
Other comprehensive income for the period, net of nil tax	(50)	–	–	(50)
Total comprehensive income for the period	3,398	1,204	–	4,602

	The Group *HK$'million* (as previously reported)	Kunlun Gas *HK$'million*	Inter-company eliminations *HK$'million*	The Group *HK$'million* (restated)
Results of operations for the six months ended 30 June 2015 (Continued)				
Profit for the period attributable to:				
– Owners of the Company	1,921	857	–	2,778
– Non-controlling interests	1,527	347	–	1,874
	3,448	1,204	–	4,652
Total comprehensive income for the period attributable to:				
– Owners of the Company	1,884	722	–	2,606
– Non-controlling interests	1,514	482	–	1,996
	3,398	1,204	–	4,602
Earnings per share for profit attributable to owners of the Company				
– Basic (HK cents)	23.80	10.62	–	34.42
– Diluted (HK cents)	23.80	10.62	–	34.42
Financial position as at 31 December 2015				
Non-current assets				
Property, plant and equipment	80,390	18,488	–	98,878
Advanced operating lease payments	3,205	994	–	4,199
Investments in associates	2,266	548	–	2,814
Investments in joint ventures	1,321	50	–	1,371
Available-for-sale financial assets	812	58	–	870
Intangibles and other non-current assets	1,045	495	–	1,540
Deferred tax assets	586	579	–	1,165
	89,625	21,212	–	110,837
Current assets				
Inventories	916	602	–	1,518
Accounts receivable	1,837	1,443	–	3,280
Prepaid expenses and other current assets	3,932	6,474	–	10,406
Cash and cash equivalents	11,771	5,374	–	17,145
	18,456	13,893	–	32,349
Total assets	108,081	35,105	–	143,186

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

BUSINESS REVIEW

I am pleased to report the 2016 interim results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") to the shareholders on behalf of the Board.

For the six months ended 30 June 2016 (the "Period"), the revenue of the Group amounted to HK$39,892 million, representing a decrease of HK$9,397 million or 19.07% compared with the revenue of HK$49,289 million (restated) for the same period of last year, and profit attributable to owners of the Company amounted to HK$2,890 million, representing an increase of HK$112 million or 4.03% compared with the amount of HK$2,778 million (restated) for the same period of last year. Among which, affected by the decrease in average exchange rate of Renminbi ("RMB") to Hong Kong Dollar ("HK$") compared with that of the same period of last year, revenue in HK$ of the Group decreased by 7%. During the Period, facing severe challenges such as the persistent low price of international crude oil, weak demand of natural gas market, etc., the Group continued to develop steadily, emphasised on quality and efficiency, implemented measures in-depth to increase revenues and decrease expenditures so as to enhance efficiency, and carried out business integration with PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas"). The group's operation results were in line with expectation of the management and maintained its stable development momentum.

During the Period, the Group obtained necessary approvals from government authorities in respect of acquisition of entire equity interest in Kunlun Gas from PetroChina Company Limited ("PetroChina"). The relevant change of business registration and the payment of the first tranche consideration have been completed and Kunlun Gas has become the wholly-owned subsidiary of the Group. After the acquisition, the Group's strategic positioning was more defined in that the Group will be the entity and management platform under PetroChina for the investment, financing and operation of natural gas distribution and comprehensive utilisation business, with business covering 31 provinces, autonomous regions all over China and business scope including LNG receiving, processing and storage, branch pipelines, city gas, LNG/CNG refueling station, LPG sales business etc. The Group has city gas network of over 27,000 km, branch pipeline over 2,700 km, serving over 7 million accumulative users, over 1,500 LNG/CNG filling stations, with annual sale volume of natural gas over 16,000 million cubic metres and annual sale volume of LPG near 6.30 million tons.

I. Exploration and Production

During the Period, the sales volume of crude oil in the Exploration and Production business reached 8.14 million barrels, representing a decrease of 0.28 million barrels or 3.33% compared with the volume of 8.42 million barrels for the same period of last year. The revenue was HK$858 million, representing a decrease of HK$528 million or 38.10% as compared with the revenue of HK$1,386 million for the same period of last year. Loss before income tax expense was HK$178 million, representing an increase loss of HK$19 million or 11.95% compared with the loss before income tax expense of HK$159 million for the same period of last year. The decreases in revenue and the profit before income tax expense were mainly due to the decline in average global crude oil prices, which led to the Group's average crude oil selling price decreased from US$47.01/barrel in the same period of last year to US$29.26/barrel for the Period.

