KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

Annual Report 2013

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Content

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	6
Corporate Governance Report	14
Directors' Report	25
Independent Auditor's Report	37
Consolidated Statement of Comprehensive Income	39
Consolidated Statement of Financial Position	41
Statement of Financial Position	43
Consolidated Statement of Changes in Equity	44
Consolidated Statement of Cash Flows	46
Notes to the Consolidated Financial Statements	48
Financial Summary	129
Reserve Quantities Information	130

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr Zhang Bowen *(President)*
(performing the duties of the Chairman)
Mr Cheng Cheng *(Senior Vice President)*
Mr Wu Enlai

Independent Non-Executive Directors
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

COMPANY SECRETARY
Mr Lau Hak Woon

BERMUDA RESIDENT REPRESENTATIVE
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11, Bermuda

AUDITOR
KPMG

BANKERS
Bank of China (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
HSBC Securities Services (Bermuda) Limited
Standard Chartered Bank (Hong Kong) Limited

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

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

PRINCIPAL BOARD COMMITTEES

Audit Committee
Dr Lau Wah Sum, GBS, LLD, DBA, JP *(Chairman)*
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

Remuneration Committee
Mr Li Kwok Sing Aubrey *(Chairman)*
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Dr Liu Xiao Feng

Nomination Committee
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

SOLICITORS
Clifford Chance
Baker & McKenzie

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2 Church Street
Hamilton HM11, Bermuda

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Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG
Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

BUSINESS REVIEW

I am pleased to report the 2013 full year results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") to the shareholders on behalf of the Board. For the year ended 31 December 2013 (the "Year"), the revenue of the Group amounted to HK$43,430 million and profit attributable to owners of the Company for the Year was HK$6,851 million, representing an increase of HK$10,477 million and HK$333 million or 31.79% and 5.11% respectively compared with last year. During the Year, the international crude oil prices fell resulting in a reduction in revenue from exploration and production business. The natural gas business had a substantial growth, which contributed to the Group's overall increase in revenue and profit for the year.

I. Exploration and Production

For the Year, revenue of HK$5,660 million was derived from the exploration and production business, a decrease of HK$416 million or 6.85% compared with last year, accounting for 13.03% of the Group's total revenue. The sales volume of crude oil of the Group's eight oil field projects was 17.46 million barrels, representing a decrease of 0.11 million barrels or 0.63% compared with last year. The Group's average realised crude oil selling price was US$97.30 per barrel for the Year, representing a decrease of US$1.45 or 1.47% compared with the corresponding period last year.

II. Sales of Natural Gas

For the Year, sales volume of natural gas of the Group was 6,114 million cubic metres, representing an increase of 1,637 million cubic metres or 36.56% compared with last year. Revenue derived from natural gas sales was HK$22,073 million, an increase of HK$9,184 million or 71.25% compared with last year, accounting for 50.82% of the Group's total revenue. Profit before income tax expense was HK$2,043 million, representing an increase of HK$84 million or 4.29% compared with last year, the sales volume and revenue of natural gas both achieved rapid growth.

During the Year, the Group continued its expansion of the "Gas in Substitution of Oil" business. The Group first promoted the application of LNG in urban public transport, heavy duty trucks, and inland river vessels. Above 40,000 LNG vehicles were newly developed, making a total of above 80,000 LNG vehicles in aggregate. Over 600 LNG refilling stations were constructed and launched into services and the pilot tests of LNG vessels commenced in the Yangtze River and Beijing-Hangzhou Grand Canal.

III. LNG Processing Plant

During the Year, the Group further strengthened onshore LNG production and supply, the new commission of Hebei Bazhou LNG processing plant, Xinjiang Hotan LNG processing plant and Liaoning Panjin LNG processing plant enhanced the LNG processing capacity of the Group reaching 5.88 million cubic metres/day. The construction of the two LNG processing plants in Shandong Tai'an (2.6 million cubic metres/day) and Hubei Huanggang (5.0 million cubic metres/day) are expected to be in operation in 2014.

IV. LNG Terminal

During the Year, Jiangsu LNG terminal and Dalian LNG terminal of the Group unloaded 48 shipments of LNG, amounting to an aggregate of 4.89 million tonnes. Revenue of HK$2,512 million was derived from the re-gasification and offloading, a substantial increase of HK$596 million or 31.11% compared with last year, accounting for 5.78% of the Group's total revenue. The two LNG terminals will secure the sources of natural gas for "Gas in Substitution of Oil" business of the Group in the southeast region in Mainland China.

V. **Natural Gas Pipeline**

For the Year, revenue of HK$11,787 million was derived from the natural gas pipeline business, an increase of HK$532 million or 4.73% compared with last year, accounting for 27.14% of the Group's total revenue. The volume of natural gas transmission was 24,979 million cubic metres, an increase of 1,505 million cubic metres or 6.41% compared with last year.

BUSINESS PROSPECTS

In 2014, although the uncertainties remain, the global economic growth has headed for a stable rebound. As a major drive for the growth of emerging economies, the domestic demand for fossil energy will continue to increase, in particularly the demand for natural gas. The adjustments made to the energy structure and the ecological civilisation construction in China provided a tremendous opportunity for the development of the Group's core business. Adhering constantly to the concept of "Low-carbon Economy and Green Development", the Group will give the priority to the development of natural gas business in China.

As to the Exploration and Production segment, the Group will continue to maintain the scale of eight upstream projects, implement technical innovation and further boost the oilfield recovery rate. Through management innovation, the Group will further reduce the operating costs, safeguard the stable production of the Exploration and Production business with stable income.

For the Natural Gas Pipeline and LNG Terminal business, the Group will reinforce the risk control and management on facilities and optimise the production operations to further strengthen the connection between resources and market, which in turn act as a significant support for our efficiency improvement.

The sales of natural gas and integrated utilisation business not only the principal activities of the Group but also the core and the most competitive business with the best growth potential in the future. With the gradual modification of mechanism in relation to the domestic price of natural gas, the natural gas industry will enter into a new stage with orderly, centralised and professional development. As such, the Group will place emphasis on top-level design of such business segment, implement long-term planning and fully optimise the business structures and business assets, thereby further foster the overall performance of natural gas business. For LNG "Gas in Substitution of Oil" business, the Group will continue to intensify the research on industry chain and implement strategic optimisation adjustment. Subject to the improvement of efficiency of existing LNG plants and terminal operations, the Group not only continue to pay attention to the "Gas in Substitution of Oil" demonstration project of vehicles and vessels and take the leading role in the development of high-end market, but also increase the Group's market share, consolidate the leading position in the domestic "Gas in Substitution of Oil" business for LNG vehicles and vessels and promote the upgrade of LNG industrial technology and healthy development of industry.

This year, the Group, based on reform and development, will further improve the management structure; fully implement standardisation and precise management, as well as improving the management on the affiliated companies and overall ability. With the balanced and orderly development of each business segments of the Group, the Group will also actively seek for the strategic investment opportunities and strive to enhance the development quality and operation efficiency in order to contribute a satisfactory return to the shareholders.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK23 cents per share (2012: HK23 cents per share) to Shareholders whose names appear on the Shareholders Register on 19 June 2014 (Thursday), subject to the approval at the Annual General Meeting (the "2014 AGM"). The payment will be made on or before 30 June 2014. The proposed 2013 final dividend amounts to a total of approximately HK$1,854 million and 2012 dividend of HK$1,855 million was paid in 2013, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 27.06% (2012: 27.53%).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2014 AGM, and entitlement to the final dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2014 AGM:

Latest time to lodge transfer documents for registration	4:00 pm on 6 June 2014 (Friday)
Closure of shareholders register	from 9 June 2014 (Monday) to 11 June 2014 (Wednesday) (both dates inclusive)
Record date	11 June 2014 (Wednesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 pm on 17 June 2014 (Tuesday)
Closure of shareholders register	from 18 June 2014 (Wednesday) to 19 June 2014 (Thursday) (both dates inclusive)
Record date	19 June 2014 (Thursday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2014 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 26 Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (with effect from 31 March 2014, the address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2014 AGM will be held on 12 June 2014 (Thursday). The Notice of the 2014 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2013 Annual Report. The Notice of the 2014 AGM and the proxy form will also be available on the Company's website.

By the Order of the Board

Zhang Bowen
President & Executive Director
(performing the duties of Chairman)

Hong Kong, 20 March 2014

Management Discussion and Analysis

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment through business development and acquisitions during the year ended 31 December 2013 (the "Year"). The profit before income tax expense from the Natural Gas Distribution business segment contributed around 76.45% (2012: 64.75%) of the Group's profit before income tax expense for the Year.

OPERATING RESULTS

The financial results of the Group for the Year were benefited from the expansion of natural gas business. Profit before income tax expense of the Group for the Year was approximately HK$14,353 million, representing an increase of 7.87% as compared with amount of HK$13,306 million for the last year. Profit attributable to owners of the Company for the Year was approximately HK$6,851 million, representing an increase of 5.11% as compared with amount of HK$6,518 million for the last year.

Revenue

Revenue for the Year was approximately HK$43,430 million, representing an increase of 31.79% as compared with amount of HK$32,953 million for the last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 13.03% (2012: 18.44%) of the Group's total revenue amounting to approximately HK$5,660 million (2012: HK$6,076 million) while revenue from the Natural Gas Distribution business segment accounted for 86.97% (2012: 81.56%) of the Group's total revenue amounting to approximately HK$37,770 million (2012: HK$26,877 million).

The table below sets out the sales volume and revenue for major segments of the Group for the year 2013 and 2012, and percentages of change during these two years.

	Sales volume			**Revenue**		
	For the year ended 31 December			**For the year ended 31 December**		
	2013	2012	Change	**2013**	2012	Change
	('000 barrel)	('000 barrel)	%	**HK$'million**	HK$'million	%
Exploration and Production business						
The People's Republic of China (the "PRC")	**5,273**	5,621	(6.19)	**3,610**	4,000	(9.75)
South America (note (1))	**632**	606	4.29	**1,065**	1,048	1.62
Central Asia	**659**	681	(3.23)	**513**	541	(5.18)
South East Asia	**625**	597	4.69	**472**	487	(3.08)
Sub-total	**7,189**	7,505	(4.21)	**5,660**	6,076	(6.85)
Share of an associate in Central Asia	**6,456**	6,773	(4.68)	**–**	–	N/A
Share of a joint venture in Middle East	**3,811**	3,288	15.91	**–**	–	N/A
Total of Exploration and Production	**17,456**	17,566	(0.63)	**5,660**	6,076	(6.85)

	Sales/processing volume For the year ended 31 December			Revenue For the year ended 31 December		
	2013 ('000 cubic metre)	2012 ('000 cubic metre)	Change %	**2013 HK$'million**	2012 HK$'million	Change %
Natural Gas Distribution business						
Natural Gas Sales	**6,114,184**	4,477,319	36.56	**22,073**	12,889	71.25
LNG Processing	**352,137**	235,530	49.51	**1,398**	817	71.11
Sub-total	**6,466,321**	4,712,849	37.21	**23,471**	13,706	71.25
LNG Terminal	**6,510,583**	5,078,257	28.21	**2,512**	1,916	31.11
Natural Gas Pipeline (note (2))	**24,979,190**	23,474,490	6.41	**11,787**	11,255	4.73
Total of Natural Gas Distribution	**37,956,094**	33,265,596	14.10	**37,770**	26,877	40.53
Total revenue				**43,430**	32,953	31.79

Notes:

(1) Only the Group 50% share of sale volume from South America is stated while its revenue is shown as 100% per consolidation requirement.

(2) Under the Natural Gas Pipeline segment, it included the following sales:

	Sale volume for the year ended 31 December			Revenue for the year ended 31 December		
	2013 ('000 cubic metre)	2012 ('000 cubic metre)	Change %	**2013 HK$'million**	2012 HK$'million	Change %
Sales of natural gas	**53,111**	105,312	(49.57)	**116**	200	(42.00)

Other gains, net

Other gains, net for the Year was approximately HK$768 million, representing an increase of 112.74% as compared with amount of HK$361 million for the last year. The increase mainly came from the compensation from government in the PRC for revenue reduction due to the implementation of Valued-added-Tax ("VAT") Reform. The Group has received the VAT refunds under the transitional supportive financial policies, but no assurance that the Group will continue to receive such a grant in the future.

Interest income

Interest income for the Year was approximately HK$228 million, representing an increase of 32.56% as compared with amount of HK$172 million for the last year. The increase was mainly due to an increase in proportion of time deposits with higher interest rates held by the Group.

Purchases, services and others

Purchases, services and others were approximately HK$21,303 million for the Year, representing an increase of 64.99% as compared with amount of HK$12,912 million for the last year. This was mainly due to the increase in purchase volume of natural gas which is in line with the expansion of natural gas business.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$2,046 million for the Year, representing an increase of 21.50% as compared with amount of HK$1,684 million for the last year. This increase was mainly due to the expansion of the Group's natural gas business.

Exploration expenses

Exploration expenses for the Year was approximately HK$11 million, representing a decrease of 73.81% as compared with HK$42 million for the last year. This was mainly related to the decrease in exploration activities undertaken by the Group's exploration and production projects.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$4,528 million, representing an increase of 2.12% as compared with amount of HK$4,434 million for the last year. This was mainly due to addition of property, plant and equipment during the Year following the business expansion, offset by the revision of the estimate useful lives of the Group's pipelines with effect from 1 July 2012.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year was approximately HK$2,878 million, representing an increase of 32.93% as compared with amount of HK$2,165 million for the last year. This was mainly due to the expansion of the Group's natural gas business.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately HK$746 million, representing a decrease of 19.18% as compared with amount of HK$923 million for the last year. It was mainly due to the implementation of VAT Reform that eliminated business tax and the decrease of levy on petroleum sales volume in the PRC.

Interest expenses

Interest expenses for the Year was approximately HK$622 million, representing a decrease of 5.90% as compared with amount of HK$661 million for the last year. Total interest expenses for the Year was approximately HK$1,882 million of which HK$1,260 million had been capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year decreased by 29.48% to approximately HK$1,646 million (2012: HK$2,334 million). It was mainly due to the decrease in sales volume and crude oil realised selling price and increase in exploration cost in CNPC–Aktobemunaigas Joint Stock Company.

The currency of Republic of Kazakhstan was devalued in February 2014. Please refer to the announcement of the Company on 14 February 2014.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year increased by 35.18% to approximately HK$415 million (2012: HK$307 million). It was mainly due to the increase of crude oil realised selling price and sales volume in Oman project.

Profit before income tax expense

Profit before income tax expense for the Year was approximately HK$14,353 million, representing an increase of 7.87% as compared with amount of HK$13,306 million for the last year.

The table below sets out the profit before income tax expense and percentage of change for major segments of the Group for the year 2013 and 2012.

	Profit before income tax expense For the year ended 31 December		
	2013	2012	Change
	HK$'million	HK$'million	%
Exploration and Production business			
PRC	**999**	1,465	(31.81)
South America	**544**	528	3.03
Central Asia	**(53)**	(124)	57.26
South East Asia	**210**	316	(33.54)
Sub-total	**1,700**	2,185	(22.20)
Share of an associate in Central Asia	**1,365**	2,096	(34.88)
Share of a joint venture in Middle East	**433**	307	41.04
Total of Exploration and Production	**3,498**	4,588	(23.76)
Natural Gas Distribution business			
Natural Gas Sales	**2,043**	1,959	4.29
LNG Processing	**287**	(7)	4,200.00
Sub-total	**2,330**	1,952	19.36
LNG Terminal	**1,011**	572	76.75
Natural Gas Pipeline	**7,632**	6,092	25.28
Total of Natural Gas Distribution	**10,973**	8,616	27.36
	14,471	13,204	9.60

Income tax expense

Income tax expense for the Year was approximately HK$3,845 million, representing an increase of 13.35% as compared with amount of HK$3,392 million for the last year. The effective tax rate (excluding joint ventures and associates) for the year was 31.28% (2012: 31.80%).

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

The profit for the Year of the Group was approximately HK$10,508 million, representing an increase of 5.99% as compared with amount of HK$9,914 million for the last year. The profit attributable to owners of the Company for the year 2013 was approximately HK$6,851 million, representing an increase of 5.11% as compared with amount of HK$6,518 million for the last year.

Liquidity and capital resources

As at 31 December 2013, the carrying value of total assets of the Group is approximately HK$119,462 million, representing an increase of HK$10,920 million or 10.06% as compared with 31 December 2012 amount of HK$108,542 million.

The gearing ratio of the Group was 30.26% as at 31 December 2013 compared with 33.75% as at 31 December 2012, representing decrease of 3.49%. It is computed by dividing the total borrowings of HK$31,350 million (2012: HK$31,673 million) by the total equity plus borrowings of HK$103,618 million (2012: HK$93,851 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation ("EBITDA") for the Year was approximately HK$19,275 million, representing an increase of 5.74% as compared with amount of HK$18,229 million for the last year.

The Group received dividends of HK$814 million (2012: nil) from a joint venture in Middle East and HK$1,826 million from associates which is mainly from an associate in Central Asia during the Year (2012: HK$3,113 million).

The Group raised new borrowings of HK$9,112 million and repaid HK$10,521 million to financial institutions and related parties resulting a net decrease in borrowings of HK$1,409 million during the Year.

During the Year, a few senior executives of the Company exercised their share options. As a result, the Company issued 15.6 million new shares (2012: 80.0 million new shares) and received subscription amount of HK$86 million (2012: HK$346 million).

During the Year, the Company repurchased a total of 4,518,000 shares of the Company (2012: nil) for HK$57 million (2012: nil) during the Year.

As at 31 December 2013, the Group had net current liabilities of HK$4,269 million. Notwithstanding the net current liabilities of the Group at 31 December 2013, the Group's consolidated financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) Subsequent to the end of the reporting period, China Petroleum Finance Company Limited ("CP Finance") has confirmed to the Group that loans totalling US$550 million (equivalent to HK$4,263 million) that were due to be repaid in 2014 would be extended by three years upon maturities, subject to revision of borrowing interest rate. In addition, the Group has extended a loan of RMB1,700 million (equivalent to HK$2,191 million) that were due to be repaid in 2014 by one year upon maturities; and

(ii) the Group expects to generate positive operation cash flows for the year ending 31 December 2014.

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

Use of proceeds

In April 2012, the Company issued 800 million shares at HK$13.10 per share to the public and received subscription amount of HK$10,259 million, net of direct transaction costs of HK$221 million. The net proceeds were mainly used for the construction of LNG processing plants and natural gas refueling stations.

The Group paid interest of HK$1,856 million (2012: HK$1,418 million) during the Year.

2012 final dividend of HK23 cents per share amounting to HK$1,855 million (2011: HK22 cents per share amounting to HK$1,766 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2013 and 2012, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

New investment in major projects

The Group had no major acquisition during the Year.

