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KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)
昆侖能源有限公司

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Six months ended 30 June		
	2018	2017	**Change**
	RMB million	*RMB million* (restated)	*%*
Revenue	**49,593**	40,726	21.77
Profit before income tax expense	**7,231**	6,388	13.20
Profit attributable to the owners of the Company	**3,092**	2,548	21.35
EBITDA *(note 1)*	**10,760**	9,600	12.08
	RMB cent	*RMB cent*	*%*
Earnings per share (Basic)	**38.31**	31.57	21.35
Earnings per share (Diluted)	**36.39**	30.01	21.26
Dividend per share – Interim	**NIL**	NIL	N/A
	RMB million	*RMB million*	*%*
Profit attributable to the owners of the Company (by segment)			
– Exploration and Production	**343**	161	113.04
– Natural Gas Sales	**1,314**	584	125.00
– LNG Processing and Terminal	**515**	40	1,187.50
– Natural Gas Pipeline	**1,244**	1,913	(34.97)

Note:

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

The directors of Kunlun Energy Company Limited (the "Company") (the "Directors") announce that the unaudited consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2018 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Note	***RMB million***	*RMB million* (restated)
Revenue	*3*	**49,593**	40,726
Other gains, net		**106**	571
Interest income		**107**	131
Purchases, services and others		**(36,223)**	(28,351)
Employee compensation costs		**(1,957)**	(1,854)
Depreciation, depletion and amortisation		**(3,061)**	(2,813)
Impairment loss on property, plant and equipment		**–**	(100)
Selling, general and administrative expenses		**(1,188)**	(1,690)
Taxes other than income taxes		**(204)**	(216)
Interest expenses	*4*	**(575)**	(530)
Share of profits less losses of:			
– Associates		**564**	402
– Joint ventures		**69**	112
Profit before income tax expense	*5*	**7,231**	6,388
Income tax expense	*6*	**(2,191)**	(1,967)
Profit for the period		**5,040**	4,421
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value loss on other financial assets (non-recycling), net of tax		**(99)**	–
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		**57**	21
– Associates		**(12)**	5
– Joint ventures		**16**	(17)
– Fair value loss on available-for-sale financial assets (recycling), net of nil tax		**–**	(44)
Other comprehensive income for the period		**(38)**	(35)
Total comprehensive income for the period		**5,002**	4,386

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Note	***RMB million***	*RMB million*
			(restated)
Profit for the period attributable to:			
– Owners of the Company		**3,092**	2,548
– Non-controlling interests		**1,948**	1,873
		5,040	4,421
Total comprehensive income for the period attributable to:			
– Owners of the Company		**3,076**	2,526
– Non-controlling interests		**1,926**	1,860
		5,002	4,386
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (RMB cent)		**38.31**	31.57
– Diluted (RMB cent)		**36.39**	30.01

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**30 June 2018** *RMB million*	31 December 2017 *RMB million*
Assets			
Non-current assets			
Property, plant and equipment		**93,452**	95,735
Advanced operating lease payments		**3,689**	3,782
Investments in associates		**3,727**	3,515
Investments in joint ventures		**2,759**	1,918
Other financial assets		**160**	–
Available-for-sale financial assets		**–**	352
Intangible and other non-current assets		**1,744**	1,173
Deferred tax assets		**1,173**	1,188
		106,704	107,663
Current assets			
Inventories		**1,563**	1,559
Accounts receivable	*9*	**2,770**	2,846
Prepaid expenses and other current assets		**6,283**	6,640
Cash and cash equivalents		**17,448**	21,850
		28,064	32,895
Total assets		**134,768**	140,558
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**65**	65
Retained earnings		**26,399**	25,280
Other reserves		**14,661**	14,680
		41,125	40,025
Non-controlling interests		**26,721**	25,600
Total equity		**67,846**	65,625

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

	Note	30 June 2018 RMB million	31 December 2017 RMB million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**24,267**	26,569
Income tax payable		**442**	495
Other tax payable		**142**	424
Short-term borrowings		**8,369**	11,805
Obligations under finance leases		**153**	158
		33,373	39,451
Non-current liabilities			
Long-term borrowings		**26,988**	29,296
Convertible bonds		**3,268**	3,230
Deferred tax liabilities		**1,394**	1,075
Obligations under finance leases		**123**	193
Other liabilities		**1,776**	1,688
		33,549	35,482
Total liabilities		**66,922**	74,933
Total equity and liabilities		**134,768**	140,558
Net current liabilities		**(5,309)**	(6,556)
Total assets less current liabilities		**101,395**	101,107

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 2018 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, 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 28 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out below.

