KUNLUN ENERGY COMPANY LIMITED
*(incorporated in Bermuda with limited liability)*
昆 侖 能 源 有 限 公 司

**(Stock Code: 00135.HK)**

# ANNOUNCEMENT OF RESULTS

## HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2013** | 2012 | **Change** |
| | ***HK$' million*** | *HK$' million* | *%* |
| Revenue | **19,427** | 15,605 | 24.49 |
| Profit before income tax expense | **7,715** | 6,841 | 12.78 |
| Profit attributable to the owners of the Company | **3,680** | 3,500 | 5.14 |
| EBITDA (note) | **10,098** | 9,562 | 5.61 |
| | ***HK cent*** | *HK cent* | |
| Earnings per share (Basic) | **45.68** | 46.29 | (1.32) |
| Earnings per share (Diluted) | **45.52** | 46.06 | (1.17) |
| Dividend per share – Interim | **NIL** | NIL | NIL |
| | ***HK$' million*** | *HK$' million* | |
| Profit attributable to the owners of the Company (by business) | | | |
| – Exploration and Production | **1,142** | 1,646 | (30.62) |
| – Natural Gas Sales (including LNG Processing) | **737** | 498 | 47.99 |
| – LNG Terminal | **211** | 107 | 97.20 |
| – Natural Gas Pipeline | **1,651** | 1,253 | 31.76 |
| EBITDA (by business) | | | |
| – Exploration and Production | **2,397** | 3,168 | (24.34) |
| – Natural Gas Sales (including LNG Processing) | **1,650** | 1,087 | 51.79 |
| – LNG Terminal | **1,221** | 695 | 75.68 |
| – Natural Gas Pipeline | **4,846** | 4,604 | 5.26 |

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

The Directors of Kunlun Energy Company Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2013 are as follows:

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2013*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2013** | 2012 |
| | | ***HK$'million*** | *HK$'million* |
| Revenue | *3* | **19,427** | 15,605 |
| Other gains, net | | **373** | 85 |
| Interest income | | **90** | 83 |
| Purchases, services and others | | **(8,388)** | (5,506) |
| Employee compensation costs | | **(917)** | (759) |
| Exploration expenses, including exploratory dry holes | | **(46)** | (33) |
| Depreciation, depletion and amortisation | | **(2,178)** | (2,409) |
| Selling, general and administrative expenses | | **(1,109)** | (915) |
| Taxes other than income taxes | | **(367)** | (549) |
| Interest expenses | *4* | **(295)** | (395) |
| Share of profits less losses of: | | | |
| – Associates | | **933** | 1,425 |
| – Joint ventures | | **192** | 209 |
| **Profit before income tax expense** | *5* | **7,715** | 6,841 |
| Income tax expense | *6* | **(2,046)** | (1,639) |
| **Profit for the period** | | **5,669** | 5,202 |
| **Other comprehensive income:** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Currency translation differences | | **640** | (758) |
| – Fair value loss on available-for-sale financial assets | | **(20)** | (40) |
| **Other comprehensive income for the period, net of nil tax** | | **620** | (798) |
| **Total comprehensive income for the period** | | **6,289** | 4,404 |

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

*For the six months ended 30 June 2013*

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2013** | 2012 |
| | | ***HK$'million*** | *HK$'million* |
| Profit for the period attributable to: | | | |
| – Owners of the Company | | **3,680** | 3,500 |
| – Non-controlling interest | | **1,989** | 1,702 |
| | | **5,669** | 5,202 |
| Total comprehensive income for the period attributable to: | | | |
| – Owners of the Company | | **4,104** | 2,889 |
| – Non-controlling interest | | **2,185** | 1,515 |
| | | **6,289** | 4,404 |
| Earnings per share for profit attributable to owners of the Company | *7* | | |
| – Basic (HK cents) | | **45.68** | 46.29 |
| – Diluted (HK cents) | | **45.52** | 46.06 |