Employee

On 31 December 2013, the Group had approximately 21,589 staff globally (excluding the staff under entrustment contracts) (2012: 17,475 staff). 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.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK23 cents (2012: HK23 cents) per share. The proposed dividend will be paid on or before 30 June 2014 to the shareholders whose names appear on the Register on 19 June 2014 (Thursday), subject to the approval at the Annual General Meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, 4,518,000 shares of HK$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and cancelled on 22 July 2013, details of which are as follows:

Month	Number of shares repurchased	Highest Price *HK$*	Lowest Price *HK$*	Aggregate amount paid *HK$million*
June 2013	2,000,000	12.84	12.00	25
July 2013	2,518,000	12.84	12.40	32

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted written guidelines on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the 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 year ended 31 December 2013.

By the Order of the Board

Zhang Bowen
President & Executive Director
(performing the duties of the Chairman)

Hong Kong, 20 March 2014

Corporate Governance Report

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2013 (the "Year") of Kunlun Energy Company Limited (the "Company").

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles (the "Principles"), code provisions (the "Code Provisions") and certain recommended best practices (the "Recommended Best Practices") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all the Code Provisions.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board in providing effective leadership and direction to Company's business, and in ensuring transparency and accountability of Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board fully supports the Chief Executive Officer and the senior management to discharge their responsibilities.

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company adopted written terms established on division of functions reserved to the Board and delegated to the management.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Composition

During the Year, the Board composes of three Executive Directors and three Independent Non-executive Directors. It has the necessary balance of skills and experience appropriate to the requirements of the business of the Company. There is a strong element of independence in the Board, which can effectively exercise independent judgement.

The Board comprises the following six directors:
Executive Directors:
Mr Zhang Bowen *(President, performing the duties of the Chairman from 17 December 2013)*
Mr Cheng Cheng *(Senior Vice President)*
Mr Wu Enlai *(appointed on 30 December 2013)*

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

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr Li Hualin resigned as the Chairman and Executive Director on 27 August 2013. Mr Wen Qingshan was appointed as the Executive Director and Chairman on 27 August 2013 and 28 August 2013 respectively, resigned on 17 December 2013.

None of the members of the Board is related to one another.

During the Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Independent Non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests, serving on Board committees, scrutinising the Company's performance and monitoring performance reporting, all Independent Non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Each Non-executive Director has entered into a formal letter of appointment with the Company for a specific term of three years, subject to the retirement and re-election in accordance with the Bye-laws of the Company.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the Bye-laws of the Company which provide that every director appointed by the Board to fill a casual vacancy during the Year shall retire at the next general meeting and every director (including those appointed for a specific term) shall be subject to retirement at least once every three years. Code Provisions A.4.1 and A.4.2 have been fully complied.

In accordance with the Company's Bye-laws Article 89, the appointment of Mr Wu Enlai as director to fill a casual vacancy shall hold only until the first general meeting of the Company. Mr Wu will retire and being eligible to offer himself for re-election at the Annual General Meeting (the "2014 AGM").

In accordance with the Company's Bye-laws Article 97, Mr Cheng Cheng, Dr Lau Wah Sum and Mr Li Kwok Sing Aubrey will retire by rotation and being eligible to offer themselves for re-election at the 2014 AGM.

Dr Lau Wah Sum has been appointed as an Independent Non-executive Director for more than nine years. The Company has received from Dr Lau a confirmation of independence according to Rule 3.13 of the Listing Rules. Dr Lau has not engaged in any executive management of the Company and its subsidiaries (together, the "Group"). Taking into consideration of his independent scope of work in the past years, the Board considers Dr Lau to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. The Board believes that Dr Lau's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the presence of Dr Lau who has over time gained valuable insight into the Group.

Mr Li Kwok Sing Aubrey has been appointed as an Independent Non-executive Director for more than nine years. The Company has received from Mr Li a confirmation of independence according to Rule 3.13 of the Listing Rules. Mr Li has not engaged in any executive management of the Group. Taking into consideration of his independent scope of work in the past years, the Board considers Mr Li to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. The Board believes that Mr Li's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the presence of Mr Li who has over time gained valuable insight into the Group.

The Board recommended the re-appointment of the above directors standing for re-election at the forthcoming annual general meeting of the Company.

A circular containing detailed information of the directors standing for re-election at the 2014 AGM would be sent to the shareholders.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

During the Year, the directors have attended various in-house briefings and internal or external seminars/trainings, and have read internal or external newsletters, updates and other reading materials covering topics such as business of the Company, corporate governance, industry knowledge, regulatory updates, finance and management.

Board Meetings

Number of Meetings and Directors' Attendance

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the Year, eleven Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and four Nomination Committee meetings were held.

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

	Attendance/Number of Meetings			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Director:				
Mr Zhang Bowen *(President, performing the duties of the Chairman from 17 December 2013)*	10/11	–	–	–
Mr Cheng Cheng *(Senior Vice President)*	10/11	–	–	–
Mr Wu Enlai *(appointed on 30 December 2013)*	–	–	–	–
Mr Li Hualin *(resigned on 27 August 2013)*	5/11	–	–	1/4
Mr Wen Qingshan *(appointed on 27 August 2013 and resigned on 17 December 2013)*	3/11	–	–	1/4
Independent Non-Executive Director:				
Dr Lau Wah Sum	11/11	2/2	1/1	4/4
Mr Li Kwok Sing Aubrey	9/11	2/2	1/1	4/4
Dr Liu Xiao Feng	11/11	2/2	1/1	4/4

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

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

The President, Chief Financial Officer and Company Secretary will attend Board and committee meetings, when necessary, to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Minutes are prepared after each meeting and the final version is signed by the Chairman or the chairman of the relevant committees (as the case may be) and confirmed by the Board in the following Board Meeting or by the relevant committee in the following committee meeting (as the case may be). The confirmed minutes are kept for future reference and directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer of the Company are held by different individuals during the Year. Mr Zhang Bowen, executive director of the Company, performed the duties of the Chairman from 17 December 2013 following the resignation of Mr Wen Qingshan. Mr Zhao Yongqi was appointed as the Chief Executive Officer following the resignation of Mr Jiang Changliang on 5 December 2013. There is no relationship between the Chairman and Chief Executive Officer.

There are written terms on the general division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Stock Exchange's website and the Company's website and are available to shareholders upon request.

The three Independent Non-executive Directors of the Company are the members of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors (including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing independent auditor.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by independent auditor before submission to the Board.

(b) To review the relationship with the independent auditor by reference to the work performed by the independent auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the independent auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the Year, the Audit Committee held two meetings, to review the financial results and reports, financial reporting and compliance procedures, the report on the Company's internal control and risk management review and processes and the appointment of the independent auditor.

The Company's annual results for the Year has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of the independent auditor.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three Independent Non-executive Directors. The primary objectives of the Remuneration Committee include reviewing the management's remuneration proposals with reference to the board's corporate goals and objectives, making recommendations to the Board for approval of the remuneration policy and structure and making recommendation or determining the remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Executive Directors and the senior management and other related matters. The Company Secretary is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee held one meeting during the Year to review the remuneration policy and structure of the Company, assess performance of Executive Directors, approve the terms of Executive Directors' services contracts and review and make recommendation of the remuneration packages of the Executive Directors and the senior management for the Year to the Board.

The remuneration paid to the senior management, by band for the Year is set out as below:

Senior Management emolument

	Year 2013
HK$4,500,001 – HK$5,000,000	1
HK$5,500,001 – HK$6,000,000	5
HK$7,500,001 – HK$8,000,000	1
	7

NOMINATION COMMITTEE

The Nomination Committee was formed on 16 January 2012 and comprises of four members including three Independent Non-executive Directors and the Chairman of the Company. The Chairman of the Company is the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of Independent Non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executives;

5. to regularly review the time required from a Director to perform his responsibilities; and

6. to do such other things to enable the Committee to discharge its powers and functions conferred to it by the Board.

In performing its duties, due regards would be given to the Listing Rules and the associated guidance.

The Nomination Committee held four meetings during the Year to review Board composition and the appointment of new Chief Executive Officer and the appointment of new directors to fill casual vacancy.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance functions as required under the CG Code:

- to develop and review the Company's policies and practices on corporate governance;

- to review and monitor the training and continuous professional development of directors and senior management;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and

- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Year, the Board considered the following corporate governance matters:

- adoption of corporate governance functions under the CG Code;

- review the usage of annual caps on continuing connected transactions of the Group;

- review the compliance with the CG Code; and

- review of the effectiveness of the internal controls and risk management systems of the Company through the internal audit and the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

Code provision A.6.4 stipulates that directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules and, in addition, the Board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the Year.

The Company has also established written guidelines (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who are likely to be in possession of unpublished inside information of the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the Year.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 37 and 38.

The remuneration to the independent auditor of the Company in respect of audit services and non-audit services for the Year amounted to approximately HK$12 million and approximately HK$1 million (2012: HK$15 million and HK$1 million) respectively. The said non-audit services related to the interim review and the tax compliance services of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(1) General Meeting

Under the Listing Rules, any vote of shareholders at a general meeting will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Details of the poll procedures are included in all notices/circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the website of the Stock Exchange and the Company subsequent to the close of the shareholders meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee or, in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at general meetings on each substantial issue, including the election of individual directors.

During the Year, one general meeting was held on 20 May 2013, which is the 2013 annual general meeting. The attendance records of the Directors to the 2013 annual general meeting are set out below:-

Directors	Attendance
Executive Directors	
Mr Zhang Bowen *(performing the duties of the Chairman from 17 December 2013)*	1/1
Mr Cheng Cheng	1/1
Mr Wu Enlai (appointed on 30 December 2013)	–
Independent Non-executive Directors	
Dr Lau Wah Sum	1/1
Mr Li Kwok Sing Aubrey	1/1
Dr Liu Xiao Feng	1/1

(2) Rights of Shareholders to Convene Special General Meeting

A special general meeting shall be convened on the written requisition of shareholder(s) holding at the date of the deposit of the registration not less than one-tenth of the paid-up capital of the Company which as at the date of the deposit carries the voting right at general meetings of the Company deposited at the registered office of the Company in Bermuda (Clarendon House, 2 Church Street, Hamilton HM11, Bermuda) and the principal place of business of the Company in Hong Kong (39/F, 118 Connaught Road West, Hong Kong) for the attention of the Board.

The written requisition shall specify the objects of the special general meeting and signed by the requistionist(s). If the Board does not, within 21 days from the date of deposit of the written requisition, proceed duly to convene the special general meeting the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them, may convene the special general meeting in the same manner, as nearly as possible, as that in which special general meeting may be convened by the Board, provided that any special general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(3) Shareholders' Communication

Corporation communications such as interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides the shareholders with the corporate information, such as principal business activities and latest development of the Group, as well as the share price and dividend history of the Company. Also, it provides information on corporate governance and corporate social responsibilities of the Group as well as the compositions and functions of the Board and the committees. For efficient communication with shareholders and in the interest of environmental protection, arrangements were made to allow shareholders to elect to receive corporate communications of the Company by electronic means through the Company's website.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means.

(4) Investor Relations

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains two websites at http://www.kunlun.com.hk and http://www.irasia.com/listco/hk/kunlun, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

INTERNAL CONTROLS

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders investment and the Company's assets. The internal control system of the Company comprises a well-established organisational structure and comprehensive policies and standards.

The Board, through the Audit Committee, assesses annually the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls as well as risk management, the adequacy of resources, qualification and experiences of staff of the Company's accounting and financial functions, and their training programs and budget.

During the Year, an external consulting firm reviewed the internal control system of the Group. No major issue has been identified.

The Board of Directors (the "Board") is pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2013 (the "Year").

BUSINESS STRATEGY

As is known to all, the climate change caused by greenhouse gases is largely attributed to the use of power fuels dominated by gasoline and diesel oil. Among this, the proportion of gasoline and diesel oil consumption in the transportation field has gone up year by year, and this has gradually become the main factor for the continuous rise of total carbon emission and the urban air pollution.

Kunlun Energy Company Limited's (the "Company") business strategy is to reduce the emission of greenhouse gases while providing reasonable returns to shareholders. The Company has been seeking a path to realise its own value by seeking the balance between ensuring economic developments and reducing carbon emission. Therefore, the Company has begun the strategic transformation with "Low-Carbon Economy Green Development" as its mission since 2009. The Company has been mainly engaged in developing the LNG "Gas in Substitution of Oil" business and promoting the application of LNG fuels on highway transportation vehicles, vessels, and drilling rigs. The Company believes its choice is of great significance to structural adjustment in energy development, energy conservation and emission reduction, and countermeasures to climate change in the country.

Through strict purification, LNG has more pure components, thus featuring lower emission of pollutants and more remarkable advantages in energy conservation and emission reduction as compared with conventional fuels, such as gasoline and diesel oil. In order to achieve the objective, the Company planned to construct liquefaction plants to ensure sufficient LNG available. The corresponding countermeasures to further reduce the emission of greenhouse gases in the LNG production process was also taken.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are the exploration and production of crude oil and natural gas in the People's Republic of China (the "PRC"), the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic, and the sales of natural gas, LNG processing, LNG terminal and transmission of natural gas in the PRC.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (together, the "Group") for the Year are set out in the consolidated statement of comprehensive income on page 39.

A final dividend for the year ended 31 December 2012 of HK23 cents per share amounting to approximately HK$1,855 million was paid during the year. The directors recommend the payment of a final dividend of HK23 cents per share for the Year, totalling approximately HK$1,854 million.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 129.

RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on pages 44 and 45, and Note 30 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the Year are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2013 and 2012 were as follows:

	2013 **HK$'million**	2012 HK$'million
Contributed surplus	**134**	134
Retained earnings	**11,905**	11,172
	12,039	11,306

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, 4,518,000 shares of HK$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited ("Stock Exchange") and cancelled on 22 July 2013, details of which are as follows:

Month	Number of shares repurchased	Highest price HK$	Lowest price HK$	Aggregate amount paid HK$'million
June 2013	2,000,000	12.84	12.00	25
July 2013	2,518,000	12.84	12.40	32

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Year.

DIRECTORS

The directors of the Company during the Year and up to the date of this report are:

Executive Directors:

Mr Zhang Bowen *(performing the duties of the Chairman from 17 December 2013)*
Mr Cheng Cheng
Mr Wu Enlai *(appointed on 30 December 2013)*
Mr Li Hualin *(resigned on 27 August 2013)*
Mr Wen Qingshan *(appointed on 27 August 2013 and resigned on 17 December 2013)*

Independent Non-Executive Directors:

Dr Lau Wah Sum
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

Pursuant to the Company's Bye-laws Article 89, Mr Wu Enlai shall hold office only until the first general meeting of the Company after his appointment and shall then eligible for re-election at the 2014 Annual General Meeting ("AGM").

In accordance with Article 97 of the Company's Bye-Laws, Mr Cheng Cheng, Dr Lau Wah Sum and Mr Li Kwok Sing Aubrey will retire at the 2014 AGM and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Zhang Bowen *(President, performing duties of the Chairman from 17 December 2013)*
Aged 47, joined the Company on 1 January 2007. He holds a Bachelor degree from Xidian University in computer science and a Master degree in petroleum geology from Daqing Petroleum Institute. Since he graduated, Mr Zhang joined China National Oil and Gas Exploration and Development Corporation ("CNODC"), a subsidiary of China National Petroleum Corporation ("CNPC"). He has over 10 years of working experience in the oil and gas industry. Immediately before he joined the Company, he was the executive vice president of CNPC America Limited.

Mr Cheng Cheng *(Senior Vice President)*
Aged 46, was appointed as an Executive Director in June 2004. He is currently a Senior Vice President of the Company. Before joining the Company, Mr Cheng has over 15 years industry experience working at various departments and sections of CNPC including 3 years in Canada as Vice President of CNPC International (Canada) Limited. Mr Cheng has a Master of Business Administration from the University of Calgary, Canada, a Master in Energy and Environment Economy from Scuola Superiore Enrico Mattei, Milan Italy and Diploma in Petroleum Technical Economy from Jianghan Institute of Petroleum, the PRC.

Mr Wu Enlai
Aged 54, currently the general manager of PetroChina Company Limited ("PetroChina") Guangxi Petrochemical Company, and the head of Enterprise Coordination Team of PetroChina in Guangxi. As a professorate senior engineer, Mr Wu has over 30 years of work experience in oil industry in China. Mr Wu obtained a bachelor's degree from China University of Petroleum (Huadong) with a major in refining and petrochemical in August 1982, and obtained a master's degree in Management Science & Engineering from China University of Petroleum in June 1999. He also obtained an MBA degree in June 2002 from University of Calgary. Mr Wu served as the deputy director general of Tarim Petrochemical Engineering Construction Headquarters from August 1997 to July 2002, the deputy director general of M&A department of China National Petroleum Corporation from August 2002 to December 2003 and the deputy general manager of China National Oil and Gas Exploration and Development Corporation from January 2004 to April 2005. Mr Wu was appointed as the head of the Preparatory Work Team for PetroChina Guangxi Petrochemical Company in May 2005, and has been its general manager since October 2005 and the head of Enterprise Coordination Team of PetroChina in Guangxi since September 2010.

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

Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP
Aged 86, is a Fellow of the Chartered Institute of Management Accountants. He was the Chairman of Urban Renewal Authority. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Honorary Court Member of the University of Science and Technology of Hong Kong. He also acts as an honorary advisor to Tian Teck Land Limited and Associated International Hotels Limited in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

Mr Li Kwok Sing Aubrey
Aged 64, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 35 years' experience in merchant banking and commercial banking. He is a non-executive director of The Bank of East Asia, Limited, an independent non-executive director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kowloon Development Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited. He is also a non-executive director of Affin Bank Berhad. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

Dr Liu Xiao Feng
Aged 51, was appointed as an Independent Non-Executive Director of the Company in 2004. He is currently a Managing Director at China Resources Capital Holdings Company Limited. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, JP Morgan, and DBS. He has many years of experience in corporate finance. Dr Liu has a Ph.D and Master degrees from the Faculty of Economics, University of Cambridge and a Bachelor of Economics from Sichuan Institute of Finance and Economics, China. Dr Liu is currently also an independent non-Executive director of Haier Electronics Group Co. Ltd and Honghua Group Limited, both of which are publicly listed companies on the Stock Exchange.

Senior Management

Mr Zhao Yongqi *(Chief Executive Office)*
Aged 53, currently is the general manager and an executive director of PetroChina Kunlun Gas Co., Ltd. ("PetroChina Kunlun Gas"). He also serves as the general manager and an executive director of PetroChina Kunlun Natural Gas Utilisation Co., Ltd. ("PetroChina Kunlun Natural Gas Utilisation"). Mr Zhao is a Professor-level Senior Economist and he has over 30 years of experience in the Chinese oil and gas industry. Mr Zhao became the deputy general manager of PetroChina Dagang Oil Fields Sales Company in May 1997, the deputy general manager of PetroChina North China Sales Company in December 1999, the general manager of PertroChina Inner Mongolia Sales Company in October 2004. Mr Zhao was elected a representative to the 11th National People's Congress of the People's Republic of China ("PRC") in January 2008. He became the general manager of China Marine Bunker Co., Ltd. in November 2009, the general manager of PetroChina Kunlun Gas in August 2011, and began to concurrently serve as an executive director of the same company in October 2011. In April 2012, he further began to concurrently serve as the general manager and an executive director of PetroChina Kunlun Natural Gas Utilization.