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

On 28 September 2017, PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas"), a wholly-owned subsidiary of the Company, entered into the acquisition agreement with PetroChina Company Limited ("PetroChina"). Pursuant to the acquisition agreement, Kunlun Gas agreed to purchase and PetroChina agreed to sell 51% equity interest in PetroChina Jingtang LNG Co., Ltd. ("Jingtang Co.") at a consideration of approximately RMB1,547 million. The consideration would be settled in RMB and subject to adjustment by the gains or losses during the transition period, as defined in the acquisition agreement.

The acquisition was completed on 14 December 2017 and Jingtang Co. has become a non-wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by China National Petroleum Corporation, the acquisition of Jingtang Co. 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 as set out in Accounting Guideline 5, *Merger Accounting for Common Control Combinations* issued by the HKICPA. The financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The final consideration was RMB1,906 million, including the gains during the transition period amounting to approximately RMB359 million. During the year ended 31 December 2017, the Group paid RMB1,547 million to PetroChina and as at 30 June 2018, the gains during the transition period has not been settled.

Changes in accounting policies

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. The adoption of HKFRS 15 does not have any material impact on the Group's results and financial position. Details of the changes in accounting policies are discussed in Note 1(b) for HKFRS 9 and Note 1(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9:

	As at 31 December 2017 *RMB million*	Impact on initial application of HKFRS 9 *(Note 1(b))* *RMB million*	As at 1 January 2018 *RMB million*
Deferred tax assets	1,188	76	1,264
Total non-current assets	107,663	76	107,739
Accounts receivable	2,846	(310)	2,536
Total current assets	32,895	(310)	32,585
Total assets	140,558	(234)	140,324
Retained earnings	(25,280)	234	(25,046)
Capital and reserves attributable to owners of the Company	(40,025)	234	(39,791)
Total equity	(65,625)	234	(65,391)
Total equity and liabilities	(140,558)	234	(140,324)
Net current liabilities	(6,556)	(310)	(6,866)
Total assets less current liabilities	101,107	(234)	100,873

Further details of these changes are set out in sub-section (b) of this note.

(b) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact as at 1 January 2018.

	RMB million
Retained earnings	
Recognition of additional expected credit losses on accounts receivable	(310)
Related tax	76
Net decrease in retained earnings as at 1 January 2018	(234)
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to other financial assets now measured at FVOCI as at 1 January 2018	(167)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to other financial assets now measured at FVOCI as at 1 January 2018	167

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those impacted by and determined in accordance with HKFRS 9.

	HKAS 39 carrying amount as at 31 December 2017 *RMB million*	Reclassification *RMB million*	Remeasurement *RMB million*	HKFRS 9 carrying amount as at 1 January 2018 *RMB million*
Financial assets carried at amortised cost				
Accounts receivable	2,846	—	(310)	2,536
Financial assets measured at FVOCI (non-recyclable)				
Other financial assets *(note (i))*	—	352	—	352
Financial assets classified as available-for-sale under HKAS 39 ***(note (i))***	352	(352)	—	—

Note:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. As at 1 January 2018, the Group designated other financial assets at FVOCI (non-recycling), as the investment is held for strategic purposes.

The measurement categories for all financial liabilities remain the same and the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, accounts and other receivables and loans to an associate and joint ventures).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and accounts and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB310 million, which decreased retained earnings by RMB234 million and increased gross deferred tax assets by RMB76 million as at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB million
Loss allowance as at 31 December 2017 under HKAS 39	181
Additional credit loss recognised as at 1 January 2018 on accounts receivable	310
Loss allowance as at 1 January 2018 under HKFRS 9	491

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held; and

  — the designation of investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

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

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

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

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue.

(ii) Significant financing component

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

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. The financing component would not be significant to the contract.

(iii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances were presented in the consolidated statement of financial position under "non-current other liabilities" or "accounts payable and accrued liabilities".

To reflect these changes in presentation, the Group has made the following adjustments as at 1 January 2018, as a result of the adoption of HKFRS 15:

A. "Advances from customers" and "deferred income" amounting to RMB8,481 million and RMB400 million respectively, which were previously included in accounts payable and accrued liabilities are now included under "contract liabilities" in accounts payable and accrued liabilities; and

B. "Deferred income" amounting to RMB763 million, which was previously included in non-current other liabilities is now included under "non-current contract liabilities" in non-current other liabilities.