During the Period, in view of the dramatic drop of international oil price, the decreasing production under the project and the adjusting business position, the Group considered that further investment in Xinjiang project is not in the interest of the Group and its shareholders as a whole, as such, the Group has decided not to renew the contract of the Xinjiang project after the current production period expiration on 31 August 2016.

II. Natural Gas Pipeline

During the Period, the transmission volume of Natural Gas Pipeline business was 17,567 million cubic metres, representing an increase of 933 million cubic metres or 5.61% compared with the volume of 16,634 million cubic metres (restated) for the same period of last year. Revenue was HK$6,771 million, representing an increase of HK$78 million or 1.17% as compared with the revenue of HK$6,693 million for the same period of last year; profit before income tax expense was HK$4,814 million, representing an increase of HK$187 million or 4.04% as compared with the amount of HK$4,627 million for the same period of last year.

During the Period, the transmission volume of Petrochina Beijing Gas Pipeline Co., Ltd. under the Group ("Beijing Pipeline Company") was 16,614 million cubic metres, representing an increase in 5.86% compared with the same period of last year. The trunkline of No. 4 Shaanxi-Beijing Pipeline, which is invested by Beijing Pipeline Company, will begin from the first station in Jingbian of Shaanxi Province, passing through Inner Mongolia and Hebei, and end at the Gaoliying terminal station in Beijing. Its total length is 1,082 km and the designed transmission volume is 25 billion cubic metres per year. The construction is scheduled to be completed by the end of 2017. Such project is an important transmission channel for the import of natural gas from central Asia and the transmission of natural gas produced domestically and will further expand the natural gas supply of the Group to Beijing, Tianjin, Hebei and surrounding areas and solidify the leading position of the Group in the regional market. At present, government approval progress of such project has basically been completed.

III. LNG Terminal

During the Period, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal owned by the Group amounted to 1,908 million cubic metres, representing a decrease of 309 million cubic metres or 13.94% compared with the volume of 2,217 million cubic metres for the same period of last year. Revenue amounted to HK$682 million, representing a decrease of HK$164 million or 19.39% compared with the revenue of HK$846 million for the same period of last year; profit before income tax expense amounted to HK$213 million, representing a decrease of HK$94 million or 30.62% as compared with the amount of HK$307 million for the same period of last year. The decreases in both revenue and profit before income tax expense were mainly due to PetroChina, the parent company, properly adjusted the import operation plan in response to market's demands, and the gasification volume of terminals and LNG entrucking both decreased as compared with same period of last year.

IV. Sales of Natural Gas and LNG Processing

During the Period, the sales volume of the Group's natural gas was 11,711 million cubic metres, representing an increase of 406 million cubic metres or 3.59% compared with the volume of 11,305 million cubic metres (restated) for the same period of last year. The revenue was HK$31,920 million, representing a decrease of HK$9,104 million or 22.19% compared with the revenue of HK$41,024 million (restated) for the same period of last year. The profit before income tax expense was HK$1,551 million, representing a decrease of the profit before income tax expense of HK$88 million or 5.37% compared with the amount of HK$1,639 million (restated) for the same period of last year. The decreases in both revenue and profit before income tax expense were mainly due to persistent low price of international crude oil and the domestic price reform of non-residential natural gas, and the selling price of natural gas was lower as compared with the same period of last year.

During the Period, city gas business continued to maintain growth. As compared with the same period of last year, new developed customers increased by 54% and sales volume of city gas increased by 10.4%; sales volume of public services increased by 20.5% and sales volume of residential gas increased by 19.2%, with user structure continuously optimised. Construction work of six branch pipelines including Changsha – Liuyang have been commenced and initial designs of Jieyang and Chaozhou projects have been launched.

During the Period, operation of LNG processing business still faced great operation pressure. Since market demands declined, LNG sales volume of the Group's LNG plants amounted to 85 million cubic metres, representing a decrease of 25 million cubic metres or 22.73% as compared with 110 million cubic metres for the same period of last year. Under the guideline of "One Factory One Policy", the Group was preparing the working plans for improvement of assets operation efficiency.

During the Period, the structural adjustment of LPG sale business has progressed smoothly. Through strengthening the cooperation with retail chain, the Group promoted end-user market development, enhanced cost reduction and efficiency of storage tank and terminal. Sales volume for residential use increased by 30% and the proportion of sales volume to end-user increased by 5.6%.