Mr Fa Yuxiao *(Senior Vice President)*
Aged 49, is a senior engineer having 27 years' experience in the oil and gas field. He studied earth physics and exploration technologies in the Southwest Petroleum University and was awarded a bachelor's degree in engineering in 1984. After his graduation, he worked for the Research Institute of Petroleum Exploration and Development, the Tarim Petroleum Exploration and Development Headquarters, CNPC and PetroChina. He was once the Deputy Chief Economist under the Human Resources Department of the CNPC and PetroChina.

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

Senior Management (Continued)

Mr Zhong Wenxu *(Senior Vice President)*
Aged 49, is a senior engineer having 25 years' experience in the oil and gas field. He majored in oil drilling engineering in the Southwest Petroleum Institute and was awarded a bachelor's degree in engineering in 1986. After his graduation, he worked for various entities including CNPC Xinjiang Petroleum Administration, CNPC Tarim Oilfield Company and Shenzhen Petroleum Industrial Co., Ltd. In 2005, Mr Zhong graduated from the Oil and Gas Field Development Engineering Specialty of the China University of Petroleum in Beijing, obtaining a master's degree in engineering. After that, he worked as the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation as well as the General Manager of 華油天然氣股份有限公司.

Mr Xia Yu *(Assistant Chief Executive Officer)*
Aged 50, is a senior engineer with 28 years' experience in the oil and gas field. He majored in irrigation for agricultural land in the Shandong Water Polytechnic. After he graduated with a bachelor's degree in engineering in 1983, he joined Hubei Petroleum Administration. In 1998, he was awarded a master's degree in business administration by Tianjin University. After that, he worked for a number of companies including China International (Kazakhstan) Company, CNPC Shennan Oil Technology Development Co., Ltd. and Shenzhen Petroleum Industrial Co., Ltd. He was also the Deputy General Manager of PetroChina Kunlun Natural Gas Utilisation.

Mr Lau Hak Woon *(Chief Financial Officer & Company Secretary)*
Aged 61, member of Hong Kong Institute of Certified Public Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 30 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Chief Financial Officer of several large companies in Hong Kong and overseas.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS

As at 31 December 2013, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Commencement of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or which (c) were required, pursuant to the Model Code under the Listing Rules, to be notified to the Company and the Stock Exchange are set out below.

DIRECTORS' INTERESTS (Continued)

Ordinary Shares of HK$0.01 Each of the Company

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Zhang Bowen (note)	14,000,000	Beneficial owner	0.17%
Cheng Cheng (note)	7,300,000	Beneficial owner	0.09%
Li Kwok Sing Aubrey (note)	1,000,000	Beneficial owner	0.01%

Note:

The interests held by Mr Zhang Bowen, Mr Cheng Cheng and Mr Li Kwok Sing Aubrey represent long position in the Shares of the Company.

Share options are granted to directors and chief executives under the executive share option scheme approved by the Board on 3 June 2002. Details are set out in the section headed "Share Options" of this report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, its fellow subsidiaries and its holding companies a party to any arrangement to enable the directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in Note 29 to the consolidated financial statements.

The following table discloses the movements in the number of share options of the Company during the Year which have been granted to the directors and employees of the Company:

Shares options were granted to the Directors, chief executives and employees of the Company under the executive share option scheme approved by the Board on 3 June 2002, details of which are set out below:

				Number of Share Options				
Name	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1 January 2013 '000	Granted during the Year '000	Exercised during the Year '000	Lapsed during the Year '000	Outstanding at 31 December 2013 '000
Directors								
Zhang Bowen	26/05/08	26/08/08 – 25/05/13	4.240	2,400	–	(2,400)	–	–
	26/03/09	26/06/09 – 25/03/14	3.250	2,400	–	–	–	2,400
	26/03/10	26/06/10 – 25/03/15	10.320	2,400	–	–	–	2,400
	18/03/11	18/06/11 – 17/03/16	11.730	2,400	–	–	–	2,400
	17/05/12	17/08/12 – 16/05/17	12.632	2,200	–	–	–	2,200

SHARE OPTIONS (Continued)

				Number of Share Options				
Name	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1 January 2013 '000	Granted during the Year '000	Exercised during the Year '000	Lapsed during the Year '000	Outstanding at 31 December 2013 '000
Cheng Cheng	26/05/08	26/08/08 – 25/05/13	4.240	1,500	–	(1,500)	–	–
	26/03/09	26/06/09 – 25/03/14	3.250	1,500	–	–	–	1,500
	26/03/10	26/06/10 – 25/03/15	10.320	1,500	–	–	–	1,500
	18/03/11	18/06/11 – 17/03/16	11.730	1,500	–	–	–	1,500
	17/05/12	17/08/12 – 16/05/17	12.632	2,000	–	–	–	2,000
Li Kwok Sing Aubrey	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	–	400
Liu Xiao Feng	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	–	400
Lau Wah Sum	26/03/10	26/06/10 – 25/03/15	10.320	400	–	–	–	400
Li Hualin	26/05/08	26/08/08 – 25/05/13	4.240	3,200	–	(3,200)	–	–
(resigned on	26/03/09	26/06/09 – 25/03/14	3.250	3,200	–	–	(3,200)	–
27 August 2013)	26/03/10	26/06/10 – 25/03/15	10.320	3,200	–	–	(3,200)	–
	18/03/11	18/06/11 – 17/03/16	11.730	3,200	–	–	(3,200)	–
	17/05/12	17/08/12 – 16/05/17	12.632	3,200	–	–	(3,200)	–
				37,000	–	(7,100)	(12,800)	17,100
Chief Executive Officer								
Jiang Changliang (resigned on 5 December 2013)	17/05/12	17/08/12 – 16/05/17	12.632	2,400	–	–	(2,400)	–
Employees	26/05/08	26/08/08 – 25/05/13	4.240	6,000	–	(6,000)	–	–
	26/03/09	26/06/09 – 25/03/14	3.250	6,000	–	–	–	6,000
	26/03/10	26/06/10 – 25/03/15	10.320	6,000	–	–	–	6,000
	18/03/11	18/06/11 – 17/03/16	11.730	7,000	–	(1,000)	–	6,000
	17/05/12	17/08/12 – 16/05/17	12.632	13,000	–	(1,500)	–	11,500
				38,000	–	(8,500)	–	29,500
				77,400	–	(15,600)	(15,200)	46,600

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$15.313.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2013, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and the chief executive of the Company.

Name	Number of Shares Direct Interest	Number of Shares Indirect Interest	Percentage of the total number of Shares in issue
Sun World Limited ("Sun World") [1]	4,708,302,133 (L)	–	58.40%
PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") [1]	–	4,708,302,133 (L)	58.40%
PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") [1]	–	4,708,302,133 (L)	58.40%
PetroChina [1]	–	4,708,302,133 (L)	58.40%
CNODC [2]	–	277,432,000 (L)	3.44%
CNPC International Ltd.("CNPCI") [2]	–	277,432,000 (L)	3.44%
Fairy King Investments Ltd. [2]	277,432,000 (L)	–	3.44%
CNPC [1] [2]	–	4,985,734,133 (L)	61.84%

Notes:

(1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly-owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly owned by PetroChina, which is in turn owned as to 86.47% by CNPC. Accordingly, CNPC is deemed to have interest in the 4,708,302,133 (L) shares held by Sun World. Mr Zhang Bowen, the President of the Company and Mr Wu Enlai, the executive director of the Company are also the directors of Sun World, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).

(2) Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly-owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 277,432,000 (L) shares held by Fairy King Investments Ltd..

Save as disclosed above, as at 31 December 2013, the directors and the chief executive of the Company were not aware of any person (other than a director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at 31 December 2013, the directors and the chief executive of the Company were not aware of any person (other than a director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in Note 29 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2013 and there had been no other exercise of convertible securities, options, warrants or similar rights during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

CONNECTED TRANSACTIONS

Continuing connected transactions under the Listing Rules, which are required to be disclosed in accordance with Chapter 14A of the Listing Rules, are as follows.

	Nature of transactions	Details	Amount incurred for 2013 HK$' million	Annual cap for 2013 HK$' million
(i)	Provision of products and services by CNPC and its subsidiaries ("CNPC Group") to the Group	As disclosed in the Company's announcement dated 14 November 2011	6,783	12,241
(ii)	Purchase of the Group's share of crude oil by the CNPC Group	As disclosed in Company's announcement dated 14 November 2011	3,610	5,991
(iii)	Rental payments	As disclosed in the Company's announcement dated 14 November 2011	19	24
(iv)	Purchase of oil and gas products from the CNPC Group by the Group	As disclosed in the Company's announcement dated 14 November 2011	12,514	24,822
(v)	Provision of products and services by the Group to the CNPC Group	As disclosed in the Company's announcement dated 14 November 2011	6,205	8,896
(vi)	Pipeline transmission fee for the transmission of natural gas received and receivable from Beijing Enterprises Holdings Limited and its subsidiaries	As disclosed in the Company's circular dated 19 February 2011	4,807	N/A

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with rule 14A.38 of the Listing Rules, the Board of Directors engaged the independent auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has issued his unqualified letter containing his following findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 115 and 116 of the Annual Report in accordance with Main Board Listing Rule 14A.38.

CONNECTED TRANSACTIONS (Continued)

Nothing has come to the independent auditor's attention that the disclosed continuing connected transactions:

(i) have not received the approval of the Company's Board of Directors;

(ii) are not in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;

(iii) have not been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have exceeded the cap disclosed in previous announcement dated 14 November 2011 and circular dated 19 February 2011 with respect to the aggregated amount of each transaction involved.

A copy of the auditor's report has been provided by the Company to the Stock Exchange.

MANAGEMENT CONTRACTS

The Group has entered into certain entrustment management contracts in relation to the management and operation of the Xinjiang Contract, the Leng Jiapu Contract, PetroChina Jiangsu LNG Co. Ltd., PetroChina Dalian LNG Co. Ltd. and PetroChina Beijing Gas Pipeline Co., Ltd.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	34%
Percentage of purchases attributable to the Group's five largest suppliers	39%
Percentage of sales attributable to the Group's largest customer	33%
Percentage of sales attributable to the Group's five largest customers	43%

PetroChina, a listed subsidiary of CNPC, is the Group's largest supplier and customer.

Save for the above, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the major suppliers or customers noted above.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$10,000.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are reviewed and recommended by the Remuneration Committee to the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares during the year.

COMPETING BUSINESS

Save as disclosed below, as at 20 March 2014, none of the directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

Name of director	Name of company	Nature of interest	Nature of competing business
Wu Enlai	PetroChina	Secretary to the Board of directors	Exploration, development and product and marketing of crude oil and natural gas

As the Board is independent of the board of the above entity, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above business.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

No event after the date of the statement of financial position.

AUDITOR

According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Counsel, PetroChina, the controlling shareholder of the Company, appointed Messrs KPMG as its international auditor for the year 2013. The Board considers that it would be more efficient and cost effective to appoint Messrs KPMG as the auditor of the Company for the year 2013. Accordingly the Board, with the recommendation of the Audit Committee of the Company at the 2013 AGM appointed Messrs KPMG as the auditor of the Company for the year 2013.

The financial statements for the Year have been audited by Messrs KPMG, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhang Bowen
President and Executive Director
(performing the duties of the Chairman)

Hong Kong, 20 March 2014

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

We have audited the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 128, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 March 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	**2013 HK$'million**	2012 HK$'million
Revenue	*6*	**43,430**	32,953
Other gains, net	*7*	**768**	361
Interest income	*8*	**228**	172
Purchases, services and others		**(21,303)**	(12,912)
Employee compensation costs	*9*	**(2,046)**	(1,684)
Exploration expenses, including exploratory dry holes		**(11)**	(42)
Depreciation, depletion and amortisation		**(4,528)**	(4,434)
Selling, general and administrative expenses		**(2,878)**	(2,165)
Taxes other than income taxes	*10*	**(746)**	(923)
Interest expenses	*11*	**(622)**	(661)
Share of profits less losses of:			
– Associates		**1,646**	2,334
– Joint ventures	*21*	**415**	307
Profit before income tax expense	*12*	**14,353**	13,306
Income tax expense	*14*	**(3,845)**	(3,392)
Profit for the year		**10,508**	9,914
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
– Currency translation differences		**1,392**	663
– Fair value (loss)/gain on available-for-sale financial assets		**(10)**	1
Other comprehensive income, net of nil tax		**1,382**	664
Total comprehensive income for the year		**11,890**	10,578

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	**2013 HK$'million**	2012 HK$'million
Profit for the year attributable to:			
– Owners of the Company		**6,851**	6,518
– Non-controlling interests		**3,657**	3,396
		10,508	9,914
Total comprehensive income for the year attributable to:			
– Owners of the Company		**7,842**	7,017
– Non-controlling interests		**4,048**	3,561
		11,890	10,578
Earnings per share for profit attributable to owners of the Company	*16*		
– Basic (HK cent)		**85.01**	83.54
– Diluted (HK cent)		**84.83**	83.13

The notes on pages 48 to 128 form part of these financial statements. Details of dividends payable to owners of the Company attributable to the profit for the year are set out in Note 17.

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Assets			
Non-current assets			
Property, plant and equipment	*18*	**82,943**	69,225
Advanced operating lease payments	*19*	**2,895**	2,199
Investments in associates	*20*	**5,720**	5,606
Investments in joint ventures	*21*	**1,564**	1,541
Available-for-sale financial assets	*22*	**120**	173
Intangible and other non-current assets	*24*	**3,104**	2,360
Deferred tax assets	*33*	**254**	187
		96,600	81,291
Current assets			
Inventories	25	**1,173**	717
Accounts receivable	*26*	**1,893**	1,367
Prepaid expenses and other current assets	*27*	**4,899**	5,575
Cash and cash equivalents	*28*	**14,897**	19,592
		22,862	27,251
Total assets		**119,462**	108,542

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**81**	81
Retained earnings	*30*	**24,530**	20,059
Reserves	*30*	**25,795**	24,282
		50,406	44,422
Non-controlling interests		**21,862**	17,756
Total equity		**72,268**	62,178
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**12,676**	12,438
Income tax payable	*33*	**510**	461
Other tax payable		**394**	353
Short-term borrowings	*32*	**13,551**	5,111
		27,131	18,363
Non-current liabilities			
Long-term borrowings	*32*	**17,799**	26,562
Deferred tax liabilities	*33*	**1,715**	1,278
Other long-term obligations		**549**	161
		20,063	28,001
Total liabilities		**47,194**	46,364
Total equity and liabilities		**119,462**	108,542
Net current (liabilities)/assets		**(4,269)**	8,888
Total assets less current liabilities		**92,331**	90,179

Approved and authorised for issue by the board of directors on 20 March 2014.

Zhang Bowen
President
(preforming the duties of the Chairman)

Cheng Cheng
Senior Vice President

The notes on pages 48 to 128 form part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Assets			
Non-current assets			
Property, plant and equipment	*18*	**4**	2
Investments in associates	*20*	**1,090**	966
Investments in joint ventures	*21*	**272**	272
Investments in subsidiaries	*23*	**43,337**	40,389
Intangible and other non-current assets	*24*	**1,290**	1
		45,993	41,630
Current assets			
Prepaid expenses and other current assets	*27*	**9,605**	8,597
Cash and cash equivalents	*28*	**1,857**	6,627
		11,462	15,224
Total assets		**57,455**	56,854
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	**81**	81
Retained earnings	*30*	**11,905**	11,172
Reserves	*30*	**40,460**	40,281
		52,446	51,534
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*31*	**200**	198
Income tax payable	*33*	**–**	88
Short-term borrowings	*32*	**4,263**	225
		4,463	511
Non-current liabilities			
Long-term borrowings	*32*	**546**	4,809
Total liabilities		**5,009**	5,320
Total equity and liabilities		**57,455**	56,854
Net current assets		**6,999**	14,713
Total assets less current liabilities		**52,992**	56,343

Approved and authorised for issue by the board of directors on 20 March 2014.

Zhang Bowen
President
(preforming the duties of the Chairman)

Cheng Cheng
Senior Vice President

The notes on pages 48 to 128 form part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

		Attributable to owners of the Company				Non-	
		Share	Retained			controlling	Total
		capital	earnings	Reserves	Sub-total	interests	equity
	Note	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Balances at 1 January 2012		72	17,545	12,766	30,383	15,275	45,658
Changes in equity for 2012:							
Profit for the year		–	6,518	–	6,518	3,396	9,914
Other comprehensive income		–	–	499	499	165	664
Total comprehensive income for the year		–	6,518	499	7,017	3,561	10,578
Transfer between reserves		–	(469)	469	–	–	–
Final dividend for 2011		–	(1,766)	–	(1,766)	–	(1,766)
Issue of shares, net of share issue expenses upon placement	*29(a)*	8	–	10,251	10,259	–	10,259
Recognition of equity settled share-based payments	*29(b)*	–	–	72	72	–	72
Issue of shares upon exercise of share options	*29(b)*	1	–	345	346	–	346
Utilisation of reserves		–	–	(120)	(120)	(35)	(155)
Dividend paid to former owners of acquired subsidiary		–	(1,769)	–	(1,769)	–	(1,769)
Acquisition from non-controlling interests		–	–	–	–	(123)	(123)
Dividend to non-controlling interests		–	–	–	–	(3,217)	(3,217)
Capital contributions from non-controlling interests		–	–	–	–	2,295	2,295
Balances at 31 December 2012		81	20,059	24,282	44,422	17,756	62,178

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

		Attributable to owners of the Company					
	Note	Share capital HK$'million	Retained earnings HK$'million	Reserves HK$'million	Sub-total HK$'million	Non-controlling interests HK$'million	Total equity HK$'million
Balances at 1 January 2013		**81**	**20,059**	**24,282**	**44,422**	**17,756**	**62,178**
Changes in equity for 2013:							
Profit for the year		–	6,851	–	6,851	3,657	10,508
Other comprehensive income		–	–	991	991	391	1,382
Total comprehensive income for the year		–	6,851	991	7,842	4,048	11,890
Transfer between reserves		–	(563)	563	–	–	–
Final dividend for 2012	*17*	–	(1,855)	–	(1,855)	–	(1,855)
Issue of shares upon exercise of share options	*29(a) & (b)*	–	–	86	86	–	86
Repurchase of shares	*29(a)*	–	–	(57)	(57)	–	(57)
Lapsed share options		–	38	(38)	–	–	–
Acquisition from non-controlling interests		–	–	(32)	(32)	(103)	(135)
Dividend to non-controlling interests in subsidiaries		–	–	–	–	(1,090)	(1,090)
Capital contributions from non-controlling interests		–	–	–	–	1,078	1,078
Acquisition of subsidiaries		–	–	–	–	173	173
Balances at 31 December 2013		**81**	**24,530**	**25,795**	**50,406**	**21,862**	**72,268**

The notes on pages 48 to 128 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Cash flows from operating activities			
Profit for the year		**10,508**	9,914
Adjustments for:			
Income tax expense		**3,845**	3,392
Taxes other than income taxes		**746**	923
Depreciation, depletion and amortisation		**4,528**	4,434
Share of profits less losses of associates		**(1,646)**	(2,334)
Share of profits less losses of joint ventures		**(415)**	(307)
Employee share-based payment expense		**–**	72
Impairment loss on property, plant and equipment		**12**	–
Net losses on disposals of property, plant and equipment		**70**	4
Gains on disposals of joint ventures		**–**	(2)
Net exchange gains		**(45)**	(96)
Interest income		**(228)**	(172)
Interest expense		**622**	661
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		**115**	(2,718)
Inventories		**(457)**	(154)
Accounts payable and accrued liabilities and other tax payable		**(742)**	(393)
Cash generated from operations		**16,913**	13,224
Income tax paid		**(3,427)**	(3,161)
Net cash generated from operating activities		**13,486**	10,063

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Cash flows from investing activities			
Dividends received from associates		**1,826**	3,113
Dividends received from joint ventures		**814**	–
Acquisitions of subsidiaries	*38(b)*	**37**	(579)
Capital contributions to associates		**(291)**	(354)
Capital contributions to joint ventures		**(56)**	(7)
Acquisitions of available-for-sale financial assets		**–**	(36)
Proceeds from disposal of joint ventures		**–**	32
Proceeds from disposal of property, plant and equipment		**353**	178
Capital expenditure		**(15,405)**	(15,391)
Interest received		**228**	172
Repayment of loan to non-controlling interests		**–**	564
Loans to associates		**(13)**	–
Loans to joint ventures		**(38)**	–
Loan to third parties		**(187)**	(440)
Net cash used in investing activities		**(12,732)**	(12,748)
Cash flows from financing activities			
Capital contributions from non-controlling interests		**1,078**	2,295
Dividends paid to owners of the Company	*30*	**(1,855)**	(1,766)
Dividends paid to non-controlling interests		**(1,944)**	(2,310)
Dividends paid to former owners of acquired subsidiary		**–**	(1,769)
Amount received from non-controlling interests		**–**	954
Increase in other long-term obligations		**–**	133
Issue of shares, net of share issue expenses		**86**	10,605
Repurchase of shares		**(57)**	–
Increase in borrowings		**9,112**	8,213
Repayments of borrowings		**(10,521)**	(4,512)
Interest paid		**(1,856)**	(1,418)
Acquisition from non-controlling interests		**(135)**	(123)
Net cash (used) in/generated from financing activities		**(6,092)**	10,302
(Decrease)/increase in cash and cash equivalents		**(5,338)**	7,617
Cash and cash equivalents at 1 January		**19,592**	11,718
Effect of foreign exchange rate changes		**643**	257
Cash and cash equivalents at 31 December	*28*	**14,897**	19,592

The notes on pages 48 to 128 form part of these financial statements.