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2013*

| | *Note* | **30 June 2013** **HK$'million** | 31 December 2012 *HK$'million* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **73,812** | 69,225 |
| Advanced operating lease payments | | **2,261** | 2,199 |
| Investments in associates | | **5,017** | 5,606 |
| Investments in joint ventures | | **1,644** | 1,541 |
| Available-for-sale financial assets | | **122** | 173 |
| Intangible and other non-current assets | | **3,318** | 2,360 |
| Deferred tax assets | | **234** | 187 |
| | | **86,408** | 81,291 |
| **Current assets** | | | |
| Inventories | | **1,046** | 717 |
| Accounts receivable | *9* | **2,047** | 1,367 |
| Prepaid expenses and other current assets | | **6,543** | 5,575 |
| Cash and cash equivalents | | **19,502** | 19,592 |
| | | **29,138** | 27,251 |
| **Total assets** | | **115,546** | 108,542 |

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 30 June 2013*

| | Note | 30 June 2013 HK$'million | 31 December 2012 HK$'million |
|---|---|---|---|
| **Equity** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | | **81** | 81 |
| Retained earnings | | **21,832** | 20,059 |
| Reserves | | **24,776** | 24,282 |
| | | **46,689** | 44,422 |
| **Non-controlling interest** | | **19,740** | 17,756 |
| **Total equity** | | **66,429** | 62,178 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | *10* | **12,410** | 12,438 |
| Income taxes payable | | **395** | 461 |
| Other taxes payable | | **681** | 353 |
| Short-term borrowings | | **15,562** | 5,111 |
| | | **29,048** | 18,363 |
| **Non-current liabilities** | | | |
| Long-term borrowings | | **18,375** | 26,562 |
| Deferred tax liabilities | | **1,491** | 1,278 |
| Other long-term obligations | | **203** | 161 |
| | | **20,069** | 28,001 |
| **Total liabilities** | | **49,117** | 46,364 |
| **Total equity and liabilities** | | **115,546** | 108,542 |
| **Net current assets** | | **90** | 8,888 |
| **Total assets less current liabilities** | | **86,498** | 90,179 |

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 22 August 2013.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out below.

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

**Changes in accounting policies**

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

– 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, *Financial instruments: Disclosures − Offsetting financial assets and financial liabilities*

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

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

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in this interim financial information 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 interim financial information. 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 involvement in its joint arrangements. The Group has reclassified the investments from jointly controlled entity to joint ventures. The investments continue to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

**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. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial information as a result of adopting HKFRS 12.

**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. 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 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, it does not have any impact on the Group's interim financial information and the Group has continued to disclose segment assets.

**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 an impact on the Group's interim financial information 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.

## 2. SEGMENT INFORMATION

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

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

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. It is further evaluated on a geographic basis (the Peoples' Republic of China (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 administrative expenses incurred at corporate level.

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

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 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 six months ended 30 June 2013** | | | | | | | | | | | |
| Revenue from external customers | 1,930 | 976 | 2,906 | 8,513 | 811 | 9,324 | 1,435 | 5,762 | 16,521 | – | 19,427 |
| Segment results | 651 | 314 | 965 | 1,067 | 37 | 1,104 | 693 | 3,898 | 5,695 | (70) | 6,590 |
| Share of profits less losses of: | | | | | | | | | | | |
| – Associates | – | 828 | 828 | 105 | – | 105 | – | – | 105 | – | 933 |
| – Joint ventures | – | 176 | 176 | – | – | – | – | – | – | 16 | 192 |
| Profit before income tax expense | 651 | 1,318 | 1,969 | 1,172 | 37 | 1,209 | 693 | 3,898 | 5,800 | (54) | 7,715 |
| Income tax expense | | | | | | | | | | | (2,046) |
| Profit for the period | | | | | | | | | | | 5,669 |
| Segment results included: | | | | | | | | | | | |
| – Interest income | 10 | 3 | 13 | 36 | 2 | 38 | 2 | 13 | 53 | 24 | 90 |
| – Depreciation, depletion and amortisation | (300) | (122) | (422) | (320) | (127) | (447) | (437) | (871) | (1,755) | (1) | (2,178) |
| – Interest expenses | – | (20) | (20) | – | (31) | (31) | (92) | (91) | (214) | (61) | (295) |
| **As at 30 June 2013** | | | | | | | | | | | |
| Non-current assets | 3,136 | 1,164 | 4,300 | 16,147 | 9,676 | 25,823 | 11,591 | 35,898 | 73,312 | 1,779 | 79,391 |
| Current assets | 2,378 | 2,219 | 4,597 | 13,333 | 2,308 | 15,641 | 1,288 | 1,577 | 18,506 | 6,035 | 29,138 |
| Segment assets | 5,514 | 3,383 | 8,897 | 29,480 | 11,984 | 41,464 | 12,879 | 37,475 | 91,818 | 7,814 | 108,529 |
| Investments in associates | – | 2,913 | 2,913 | 2,098 | – | 2,098 | 6 | – | 2,104 | – | 5,017 |
| Investments in joint ventures | – | 1,076 | 1,076 | 126 | – | 126 | – | – | 126 | 442 | 1,644 |
| Sub-total | 5,514 | 7,372 | 12,886 | 31,704 | 11,984 | 43,688 | 12,885 | 37,475 | 94,048 | 8,256 | 115,190 |
| Available-for-sale financial assets | | | | | | | | | | | 122 |
| Deferred tax assets | | | | | | | | | | | 234 |
| Total assets | | | | | | | | | | | 115,546 |