(d) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of 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 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 four operating segments: Exploration and Production, Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. The Natural Gas Sales segment is engaged in wholesales and retail sales of various natural gas and LPG products. LNG Processing and Terminal segment is engaged in the processing, unloading, storing, gasification and transportation of LNG. Natural Gas Pipeline segment is engaged in the transmission of natural gas through pipeline.

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

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

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

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

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2018 and 2017 are as follows:

	Exploration and Production *RMB million*	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the six months ended 30 June 2018							
Gross revenue	942	40,865	4,044	5,051	–	–	50,902
Less: Inter-company adjustment	–	(484)	(816)	(9)	–	–	(1,309)
Revenue from external customers	942	40,381	3,228	5,042	–	–	49,593
Segment results	237	2,140	1,725	2,783	(287)	–	6,598
Share of profits less losses of:							
– Associates	426	137	1	–	–	–	564
– Joint ventures	11	56	–	–	2	–	69
Profit/(loss) before income tax expense	674	2,333	1,726	2,783	(285)	–	7,231
Income tax expense							(2,191)
Profit for the period							5,040
Segment results included:							
– Interest income	3	104	12	10	184	(206)	107
– Depreciation, depletion and amortisation	(134)	(1,167)	(635)	(1,117)	(8)	–	(3,061)
– Interest expenses	–	(100)	(268)	(123)	(290)	206	(575)
As at 30 June 2018							
Non-current assets	964	36,679	20,130	40,597	515	–	98,885
Current assets	1,750	18,136	4,555	1,151	2,467	–	28,059
Segment assets	2,714	54,815	24,685	41,748	2,982	–	126,944
Investments in associates	792	2,929	6	–	–	–	3,727
Investments in joint ventures	1,104	1,600	–	–	55	–	2,759
Sub-total	4,610	59,344	24,691	41,748	3,037	–	133,430
Other financial assets							160
Deferred tax assets							1,173
Others							5
Total assets							134,768
Additions to non-current segment assets during the period	164	1,420	206	612	–	–	2,402

	Exploration and Production *RMB million*	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million* (restated)
For the six months ended 30 June 2017, as restated							
Gross revenue	734	32,325	2,777	6,196	–	–	42,032
Less: Inter-company adjustment	–	(481)	(820)	(5)	–	–	(1,306)
Revenue from external customers	734	31,844	1,957	6,191	–	–	40,726
Segment results	25	906	615	4,452	(124)	–	5,874
Share of profits less losses of:							
– Associates	267	135	–	–	–	–	402
– Joint ventures	124	(12)	–	–	–	–	112
Profit/(loss) before income tax expense	416	1,029	615	4,452	(124)	–	6,388
Income tax expense							(1,967)
Profit for the period							4,421
Segment results included:							
– Interest income	3	131	8	8	174	(193)	131
– Depreciation, depletion and amortisation	(155)	(1,094)	(669)	(894)	(1)	–	(2,813)
– Impairment loss on property, plant and equipment	–	–	(100)	–	–	–	(100)
– Interest expenses	–	(76)	(172)	(21)	(454)	193	(530)
As at 31 December 2017							
Non-current assets	999	37,023	21,473	41,176	19	–	100,690
Current assets	1,422	18,551	3,661	3,472	5,786	–	32,892
Segment assets	2,421	55,574	25,134	44,648	5,805	–	133,582
Investments in associates	533	2,976	6	–	–	–	3,515
Investments in joint ventures	1,109	756	–	–	53	–	1,918
Sub-total	4,063	59,306	25,140	44,648	5,858	–	139,015
Available-for-sale financial assets							352
Deferred tax assets							1,188
Others							3
Total assets							140,558
Additions to non-current segment assets during the year	223	3,483	918	9,978	–	–	14,602

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 2018, revenue of approximately RMB9,840 million (six months ended 30 June 2017 restated: RMB6,721 million) is derived from one (six months ended 30 June 2017: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production, Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline segments.

3 REVENUE

Revenue mainly represents revenue from sales of crude oil, sales of natural gas, LNG processing and terminal business and transmission of natural gas. Disaggregation of revenue from contracts with customers is disclosed in Note 2.

4 INTEREST EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
		(restated)
Interest expenses	**807**	822
Less: Amounts capitalised	**(232)**	(292)
Total interest expenses	**575**	530

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 3.74% (six months ended 30 June 2017: 4.08%) per annum for the six months ended 30 June 2018.