1 GENERAL INFORMATION

Kunlun Energy Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited ("Sun World"), which is a company incorporated in the British Virgin Islands. On 18 December 2008, PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, acquired 100% equity interest in Sun World. Since then, PetroChina became an intermediate holding company of the Company. As at 31 December 2013, PetroChina indirectly owned 58.40% (2012: 58.48%) equity interest in the Company.

The address of the Company's principal office and registered office are 39/F, 118 Connaught Road West, Hong Kong and Clarendon House, 2 Church Street Hamilton, HM11, Bermuda, respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan ("Kazakhstan"), the Sultanate of Oman ("Oman"), Peru, the Kingdom of Thailand ("Thailand") and the Azerbaijan Republic ("Azerbaijan"), the sales of natural gas, liquefied natural gas ("LNG") processing, LNG terminal business and transmission of natural gas in the PRC.

The Company and its subsidiaries (together, the "Group") currently have three production sharing arrangements in the PRC and Azerbaijan. On 1 July 1996, the Group entered into an oil production sharing contract (the "Xinjiang Contract") to develop and produce crude oil in Xinjiang Uygur Autonomous Region, the PRC. On 30 December 1997, the Group entered into another oil production sharing contract (the "Leng Jiapu Contract") to develop and produce crude oil in Liaohe, Lioaning Province, the PRC. In 2002, the Group acquired the third production sharing arrangement ("K&K Contract") to develop and produce crude oil in Azerbaijan. Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in Note 35.

The oil operations in the PRC and Azerbaijan are both conducted through production sharing arrangements with PetroChina and a third party, whereby the Group is entitled to a fixed percentage of assets, liabilities, income and expenses in accordance with the respective oil production sharing contracts entered into with PetroChina and the third party.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(w) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for available-for-sales financial assets which are stated at their fair value as explained in the accounting policies set out in Note 3(h).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

2 BASIS OF PREPARATION (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

As at 31 December 2013, the Group had net current liabilities of HK$4,269 million. Notwithstanding the net current liabilities of the Group at 31 December 2013, these financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) Subsequent to the end of the reporting period, China Petroleum Finance Company Limited ("CP Finance") has confirmed to the Group that loans totalling US$550 million (equivalent to HK$4,263 million) that were due to be repaid in 2014 would be extended by three years upon maturities, subject to revision of borrowing interest rate. In addition, the Group has extended a loan of RMB1,700 million (equivalent to HK$2,191 million) that were due to be repaid in 2014 by one year upon maturities; and

(ii) the Group expects to generate positive operating cash flows for the year ending 31 December 2014.

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 3(m) and 3(n) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 3(b)).

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the carrying amount of the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in merger reserve. Any costs directly attributable to the combination shall be recognised in profit or loss for the current period when occurred. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment.

A listing of the Group's principal subsidiaries is set out in Note 40.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment.

Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Associates and joint ventures (Continued)

In the Company's statement of financial position, investments in associates and investments in joint ventures are stated at cost less impairment.

Impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the investment's recoverable amount is estimated.

– ***Calculation of recoverable amount***

The recoverable amount is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the investment. Where an investment does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of investments that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in profit or loss if the carrying amount of an investment, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– ***Reversals of impairment losses***

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Listings of the Group's principal associates and joint ventures are shown in Note 41 and Note 42, respectively.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Accounting for production sharing contracts

Production sharing contracts constitute joint operations. The Group shall recognise in relation to its interest in joint operations:

(i) its assets, including its share of any assets held jointly;

(ii) its liabilities, including its share of any liabilities incurred jointly;

(iii) its revenue from the sale of its share of the output arising from the joint operations;

(iv) its share of the revenue from the sale of the output by the joint operations; and

(v) its expenses, including its share of any expenses incurred jointly.

(d) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency. The Company's functional currency is Renminbi.

(ii) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies (Continued)

(ii) Translation of foreign currencies (Continued)

The results of foreign operations are translated into presentation currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into presentation currency at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(e) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3(f)) and construction in progress, are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. For construction in progress, cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortisation (including any impairment).

Depreciation to write off the cost of each asset, other than oil and gas properties (Note 3(f)), to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

– Buildings	40 years or over the remaining period of respective leases whichever is the shorter
– Natural gas pipelines	10-30 years
– Equipment and machinery	4-30 years
– Motor vehicles	4-14 years
– Others	5-12 years

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

No depreciation is provided for construction in progress until the assets are completed and ready for use.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property, plant and equipment, including oil and gas properties (Note 3(f)) and construction in progress, are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are recorded in profit or loss.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Costs for repair and maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

(f) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain regardless of whether the estimate is a deterministic estimate or probabilistic estimate. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The cost shall be that prevailing at the end of the period.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Oil and gas properties (Continued)

Exploratory wells in areas not requiring major capital expenditure are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review (Note 3(e)). For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities.

The cost of oil and gas properties is amortised at the field level based on the units of production method. Units of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group's production licenses. The Group's oil and gas reserves estimates include only crude oil and condensate and natural gas which management believes can be reasonably produced within the current terms of these production licenses.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate and joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets" whereas goodwill on acquisitions of associates and joint ventures is included in the investments in associates and joint ventures respectively, and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment test. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (Continued)

(ii) Other intangible assets

Expenditure on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using straight line method over their estimated useful lives. Intangible assets are not subsequently revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in profit or loss. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the estimated net present value of future cash flows to be derived from the assets.

(h) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in Notes 3(p)(iii) and (iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Other investments in debt and equity securities (Continued)

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Notes 3(p)(iii) and (iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(i) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. Costs of land use rights paid to the relevant government authorities are treated as operating leases and are carried at lost less accumulate amounts charged to expenses and impairment losses. Land use rights are generally obtained through advance lump-sum payments and the terms of use of which the costs of these lease prepayments are charged to expenses on a straight-line basis over the respective periods of the rights.

(j) Inventories

Inventories include natural gas, materials for natural gas pipelines, crude oil and marina club debentures and wet berths held for sales which are stated at the lower of cost and net realisable value. Cost of inventories is primarily determined by the weighted average cost method, comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(k) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

(m) Accounts payable

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

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit or loss over the period of the borrowings.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the reporting period.

(o) Taxation

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Taxation (Continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group also incurs various other taxes and levies that are not income taxes. "Taxes other than income taxes", which form part of operating expenses, primarily comprise a special levy on domestic sales of crude oil (Note 10), resource tax, urban construction tax, education surcharges and business tax.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit or loss as follows:

(i) Sales of goods

Sales are recognised upon delivery of products and customer acceptance, net of sales taxes and discounts. Revenue is recognised only when the Group has transferred to the buyers significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (Continued)

(ii) Rendering of services

Revenue from the rendering of services is recognised in the consolidated profit or loss upon performance of the services. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of service being rendered, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

(q) Government grants

Government grants are the gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on the amount received or receivable, whereas non-monetary assets are measured at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in profit or loss over the assets' useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(r) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) reliable estimates of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in the PRC. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in the PRC. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expense as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.

(t) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and including the impact of any non-vesting conditions (for example, the requirement for employees to save). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated profit or loss, with a corresponding adjustment to equity.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) Share-based compensation (Continued)

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. When the options expire or are lapsed, the equity amount recognised in the employee share-based compensation reserve is released directly to retained earnings.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(w) Changes in accounting policies

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) Changes in accounting policies (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its investment in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method. Meanwhile, the Group has reclassified the investment in profit sharing contracts from jointly controlled operation to joint operation. These reclassifications do not have any impact on the financial position and the financial result of the Group.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) Changes in accounting policies (Continued)

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Notes 20, 21 and 23.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Notes 4 and 22. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented. These amendments do not have any material impact on the financial position and the financial result of the Group.

Amendments to HKFRS 7 – Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have any significant impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

4.1 Financial risk factors

Exposure to foreign exchange rate risk, credit risk and liquidity risk arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

Risk management is carried out by the management of the Company under policies approved by the Board of Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

(a) Foreign exchange rate risk

The Group is exposed to foreign exchange rate risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currencies of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States dollar ("US dollar"). The Group and the Company are also exposed to foreign exchange rate risk in respect of the borrowings and cash and cash equivalents which are denominated in Hong Kong dollar and US dollar.

The following table details the Group's and the Company's exposure at the end of the reporting period to foreign exchange rate risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

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

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2013		2012	
	US dollar HK$'million	**Hong Kong dollar HK$'million**	US dollar HK$'million	Hong Kong dollar HK$'million
Group				
Accounts receivable and prepaid expenses and other current assets	**319**	**16**	45	191
Cash and cash equivalents	**1,024**	**510**	1,713	1,199
Accounts payable and accrued liabilities	**(3)**	**(43)**	(44)	(160)
Borrowings	**(4,371)**	**(546)**	(4,642)	(546)
Gross exposure arising from recognised assets and liabilities	**(3,031)**	**(63)**	(2,928)	684

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

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2013		2012	
	US dollar HK$'million	**Hong Kong dollar HK$'million**	US dollar HK$'million	Hong Kong dollar HK$'million
Company				
Accounts receivable and prepaid expenses and other current assets	**318**	**16**	45	191
Cash and cash equivalents	**511**	**78**	945	1,045
Accounts payable and accrued liabilities	**(3)**	**(39)**	(44)	(154)
Borrowings	**(4,263)**	**(546)**	(4,488)	(546)
Gross exposure arising from recognised assets and liabilities	**(3,437)**	**(491)**	(3,542)	536

The Group did not enter into any hedge contracts during any of the years presented to hedge against its foreign exchange rate risk. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

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

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

Group	**2013** Increase/ (decrease) in foreign exchange rates	**2013** Effect on profit after tax and retained earnings	2012 Increase/ (decrease) in foreign exchange rates	2012 Effect on profit after tax and retained earnings
US dollar	**5%**	**(114)**	5%	(110)
	(5%)	**114**	(5%)	110
Hong Kong dollar	**5%**	**(2)**	5%	26
	(5%)	**2**	(5%)	(26)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax (and retained earnings) measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2012.

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

4.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk arises primarily from cash and cash equivalents, accounts receivable, other receivables, amounts due from related parties and loans to third parties.

A substantial portion of the Group's cash at bank and time deposits are placed with state-owned banks and financial institutions in the PRC and management believes that the credit risk is low.

The Group performs ongoing assessment of the credit quality of its customers. The ageing analysis of accounts receivable is presented in Note 26.

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, amounts due from related parties and loans to third parties included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligations as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

Given the low level of gearing and continued access to funding, the Group believes that its liquidity risk is not material.

Analysis of the Group's financial liabilities based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity dates are presented in Notes 31 and 32.

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

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, optimise returns for owners and to minimise its cost of capital. In meeting its objectives of managing capital, the Group may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

The Group monitors capital on the basis of the gearing ratio which is calculated as interest-bearing borrowings divided by the sum of total equity and interest-bearing borrowings. The gearing ratio at 31 December 2013 is 30.3% (2012: 33.7%).

There were no changes in the management's approach to capital management of the Group during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at 31 December 2013 and 2012 are disclosed in the respective accounting policies.

Available-for-sale financial assets are the Group's only assets that are measured at fair value. The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

4.3 Fair value estimation (Continued)

(a) Financial assets measured at fair value

	Fair value measurement as at 31 December 2013 categorised into				Fair value measurement as at 31 December 2012 categorised into			
	Fair value at 31 December 2013 HK$'million	Quoted prices in active market for identical assets (Level 1) HK$'million	Significant other observable inputs (Level 2) HK$'million	Significant unobservable inputs (Level 3) HK$'million	Fair value at 31 December 2012 HK$'million	Quoted prices in active market for identical assets (Level 1) HK$'million	Significant other observable inputs (Level 2) HK$'million	Significant unobservable inputs (Level 3) HK$'million
Group								
Recurring fair value measurement								
Financial assets:								
Available-for-sale financial assets:								
– Listed equity securities in Hong Kong	**38**	**38**	**–**	**–**	27	27	–	–
– Listed equity securities in Australia	**41**	**41**	**–**	**–**	69	69	–	–
– Unlisted equity securities in the PRC	**41**	**–**	**–**	**41**	77	–	–	77
	120	**79**	**–**	**41**	173	96	–	77

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

4.3 Fair value estimation (Continued)

(a) Financial assets measured at fair value (Continued)

Information about fair value measurements

As at the date of the statement of financial position, all the listed equity securities are stated at fair values, which have been determined by reference to bid prices quoted in the respective stock exchanges. The equity securities in the PRC amounted to approximately HK$41 million (31 December 2012: HK$77 million) are stated at cost. These securities do not have quoted market price in an active market and their fair values cannot be reliably measured.

The movements during the period in the balance of the Level 3 fair value measurements are as follows:

	2013 **HK$'million**	2012 HK$'million
Unlisted available-for-sale equity securities:		
At 1 January	**77**	40
Payment for purchases	**–**	37
Disposals	**(36)**	–
At 31 December	**41**	77

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost as of 31 December 2013 are short-term in nature and are not materially different from their fair values which are based on level 3 valuation technique.

The fair values are based on discounted cash flow using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 1.68% to 6.90% per annum as at 31 December 2013 depending on the type of the borrowings. An analysis of the carrying amounts of long-term borrowings is presented in Note 32.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated by the Group, based on historical experience and other factors which include expectations of future events that are believed to be reasonable under the circumstances.

Notes 29(b) contains information about the assumptions and risks factors relating to fair value of share options granted. Other key sources of estimation uncertainty and judgement are described as follows:

(a) Estimation of oil and natural gas reserves

Estimates of oil and natural gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

(b) Estimation of impairment of non-financial assets

The Group tests at least annually whether goodwill has suffered any impairment. Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment, other than oil and gas properties. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technological advancement and innovations in the oil and gas industry. Management will adjust the depreciation charge where residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual residual values may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation in the future periods.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Taxes and duties applicable to an associate operating in Kazakhstan

The determination of the obligations for taxes and duties for each statement of financial position date of the associate operating in Kazakhstan requires the interpretation of tax and other legislations. Whilst the directors believe that the associate's judgements are appropriate, significant differences in actual experience may materially affect its future tax and duty obligations.

The associate operating in Kazakhstan is subject to uncertainties relating to the determination of its tax and other liabilities. The tax system and legislations in Kazakhstan have been in force for only a relatively short time compared to more developed jurisdictions and are subject to frequent changes and varying interpretations. The interpretations of such legislations by management of the associate operating in Kazakhstan in applying it to business transactions may be challenged by the relevant tax and other governmental authorities and, as a result, the associate may be assessed for additional tax and other payments including duties, fines and penalties, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may relate to calculating the profitability of each subsoil contract for tax purposes, the applicability of excess profits tax to the operations of the associate operating in Kazahkstan.

Were the actual final outcome on the interpretations of tax and other legislations to differ from the associate's judgements and estimates, the results of operation and financial position of the Group could have a significant adverse effect.

6 REVENUE AND TURNOVER

Turnover mainly represents revenue from the sales of crude oil, the sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas. Analysis of revenue by segment is shown in Note 37.

7 OTHER GAINS, NET

	2013 HK$'million	2012 HK$'million
Net exchange gains	**45**	96
Rental income	**63**	33
Net losses on disposals of property, plant and equipment	**(70)**	(4)
Gains on disposals of joint ventures	**–**	2
Government grants	**656**	184
Others	**74**	50
	768	361

7 OTHER GAINS, NET (CONTINUED)

Government grants for the year ended 31 December 2013 primarily represented compensation of reduction in income due to the implementation of Value-Added-Tax Reform from the government. There were no unfulfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future. During the year ended 31 December 2013, the Group have recognised and received related government grants of HK$538 million (2012: HK$80 million).

8 INTEREST INCOME

	2013	2012
	HK$'million	HK$'million
Interest income on:		
– Amounts due from related parties	**37**	36
– Amounts due from third parties	**1**	–
– Bank deposits	**190**	136
	228	172

9 EMPLOYEE COMPENSATION COSTS

	2013	2012
	HK$'million	HK$'million
Salaries, wages and allowances	**1,864**	1,475
Retirement benefits scheme contributions	**182**	137
Share-based payment expenses (Note 30(a))	**–**	72
	2,046	1,684

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 18% to 23% of the salaries, bonus and certain allowances of its staff. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2013 were HK$182 million (2012: HK$137 million).