| | Exploration and Production | | | Natural Gas Distribution | | | | | | Corporate | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | PRC | Others | Sub-total | Natural Gas Sales | LNG Processing | Natural Gas Sales and LNG Processing Sub-total | LNG Terminal | Natural Gas Pipeline | Sub-total | | Total |
| | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* | *HK$'million* |
| **For the six months ended 30 June 2012** | | | | | | | | | | | |
| Revenue from external customers | 2,133 | 1,025 | 3,158 | 5,284 | 400 | 5,684 | 829 | 5,934 | 12,447 | – | 15,605 |
| Segment results | 860 | 342 | 1,202 | 723 | (63) | 660 | 266 | 3,035 | 3,961 | 44 | 5,207 |
| Share of profits less losses of: | | | | | | | | | | | |
| – Associates | – | 1,327 | 1,327 | 98 | – | 98 | – | – | 98 | – | 1,425 |
| – Joint ventures | – | 205 | 205 | – | – | – | – | – | – | 4 | 209 |
| Profit before income tax expense | 860 | 1,874 | 2,734 | 821 | (63) | 758 | 266 | 3,035 | 4,059 | 48 | 6,841 |
| Income tax expense | | | | | | | | | | | (1,639) |
| Profit for the period | | | | | | | | | | | 5,202 |
| Segment results included: | | | | | | | | | | | |
| – Interest income | 15 | 4 | 19 | 37 | - | 37 | 2 | 16 | 55 | 9 | 83 |
| – Depreciation, depletion and amortisation | (286) | (139) | (425) | (272) | (34) | (306) | (322) | (1,355) | (1,983) | (1) | (2,409) |
| – Interest expenses | – | (28) | (28) | (60) | - | (60) | (109) | (230) | (399) | 32 | (395) |
| **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 |

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

For the six months ended 30 June 2013, revenue of approximately HK$7,929 million (six months ended 30 June 2012: HK$7,138 million) are derived from two single customers. The revenue is attributable to both the Exploration and Production and Natural Gas Distribution segments.

## 3. 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 2.

## 4. INTEREST EXPENSES

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'million*** | *HK$'million* |
| Interest expenses on: | | |
| Bank loans, wholly repayable within five years | **7** | 4 |
| Loans other than bank loans, wholly repayable within five years, from: | | |
| – An intermediate holding company | **396** | 324 |
| – An immediate holding company | **6** | 5 |
| – China Petroleum Finance Company Limited | **410** | 207 |
| – A fellow subsidiary | **19** | 33 |
| Less: Amounts capitalised | **(543)** | (178) |
| | **295** | 395 |

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 2.76% (six months ended 30 June 2012: 2.86%) per annum for the six months ended 30 June 2013.

## 5. PROFIT BEFORE INCOME TAX EXPENSE

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'million*** | *HK$'million* |
| Amortisation on intangible and other non-current assets | **24** | 14 |
| Cost of inventories recognised as expense | **9,232** | 6,597 |
| Depreciation on property, plant and equipment | **2,154** | 2,396 |
| Operating lease expenses | **76** | 61 |
| Repairs and maintenance | **98** | 116 |

## 6. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'million*** | *HK$'million* |
| **Current tax** | | |
| – PRC | **1,417** | 1,124 |
| – Overseas | **465** | 500 |
| | **1,882** | 1,624 |
| **Deferred tax** | **164** | 15 |
| | **2,046** | 1,639 |

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2013 (six months ended 30 June 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% (six months ended 30 June 2012: 25%). The operations of the Group's certain regions in the PRC were qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 15% (six months ended 30 June 2012: 10% to 20%).