5 PROFIT BEFORE INCOME TAX EXPENSE

Items charged/(credited) in arriving at the profit before income tax expense include:

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
		(restated)
Amortisation of advanced operating lease payments and intangible assets	**81**	79
Cost of inventories recognised as expense	**36,466**	28,590
Operating lease expenses	**217**	210
(Reversal of)/impairment loss on accounts receivable	**(43)**	329

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
		(restated)
Current tax		
– PRC	**1,750**	1,749
– Overseas	**65**	47
	1,815	1,796
Deferred tax	**376**	171
	2,191	1,967

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2017: 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 2017: 15% to 20%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2018 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately RMB3,092 million (six months ended 30 June 2017 restated: RMB2,548 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2018 of approximately 8,072 million shares (six months ended 30 June 2017: 8,072 million shares).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately RMB3,138 million (six months ended 30 June 2017 restated: RMB2,588 million) and the weighted average number of ordinary shares of approximately 8,623 million shares (six months ended 30 June 2017: 8,623 million shares) after adjusting for the effect of convertible bonds, calculated as follows:

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million* (restated)
Profit attributable to owners of the Company	**3,092**	2,548
After tax effect of effective interest on the liability component of convertible bonds	**46**	40
Profit attributable to owners of the Company (diluted)	**3,138**	2,588

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

	Six months ended 30 June	
	2018	2017
	million shares	*million shares*
Weighted average number of ordinary shares at 30 June	**8,072**	8,072
Effect of conversion of convertible bonds	**551**	551
Weighted average number of ordinary shares (diluted) at 30 June	**8,623**	8,623

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

8 DIVIDENDS

(a) Final dividend attributable to owners of the Company in respect of 2016 of HK7.4 cents per share (equivalent to RMB6.5 cents) amounting to a total of approximately HK$597 million (approximately RMB522 million) was approved by the shareholders in the Annual General Meeting on 2 June 2017. The amount is based on approximately 8,072 million shares in issue as at 28 March 2017 which was paid on 30 June 2017.

(b) Final dividend attributable to owners of the Company in respect of 2017 of RMB21.0 cents per share amounting to a total of approximately RMB1,742 million was approved by the shareholders in the Annual General Meeting on 24 May 2018. The amount is based on approximately 8,072 million shares in issue as at 20 March 2018 which was paid on 26 June 2018.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2018 *RMB million*	31 December 2017 *RMB million*
Within 3 months	**1,704**	1,957
Between 3 to 6 months	**591**	116
Over 6 months	**475**	773
	2,770	2,846

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2018, accounts receivable aged over three months of approximately RMB1,066 million (31 December 2017: RMB889 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

	30 June 2018 *RMB million*	31 December 2017 *RMB million*
Accounts payable	**2,538**	2,858
Contract liabilities	**8,743**	–
Advances from customers	**–**	8,481
Salaries and welfare payable	**369**	284
Accrued expenses	**346**	26
Dividends payable	**1,086**	1,069
Interest payable	**121**	376
Construction fee and equipment cost payables	**8,149**	10,279
Amounts due to related parties		
– Non-controlling interests	**–**	1
– Others	**230**	14
Deferred income	**–**	400
Other payables	**2,685**	2,781
	24,267	26,569

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

	30 June 2018 *RMB million*	31 December 2017 *RMB million*
Within 3 months	**1,629**	2,290
Between 3 to 6 months	**207**	109
Over 6 months	**702**	459
	2,538	2,858

BUSINESS REVIEW

I am pleased to report the results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 30 June 2018 (the "Period") to the shareholders on behalf of the Board of Directors (the "Board").

During the Period, the PRC's GDP has recorded a growth rate of 6.8% compared with same period for last year, and the macro economy has registered a stable performance with good momentum for growth. With the further implementation of national environmental protection policy and measure, the national production volume and the net imported volume of natural gas during the Period increased by 17.5% compared with the same period of last year, maintaining double-digit growth. The Company seeks to integrate various beneficial elements and resources to give full play to the advantages of assets and business structure, which has resulted in synergistic effect and better operation results than expected. During the Period, Exploration and Production, LNG Processing and Terminal and Natural Gas Sales recorded growth on varying extents, which offset the negative impact of Natural Gas Pipeline business due to the decrease of transmission price.

During the Period, the Group recorded revenue of RMB49,593 million, representing an increase of RMB8,867 million or 21.77% compared with the restated revenue for the same period of last year; profit before income tax expense was RMB7,231 million, representing an increase of RMB843 million or 13.20% compared with the restated profit before income tax expense for the same period of last year; profit attributable to owners of the Company was RMB3,092 million, representing an increase of RMB544 million or 21.35% compared with the restated profit attributable to owners of the Company for the same period of last year.