10 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include special levies on PRC domestic sales of crude oil of approximately HK$388 million (2012: HK$470 million) for the year ended 31 December 2013.

11 INTEREST EXPENSES

	2013 HK$'million	2012 HK$'million
Interest expenses on:		
Bank loans, wholly repayable within five years	**17**	10
Interest expenses for loans, wholly repayable within five years, from:		
– An intermediate holding company	**798**	635
– An immediate holding company	**13**	12
– CP Finance	**980**	700
– Fellow subsidiaries	**74**	64
Less: Amounts capitalised	**(1,260)**	(760)
	622	661

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 5.80% (2012: 4.41%) per annum for the year ended 31 December 2013.

12 PROFIT BEFORE INCOME TAX EXPENSE

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

	2013 HK$'million	2012 HK$'million
Amortisation on intangible and other non-current assets	**60**	40
Auditors' remuneration	**19**	16
Cost of inventories recognised as expense	**23,025**	14,656
Depreciation and depletion of property, plant and equipment	**4,468**	4,394
Operating lease expenses	**248**	145

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors and the Chief Executive Officer for the years ended 31 December 2013 and 2012 are as follows:

	2013				
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share option benefit expenses HK$'000	Total HK$'000
Directors:					
Mr Zhang Bowen	–	7,500	375	–	7,875
Mr Cheng Cheng	–	5,333	300	–	5,633
Mr Wu Enlai (appointed on 30 December 2013)	–	–	–	–	–
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
Mr Li Hualin (resigned on 27 August 2013)	–	–	–	–	–
Mr Wen Qingshan (appointed on 27 August 2013 and resigned on 17 December 2013)	–	–	–	–	–
Chief Executive Officer:					
Mr Zhao Yongqi (appointed on 5 December 2013)	–	42	–	–	42
Mr Jiang Changliang (resigned on 5 December 2013)	–	468	–	–	468
	1,000	13,343	675	–	15,018

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

	2012				
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share option benefit expenses HK$'000	Total HK$'000
Directors:					
Mr Zhang Bowen	–	5,250	375	4,460	10,085
Mr Cheng Cheng	–	4,000	300	5,495	9,795
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
Mr Li Hualin (resigned on 27 August 2013)	–	3,500	–	10,372	13,872
Chief Executive Officer:					
Mr Jiang Changliang (resigned on 5 December 2013)	–	887	–	8,342	9,229
	1,000	13,637	675	28,669	43,981

The five individuals whose emoluments were the highest in the Group for the year including two (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2012: two) individual during the year are as follows:

	2013 HK$'000	2012 HK$'000
Salaries, wages and allowances	**15,999**	8,000
Retirement benefits scheme contributions	**900**	600
Share-based payment expenses (note)	**–**	10,428
	16,899	19,028

The emoluments fell within the following band:

HK$5,000,001 to HK$5,500,000	**3**	–
HK$9,500,001 to HK$10,000,000	**–**	2

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

Note: These represent the estimated value of share options granted to the directors and senior management under the Company's share option scheme (see Note 29(b)). The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 3(t).

None of the directors has waived their remuneration during the year ended 31 December 2013 (2012: Nil).

During the year ended 31 December 2013, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company (2012: Nil).

14 INCOME TAX EXPENSE

	2013 **HK$'million**	2012 HK$'million
Current tax		
– PRC	**2,847**	2,257
– Overseas	**629**	906
	3,476	3,163
Deferred tax (Note 33(b))	**369**	229
	3,845	3,392

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (2012: 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% (2012: 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 10% to 20% (2012: 15% to 20%).

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

Included in overseas income tax expenses is withholding tax of approximately HK$320 million (2012: HK$602 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (2012: 20%) on the amount of dividend received.

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2013 (2012: Nil).

14 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax expense differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group as follows:

	2013 HK$'million	2012 HK$'million
Profit before income tax expense	**14,353**	13,306
Tax calculated at a tax rate of 25% (2012: 25%)	**3,588**	3,327
Prior year tax return adjustment	**7**	8
Effect of income taxes from international operations in different jurisdictions of taxes from the PRC statutory tax rate	**(67)**	(79)
Effect of preferential tax rate	**(103)**	(153)
Tax effect of income not subject to tax	**(114)**	(84)
Tax effect of expenses not deductible for tax purposes	**166**	82
Tax effect of share of profits less losses of associates	**(272)**	(385)
Tax effect of share of profits less losses of joint ventures	**(68)**	(51)
Tax effect of unused tax losses not recognised/(utilisation) of prior years tax losses	**221**	(43)
Withholding tax on dividends received and receivable	**487**	770
Income tax expense	**3,845**	3,392

The domestic income tax rate used in the calculation above is the PRC tax rate which is the jurisdiction where the operations of the Group are substantially based.

15 RESULTS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the year in the Company's financial statements amounted to HK$2,550 million (2012: HK$4,252 million), which included dividends from subsidiaries, joint ventures and associates amounting to HK$2,634 million (2012: HK$4,520 million).

16 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$6,851 million (2012: HK$6,518 million) and weighted average number of ordinary shares in issue during the year of approximately 8,059 million shares (2012: 7,802 million shares).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$6,851 million (2012: HK$6,518 million), and the weighted average number of ordinary shares of approximately 8,076 million shares (2012: 7,841 million shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 17 million shares (2012: 39 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

17 DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2013 **HK$'million**	2012 HK$'million
Proposed final dividend attributable to owners of the Company for 2013 (note (a))	**1,854**	–
Final dividend attributable to owners of the Company for 2012 (note (b))	**–**	1,852

Notes:

(a) At the meeting on 20 March 2014, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2013 of HK23 cents per share amounting to a total of approximately HK$1,854 million. The amount is based on approximately 8,062 million shares in issue as at 20 March 2014. This financial information does not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2014 when approved at the 2014 annual general meeting.

(b) Final dividend attributable to owners of the Company in respect of 2012 of HK23 cents per share amounting to a total of approximately HK$1,852 million were approved by the shareholders in the Annual General Meeting on 20 May 2013. The amount is based on approximately 8,051 million shares in issue as at 31 March 2013. The actual final dividend for 2012 was approximately HK$1,855 million due to additional shares issued during the period from 22 March 2013 to 22 May 2013, the date of closure of the register of members, and was paid on 3 June 2013.

18 PROPERTY, PLANT AND EQUIPMENT

Years ended 31 December 2013 and 2012	Group								Company
	Buildings	Oil and gas properties	Natural gas Pipelines	Equipment and machinery	Motor Vehicles	Others	Construction in progress	Total	Others
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Cost:									
Balances at 1 January 2012	2,052	12,079	28,600	14,920	1,244	3,664	16,460	79,019	5
Currency translation differences	42	215	541	366	27	36	290	1,517	–
Additions	17	217	–	919	606	–	13,842	15,601	1
Additions through business combinations	43	–	–	538	29	9	–	619	–
Disposals	(2)	(7)	(4)	(72)	(29)	(59)	(65)	(238)	–
Transfers	497	728	2,794	10,590	–	(1,239)	(13,370)	–	–
Balances at 31 December 2012	2,649	13,232	31,931	27,261	1,877	2,411	17,157	96,518	6
Balances at 1 January 2013	**2,649**	**13,232**	**31,931**	**27,261**	**1,877**	**2,411**	**17,157**	**96,518**	**6**
Currency translation differences	**69**	**100**	**938**	**760**	**53**	**62**	**448**	**2,430**	**–**
Additions	**–**	**222**	**–**	**29**	**379**	**37**	**16,083**	**16,750**	**4**
Additions through business combinations	**–**	**–**	**–**	**–**	**34**	**3**	**–**	**37**	**–**
Disposals	**(2)**	**(1)**	**–**	**(209)**	**(23)**	**(22)**	**(221)**	**(478)**	**–**
Transfers	**13**	**653**	**8,007**	**5,828**	**42**	**38**	**(14,581)**	**–**	**–**
Balances at 31 December 2013	**2,729**	**14,206**	**40,876**	**33,669**	**2,362**	**2,529**	**18,886**	**115,257**	**10**
Accumulated depreciation and depletion:									
Balances at 1 January 2012	505	7,681	9,532	4,016	367	241	–	22,342	3
Currency translation differences	10	141	184	89	12	6	–	442	–
Charge for the year	74	927	1,374	1,780	171	68	–	4,394	1
Additions through business combinations	15	–	–	148	7	1	–	171	–
Disposals	(3)	(4)	(4)	(31)	(5)	(9)	–	(56)	–
Transfers	(9)	16	–	1	16	(24)	–	–	–
Balances at 31 December 2012	592	8,761	11,086	6,003	568	283	–	27,293	4

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group								Company
Years ended 31 December 2013 and 2012	**Buildings** HK$'million	**Oil and gas properties** HK$'million	**Natural gas Pipelines** HK$'million	**Equipment and machinery** HK$'million	**Motor Vehicles** HK$'million	**Others** HK$'million	**Construction in progress** HK$'million	**Total** HK$'million	**Others** HK$'million
Balances at 1 January 2013	**592**	**8,761**	**11,086**	**6,003**	**568**	**283**	**–**	**27,293**	**4**
Currency translation differences	**16**	**61**	**306**	**184**	**24**	**5**	**–**	**596**	**–**
Charge for the year	**87**	**919**	**989**	**2,072**	**210**	**191**	**–**	**4,468**	**2**
Disposals	**(1)**	**–**	**–**	**(36)**	**(16)**	**(2)**	**–**	**(55)**	**–**
Transfers	**(21)**	**(8)**	**(4)**	**110**	**(2)**	**(75)**	**–**	**–**	**–**
Impairment loss	**–**	**–**	**–**	**7**	**5**	**–**	**–**	**12**	**–**
Balances at 31 December 2013	**673**	**9,733**	**12,377**	**8,340**	**789**	**402**	**–**	**32,314**	**6**
Net book value:									
Balances at 31 December 2013	**2,056**	**4,473**	**28,499**	**25,329**	**1,573**	**2,127**	**18,886**	**82,943**	**4**
Balances at 31 December 2012	2,057	4,471	20,845	21,258	1,309	2,128	17,157	69,225	2

The buildings of the Group are mainly located in the PRC.

The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current regulations and contracts governing such activities.

Other assets mainly comprises of containers, roads, bridges and others.

As at 31 December 2013, the legal title registration of certain of the Group's properties with carrying amount of approximately HK$837 million (2012: HK$656 million) is subject to certain administrative procedures to be completed by the relevant local government authorities. However, the Board of Directors of the Company is of the opinion that the risks and rewards of using these assets have been transferred to the Group.

In addition, certain of the Group's property, plant and equipment are situated on leasehold land in the PRC which was granted for use by the relevant government authorities to the Group at nil consideration with no specific terms of usage.

19 ADVANCED OPERATING LEASE PAYMENTS

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

	Group	
	2013	2012
	HK$'million	HK$'million
Leasehold interest in land outside Hong Kong:		
Leases of between 10 to 50 years	**2,885**	2,189
Leases of over 50 years	**10**	10
	2,895	2,199
Balance as at 1 January	**2,199**	1,218
Currency translation differences	**54**	53
Acquisition of subsidiaries	**17**	–
Additions	**680**	962
Amortisation for the year	**(55)**	(34)
Balance as at 31 December	**2,895**	2,199

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

20 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Unlisted shares, at cost	**–**	–	**1,090**	966
Share of net assets	**5,255**	5,166	**–**	–
Goodwill	**452**	440	**–**	–
Loans to associates	**13**	–	**–**	–
	5,720	5,606	**1,090**	966

Details of the principal associates are set out in Note 41. Loans to associates are unsecured and interest-bearing at 8% per annum.

20 INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised financial information of a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Aktobe	
	2013	2012
	HK$'million	HK$'million
Gross amounts of the associate's		
Current assets	**6,148**	5,550
Non-current assets	**35,260**	28,378
Current liabilities	**(13,498)**	(8,297)
Non-current liabilities	**(14,491)**	(10,953)
Equity	**13,419**	14,678
Revenue	**34,426**	37,219
Profit from continuing operations	**5,433**	8,342
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**5,433**	8,342
Dividend received from the associate	**1,579**	2,989
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**13,419**	14,678
Group's interest (note)	**25.12%**	25.12%
Group's share of net assets of the associate	**3,371**	3,687

Note:

The effective equity interest of Aktobe attributable to the Group is 15.07%, representing 25.12% equity interest in Aktobe held by a 60% owned subsidiary.

20 INVESTMENTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material:

	2013 **HK$'million**	2012 HK$'million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**2,336**	1,919
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	**281**	238
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**281**	238

21 INVESTMENTS IN JOINT VENTURES

	Group		**Company**	
	2013 **HK$'million**	2012 HK$'million	**2013** **HK$'million**	2012 HK$'million
Unlisted shares, at cost	**–**	–	**227**	227
Share of net assets	**1,481**	1,496	**–**	–
Loans to joint ventures	**83**	45	**45**	45
	1,564	1,541	**272**	272

Details of the principal joint ventures are set out in Note 42.

Included in loans to joint ventures is an amount of HK$45 million which is unsecured, interest-free and repayable on 31 December 2015. Except as disclosed above, loans to joint ventures are unsecured, interest-bearing at 8% per annum and repayable within one year.

As at 31 December 2013 and 2012, the loans to joint ventures are not past due and not impaired.

Dividends received and receivable from joint ventures are approximately HK$336 million (2012: HK$486 million) for the year ended 31 December 2013.

21 INVESTMENTS IN JOINT VENTURES (CONTINUED)

There is no individually material joint venture which significantly affects the results and/or net assets of the Group at 31 December 2013.

Aggregate information of joint ventures that are not individually material:

	2013 HK$'million	2012 HK$'million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,481**	1,496
Aggregate amounts of the Group's share of those joint ventures'		
Profit from continuing operations	**415**	307
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**415**	307

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2013 HK$'million	2012 HK$'million
Listed shares:		
Equity securities listed in Hong Kong	**38**	27
Equity securities listed in Australia	**41**	69
Unlisted shares:	**79**	96
Equity securities in the PRC	**41**	77
	120	173

The carrying amounts of the Group's available-for-sale financial assets in the statement of financial position by the measurement hierarchy are set out in Note 4.3(a).

23 INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'million	HK$'million
Unlisted shares, at cost	**43,337**	40,389

Details of the principal subsidiaries are set out in Note 40.

The following tables list out the information related to PetroChina Beijing Gas Pipeline Co., Ltd ("Beijing Pipeline") and CNPC International (Caspian) Limited ("Caspian"), the two subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Beijing Pipeline		Caspian	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
NCI percentage	**40%**	40%	**40%**	40%
Current assets	**1,333**	2,205	**1,251**	1,331
Non-current assets	**39,190**	33,385	**3,371**	3,687
Current liabilities	**(6,968)**	(6,708)	**(204)**	(209)
Non-current liabilities	**(9,414)**	(11,125)	**(718)**	(942)
Net assets	**24,141**	17,757	**3,700**	3,867
Carrying amount of NCI	**9,662**	7,108	**1,480**	1,547
Revenue	**11,908**	11,531	**–**	–
Profit for the year	**5,850**	4,918	**1,012**	1,506
Total comprehensive income	**6,386**	5,266	**–**	–
Profit allocated to NCI	**2,341**	1,968	**405**	603
Dividend paid to NCI	**(852)**	(1,181)	**440**	691
Cash flows from operating activities	**8,685**	7,325	**–**	–
Cash flows from investing activities	**(5,967)**	(5,664)	**1,250**	2,365
Cash flows from financing activities	**(2,734)**	(1,607)	**(1,331)**	(1,973)

24 INTANGIBLE AND OTHER NON-CURRENT ASSETS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Intangible assets (note (i))	**503**	343	**–**	–
Prepaid construction costs	**2,006**	1,431	**–**	–
Loans to third parties (note (ii))	**592**	570	**–**	–
Loan to a subsidiary	**–**	–	**1,289**	–
Others	**3**	16	**1**	1
	3,104	2,360	**1,290**	1

Notes:

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

	Group					
	2013			2012		
	Goodwill	**Others**	**Total**	Goodwill	Others	Total
	HK$'million	**HK$'million**	**HK$'million**	HK$'million	HK$'million	HK$'million
At 1 January	**280**	**63**	**343**	117	42	159
Currency translation differences	**8**	**2**	**10**	4	1	5
Additions	**–**	**68**	**68**	–	26	26
Acquisitions of subsidiaries (Note 38(b))	**7**	**–**	**7**	159	–	159
Adjustments to purchase consideration and net asset values (note (iii))	**80**	**–**	**80**	–	–	–
Amortisation for the year	**–**	**(5)**	**(5)**	–	(6)	(6)
At 31 December	**375**	**128**	**503**	280	63	343

(ii) Loans to third parties are unsecured, interest bearing at a range of 4.8% to 6.65% (2012: 4.8% to 6.65%) per annum and not repayable within one year.

(iii) These adjustments to purchase consideration and net asset values related to acquisitions of subsidiaries in the prior year, whose fair values of identifiable assets and liabilities were previously determined on a provisional basis. During the measurement period, the Group recognised adjustments amounting to HK$80 million to the provisional amounts.

25 INVENTORIES

Inventories in the statement of financial position comprise:

	Group	
	2013	2012
	HK$'million	HK$'million
Natural gas	**568**	179
Materials for natural gas pipelines	**527**	482
Crude oil in tanks and others	**78**	56
	1,173	717

26 ACCOUNTS RECEIVABLE

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date (or date of revenue recognition, if earlier) is as follows:

	Group	
	2013	2012
	HK$'million	HK$'million
Within 3 months	**1,352**	1,104
Between 3 to 6 months	**397**	176
Over 6 months	**144**	87
	1,893	1,367

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 31 December 2013, accounts receivable of approximately HK$541 million (2012: HK$263 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group. As of 31 December 2013 and 2012, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Other receivables	**1,170**	1,491	**2**	–
Advances to supplies	**273**	227	**–**	–
Amounts due from related parties				
– Intermediate holding company	**697**	1,323	**–**	–
– Subsidiaries	**–**	–	**7,980**	7,179
– Others	**253**	393	**–**	–
	2,393	3,434	**7,982**	7,179
Less: Provision for impairment	**(21)**	(4)	**(244)**	(238)
	2,372	3,430	**7,738**	6,941
Loans to third parties	**357**	167	**–**	–
Dividends receivable from a joint venture	**8**	486	**–**	–
Dividends receivable from subsidiaries	**–**	–	**1,756**	1,646
Value-added tax recoverable	**873**	802	**–**	–
Prepaid expenses	**1,184**	651	**106**	–
Other current assets	**105**	39	**5**	10
	4,899	5,575	**9,605**	8,597

Except for the amounts due from intermediate holding company HK$697 million (2012: HK$1,323 million) which are unsecured and interest bearing at 3.3% per annum, the other amounts due from related parties are interest free and unsecured. All of the amounts due from related parties are expected to be settled within one year.

Loans to third parties are unsecured, interest-bearing at 4.80% to 6.65% (2012: 4.80% to 6.65%) per annum and repayable within one year.