BUSINESS PROSPECTS

In the second half of the year, the situation of oversupply in the international oil and gas market would continue, the growth of domestic demand for natural gas would slow down, and the market competition would further intensify. The Group will actively respond to these challenges, and to strengthen top-level design. Making use of management platform in Kunlun Gas, the Group will coordinate the subsidiaries in each region, make overall plans on city gas, LNG processing, and LNG/CNG end-user sales businesses, to optimize allocation of resources, and to reduce administration costs. The Group will also make reform on organizational and operational systems, to enhance the efficiency in its decision-making and implementation processes, and to release the enterprise vitality. The Group will also further strengthen technology innovation, implement the action plan of 'Internet + Gas', and innovate business models and processes for natural gas end-user sales and utilization.

In respect of natural gas pipeline, the Group will engage in the construction of No. 4 Shaanxi-Beijing Pipeline so as to meet the continuously increase the natural gas consumption demand in Beijing, Tianjin and Hebei regions. Also, the Group will push forward the construction of major branch pipeline projects in Hunan and Guangdong to gain a dominant market position in the regions covered by the branch pipelines.

In respect of LNG terminal business, the Group will actively explore market to further expand the gasification volume and loading and unloading volume of the third parties and develop other liquefied natural gas businesses including consignment store and sales business. Besides, the Group will establish advantage through coordinative operation of LNG plants and terminals, dispose low-efficiency assets, improve the utilisation rate and profitability.

In respect of natural gas sales, the Group will strengthen regional cooperation with major gas companies in China while further intensify development high-end and high-profitability projects, with focus on Bohai Rim, Northeast China, Eastern China, and Southern China.

In respect of LPG sales, the Group will enhance end-user market sales, focus on the development of LPG deep processing client, expand new channels for imported resources and further increase our market share in end-user market.

In respect of natural gas power generation aspect, the Group will track and study the state's gas and electricity policy, strengthen cooperation with power generating companies and actively participate in natural gas power generation and decentralised energy projects.

The Group will undertake the historical responsibility, change the mode of management, enhance operation system, continue to pay attention on growth and strive to enhance the enterprise value.

INTERIM DIVIDEND

The Board has resolved not to declare an 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 six months ended 30 June 2016 (the "Period"). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 104.23% (same period of 2015: 102.72% (restated)) of the Group's profit before income tax expense for the Period. The acquisition of PetroChina Kunlun Gas Co. Limited ("Kunlun Gas") was completed on 31 May 2016 and the comparative financial information in this result announcement has been restated to reflect the effect of the acquisition of Kunlun Gas by the Group under common control.

Operating results

Profit before income tax expense of the Group for the Period was approximately HK$6,311 million, representing a decrease of 1.38% as compared with amount of HK$6,399 million (restated) for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$2,890 million, representing an increase of 4.03% as compared with amount of HK$2,778 million (restated) for the same period of last year.

Revenue

Revenue for the Period was approximately HK$39,892 million, representing a decrease of 19.07% as compared with amount of HK$49,289 million (restated) for the same period of last year. The decrease was mainly due to the decrease in selling price of natural gas.

Revenue from the Exploration and Production segment accounted for 2.15% (same period of 2015: 2.81% (restated)) of the Group's total revenue amounting to approximately HK$858 million (same period of 2015: HK1,386 million) while revenue from the Natural Gas Distribution business segment accounted for 97.85% (same period of 2015: 97.19% (restated)) of the Group's total revenue amounting to approximately HK$39,034 million (same period of 2015: HK$47,903 million (restated)).

The table below sets out the sales volume and revenue of different segments of the Group for the six months ended 30 June 2016 and 2015, and percentages of change across these two periods.

	Sale volume (Group's portion) for the six months ended 30 June			Revenue (Per segment information) for the six months ended 30 June		
	2016	2015	Change	**2016**	2015	Change
	('000 Barrel)	*('000 Barrel)*	%	***HK$'million***	*HK$'million*	%
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC")	**2,505**	2,594	(3.43)	**536**	879	(39.02)
South America (note (1))	**293**	310	(5.48)	**182**	285	(36.14)
Central Asia	**312**	295	5.76	**72**	111	(35.14)
South East Asia (note (2))	**264**	251	5.18	**68**	111	(38.74)
Sub-total	**3,374**	3,450	(2.20)	**858**	1,386	(38.10)
Share of an associate in Central Asia	**2,537**	2,768	(8.35)	**–**	–	–
Share of a joint venture in Middle East	**2,225**	2,200	1.14	**–**	–	–
Total of Exploration and Production	**8,136**	8,418	(3.35)	**858**	1,386	(38.10)