Income tax on overseas (other than the PRC) profits has been calculated on the estimated assessable profit for the six months ended 30 June 2013 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas income tax expense is withholding tax of approximately HK$320 million (six months ended 30 June 2012: HK$392 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company, which is charged at 20% (six months ended 30 June 2012: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## 7. BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$3,680 million (six months ended 30 June 2012: HK$3,500 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2013 of approximately 8,056 million shares (six months ended 30 June 2012: 7,561 million shares).

(b) Diluted earnings per share is calculated on the Group's profit attributable to owners of the Company of approximately HK$3,680 million (six months ended 30 June 2012: HK$3,500 million), and the weighted average number of ordinary shares of approximately 8,085 million (six months ended 30 June 2012: 7,598 million shares) which is the weighted average number of ordinary shares in issue during the six months ended 30 June 2013 plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 29 million shares (six months ended 30 June 2012: 37 million shares) deemed to be issued at no consideration as if all outstanding share option granted had been exercised.

## 8. DIVIDENDS

(a) Final dividend attributable to owners of the Company in respect of 2011 of HK22.0 cents per share amounting to a total of approximately HK$1,590 million were approved by the shareholders in the Annual General Meeting on 16 May 2012. The amount is based on approximately 7,228 million shares in issue as at 29 March 2012. The actual final dividend for 2011 was approximately HK$1,766 million due to additional shares issued during the period from 30 March 2012 to 21 May 2012, the date of closure of the register of members, and which was paid on 6 June 2012.

(b) Final dividend attributable to owners of the Company in respect of 2012 of HK23.0 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 which was paid on 3 June 2013.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## 9. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2013 and 31 December 2012 is as follows:

| | **30 June 2013** | 31 December 2012 |
|---|---|---|
| | ***HK$'million*** | *HK$'million* |
| Within 3 months | **1,547** | 1,104 |
| Between 3 to 6 months | **286** | 176 |
| Over 6 months | **214** | 87 |
| | **2,047** | 1,367 |

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 30 June 2013, none of the accounts receivable were considered to be impaired.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 30 June 2013, included in the balance is accounts payable of HK$1,855 million (31 December 2012: HK$1,935 million).

The ageing analysis of accounts payable as at 30 June 2013 and 31 December 2012 is as follows:

| | **30 June 2013** *HK$'million* | 31 December 2012 *HK$'million* |
|---|---|---|
| Within 3 months | **1,020** | 1,469 |
| Between 3 to 6 months | **316** | 200 |
| Over 6 months | **519** | 266 |
| | **1,855** | 1,935 |

# CHAIRMAN STATEMENT

## BUSINESS REVIEW

I am pleased to report to the shareholders on behalf of the Board of Kunlun Energy Company Limited (the "Company") the 2013 interim results of the Company and its subsidiaries (together, the "Group"). For the six months ended 30 June 2013 (the "Period"), the revenue of the Group amounted to HK$19,427 million while the unaudited profit attributable to owners of the Company amounted to HK$3,680 million, representing an increase of HK$3,822 million and HK$180 million or 24.49% and 5.14% respectively compared with the revenue and profit attributable to owners of the Company of the same period last year. During the Period, international oil prices fluctuated in a narrow range, but declined in volatility in general, while the sales of the Group's natural gas and LNG terminal business increased significantly, which contributed to the Group's revenue and profit.

### I. Exploration and Production

For the Period, revenue of HK$2,906 million was derived from the exploration and production business, a decrease of HK$252 million or 7.98% compared with the corresponding period last year, accounting for 14.96% of the Group's total revenue. The sales volume of crude oil of the Group's eight petroleum projects reached 8.87 million barrels, representing an increase of 0.09 million barrels or 1.06% compared with the corresponding period last year. The Group's average realised crude oil selling price was US$97.22 per barrel, representing a decrease of US$3.48 or 3.46% compared with the corresponding period last year.

## II. Natural Gas Pipeline

During the Period, the Group's natural gas pipeline business maintained stable development. The volume of natural gas transmission was 12,310 million cubic metres, representing an increase of 39 million cubic metres or 0.32% compared with the corresponding period last year. Of which, the volume of natural gas transmission of PetroChina Beijing Gas Pipeline Co., Ltd was 11,992 million cubic metres and other operating pipelines was 318 million cubic metres. Natural gas pipeline business is an important component of the Group's strategy on "Low-carbon Economy and Green Development", which bring stable investment return to the Group.