28 CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Cash at bank and on hand	**11,347**	13,476	**517**	1,066
Short-term bank deposits	**3,550**	6,116	**1,340**	5,561
Cash and cash equivalents	**14,897**	19,592	**1,857**	6,627

28 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash at bank and bank deposits carry interest at prevailing market rate at 0.70% per annum (2012: 0.54% per annum).

Included in bank deposits, bank balances and cash are amounts of approximately HK$11,740 million or RMB9,109 million (2012: HK$14,777 million or RMB11,765 million) denominated in Renminbi which are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares million	Nominal value of ordinary shares HK$'million
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2012, 31 December 2012 and 31 December 2013	16,000	160
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2012	7,171	72
Issue of shares upon exercise of share options (note (i))	80	1
Issue of shares upon placement of shares (note (ii))	800	8
At 31 December 2012 and 1 January 2013	**8,051**	**81**
Issue of shares upon exercise of share options (note (i))	**16**	**–**
Repurchase of shares (note (iii))	**(5)**	**–**
At 31 December 2013	**8,062**	**81**

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(a) Share capital (Continued)

Notes:

(i) During the year ended 31 December 2013, the Company allotted and issued approximately 15.6 million shares (2012: 80 million shares) of HK$0.01 each for cash at the average exercise price of HK$5.527 (2012: HK$4.325) per share as a result of the exercise of share options. The nominal value of ordinary shares has increased HK$156,000.

(ii) On 3 April 2012, the Company, Sun World, a number of placing agents and independent third parties ("Purchasers") entered into a placing and subscription agreement pursuant to which (i) Sun World appointed the placing agents, as agents and underwriters to procure Purchasers to purchase 800 million shares held by Sun World at HK$13.10 during the placing period; and (ii) Sun World has conditionally agreed to subscribe for 800 million shares at the same price. The transaction was completed on 16 April 2012 and the equity interests in the Company held by Sun World decreased to 58.65% as at 30 June 2012. Accordingly, approximately 800 million shares of HK$0.01 each were issued at a premium of HK$13.09 each. The premium on issue of shares of approximately HK$10,251 million, after net of the direct transaction costs of approximately HK$221 million, was credited to the share premium account. These new shares rank pari passu in all respects with the existing shares.

(iii) Purchase of own shares

During the year ended 31 December 2013, the Company repurchased its own shares on the Stock Exchange as follows:

	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate amount paid HK$' million
June 2013	2,000,000	12.84	12.00	25
July 2013	2,518,000	12.84	12.40	32

The repurchased shares were lapsed and accordingly the issued share capital of the Company was reduced by the nominal value HK$45,000 of these shares. The premium paid on the repurchase of the shares of HK$57 million was charged to share premium.

(b) Share option schemes

Pursuant to executive share option scheme (the "2002 Share Option Scheme") of the Company dated 3 June 2002, the directors of the Company are authorised, at any time within ten years after the adoption of the 2002 Share Option Scheme, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for the Company's shares at a price not less than the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer date of the options, the closing price of the Company's shares on the offer day or the nominal value of the Company's shares, whichever is the highest. Unless otherwise lapsed or amended, the 2002 Share Option Scheme will be valid and effective for a period of ten years from the date of adoption. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme cannot exceed 10% of the issued share capital of the Company. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other shares of the Company) shall not exceed 30% of the shares in issue from time to time.

Options granted under the 2002 Share Option Scheme must be taken up within the period as specified in the offer of the options and no amount shall be payable by the grantee to the exercising of the right to accept an offer of an option. Options granted are exercisable at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee. All of the options are vested to the option holders after 3 months from the date on which the options are granted. The exercise period of the option is 5 years from the grant date.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The 2002 share option scheme expired on 2 June 2012.

Pursuant to the resolution of the Company passed on 17 May 2012, approximately 7.4 million and 15.4 million share options were granted to directors and other employees of the Company, respectively, under the 2002 Share Option Scheme.

The closing price of the Company's shares immediately before 17 May 2012, the date of grant of the options, was HK$12.28.

The fair values of share options granted on 17 May 2012 were calculated using the Binomial model. The inputs into the model were as follows:

	Directors	**Employees**
Share price at grant date	HK$12.32	HK$12.32
Exercise price	HK$12.632	HK$12.632
Expected volatility	43.85%	43.85%
Risk-free rate	0.48%	0.48%
Expected dividend yield	2.20%	2.20%
Exercise multiple	2.2	1.6

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years.

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the independent professional valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The fair value of the options granted to directors and employees of the Company in 2012 were approximately HK$20 million and HK$52 million.

No new share option scheme was adopted after the expiration of 2002 Share Option Scheme on 2 June 2012. No new option was granted for the year ended 31 December 2013.

The number of shares in respect of which options had been granted and outstanding at 31 December 2013 under the 2002 Share Option Scheme was approximately 46.6 million shares (2012: 77.4 million shares), representing 0.58% (2012: 0.96%) of the issued share capital of the Company at 31 December 2013.

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The movements in the share options granted under the 2002 Share Option Scheme during the year ended 31 December 2012 and 2013 are shown in the following table:

		Number of share options						
Name of category of participants	Option type	Outstanding at 1 January 2012 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31 December 2012 and 1 January 2013 '000	Exercised during the year '000	Lapsed during the year '000	Outstanding at 31 December 2013 '000
Directors								
Mr Zhang Bowen	2007 (note (i))	20,000	–	(20,000)	–	–	–	–
	2008 (note (iii))	2,400	–	–	2,400	**(2,400)**	–	–
	2009 (note (iv))	2,400	–	–	2,400	–	–	**2,400**
	2010 (note (v))	2,400	–	–	2,400	–	–	**2,400**
	2011 (note (vi))	2,400	–	–	2,400	–	–	**2,400**
	2012 (note (vii))	–	2,200	–	2,200	–	–	**2,200**
Mr Cheng Cheng	2007 (note (i))	10,000	–	(10,000)	–	–	–	–
	2008 (note (iii))	1,500	–	–	1,500	**(1,500)**	–	–
	2009 (note (iv))	1,500	–	–	1,500	–	–	**1,500**
	2010 (note (v))	1,500	–	–	1,500	–	–	**1,500**
	2011 (note (vi))	1,500	–	–	1,500	–	–	**1,500**
	2012 (note (vii))	–	2,000	–	2,000	–	–	**2,000**
Dr Lau Wah Sum	2010 (note (v))	400	–	–	400	–	–	**400**
Mr Li Kwok Sing Aubrey	2010 (note (v))	400	–	–	400	–	–	**400**
Dr Liu Xiao Feng	2010 (note (v))	400	–	–	400	–	–	**400**
Mr Li Hualin (resigned on 27 August 2013)	2007 (note (i))	25,000	–	(25,000)	–	–	–	–
	2008 (note (iii))	3,200	–	–	3,200	**(3,200)**	–	–
	2009 (note (iv))	3,200	–	–	3,200	–	**(3,200)**	–
	2010 (note (v))	3,200	–	–	3,200	–	**(3,200)**	–
	2011 (note (vi))	3,200	–	–	3,200	–	**(3,200)**	–
	2012 (note (vii))	–	3,200	–	3,200	–	**(3,200)**	–
Subtotal		84,600	7,400	(55,000)	37,000	**(7,100)**	**(12,800)**	**17,100**
Chief Executive Officer								
Jiang Changliang (resigned on 5 December 2013)	2012 (note (vii))	–	2,400	–	2,400	–	**(2,400)**	–
Other employees	2007 (note (i))	2,000	–	(2,000)	–	–	–	–
	2007 (note (ii))	20,000	–	(20,000)	–	–	–	–
	2008 (note (iii))	7,000	–	(1,000)	6,000	**(6,000)**	–	–
	2009 (note (iv))	7,000	–	(1,000)	6,000	–	–	**6,000**
	2010 (note (v))	7,000	–	(1,000)	6,000	–	–	**6,000**
	2011 (note (vi))	7,000	–	–	7,000	**(1,000)**	–	**6,000**
	2012 (note (vii))	–	13,000	–	13,000	**(1,500)**	–	**11,500**
Subtotal		50,000	13,000	(25,000)	38,000	**(8,500)**	–	**29,500**
Total		134,600	22,800	(80,000)	77,400	**(15,600)**	**(15,200)**	**46,600**

29 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

Notes:

(i) These options were granted on 8 January 2007 with exercise price of HK$4.186 and exercisable from 8 April 2007 to 7 January 2012.

(ii) These options were granted on 14 September 2007 with exercise price of HK$4.480 and exercisable from 14 December 2007 to 13 September 2012.

(iii) These options were granted on 26 May 2008 with exercise price of HK$4.240 and exercisable from 26 August 2008 to 25 May 2013.

(iv) These options were granted on 26 March 2009 with exercise price of HK$3.250 and exercisable from 26 June 2009 to 25 March 2014.

(v) These options were granted on 26 March 2010 with exercise price of HK$10.320 and exercisable from 26 June 2010 to 25 March 2015.

(vi) These options were granted on 18 March 2011 with exercise price of HK$11.730 and exercisable from 18 June 2011 to 17 March 2016.

(vii) These options were granted on 17 May 2012 with exercise price of HK$12.632 and exercisable from 17 August 2012 to 16 May 2017.

(viii) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2013 ranged from HK$14.460 (2012: HK$11.200) to HK$15.460 (2012: HK$15.900).

30 RESERVES

(a) Movements in components of reserves

	Group								
	Share premium HK$'million note (i)	Contributed surplus HK$'million note (ii)	Employee share-based compensation reserve HK$'million	Merger reserve HK$'million note (iii)	Available-for-sale financial assets reserve HK$'million note (iv)	Translation reserve HK$'million note (v)	Other Reserve HK$'million note (vi)	Retained earnings HK$'million	Total HK$'million
Balances at 1 January 2012	29,114	134	234	(20,442)	52	2,212	1,462	17,545	30,311
Total comprehensive income for the year	–	–	–	–	1	498	–	6,518	7,017
Transfer between reserves	–	–	–	–	–	–	469	(469)	–
Utilisation of reserves	–	–	–	–	–	–	(120)	–	(120)
Final dividend for 2011	–	–	–	–	–	–	–	(1,766)	(1,766)
Issue of shares, net of share issue expenses upon placement	10,251	–	–	–	–	–	–	–	10,251
Recognition of equity-settled share-based payments	–	–	72	–	–	–	–	–	72
Exercise of share options	465	–	(120)	–	–	–	–	–	345
Dividend paid to former owners of acquired subsidiaries	–	–	–	–	–	–	–	(1,769)	(1,769)
Balances at 31 December 2012 and 1 January 2013	**39,830**	**134**	**186**	**(20,442)**	**53**	**2,710**	**1,811**	**20,059**	**44,341**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(10)**	**1,001**	**-**	**6,851**	**7,842**
Transfer between reserves	**-**	**-**	**-**	**-**	**-**	**-**	**563**	**(563)**	**-**
Lapsed share options	**-**	**-**	**(38)**	**-**	**-**	**-**	**-**	**38**	**-**
Final dividend for 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,855)**	**(1,855)**
Repurchase of shares	**(57)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(57)**
Acquisition from non-controlling interests	**-**	**-**	**-**	**(27)**	**-**	**-**	**(5)**	**-**	**(32)**
Issue of shares upon exercise of share options	**109**	**-**	**(23)**	**-**	**-**	**-**	**-**	**-**	**86**
Balances at 31 December 2013	**39,882**	**134**	**125**	**(20,469)**	**43**	**3,711**	**2,369**	**24,530**	**50,325**

30 RESERVES (CONTINUED)

(a) Movements in components of reserves (Continued)

	Company					
	Share premium HK$'million note (i)	**Contributed surplus** HK$'million note (ii)	**Employee share-based compensation reserve** HK$'million	**Retained earnings** HK$'million	**Translation reserve** HK$'million note (v)	**Total** HK$'million
Balances at 1 January 2012	29,114	134	234	8,684	–	38,166
Total comprehensive income for the year	–	–	–	4,254	131	4,385
Issue of shares, net of share issue expenses upon placement	10,251	–	–	–	–	10,251
Recognition of equity-settled share-based payments	–	–	72	–	–	72
Final dividend for 2011	–	–	–	(1,766)	–	(1,766)
Exercise of share options	465	–	(120)	–	–	345
Balances at 31 December 2012 and 1 January 2013	**39,830**	**134**	**186**	**11,172**	**131**	**51,453**
Total comprehensive income for the year	**–**	**–**	**–**	**2,550**	**188**	**2,738**
Repurchase of shares	**(57)**	**–**	**–**	**–**	**–**	**(57)**
Issue of shares upon exercise of share options	**109**	**–**	**(23)**	**–**	**–**	**86**
Lapsed share options	**–**	**–**	**(38)**	**38**	**–**	**–**
Final dividend for 2012	**–**	**–**	**–**	**(1,855)**	**–**	**(1,855)**
Balances at 31 December 2013	**39,882**	**134**	**125**	**11,905**	**319**	**52,365**

30 RESERVES (CONTINUED)

(b) Nature and purpose of reserves

Notes:

(i) Under the Bermuda Companies Act 1981, the share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares. During the year, the Company repurchased its own shares on the Stock Exchange. The premium paid on the repurchase of the shares of HK$57 million was charged to share premium.

(ii) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued for the acquisition.

(iii) The merger reserve represents the difference between the considerations and the aggregate share capital of subsidiaries acquired under business combinations under common control.

(iv) Available-for-sale financial assets reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in Notes 3(h).

(v) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3(d)(ii).

(vi) Other reserves mainly represents the statutory surplus reserves. Pursuant to the Company Law of the PRC, the Articles of Association and the resolution of Board of Directors of the Group's subsidiaries established in the PRC are required to transfer 10% of its net profit to statutory surplus reserves. Appropriation to the statutory surplus reserves may be ceased when the fund aggregates to 50% of those subsidiaries' registered capital. The statutory surplus reserves may be used to make good previous years' losses or to increase the capital of those subsidiaries upon approval.

(c) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Company's Act 1981 of Bermuda (as amended) was HK$12,039 million (2012: HK$11,306 million). After the end of the reporting period the directors proposed a final dividend of HK23 cents per ordinary share (2012: HK23 cents per share), amounting to HK$1,854 million (2012: HK$1,852 million) (Note 17). This dividend has not been recognised as a liability at the end of the reporting period.

31 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Accounts payable	**1,542**	1,935	**–**	–
Advances from customers	**1,518**	1,181	**–**	–
Salaries and welfare payable	**294**	215	**22**	2
Accrued expenses	**26**	44	**15**	29
Dividend payable to non-controlling interests	**72**	925	**–**	–
Interest payable	**68**	42	**3**	5
Construction fee and equipment cost payables	**7,248**	6,390	**–**	–
Amounts due to related parties				
– Subsidiaries	**–**	–	**159**	160
– Non-controlling interests	**982**	1,005	**–**	–
– Others	**2**	2	**–**	–
Other payables	**924**	699	**1**	2
	12,676	12,438	**200**	198

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

	Group	
	2013	2012
	HK$'million	HK$'million
Within 3 months	**923**	1,469
Between 3 to 6 months	**254**	200
Over 6 months	**365**	266
	1,542	1,935

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables fall within the credit time frame. The contractual maturity date of accounts payable and accrued liabilities are within one year.

32 BORROWINGS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Short-term borrowings – unsecured	**929**	4,187	**–**	225
Current portion of long-term borrowings	**12,622**	924	**4,263**	–
	13,551	5,111	**4,263**	225
Long-term borrowings – unsecured	**30,421**	27,486	**4,809**	4,809
Less: Current portion of long-term borrowings	**(12,622)**	(924)	**(4,263)**	–
	17,799	26,562	**546**	4,809
	31,350	31,673	**4,809**	5,034

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Renminbi	**26,051**	25,602	**–**	–
US dollar	**4,753**	5,525	**4,263**	4,488
Hong Kong dollar	**546**	546	**546**	546
	31,350	31,673	**4,809**	5,034

32 BORROWINGS (CONTINUED)

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Total borrowings:				
– At fixed rates	**25,610**	24,873	**–**	–
– At floating rates	**5,740**	6,800	**4,809**	5,034
	31,350	31,673	**4,809**	5,034
Weighted average effective interest rates:				
– Bank loans	**4.59%**	2.13%	**–**	–
– Loans from an immediate holding company	**2.34%**	0.26%	**2.34%**	0.26%
– Loans from an intermediate holding company	**6.40%**	6.36%	**–**	0.17%
– Loans from CP Finance	**4.67%**	4.37%	**2.41%**	2.37%
– Loans from fellow subsidiaries	**4.97%**	4.07%	**–**	–

The borrowings are analysed as follows:

	Group			
	Short-term borrowings		Long-term borrowings	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Bank loans, wholly repayable within five years	**–**	63	**339**	92
Loans other than bank loans				
– Wholly repayable within five years	**929**	4,124	**30,081**	27,393
– Not wholly repayable within five years	**–**	–	**1**	1
	929	4,187	**30,421**	27,486

32 BORROWINGS (CONTINUED)

	Company			
	Short-term borrowings		Long-term borrowings	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Loans other than bank loans				
– Wholly repayable within five years	**–**	225	**4,809**	4,809

Loans other than bank loans are borrowings from PetroChina, Sun World and CP Finance (a finance company controlled by CNPC), other fellow subsidiaries and non-controlling interests.

As at 31 December 2013 and 2012, the short-term borrowings of the Group and the Company were repayable within one year and the long-term borrowings of the Group and the Company were repayable as follows:

	Group			
	Bank loans		Loans other than bank loans	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**17**	10	**12,605**	914
Between one to two years	**26**	30	**9,132**	14,902
Between two to five years	**296**	52	**8,344**	11,577
After five years	**–**	–	**1**	1
	339	92	**30,082**	27,394

	Company			
	Bank loans		Loans other than bank loans	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**–**	–	**4,263**	–
Between one to two years	**–**	–	**–**	4,263
Between two to five years	**–**	–	**546**	546
	–	–	**4,809**	4,809

32 BORROWINGS (CONTINUED)

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

	Group			
	Bank loans		Loans other than bank loans	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**29**	80	**14,050**	5,203
Between one to two years	**94**	38	**7,209**	15,701
Between two to five years	**248**	47	**13,147**	12,643
	371	165	**34,406**	33,547

	Company			
	Bank loans		Loans other than bank loans	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**–**	–	**4,326**	356
Between one to two years	**–**	–	**13**	4,313
Between two to five years	**–**	–	**564**	600
	–	–	**4,903**	5,269

33 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Tax payables in respect of subsidiaries in:				
– PRC	**366**	375	**–**	–
– Overseas	**51**	86	**–**	–
	417	461	**–**	–
Withholding tax on dividend distributed by the subsidiaries	**93**	–	**–**	88
	510	461	**–**	88

(b) Deferred tax assets and liabilities recognised:

Deferred tax is calculated in full on temporary differences under the liability method using the applicable tax rates which is expected to apply at the time of reversal of the temporary difference.