	Revenue (Per segment information) for the six months ended 30 June		
	2016	2015	Change
	HK$'million	*HK$'million* (restated)	%
Natural Gas Distribution business (by segments)			
Natural Gas Pipeline (note (3))	**6,771**	6,693	1.17
LNG Terminal	**682**	846	(19.39)
Natural Gas Sales	**31,415**	40,165	(21.79)
LNG Processing	**505**	859	(41.21)
Sub-total	**31,920**	41,024	(22.19)
Less: Inter-company adjustment	**(339)**	(660)	(48.64)
Total of Natural Gas Distribution	**39,034**	47,903	(18.51)
Total revenue	**39,892**	49,289	(19.07)

	Sale/processing volume for the six months ended 30 June		
	2016	2015	Change
	('000 cubic metre)	*('000 cubic metre)* (restated)	*%*
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline	**17,567,429**	16,633,942	5.61
LNG Terminal	**1,907,856**	2,217,389	(13.96)
Natural Gas Sales	**11,533,490**	11,058,730	4.29
LNG Processing	**177,843**	246,175	(27.76)
Sub-total	**11,711,333**	11,304,905	3.60
Less: Inter-company adjustment	**(298,949)**	(294,268)	1.59
Total of Natural Gas Distribution	**30,887,669**	29,861,968	3.43

Notes:

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

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

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

	Sales volume for the six months ended 30 June			Revenue for the six months ended 30 June		
	2016	2015	Change	**2016**	2015	Change
	('000 cubic metre)	*('000 cubic metre)*	*%*	***HK$'million***	*HK$'million*	*%*
Natural Gas Sales	**27,753**	25,506	8.81	**80**	87	(8.05)

Other gains, net

Other gains, net for the Period was approximately HK$584 million, representing a decrease of 5.04% as compared with amount of HK$615 million (restated) for the same period of last year. The decrease was mainly due to exchange loss attributable by the fluctuation in exchange rate of HK$ against RMB, partly offset by increase in government grants.

Interest income

Interest income for the Period was approximately HK$247 million, representing an increase of 24.12% as compared with amount of HK$199 million (restated) for the same period of last year. The increase was mainly due to an increase in average balance of cash and cash equivalents.

Purchases, services and others

Purchases, services and others were approximately HK$27,435 million for the Period, representing a decrease of 22.62% as compared with amount of HK$35,456 million (restated) for the same period of last year. This was mainly due to the decrease in purchase price of natural gas.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$2,113 million for the Period, representing a decrease of 10.01% as compared with amount of HK$2,348 million (restated) for the same period of last year. This decrease was mainly due to the fluctuation in exchange rate of HK$ against RMB during the Period.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Period was approximately HK$3,230 million, representing a decrease of 11.43% as compared with amount of HK$3,647 million (restated) for the same period of last year. This was mainly due to the impairment of property, plant and equipment in PRC in 2015 which led to the decrease in depreciable base of property, plant and equipment.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Period were approximately HK$1,400 million, representing a decrease of 16.27% as compared with amount of HK$1,672 million (restated) for the same period of last year. This was mainly due to the effective cost control and the depreciation of RMB against HK$.

Taxes other than income taxes

Taxes other than income taxes for the Period was approximately HK$308 million, representing a decrease of 7.23% as compared with amount of HK$332 million (restated) for the same period of last year. This was mainly due to the depreciation of RMB against HK$.

Interest expenses

Interest expenses for the Period was approximately HK$231 million, representing a decrease of 21.43% as compared with amount of HK$294 million (restated) for the same period of last year. The decrease was mainly due to the change in borrowing profile with lower effective interest rate during the Period.

Total interest expenses for the Period was approximately HK$609 million of which HK$378 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 380.77% to profit of approximately HK$219 million (same period of 2015: loss of HK$78 million (restated)). The increase was mainly due to the decrease of the operating cost and the gain on disposal of a subsidiary held by an associate, China City Natural Gas Investment Group Co., Ltd..

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Period was decreased by 30.08% to approximately HK$86 million (same period of 2015: HK$123 million (restated)). The decrease in the shared operating result from Oman project was approximately HK$73 million due to decrease in realised crude oil selling price in 2016.

Profit before income tax expense

Profit before income tax expense for the Period was approximately HK$6,311 million, representing a decrease of 1.38% as compared with amount of HK$6,399 million (restated) for the same period of last year.

The table below sets out the (loss)/profit before income tax expense and percentage of change of different segments of the Group for the six months ended 30 June 2016 and 2015.