EXPLORATION AND PRODUCTION

During the Period, the sales volume of crude oil in the Exploration and Production business was 6.61 million barrels, representing an increase of 0.26 million barrels or 4.09% compared with 6.35 million barrels for the same period of last year. Revenue from sales of crude oil was RMB942 million, representing an increase of RMB208 million or 28.34% compared with the same period of last year. During the Period, as international crude oil price recovered from the same period of last year, the average realised crude oil selling price of the Group increased to US$57.88/barrel or 27.07% from US$45.55/barrel during the same period of last year. Profit before income tax was RMB674 million, representing an increase of RMB258 million or 62.02% from RMB416 million for the same period of last year.

NATURAL GAS SALES

During the Period, Natural Gas Sales volume recorded 10,467 million cubic metres, representing an increase of 1,643 million cubic metres or 18.62% compared with 8,824 million cubic metres for the same period of last year. Revenue was RMB40,865 million, representing an increase of RMB8,540 million or 26.42% compared with RMB32,325 million for the same period of last year. Profit before income tax for the Period was RMB2,333 million, representing an increase of RMB1,304 million or 126.72 % compared with RMB1,029 million for the same period of last year.

In terms of city gas, sales volume recorded 7,186 million cubic metres after the active promotion of the quality of the products, an increase of 29.86% compared with the same period of last year which reflected the improvement in the quality and quantity of the sales. The Group has committed to the construction of branch pipelines to drive the sales to end user, and promoted the key projects in an orderly manner. The construction of 4 branch pipelines including Tengchong have been completed, 4 branch pipelines such as Miluo – Quyuan are under finishing stage, and 6 branch pipelines like Chuxiong-Panzhihua have been under further construction as planned. The Group has signed 11 project cooperation agreements with the markets along the Sino-Russian Eastern Natural Gas Pipeline.

The Group speeded up the development of the natural gas generator and distributed energy business. Zhoukou Power Plant Unit 1 entered the commissioning stage for production, and Zengcheng Power Plant was constructed as planned. It has signed cooperation framework agreements for 16 projects including Nantong Power Plant, and completed the feasibility review for 5 projects including Zhenjiang Power Plant.

Since the Group seized the market opportunity from the stable macroeconomy and recovery of international oil price with the expansion of the scope of imported resources and optimised sales structure, the LPG business recorded sales volume of 3.48 million tonnes for the Period, representing an increase of 8.19% compared with the same period of last year, including an increase of 33.2% in the sales to end user.

LNG PROCESSING AND TERMINAL

The LNG terminal loading and unloading capacity of the Group accounted for more than one-third of the domestic capacity and its LNG processing capacity accounted for more than one-quarter of the domestic capacity, forming a complete LNG industrial chain from loading and unloading, gasification and entrucking, processing and storage, vehicle and ship refilling. During the Period, the Group recorded sales volume of LNG Processing and Terminal of 10,057 million cubic metres, representing an increase of 3,829 million cubic metres or 61.48% as compared with 6,228 million cubic metres (restated) for the same period of last year. Revenue for the Period was RMB4,044 million, representing an increase of RMB1,267 million or 45.62% as compared with RMB2,777 million (restated) for the same period of last year. Profit before income tax for the Period was RMB1,726 million, representing an increase of RMB1,111 million or 180.65% as compared with RMB615 million (restated) for the same period of last year.

During the Period, LNG gasification volume of Jiangsu LNG Terminal, Jingtang LNG Terminal and Dalian LNG Terminal under the Group amounted to 8,313 million cubic metres, representing an increase of 3,598 million cubic metres or 76.31% as compared with 4,715 million cubic metres (restated) for the same period of last year. LNG entrucking volume amounted to 1,126 million cubic metres, representing an increase of 118 million cubic metres or 11.71% as compared with 1,008 million cubic metres (restated) for the same period of last year, and the utilisation rate of the LNG Terminal increased by 29.7% to 70.4 %. The emergency buffer storage project of Jingtang LNG Terminal, which was officially started and the expansion project of Jiangsu LNG Terminal, which entered the construction project tendering stage and were expected to commence operation in 2020 and 2021 respectively.

The processing volume of LNG Processing plant was 618 million cubic metres, representing an increase of 112 million cubic metres or 22.13% as compared with 506 million cubic metres for the same period of last year. During the Period, 12 LNG processing plants were put into operation. Leverage on the construction of LNG processing plants network, the construction plan for LNG storage facilities for buffer storage will be completed. At the same time, the Group will actively prepare for the launch of natural gas engine fuel vehicles and related forums to promote the application of LNG in the transportation field through China-Kazakhstan-Russia highway.