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

	Group	
	2013	2012
	HK$'million	HK$'million
At 1 January	**(1,091)**	(860)
Acquisition of subsidiaries	**2**	–
Currency translation differences	**(3)**	(2)
Charged to the consolidated profit or loss (Note 14)	**(369)**	(229)
At 31 December	**(1,461)**	(1,091)
Representing:		
Deferred tax assets	**254**	187
Deferred tax liabilities	**(1,715)**	(1,278)
	(1,461)	(1,091)

33 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised (Continued):

The movements in deferred tax assets/(liabilities) during the year without taking into consideration of the offsetting of balances within the same tax jurisdiction, are as follows:

	Group			
	Accelerated tax depreciation HK$'million	**Undistributed profits of PRC and overseas subsidiaries, associate and joint ventures** HK$'million	**Others** HK$'million	**Total** HK$'million
At 1 January 2012	(163)	(738)	41	(860)
Currency translation differences	(3)	–	1	(2)
(Charged)/credited to the consolidated profit or loss	(277)	(4)	52	(229)
At 31 December 2012	(443)	(742)	94	(1,091)
At 1 January 2013	**(443)**	**(742)**	**94**	**(1,091)**
Additions through business combination	**2**	**–**	**–**	**2**
Currency translation differences	**(4)**	**–**	**1**	**(3)**
(Charged)/credited to the consolidated profit or loss	**(260)**	**(126)**	**17**	**(369)**
At 31 December 2013	**(705)**	**(868)**	**112**	**(1,461)**

34 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to thirty years and usually do not contain renewal options. Future minimum lease payments as of 31 December 2013 and 2012 under non-cancellable operating leases are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Not later than one year	**108**	96	**2**	4
Later than one year and not later than five years	**275**	232	**8**	9
More than five years	**274**	202	**–**	–
	657	530	**10**	13

(b) Capital commitments

	Group		Company	
	2013	2012	**2013**	2012
	HK$'million	HK$'million	**HK$'million**	HK$'million
Contracted but not provided for:				
Oil field development costs	**547**	552	**–**	–
Acquisitions of/capital contributions to investments	**–**	–	**–**	–
Other property, plant and equipment	**5,045**	2,924	**–**	–
	5,592	3,476	**–**	–
Authorised but not contracted for:				
Oil field development costs	**601**	687	**–**	–
Acquisitions of/capital contributions to investments	**4,350**	656	**–**	38
Other property, plant and equipment	**15,514**	29,133	**–**	–
	20,465	30,476	**–**	38

35 OIL PRODUCTION SHARING CONTRACTS

(a) Xinjiang Contract

Pursuant to the Xinjiang Contract, the Group agreed to fund an enhanced oil recovery programme (the "Infill Development Programme") thereby reducing the inter-well spacing and improving oil recovery in the area as defined in the Xinjiang Contract (the "Contract Area"), at an estimated cost of US$66 million (approximately HK$510 million), in exchange for a 54% share in the oil production from the Contract Area.

Pursuant to the Xinjiang Contract, the Group would bear all the costs required for the Infill Development Programme and share the production from the Contract Area which shall be allocated (after deduction of local taxes and enterprise income tax) firstly towards operating costs recovery and thereafter in the proportion of 54% to the Group and 46% to PetroChina towards investment recovery and profit.

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the "JMC"). The JMC is set up by the Group and PetroChina pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1 September 1996. The first phase of the Xinjiang Contract ended on 31 August 2008. In April 2008, the Group and PetroChina, having obtained the approval of the State Council of the PRC, extended the production period for further eight years to expire on 31 August 2016. The second phase of the Xinjiang Contract commenced on 1 September 2008.

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(a) Xinjiang Contract (Continued)

In connection with the Xinjiang Contract, the Group has also entered into an Entrustment Contract with an operational entity wholly-owned and operated by CNPC, whereby the latter was entrusted to take up the responsibility as an operator. Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the Xinjiang Contract:

	2013	2012
	HK$'million	HK$'million
(i) Results for the year		
Income	**1,875**	1,954
Expenses	**(1,302)**	(1,187)
(ii) Assets and liabilities		
Oil and gas properties	**385**	457
Other non-current assets	**60**	35
Current assets	**294**	765
Current liabilities	**(142)**	(173)
Net assets	**597**	1,084
(iii) Capital commitments		
Contracted but not provided for	**177**	192

(b) Leng Jiapu Contract

Pursuant to the Leng Jiapu Contract signed in 1997, the Group agreed to acquire 70% of the production sharing interest for RMB1,008 million (approximately HK$942 million) and to fund its share of cost of the development carried out for the realisation of oil production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "LJP Contract Area"), at an estimated cost of US$65.5 million (approximately HK$506 million) in the first two years of the development period and be further responsible for 70% of the development cost after the first two years, in exchange for a 70% share in the oil production from the LJP Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the LJP Contract Area which shall be allocated (after deduction of local taxes and enterprise income tax) firstly towards operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to PetroChina towards investment recovery and profit.

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(b) Leng Jiapu Contract (Continued)

The Leng Jiapu Contract provides twenty consecutive years of production sharing commencing from the completion of the Development Operations. The production sharing period commenced on 1 March 1998.

In connection with the Leng Jiapu Contract, the Group has also entered into an Entrustment Contract with an operational entity owned and operated by CNPC, whereby the latter is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, a Joint Development Management Organisation was established for the performance of the contractual responsibilities under the operatorship.

The summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the Leng Jiapu Contract is as follows:

	2013 **HK$'million**	2012 HK$'million
(i) Results for the year		
Income	**1,756**	2,076
Expenses	**(1,502)**	(1,663)
(ii) Assets and liabilities		
Oil and gas properties	**2,876**	2,747
Current assets	**804**	2,492
Current liabilities	**(446)**	(756)
Non-current liabilities	**(210)**	(177)
Net assets	**3,024**	4,306
(iii) Capital commitments		
Contracted but not provided for	**370**	360

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(c) K&K Contract

K&K Contract provides twenty-five consecutive years of production sharing which commences on 17 April 1998 and may be extended by additional five years subject to the approval of The State Oil Company of the Azerbaijan Republic.

In 2002, the Group acquired 25% of the production sharing interest in Kursangi and Karabagli oil fields in the Azerbaijan ("K&K Contract Area") for HK$0.3 billion from independent third parties.

Pursuant to the K&K Contract, the Group shall bear 25% of the costs in connection with the oil production in the K&K Contract Area.

The summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the K&K Contract is as follows:

	2013 **HK$'million**	2012 HK$'million
(i) Results for the year		
Income	**514**	541
Expenses	**(502)**	(593)
(ii) Assets and liabilities		
Oil and gas properties	**106**	150
Current assets	**19**	30
Current liabilities	**(7)**	(7)
Net assets	**118**	173
(iii) Capital commitments		
Contracted but not provided for	**–**	6
Authorised but not contracted for	**4**	–

36 RELATED PARTY TRANSACTIONS

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include CPNC and its subsidiaries (together, the "CNPC Group"), other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over the enterprises which the Group is able to control, jointly control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

(a) Transactions with CNPC Group, associates and joint ventures

The Group has extensive transactions with other companies in the CNPC Group. Due to these relationships, it is possible that the terms of the transactions between the Group and other members of the CNPC Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

The principal related party transactions with the CNPC Group and associates and joint ventures of the Group which were carried out in the ordinary course of business, are as follows:

(i) The Group entered into (i) the Xinjiang Contract and the Leng Jiapu Contract (together, the "PSAs") with the CNPC Group in 1996 and 1997 respectively and (ii) a master agreement in 2003, which was subsequently amended and supplemented pursuant to the first supplement agreement in 2006, the second supplemental agreement in 2009 and the third supplemental agreement in 2010.

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance. Whereas, the master agreement provides a framework for a range of products and services to be procured from the CNPC Group to the Group and vice versa including oil and gas products, general products and services, financial services and rental services. The master agreement expired on 31 December 2011. On 14 November 2011, the Group and CNPC entered into the fourth supplemental agreement for the purpose of renewing the term of the master agreement for three years ending on 31 December 2014.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK$6,783 million (2012: HK$5,683 million) for the year ended 31 December 2013 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK$1,865 million (2012: HK$1,411 million).

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$3,610 million (2012: HK$4,000 million) for the year ended 31 December 2013.

- Rental payments by the Group for leasing of certain offices and warehouses in Hong Kong and the PRC from the CNPC Group amounted to approximately HK$19 million (2012: HK$11 million) for the year ended 31 December 2013.

- Purchase of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the Group from the CNPC Group amounted to approximately HK$12,514 million (2012: HK$6,927 million) for the year ended 31 December 2013.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with CNPC Group, associates and joint ventures (Continued)

- Provision of general products and services by the Group to the CNPC Group amounted to approximately HK$6,205 million (2012: HK$5,849 million) for the year ended 31 December 2013.

The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

(ii) The Group has entered into agreement for the sales of natural gas to certain associates of the Group amounted to approximately HK$156 million (2012: HK$222 million) for the year ended 31 December 2013.

(iii) As at 31 December 2013 and 2012, amounts due from and to CNPC Group, associates and joint ventures of the Group, which are unsecured and interest free, are included in the following accounts captions and summarised as follows:

	2013 HK$'million	2012 HK$'million
Intangible and other non-current assets	**150**	77
Accounts receivable	**434**	342
Accounts payable and accrued liabilities	**2,565**	1,044
Borrowings	**31,011**	31,518

(b) Transactions with Beijing Enterprises Holdings Limited ("Beijing Enterprises Holdings") and its subsidiaries (together, the "Beijing Enterprises Group")

Beijing Pipeline has entered into an agreement with PetroChina (the "Natural Gas Transmission Agreement"), pursuant to which PetroChina has commissioned Beijing Pipeline for the transmission of natural gas to its designated natural gas buyers and Beijing Pipeline has commissioned PetroChina to collect from such natural gas buyers payments relating to the natural gas transmission. Under the terms of the Natural Gas Transmission Agreement, the pipeline transmission fee shall be payable on such basis as set out in the agreement entered into between PetroChina and the relevant natural gas buyers. A subsidiary of Beijing Enterprises Holdings, a non-controlling interests in Beijing Pipeline, is one of such natural gas buyers designated by PetroChina. Revenue from transmission of natural gas received and receivable from the Beijing Enterprises Group amounted to approximately HK$4,807 million (2012: HK$4,509 million) for the year ended 31 December 2013. This transaction constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange and was accounted for in a manner similar to a uniting of interests basis.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	2013 HK$'million	2012 HK$'million
Salaries and allowances	**42**	34
Retirement benefits – defined contribution scheme	**2**	2
Share-based payments	**–**	72
	44	108

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

Apart from transactions with CNPC Group, associates and joint ventures, the Group has transactions with other state-controlled entities include but not limited to (i) sales and purchases of goods and services; (ii) purchases of assets; (iii) lease of assets; and (iv) bank deposits and borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

37 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker which is determined as the Executive Directors of the Company.

The Group organises its business around products and services. From the products and services perspective, the Group is engaged in a broad range of petroleum related activities and derives its revenue from its two operating segments: Exploration and Production and Natural Gas Distribution.

The Exploration and Production segment is engaged in the exploration, development, production and sale of crude oil and natural gas. It is further evaluated on a geographic basis (the PRC and other territories).

The Natural Gas Distribution segment is engaged in the sales 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, and general and administration expenses incurred at corporate level.

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

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2013 and 2012 are as follows:

	Exploration and Production			Natural Gas Distribution						Corporate	
	PRC HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million	LNG Processing HK$'million	Natural Gas Sales and LNG Processing Sub-total HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the year ended 31 December 2013											
Gross revenue	3,610	2,050	5,660	22,260	3,498	25,758	2,635	11,932	40,325	–	45,985
Less: Inter-company adjustment	–	–	–	(187)	(2,100)	(2,287)	(123)	(145)	(2,555)	–	(2,555)
Revenue from external customers	3,610	2,050	5,660	22,073	1,398	23,471	2,512	11,787	37,770	–	43,430
Segment results	999	701	1,700	1,762	287	2,049	1,011	7,632	10,692	(100)	12,292
Share of profits less losses of:											
– Associates	–	1,365	1,365	281	–	281	–	–	281	–	1,646
– Joint ventures	–	433	433	–	–	–	–	–	–	(18)	415
Profit before income tax expense	999	2,499	3,498	2,043	287	2,330	1,011	7,632	10,973	(118)	14,353
Income tax expense											(3,845)
Profit for the year											10,508
Segment results included:											
– Interest income	24	6	30	93	5	98	3	33	134	64	228
– Depreciation, depletion and amortisation	(613)	(249)	(862)	(834)	(186)	(1,020)	(881)	(1,762)	(3,663)	(3)	(4,528)
– Interest expenses	–	(38)	(38)	(107)	–	(107)	(186)	(171)	(464)	(120)	(622)
As at 31 December 2013											
Non-current assets	3,261	1,153	4,414	20,807	11,456	32,263	11,733	39,429	83,425	1,103	88,942
Current assets	1,413	1,800	3,213	11,804	2,270	14,074	598	1,692	16,364	3,242	22,819
Segment assets	4,674	2,953	7,627	32,611	13,726	46,337	12,331	41,121	99,789	4,345	111,761
Investments in associates	–	3,371	3,371	2,343	–	2,343	6	–	2,349	–	5,720
Investments in joint ventures	–	1,005	1,005	147	–	147	–	–	147	412	1,564
Sub-total	4,674	7,329	12,003	35,101	13,726	48,827	12,337	41,121	102,285	4,757	119,045
Available-for-sale financial assets											120
Deferred tax assets											254
Others											43
Total assets											119,462

37 SEGMENT INFORMATION (CONTINUED)

	Exploration and Production			Natural Gas Distribution						Corporate	
	PRC HK$'million	Others HK$'million	Sub-total HK$'million	Natural Gas Sales HK$'million	LNG Processing HK$'million	Natural Gas Sales and LNG Processing Sub-total HK$'million	LNG Terminal HK$'million	Natural Gas Pipeline HK$'million	Sub-total HK$'million	HK$'million	Total HK$'million
For the year ended 31 December 2012											
Gross revenue	4,000	2,076	6,076	13,023	1,318	14,341	1,956	11,549	27,846	–	33,922
Less: Inter-company adjustment	–	–	–	(134)	(501)	(635)	(40)	(294)	(969)	–	(969)
Revenue from external customers	4,000	2,076	6,076	12,889	817	13,706	1,916	11,255	26,877	–	32,953
Segment results	1,465	720	2,185	1,727	(7)	1,720	572	6,092	8,384	96	10,665
Share of profits less losses of:											
– Associates	–	2,096	2,096	238	–	238	–	–	238	–	2,334
– Joint ventures	–	307	307	(6)	–	(6)	–	–	(6)	6	307
Profit before income tax expense	1,465	3,123	4,588	1,959	(7)	1,952	572	6,092	8,616	102	13,306
Income tax expense											(3,392)
Profit for the year											9,914
Segment results included:											
– Interest income	38	10	48	63	–	63	4	26	93	31	172
– Depreciation, depletion and amortisation	(587)	(301)	(888)	(630)	(87)	(717)	(750)	(2,078)	(3,545)	(1)	(4,434)
– Interest expenses	–	(54)	(54)	(97)	–	(97)	(219)	(449)	(765)	158	(661)
As at 31 December 2012											
Non-current assets	3,203	1,205	4,408	13,816	8,433	22,249	11,850	33,500	67,599	1,777	73,784
Current assets	2,446	2,580	5,026	10,077	1,819	11,896	722	2,668	15,286	6,939	27,251
Segment assets	5,649	3,785	9,434	23,893	10,252	34,145	12,572	36,168	82,885	8,716	101,035
Investments in associates	–	3,687	3,687	1,913	–	1,913	6	–	1,919	–	5,606
Investments in joint ventures	–	900	900	211	–	211	–	–	211	430	1,541
Sub-total	5,649	8,372	14,021	26,017	10,252	36,269	12,578	36,168	85,015	9,146	108,182
Available-for-sale financial assets											173
Deferred tax assets											187
Total assets											108,542

37 SEGMENT INFORMATION (CONTINUED)

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

For the year ended 31 December 2013, revenue of approximately HK$16,800 million (2012: HK$14,052 million) are derived from two (2012: two) single customers with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

38 ACQUISITIONS

(a) Completion of acquisition of subsidiaries in the year ended 31 December 2012

During the year ended 31 December 2013, the Group completed the valuations of assets acquired and liabilities assumed arising from certain acquisitions of subsidiaries in the year ended 31 December 2012 to expand the Group's existing scale of natural gas distribution business in the PRC. None of the acquisitions, on a standalone basis, were material and accordingly no disclosure is provided of the details and impact of any individual acquisition. However, on a collective basis, the estimated aggregate undiscounted total consideration amounted to approximately HK$789 million. The following table summarises the estimated fair value of the assets acquired at the date of acquisition after the completion of acquisitions:

	Fair value HK$'million
Property, plant and equipment	426
Intangible and other non-current assets	99
Cash and cash equivalents	210
Accounts receivable	108
Prepaid expenses and other current assets	118
Accounts payable and accrued liabilities	(411)
Identifiable net assets	550
Aggregate purchase consideration – Cash paid	(789)
Goodwill	(239)
Net cash outflow arising from the acquisition	
Aggregate purchase consideration – Cash paid	(789)
Less: Cast at bank and on hand acquired	210
Net cash outflow in respect of the acquisitions	(579)

38 ACQUISITIONS (CONTINUED)

(b) New acquisitions of subsidiaries in the year ended 31 December 2013

For the year ended 31 December 2013, the Group acquired controlling interests in 5 subsidiaries, which are principally engaging in natural gas distribution business in the PRC for an aggregate consideration of RMB133 million (approximately HK$171 million). The acquired businesses contributed revenue of approximately HK$620 million and profit for the year of approximately HK$4 million to the Group for the period from the respective dates of acquisitions to 31 December 2013. If the acquisition had occurred on 1 January 2013, revenue would have been approximately HK$620 million, and profit for the year would have been approximately HK$1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2013, together with the consequential tax effect.

Details of net assets acquired and preliminary goodwill are as follows:

	2013 HK$'million
Property, plant and equipment	38
Intangible and other non-current assets	159
Cash and cash equivalents	36
Accounts receivable	5
Prepaid expenses and other current assets	114
Accounts payable and accrued liabilities	(188)
Identifiable net assets	164
Aggregate purchase consideration	
– Cash paid	(29)
– Deemed consideration (note)	(142)
Goodwill	(7)
Net cash outflow arising from the acquisition	
Aggregate purchase consideration – Cash paid	(29)
Less: Cash at bank and on hand acquired	66
Net cash inflow in respect of the acquisitions	37

Note:

The deemed consideration represents the Group's share of the fair value of the identifiable assets and liabilities of its previously held interest in a joint venture prior to obtaining control of the entity.

39 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 20 March 2014 and will be submitted to the shareholders for approval at the 2014 Annual General Meeting to be held on 12 June 2014 (Thursday).