## III. LNG Terminal

During the Period, Jiangsu LNG terminal and Dalian LNG terminal owned by the Group were in full operation, which unloaded 26 shipments of LNG, amounting to an aggregate of 2,715.50 thousand tonnes. Volume of gasification and LNG offloading to vehicles increased significantly, which provided stable income to the Group. These two LNG terminals are important passageway at sea for the parent company to optimise the domestic supply of natural gas resources, contributing protection of sources of natural gas to the Group's LNG "Gas in Substitution of Oil" business in the Southeast region.

## IV. LNG Processing Plant

The Group further strengthened onshore LNG production and supply. Currently, 9 LNG processing plants in operation (LNG processing plant in Hotan Xinjiang was put into operation in July) with liquefaction capacity of 5.78 million cubic metres/day, and 10 LNG processing plants are under construction. Of which the LNG processing plant in Taian Shandong (processing capacity of 2.6 million cubic metres/day) and in Huanggang Hubei (processing capacity of 5 million cubic metres/day), both being localisation projects, have been progressing well.

## V. Sales of Natural Gas

Sales volume of natural gas of the Group was 3,330 million cubic metres for the Period, representing an increase of 1,152 million cubic metres or 52.90% compared with 2,178 million cubic metres the corresponding period last year. Revenue derived from natural gas was HK$9,324 million, an increase of HK$3,640 million or 64.04% compared with HK$5,684 million the corresponding period last year, accounting for 48.00% of the Group's total revenue. Profit before income tax expense was HK$1,209 million, representing an increase of HK$451 million or 59.50% compared with HK$758 million the corresponding period last year. Both sales volume and revenue of natural gas achieved a rapid growth. City gas coverage extended to 17 cities and provinces; and the sales of LNG "Gas in Substitution of Oil" had substantial growth.

During the Period, the Group achieved remarkable results in market expansion of the LNG "Gas in Substitution of Oil". Over the country, totally 53,000 LNG vehicles were developed in cooperation, 390 LNG stations were completed construction and put into operation; significant breakthroughs in cooperation projects with domestic core cities and large transportation companies were achieved, of which, over thousands of LNG vehicles were developed collaboratively with both Baoding City and Jiangsu Dayun Group; large-scale development of LNG vehicles in Beijing, Chongqing and Guangzhou were accelerated. Meanwhile, the Group actively promoted the application of LNG in vessels, 24 LNG vessels were modified and operated in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Weishan Lake and Dongting Lake, 2 newly developed dual-fuel vessels, and 2 LNG refueling barges under construction, "Gasifying Changjiang" project was undergoing a practical stage.

During the Period, the Group further consolidated the collaboration with the parent company in the segment of natural gas business, equipment manufacturing and refined products marketing. The Group achieved significant progress in accelerating the optimisation of the strategic plans of the principal business and the pace of diversification in cooperation.

## BUSINESS PROSPECTS

In the second half of the year, a few more LNG processing plants will gradually be put into operation, the Group's domestic onshore LNG production and supply capacity will increase substantially and the LNG resources distribution arrangement will be more rational and competitiveness will further be strengthened. At that time, there will be 4 LNG processing plants put into operation in Xinjiang region, which will be an important engine of LNG "Gas in Substitution of Oil" business in Northwest region. The construction and operation of the LNG processing plants in Taian Shandong (processing capacity of 2.6 million cubic metres/day) and Huanggang Hubei (processing capacity of 5 million cubic metres/day), two large liquefaction projects, will play an important role in enhancing the level of domestic LNG industrial technology of China. The construction of Hainan LNG storage will effectively enhance the ability to regulate the natural gas supply and "Gas in Substitution of Oil" resources supply capacity.

The Group will integrate with the country's new energy automotive-related policies to expand the area of LNG vehicles promotion and enhance the development of oil-gas hybrid and gas-electric hybrid vehicles. The Group will integrate with the "Nanshui Beidiao" pollution control projects of the country and "Gasifying Changjiang" strategy to consolidate the collaboration with China Changjiang National Shipping (Group) Corporation, Hudong-Zhonghua and Shandong Hangyu Shipping shipbuilding enterprises and foster the promotion and application of LNG vessles in Yangtze River and canals; the Group will continue the study on the safety of railway transportation of LNG on Golmud-Lhasa railway line (Golmud, Qinghai – Lhasa, Tibet).