	(Loss)/profit before income tax expense for the six months ended 30 June		
	2016	2015	Change
	HK$'million	*HK$'million* (restated)	*%*
Exploration and Production business			
The PRC	**(256)**	(146)	75.34
South America	**34**	124	(72.58)
Central Asia	**(50)**	(22)	127.27
South East Asia	**(18)**	(204)	(91.18)
Sub-total	**(290)**	(248)	16.94
Share of an associate in Central Asia	**25**	(71)	135.21
Share of a joint venture in Middle East	**87**	160	(45.63)
Total of Exploration and Production	**(178)**	(159)	11.95
Natural Gas Distribution business			
Natural Gas Pipeline	**4,814**	4,627	4.04
LNG Terminal	**213**	307	(30.62)
Natural Gas Sales	**1,890**	2,124	(11.02)
LNG Processing	**(339)**	(485)	(30.10)
Sub-total	**1,551**	1,639	(5.37)
Total of Natural Gas Distribution	**6,578**	6,573	0.08
	6,400	6,414	(0.22)

Income tax expense

Income tax expense for the Period was approximately HK$1,593 million, representing a decrease of 8.82% as compared with amount of HK$1,747 million (restated) for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period decreased to 26.52% (same period of 2015: 27.49% (restated)).

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

The profit for the Period of the Group was approximately HK$4,718 million, representing an increase of 1.42% as compared with amount of HK$4,652 million (restated) for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$2,890 million, representing an increase of 4.03% as compared with amount of HK$2,778 million (restated) for the same period of last year.

Liquidity and capital resources

As at 30 June 2016, the carrying value of total assets of the Group was approximately HK$139,424 million, representing a decrease of HK$3,762 million or 2.63% as compared with HK$143,186 million (restated) as at 31 December 2015.

The gearing ratio of the Group was 26.37% as at 30 June 2016 compared with 22.18% (restated) as at 31 December 2015, representing an increase of 4.21%. It is computed by dividing the sum of interest bearing borrowings and obligations under finance leases of HK$26,115 million (31 December 2015: HK$25,264 million (restated)) by the total equity, interest bearing borrowings and obligations under finance leases of HK$99,036 million (31 December 2015: HK$113,883 million (restated)).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation for the Period was approximately HK$9,525 million, representing a decrease of 6.07% as compared with the amount of HK$10,141 million (restated) for the same period of last year.

During 2015, the Company has issued two senior notes to improve the debt profile:

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

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

As at 30 June 2016, the Group has total borrowings of HK$25,438 million which will be repayable as follows:

	30 June 2016 *HK$'million*	31 December 2015 *HK$'million* (restated)
Within one year	**6,667**	8,076
Between one to two years	**2,399**	2,892
Between two to five years	**11,873**	9,014
After five years	**4,499**	4,508
	25,438	24,490

During the Period, no share option (same period of 2015: none) has been exercised by the senior executives of the Company as the exercise price of HK$11.730 was above the market price of HK$6.400 on the share option expiry date and the share options were lapsed.

As at 30 June 2016, the Group had net current liabilities of HK$13,112 million. Notwithstanding the net current liabilities of the Group at 30 June 2016, the Group's consolidated interim financial statements have been prepared on a going concern basis because the directors of the Company are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) the Group has undrawn facilities provided by the Company's immediate holding company amounting to HK$2,300 million;

(ii) the Group has committed credit from China Petroleum Finance Company Limited amounting to RMB23 billion; and

(iii) the Group expects to generate operating cash inflow in the future.

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

The Group paid interest of HK$468 million (same period of 2015: HK$686 million (restated)) during the Period.

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

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

Pledge of assets

As at 30 June 2016, pledged borrowings were secured by shareholdings held by the Group in corresponding subsidiaries with carrying value of HK$98 million (31 December 2015: HK$152 million (restated)).

New investment in major project

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

Material Investments

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

The Group's major investments in associates are mainly in its Exploration and Production segment. The Group has invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

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

Employee

As at 30 June 2016, the Group had approximately 39,523 staff globally (excluding the staff under entrustment contracts) (31 December 2015: 39,655 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.

Interim dividend

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2016.

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 8 September 2016 on the Stock Exchange's of website (www.hkex.com.hk) and the Company's website (www.kunlun.com.hk).

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

Hong Kong, 18 August 2016

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 Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey, Dr Liu Xiao Feng and Mr Sun Patrick as Independent Non-Executive Directors.