NATURAL GAS PIPELINE

During the Period, benefiting from official operation of the No.4 Shaanxi-Beijing Pipeline at the end of 2017, Natural Gas Pipeline transmission volume was 26,268 million cubic metres, representing an increase of 6,108 million cubic metres or 30.30% as compared with 20,160 million cubic metres for the same period of last year. Revenue reached RMB 5,051 million, representing a decrease of RMB1,145 million or 18.48% as compared with RMB6,196 million for the same period of last year. Profit before income tax was RMB2,783 million, representing a decrease of RMB1,669 million or 37.49 % as compared with RMB4,452 million for the same period of last year. During the Period, PetroChina Beijing Gas Pipeline Co., Limited continued to improve its safety management level and accelerated the construction of interconnection projects with safety and stability operation.

BUSINESS PROSPECTS

According to the national energy development plan, In PRC, proportion of natural gas in the primary energy consumption structure will strive to reach 10% in 2020. The International Energy Agency predicts that PRC will become one of the main drivers of the natural gas market in the next five years and will account for 37% of natural gas consumption growth in the world. Domestically, the natural gas industry will continue to develop rapidly. In the first half of the year, the departments of the state published relevant documents, including a Circular on Straightening the Gas Station Price of Natural Gas Used for Residential Purpose (《關於理順居民用氣門站價格的通知》) and Opinions on Accelerating the Construction of Gas Storage Facilities and Improving the Market Mechanism of Gas Storage and Peaking Auxiliary Services (《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》) to further promote the marketization reform of natural gas. At the same time, the "Three-Year Action Plan for Defending the Blue Sky" was implemented, and the growth space for natural gas was further expanded. The Ministry of Transport issued the "Administrative Regulations on the Safety Supervision of Hazardous Goods Shipment" and published the "Opinions on Further Advancing the Application of LNG in the Waterborne Transportation Industry (Draft for Comment)", which specified the policy for application of natural gas in the waterborne traffic, thus greatly promoting the "Gasification of Yangtze River" of the Group and offshore LNG utilisation. The above macro environment is significantly beneficial to the development of the Group.

At the same time, with the strong support of Petrochina Company Limited ("PetroChina"), the terminal utilization business scale has been continuously expanded after 10 year's development. In the context of the nation's deepening of the oil and gas system reform, the utilization link has become the key to improve the quality and efficiency of PetroChina gas sales business and accelerating the creation of "golden terminal". The Group has the confidence and ability to grasp development opportunities to transform the favorable internal and external environment into a development advantage of becoming larger, stronger and better, optimise the development structure, focus on the main business and comprehensively develop and expand the natural gas utilisation business.

Promote increase in both sales volume and efficiency of city gas. The Group will strengthen communication with its parent company, realise the synergy effect in all aspects. It will accelerate the operation of new projects and the orderly development of stock market, expand the development of high-quality users in residential, industrial and public service sectors, increase effort to rationalise the price. The Group will also vigorously increase the sale income, reduce the expenditures and increase efficiency, in order to increase the profitability of the natural gas sales.

Promote efficient development of LNG business. The Group will aggressively contract LNG emergency buffer storage project in the Jingtang LNG Terminal and the Jiangsu LNG Terminal expansion project. It will actively promote the integrated implementation of LNG business, and further improve the loading and unloading capacity of LNG terminal. It will improve the capacity of the LNG processing plants, strive to put the Taian plant into operation during the year; endeavour to incorporate the existing qualified LNG processing plant into national and regional emergency buffer storage system, actively implement the LNG buffer storage plan.

Advance the construction of key strategic branch pipelines in an orderly manner. It will advance the construction of 3 branch pipelines, including Honghe, Duyun-Kaili, Changsha-Yiyang (Phase II), complete 11 branch pipelines of Chupan, Wachang, Lianxin, Yuelin, Taihe and Tengchong by the end of the year and start construction of Chaozhou, Jieyang Pipeline and branch pipeline project of Zengcheng Power Plant. In terms of the new branch pipeline, the Group will insist on market development and strive to synchronise production with downstream users.

Accelerate development planning for natural gas generator and distributed energy projects. It will give full play to the overall synergy of PetroChina, attach importance to the scale benefits, accelerate the preliminary work of the projects, promote cooperation with major power energy companies and focus on the implementation of 8 projects including Zhenjiang Jiangsu, Langfang Hebei and Xiegang Guangdong.