The Group will further leverage on the overall advantages of the parent company and continue address and implement the acquisition of the high-quality natural gas assets of the parent company, further take advantage of the platform of joint ventures and actively look for investment opportunities that are in line with the development strategy of the parent company and the domestic natural gas distribution. For LNG business, the Group will consider thoroughly the factor of domestic natural gas prices adjustment to further optimise the LNG industry chain and investment structure; focus on the use of diversified natural gas resources to promote effectively the business development of LNG "Gas in Substitution of Oil"; and continue to improve the quality and operation efficiency, make contributions to the building of ecological civilisation in China and provide satisfactory returns to shareholders.

## 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 and the profit before income tax expense from the Natural Gas Distribution business segment contributed over 75.18% of the Group's profit before income tax expense for the six months ended 30 June 2013 (the "Period").

### OPERATING RESULTS

The financial results of the Group for the Period were benefited from the expansion of natural gas business. Profit before income tax expense of the Group for the Period was approximately HK$7,715 million, representing an increase of 12.78% as compared with amount of HK$6,841 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$3,680 million representing an increase of 5.14% as compared with amount of HK$3,500 million for the same period of last year.

### REVENUE

Revenue for the Period was approximately HK$19,427 million, representing an increase of 24.49% as compared with amount of HK$15,605 million for the same period of last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 14.96% of the Group's total revenue amounting to approximately HK$2,906 million while revenue from the Natural Gas Distribution business segment accounted for 85.04% of the Group's total revenue amounting to approximately HK$16,521 million.

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2013 and 2012, and percentages of change during these two periods.

| | **Sale volume For the six months ended 30 June** | | | **Revenue For the six months ended 30 June** | | |
|---|---|---|---|---|---|---|
| | **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") | **2,807** | 2,915 | (3.70) | **1,930** | 2,133 | (9.52) |
| South America | **299** | 286 | 4.55 | **498** | 503 | (0.99) |
| Central Asia | **327** | 345 | (5.22) | **248** | 287 | (13.59) |
| South East Asia | **303** | 284 | 6.69 | **230** | 235 | (2.13) |
| Sub-total | **3,736** | 3,830 | (2.45) | **2,906** | 3,158 | (7.98) |
| Share of an associate in Central Asia | **3,256** | 3,356 | (2.98) | **–** | – | N/A |
| Share of a joint venture in Middle East | **1,880** | 1,593 | 18.02 | **–** | – | N/A |
| Total of Exploration and Production | **8,872** | 8,779 | 1.06 | **2,906** | 3,158 | (7.98) |

| | Sale/processing volume For the six months ended 30 June | | | Revenue For the six months ended 30 June | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | Change | **2013** | 2012 | Change |
| | ***('000 cubic metre)*** | *('000 cubic metre)* | *%* | ***HK$' million*** | *HK$' million* | *%* |
| **Natural Gas Distribution business** | | | | | | |
| Natural Gas Sales | **3,151,109** | 2,072,875 | 52.02 | **8,513** | 5,284 | 61.11 |
| LNG Processing | **178,724** | 104,935 | 70.32 | **811** | 400 | 102.75 |
| Sub-total | **3,329,833** | 2,177,810 | 52.90 | **9,324** | 5,684 | 64.04 |
| Natural Gas Pipeline | **12,309,874** | 12,270,773 | 0.32 | **5,762** | 5,934 | (2.90) |
| LNG Terminal | **3,744,699** | 2,228,152 | 68.06 | **1,435** | 829 | 73.10 |
| Total of Natural Gas Distribution | **19,384,406** | 16,676,735 | 16.24 | **16,521** | 12,447 | 32.73 |
| Total revenue | | | | **19,427** | 15,605 | 24.49 |

## OTHER GAINS, NET

Other gains, net for the Period was approximately HK$373 million, representing an increase of 338.82% as compared with amount of HK$85 million for the same period of last year. The increase was mainly due to the implementation of Value-Added-Tax ("VAT") Reform from government in the PRC and the Group's tax liabilities have subsequently been increased. 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 refund in the future.