40 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2013, are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in the PRC				
Hafnium Limited	British Virgin Islands ("BVI")	US$1	Limited liability company	100.00% (note (i))
Beckbury International Limited	BVI	US$1	Limited liability company	100.00% (note (i))
Exploration, production and sales of crude oil in Peru				
SAPET Development Corporation ("SAPET")	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (note (ii))
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	Limited liability company	50.00% (note (ii))
Exploration, production and sales of crude oil in Thailand				
Central Place Company Limited	Hong Kong	HK$1,600	Limited liability company	100.00%
Sino-U.S. Petroleum Inc	United States of America	US$1,000	Limited liability company	100.00%
CNPCHK (Thailand) Limited	Thailand	Baht100 million	Limited liability company	100.00%
Exploration, production and sales of crude oil in Azerbaijan				
Fortunemate Assets Limited	BVI	US$1	Limited liability company	100.00% (note (i))
Exploration, production and sales of crude oil in Kazakhstan				
CNPC International (Caspian) Limited	BVI	US$100	Limited liability company	60.00%

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC				
PetroChina Beijing Gas Pipeline Co., Ltd	PRC	RMB10,240 million	Limited liability company	60.00% (note (i))
CNPC Shennan Oil Technology Development Co., Ltd.	PRC	RMB1,102 million	Limited liability company	100.00% (note (i))
華油天然氣股份有限公司	PRC	RMB2,082 million	Limited liability company	77. 88% (note (i))
Xinjiang Xinjie Co., Ltd.	PRC	RMB3,270 million	Limited liability company	97.99% (note (i))
Huagang Gas Group Company Limited	PRC	RMB1,500 million	Limited liability company	51.00% (note (i))
Xi'an Qinggang Clean Energy Technology Company Limited	PRC	RMB210 million	Limited liability company	51.00% (note (i))
新疆博瑞能源有限公司	PRC	RMB500 million	Limited liability company	94.00% (note (i))
四川川港燃氣有限責任公司	PRC	RMB310 million	Limited liability company	51.00% (note (i))
Kunlun Energy Investment Shandong Company Limited	PRC	RMB1,500 million	Limited liability company	100.00% (note (i))
Petrochina Tianjin Gas Pipeline Co., Ltd.	PRC	RMB500 million	Limited liability company	51.00% (note (i))
昆侖能源青海有限公司	PRC	RMB195 million	Limited liability company	100.00% (note (i))
Cangzhou Gas Limited Company Petrochina	PRC	RMB200 million	Limited liability company	51.00% (note (i))
PetroChina Jiangsu LNG Co., Ltd.	PRC	RMB2,651 million	Limited liability company	55.00% (note (i))

40 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Natural gas distribution in the PRC (Continued)				
PetroChina Dalian LNG Co., Ltd.	PRC	RMB2,600 million	Limited liability company	75.00% (note (i))
KunLun Energy (LiaoNing) Company Limited	PRC	RMB192 million	Limited liability company	100.00% (note (i))
昆侖能源西藏有限公司	PRC	RMB48 million	Limited liability company	100.00% (note (i))
Binhai New Energy Co., Ltd	PRC	RMB224 million	Limited liability company	51.00% (note (i))
昆侖能源(甘肅)有限公司	PRC	RMB105 million	Limited liability company	100.00% (note (i))
Jilin Jigang Clean Energy Company Limited	PRC	RMB657 million	Limited liability company	51.00% (note (i))

Notes:

(i) Shares held directly by the Company.

(ii) In accordance with the share purchase agreement dated 8 September 2001, the Group has the rights to variable returns from its involvement with SAPET and has the ability to affect those returns through its power over SAPET. As a result, SAPET is accounted for as a subsidiary of the Company.

Since SAPET Development Peru Inc. is wholly-owned by SAPET, it is also accounted for as the subsidiary of the Company.

(iii) None of the subsidiaries had any debt securities at 31 December 2013 or at any time during the year.

41 PRINCIPAL ASSOCIATES

At 31 December 2013 and 2012, the Group had interest in the following principal associates:

Name of associates	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Kazakhstan				
CNPC-Aktobemunaigas Joint Stock Company	Kazakhstan	8,946,470 common shares of 1,500 tenge each (Note (i))	Joint-stock company	15.07% (note (ii))
Natural gas distribution in the PRC				
China City Natural Gas Investment Group Co., Ltd.	PRC	RMB700 million	Equity joint venture	49.00% (note (iii))

Notes:

(i) Issued and paid up share capital of Aktobe consists of 8,946,470 ordinary shares and 943,955 preference shares. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights generally.

(ii) The effective equity interest of Aktobe attributable to the Group is 15.07% as the 25.12% equity interest in Aktobe is held by a non-wholly owned subsidiary in which the Group holds a 60% equity interest.

(iii) Shares held directly by the Company.

42 PRINCIPAL JOINT VENTURES

As at 31 December 2013 and 2012, the Group had interest in the following principal joint ventures:

Name of joint ventures	Place of incorporation/ establishment	Nominal value of issued and fully paid ordinary shares/ registered capital	Type of legal entity	Percentage of equity interest attributable to the Group
Exploration, production and sales of crude oil in Oman				
Mazoon Petrogas (BVI) Limited	British Virgin Islands	50,000 ordinary shares of US$1 each	Limited liability company	50.00% (note (i))
Manufacturing of steel pipe in the PRC				
華油鋼管有限公司	PRC	RMB468 million	Equity joint venture	39.56% (note (i) and (ii))
Production of petro-chemical products in the PRC				
青島慶昕塑料有限公司	PRC	RMB223 million	Equity joint venture	25.00% (note (i))

Notes:

(i) The shares of the above principal joint ventures are held directly by the Company; and

(ii) In accordance with the joint venture agreement, the Group and the other investor agreed to share control of the entity and have rights to the net assets of the arrangement.

43 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Group to be Sun World and CNPC which are incorporated in the BVI and the PRC respectively. PetroChina, an intermediate holding company, produces financial statements available for public use.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

45 SUBSEQUENT EVENTS

On 11 February 2014, the National Bank of Kazakhstan announced the Devaluation of Tenge (the "Devaluation"), the official currency of Kazakhstan, by approximately 19% against the US dollar, with effect from the same date. Based on management preliminary assessment, the Devaluation would decrease the Group's share of net assets of associates in the coming financial year.

Results	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
			(unrestated)	(unrestated)	(unrestated)
			(note)	(note)	(note)
Revenue	**43,430**	32,953	25,398	9,068	5,280
Profit before income tax expense	**14,353**	13,306	10,450	4,393	1,855
Income tax expense	**(3,845)**	(3,392)	(2,281)	(1,015)	(392)
Profit for the year	**10,508**	9,914	8,169	3,378	1,463
Non-controlling interests	**(3,657)**	(3,396)	(2,560)	(952)	(259)
Profit attributable to owners of the Company	**6,851**	6,518	5,609	2,426	1,204
Earnings per share					
– Basic (HK cents)	**85.01**	83.54	78.44	49.02	26.79
– Dilute (HK cents)	**84.83**	83.13	77.52	48.22	26.40

Assets and liabilities	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
			(unrestated)	(unrestated)	(unrestated)
			(note)	(note)	(note)
Total assets	**119,462**	108,542	84,069	32,226	21,417
Total liabilities	**(47,194)**	(46,364)	(38,482)	(11,188)	(5,041)
Total equity	**72,268**	62,178	45,587	21,038	16,376

Note:

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

Reserve Quantities Information

INFORMATION ON EXPLORATION AND PRODUCTION SEGMENT

In accordance with the Listing Rule 18.18, this section provides supplemental information on oil and gas producing activities of the Group.

Proved Oil and Gas Reserve Estimates

The following table sets forth the Company's estimated proved developed reserves and proved reserves as at December 2011, 2012 and 2013. The tables are formulated on the basis of reports prepared by DeGolyer and MacNaughton, an independent engineering consultancy company.

Proved developed reserves (Estimation)

CRUDE OIL:

	PRC (million barrels)	**Others** (million barrels)	**Total** (million barrels)
Reserve as at December 2010	33.5	48.2	81.7
2011 Revison	0.0	8.5	8.5
2011 Production	(5.9)	(11.7)	(17.6)
Reserve as at December 2011	27.6	45.0	72.6
2012 Revison	0.0	10.6	10.6
2012 Production	(5.6)	(12.1)	(17.7)
Reserve as at December 2012	22.0	43.5	65.5
2013 Revison	12.8	18.9	31.7
2013 Production	(5.4)	(12.4)	(17.8)
Reserve as at December 2013	29.4	50.0	79.4

NATURAL GAS

	PRC (million cu feet)	Others (million cu feet)	Total (million cu feet)
Reserve as at December 2010	0.0	102,835.5	102,835.5
2011 Revison	0.0	(40,914.6)	(40,914.6)
2011 Production	0.0	(18,403.3)	(18,403.3)
Reserve as at December 2011	0.0	43,517.6	43,517.6
2012 Revison	0.0	13,467.7	13,467.7
2012 Production	0.0	(19,283.5)	(19,283.5)
Reserve as at December 2012	0.0	37,701.8	37,701.8
2013 Revison	0.0	60,788.1	60,788.1
2013 Production	0.0	(19,756.6)	(19,756.6)
Reserve as at December 2013	0.0	78,733.3	78,733.3

Reserve Quantities Information

Proved reserves (Estimation)

CRUDE OIL

	PRC (million barrels)	**Others** (million barrels)	**Total** (million barrels)
Reserve as at December 2010	40.4	80.5	120.9
2011 Revison	0.0	2.3	2.3
2011 Production	(6.0)	(11.6)	(17.6)
Reserve as at December 2011	34.4	71.2	105.6
2012 Revison	0.0	7.7	7.7
2012 Production	(5.6)	(12.2)	(17.8)
Reserve as at December 2012	28.8	66.7	95.5
2013 Revison	6.0	28.9	34.9
2013 Production	(5.4)	(12.4)	(17.8)
Reserve as at December 2013	29.4	83.2	112.6

NATURAL GAS

	PRC (million cu feet)	**Others** (million cu feet)	**Total** (million cu feet)
Reserve as at December 2010	0.0	130,482.5	130,482.5
2011 Revison	0.0	0.0	0.0
2011 Production	0.0	(18,403.2)	(18,403.2)
Reserve as at December 2011	0.0	112,079.3	112,079.3
2012 Revison	0.0	45,665.6	45,665.6
2012 Production	0.0	(19,283.5)	(19,283.5)
Reserve as at December 2012	0.0	138,461.4	138,461.4
2013 Revison	0.0	23,381.2	23,381.2
2013 Production	0.0	(19,756.6)	(19,756.6)
Reserve as at December 2013	0.0	142,086.0	142,086.0

Definition:

The petroleum reserves are classified as follows:

Proved oil and gas reserves – Proved oil and gas reserves are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The areas of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contracts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contracts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required from recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

Results of Operations for Exploration and Production Segments

	PRC *HK$'million*	Others *HK$'million*	Total *HK$'million*
For the year ended 31 December 2013			
Gross revenue	3,610	2,050	5,660
Less: Inter-company adjustment	–	–	–
Revenue from external customers	3,610	2,050	5,660
Segment results	999	701	1,700
Share of profits less losses of:			
– Associates	–	1,365	1,365
– Joint ventures	–	433	433
Profit before income tax expense	999	2,499	3,498
Segment results included:			
– Interest income	24	6	30
– Depreciation, depletion and amortisation	(613)	(249)	(862)
– Interest expenses	–	(38)	(38)
For the year ended 31 December 2012			
Gross revenue	4,000	2,076	6,076
Less: Inter-company adjustment	–	–	–
Revenue from external customers	4,000	2,076	6,076
Segment results	1,465	720	2,185
Share of profits less losses of:			
– Associates	–	2,096	2,096
– Joint ventures	–	307	307
Profit before income tax expense	1,465	3,123	4,588
Segment results included:			
– Interest income	38	10	48
– Depreciation, depletion and amortisation	(587)	(301)	(888)
– Interest expenses	–	(54)	(54)

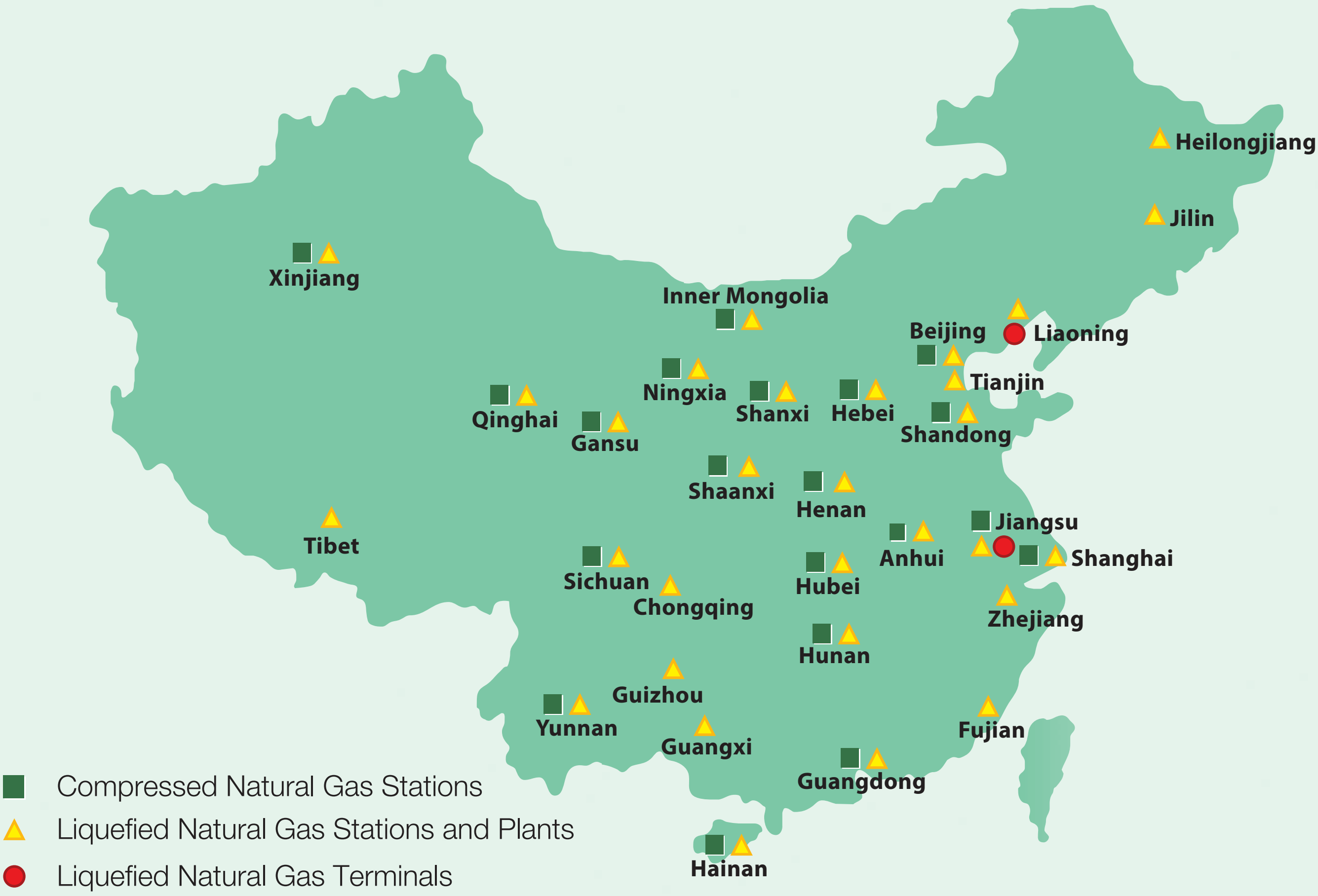
Reserve Quantities Information

Costs Incurred for Property Acquisitions, Exploration and Production:

Costs Incurred for Property Acquisitions, Exploration and Development Activities

	2013 **HK$'million**	2012 HK$'million
The Group		
Property acquisition costs	**–**	–
Exploration costs	**–**	4
Development cost	**792**	681
Total	**792**	685
Equity method investments		
Share of costs of property acquisition, exploration and development of associates and joint ventures	**2,083**	1,411

Locations of Natural Gas Distribution Activities in PRC



Province	CNG Station	LNG Station	LNG Plant	LNG Terminal	Total	In Operation	Under Planning or Construction: CNG Station	Under Planning or Construction: LNG Station	Under Planning or Construction: LNG Plant	Under Planning or Construction: LNG Terminal	Total
1. Xinjiang	117	69	4	–	190	168	3	17	2	–	190
2. Shandong	22	93	2	–	117	90	1	25	1	–	117
3. Inner Mongolia	10	57	3	–	70	24	–	44	2	–	70
4. Hebei	40	114	1	–	155	126	7	22	–	–	155
5. Sichuan	18	35	2	–	55	29	–	25	1	–	55
6. Hubei	3	28	1	–	32	14	–	17	1	–	32
7. Jiangsu	6	53	–	1	60	51	2	7	–	–	60
8. Hainan	24	14	1	–	39	38	–	1	–	–	39
9. Henan	5	83	–	–	88	58	1	29	–	–	88
10. Shaanxi	8	46	1	–	55	20	1	34	–	–	55
11. Guangdong	2	43	–	–	45	25	–	20	–	–	45
12. Liaoning	–	39	1	1	41	24	–	17	–	–	41
13. Qinghai	9	3	3	–	15	11	3	1	–	–	15
14. Ningxia	1	3	–	–	4	2	–	2	–	–	4
15. Shanxi	2	70	–	–	72	66	–	6	–	–	72
16. Yunnan	1	10	–	–	11	5	–	6	–	–	11
17. Zhejiang	–	5	–	–	5	5	–	–	–	–	5
18. Shanghai	3	9	–	–	12	8	–	4	–	–	12
19. Guizhou	–	18	–	–	18	11	–	7	–	–	18
20. Chongqing	–	1	–	–	1	–	–	1	–	–	1
21. Hunan	1	4	–	–	5	3	–	2	–	–	5
22. Tianjin	–	12	1	–	13	12	–	–	1	–	13
23. Tibet	–	3	–	–	3	3	–	–	–	–	3
24. Anhui	1	4	–	–	5	4	–	1	–	–	5
25. Beijing	1	5	–	–	6	5	–	1	–	–	6
26. Gansu	3	3	–	–	6	3	1	2	–	–	6
27. Guangxi	–	3	–	–	3	–	–	3	–	–	3
28. Fujian	–	16	–	–	16	13	–	3	–	–	16
29. Jilin	–	6	1	–	7	6	–	–	1	–	7
30. Heilongjiang	–	2	–	–	2	2	–	–	–	–	2
	277	851	21	2	1,151	826	19	297	9	–	1,151

Note: include 30 CNG stations, 5 LNG stations and 2 LNG plants owned by associated companies.

LOCATIONS OF CRUDE OIL EXPLORATION AND PRODUCTION BUSINESS
原油勘探及生產業務分佈圖


Kazakhstan
哈薩克斯坦
Xinjiang
新疆
Liaohe
遼河
Azerbaijan
阿塞拜疆
Hong Kong
香港
Oman
阿曼
Thailand
泰國