Continue to promote the transformation and upgrading of LPG sales. The Group will expand resource channels, consolidate business scale, make innovations in mechanism to promote terminal project development and strengthen marketing management to continuously improve economic efficiency. It will intensify cooperation with refining and chemical enterprises, speed up the transformation from single purchase and sales to multi-variety procurement and sales.

The Group is confident to grasp the opportunities and challenges of development, and will give full play to the advantages of industrial structure, adhere to the concept of green development, achieve its coordinated development with PetroChina's natural gas business, and play an active role in the construction of ecological civilization and the promotion of clean and low-carbon development in the economy and society. In addition, the Group will continue to integrate its business in order to enhance its asset efficiency-creating capabilities and continuously enhance its corporate value to bring more returns to its shareholders.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Kunlun Energy Company Limited business in (the "Company") and its subsidiaries (together, the "Group") continued to develop its business in LNG Processing and Terminal and Natural Gas Sales segment which recorded growth on varying extents during the period ended 30 June 2018 (the "Period"). Profit before income tax expense of the Group for the Period was approximately RMB7,231 million, representing an increase of 13.20% as compared with RMB6,388 million (restated) for the last period. Profit attributable to owners of the Company for the Period was approximately RMB3,092 million, representing an increase of 21.35% as compared with RMB2,548 million (restated) for the last period.

Revenue

Revenue for the Period was approximately RMB49,593 million, representing an increase of 21.77% as compared with amount of RMB40,726 million (restated) for the last period. The increase was mainly due to the expansion of natural gas business.

Revenue mostly from the Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline accounted for 98.10% (same period of 2017 restated: 98.20%) of the Group's total revenue amounting to approximately RMB48,651 million (same period of 2017 restated: RMB39,992 million).

Other gains, net

Other gains, net for the Period was approximately RMB106 million, representing a decrease of 81.44% as compared with amount of RMB571 million (restated) for the last period. The decrease was mainly due to depreciation of RMB against US$ during the Period.

Interest income

Interest income for the Period was approximately RMB107 million, representing a decrease of 18.32% as compared with amount of RMB131 million (restated) for the last period. The decrease was mainly due to the decrease in average balance of amounts due from related parties which were interest-bearing.

Purchases, services and others

Purchases, services and others were approximately RMB36,223 million for the Period, representing an increase of 27.77% as compared with amount of RMB28,351 million (restated) for the last period. The increase was mainly due to the increase in purchase volume of natural gas which was generally in line with the increase in sales of natural gas business.

Employee compensation costs

Employee compensation costs of the Group was approximately RMB1,957 million for the Period, representing an increase of 5.56% as compared with amount of RMB1,854 million (restated) for the last period. This increase was mainly due to the increase in the number of headcount.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Period was approximately RMB3,061 million, representing an increase of 8.82% as compared with amount of RMB2,813 million (restated) for the last period. This was mainly due to the increase in property, plant and equipment transferred from construction in progress during the Period.

Impairment loss on property, plant and equipment

No impairment loss on property, plant and equipment was recognised for the Period, representing a decrease of 100% as compared with amount of RMB100 million (restated) for the last period. This decrease was mainly due to the recoverable amount of property, plant and equipment was higher than the carrying amount.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Period were approximately RMB1,188 million, representing a decrease of 29.70% as compared with amount of RMB1,690 million (restated) for the last period. The decrease in selling, general and administrative expenses was mainly due to the decrease in impairment loss on accounts receivable.

Taxes other than income taxes

Taxes other than income taxes for the Period was approximately RMB204 million, representing a decrease of 5.56% as compared with amount of RMB216 million (restated) for the last period. The decrease was mainly due to the decrease in VAT paid in the PRC.

Interest expenses

Interest expenses for the Period was approximately RMB575 million, representing an increase of 8.49% as compared with amount of RMB530 million (restated) for the last period. The increase was mainly due to the increase in borrowings during the Period.

Total interest expenses for the Period was approximately RMB807 million of which RMB232 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Period was approximately RMB564 million, representing an increase of 40.30%, as compared with amount of RMB402 million (restated) for the last period. The increase was mainly due to the increase in realised crude oil selling price during the Period that in turn led to the increase in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company ("Aktobe").

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Period decreased by 38.39% to approximately RMB69 million (same period of 2017 restated: RMB112 million). The decrease was mainly due to the decrease in sale volume of crude oil in Oman project during the Period.

Profit before income tax expense

Profit before income tax expense for the Period was approximately RMB7,231 million, representing an increase of 13.20% as compared with amount of RMB6,388 million (restated) for the last period.

Income tax expense

Income tax expense for the Period was approximately RMB2,191 million, representing an increase of 11.39% as compared with amount of RMB1,967 million (restated) for the last period. The effective tax rate (excluding joint ventures and associates) for the Period decreased slightly to 33.21% (same period of 2017 restated: 33.49%).

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

The profit for the Period of the Group was approximately RMB5,040 million, representing an increase of 14.00% as compared with amount of RMB4,421 million (restated) for the last period. The profit attributable to owners of the Company for the Period was approximately RMB3,092 million, representing an increase of 21.35% as compared with amount of RMB2,548 million (restated) for the last period.

Liquidity and capital resources

As at 30 June 2018, the carrying value of total assets of the Group was approximately RMB134,768 million, representing a decrease of RMB5,790 million or 4.12% as compared with RMB140,558 million as at 31 December 2017.

As at 30 June 2018, the Group has total borrowings of RMB35,357 million which will be repayable as follows:

	2018	31 December 2017
	RMB'million	*RMB'million*
Within one year	**8,369**	11,805
Between one to two years	**13,393**	4,431
Between two to five years	**8,922**	20,410
After five years	**4,673**	4,455
	35,357	41,101

The carrying amounts of the borrowings are denominated in RMB, US$, Hong Kong dollars, Japanese yen and Euro.

The functional currency of the Company and most of its subsidiaries is RMB and the Company and most of its subsidiaries are exposed to the exchange gain/(loss) when the RMB is appreciated/depreciated against other currencies.

During the Period, no share option (same period of 2017: none) has been exercised by the senior executives of the Company as all share options were lapsed.

As at 30 June 2018, the Group had net current liabilities of RMB5,309 million. Notwithstanding the net current liabilities of the Group at 30 June 2018, the Group's consolidated interim financial statements have been prepared on a going concern basis because the directors of the Company (the "Directors") are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) the Group has committed credit from China Petroleum Finance Company Limited amounting to RMB15 billion, of which RMB3.6 billion is undrawn as at 30 June 2018;

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

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

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

Use of Proceeds

Use of Net Proceeds from Issuance of Convertible Bonds

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

Interest Paid

The Group paid interest of RMB1,001 million (same period of 2017 restated: RMB717 million) during the Period.

Dividend Paid

2017 final dividend of RMB21.0 cents per share amounting to RMB1,742 million (2017: 2016 final dividend of RMB6.5 cents per share amounting to RMB522 million) was distributed to owners of the Company during the Period.

Pledge of assets

As at 30 June 2018 and 31 December 2017, no short-term or long-term borrowings were secured by property, plant and equipment or advance operating lease payment.

New investment in major projects

Kunlun Gas, a wholly-owned subsidiary of the Company, entered into acquisition agreement dated 28 September 2017 with PetroChina Company Limited ("PetroChina"), pursuant to which PetroChina has conditionally agreed to sell and Kunlun Gas has conditionally agreed to purchase 51% equity interest in PetroChina Jingtang LNG Co., Ltd ("Jingtang Co.") at a consideration of approximately RMB1,547 million subject to adjustment on gain or loss of Jingtang Co. during the transition period, as defined in the acquisition agreement. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, which will generate synergies among the Group's businesses, enhance operational efficiency and increase market competitiveness. In the fourth quarter of 2017, Kunlun Gas obtained all the necessary approvals of the government authorities of the acquisition and Jingtang Co. has become a non-wholly-owned subsidiary of the Company upon the completion of acquisition. The final consideration was RMB1,906 million, including the gains during the transition period amounting to approximately RMB359 million.

Material Investments

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

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

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

Employee

As at 30 June 2018, the Group had approximately 38,608 employees globally (excluding the employees under entrustment contracts) (same period of 2017 restated: 35,136 employees). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

Interim dividend

The Board of Directors has resolved not to recommend the payment of any interim dividend for the Period ended 30 June 2018.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2018.

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 19 September 2018 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
Ling Xiao
Chairman

Hong Kong, 28 August 2018

As at the date of this announcement, the board of directors comprises Mr. Ling Xiao as the Chairman and Executive Director, Mr. Zhao Yongqi as the Chief Executive Officer and Executive Director, Mr. Zhao Zhongxun as Executive Director, Mr. Zhou Yuanhong as Executive Director, Mr. Miao Yong as Executive Director, and Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Patrick as Independent Non-Executive Directors.