## INTEREST INCOME

Interest income for the Period was approximately HK$90 million, representing an increase of 8.43% as compared with amount of HK$83 million for the same period of last year. The increase was mainly due to an increase in interest rates of bank deposits held by the Group.

## PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK$8,388 million for the Period, representing an increase of 52.34% as compared with amount of HK$5,506 million for the same period of 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$917 million for the Period, representing an increase of 20.82% as compared with amount of HK$759 million for the same period of last year. This increase was mainly due to the expansion of the Group's natural gas business.

## EXPLORATION EXPENSES

Exploration expenses for the Period was approximately HK$46 million, representing an increase of 39.39% as compared with HK$33 million for the same period of last year. This was mainly related to the exploration activities undertaken by the Group's exploration and production projects.

## DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation for the Period was approximately HK$2,178 million, representing a decrease of 9.59% as compared with amount of HK$2,409 million for the same period of last year. This was mainly due to 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 Period was approximately HK$1,109 million, representing an increase of 21.20% as compared with amount of HK$915 million for the same period of 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 Period was approximately HK$367 million, representing a decrease of 33.15% as compared with amount of HK$549 million for the same period of last year. It was mainly due to the implementation of VAT Reform in the PRC.

## INTEREST EXPENSES

Interest expenses for the Period was approximately HK$295 million, representing a decrease of 25.32% as compared with amount of HK$395 million for the same period of last year. Total interest expenses for the Period is HK$838 million of which HK$543 million has been capitalised.

## SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period decreased by 34.53% to approximately HK$933 million (same period 2012: HK$1,425 million), it was mainly due to the increase of other taxes and decrease in sales volume and sales price of crude oil.

## SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period decreased 8.13% to approximately HK$192 million (same period 2012: HK$209 million), it was mainly due to the increment of royalty expense in Oman project.

## PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK$7,715 million, representing an increase of 12.78% as compared with amount of HK$6,841 million for the same period of last year.

The table below sets out the profit before income tax expense for major segments of the Group for the six months ended 30 June 2013 and 2012, and percentages of change during these two periods.

| | **Profit before income tax expense for the six months ended 30 June** | | |
|---|---|---|---|
| | **2013** | 2012 | Change |
| | ***HK$'million*** | *HK$'million* | *%* |
| **The Exploration and Production** | | | |
| PRC | **651** | 860 | (24.30) |
| South America | **249** | 255 | (2.35) |
| Central Asia | **(17)** | (53) | 67.92 |
| South East Asia | **82** | 140 | (41.43) |
| | **965** | 1,202 | (19.72) |
| Share of an associate in Central Asia | **828** | 1,327 | (37.60) |
| Share of a joint venture in Middle East | **176** | 205 | (14.15) |
| Total of Exploration and Production | **1,969** | 2,734 | (27.98) |
| **Natural Gas Distribution** | | | |
| Natural Gas Sales | **1,172** | 821 | 42.75 |
| LNG Processing | **37** | (63) | 158,73 |
| Sub-total | **1,209** | 758 | 59.50 |
| Natural Gas Pipeline | **3,898** | 3,035 | 28.43 |
| LNG Terminal | **693** | 266 | 160.53 |
| Total of Natural Gas Distribution | **5,800** | 4,059 | 42.89 |
| | **7,769** | 6,793 | 14.37 |

## INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK$2,046 million, representing an increase of 24.83% as compared with amount of HK$1,639 million for the same period of last year.

## PROFIT FOR THE PERIOD AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit for the Period of the Group was approximately HK$5,669 million, representing an increase of 8.98% as compared with amount of HK$5,202 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$3,680 million, representing an increase of 5.14% as compared with amount of HK$3,500 million for the same period of last year.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2013, the carrying value of total assets of the Group is approximately HK$115,546 million, representing an increase of HK$7,004 million or 6.45% as compared with 31 December 2012 amount of HK$108,542 million.

The gearing ratio of the Group was 33.81% as at 30 June 2013 compared with 33.75% as at 31 December 2012. It is computed by dividing the total borrowings of HK$33,937 million (31 December 2012: HK$31,673 million) by the total equity plus borrowings of HK$100,366 million (31 December 2012: HK$93,851 million).

Profit before interest, tax, depreciation and amortisation ("EBITDA") for the Period was approximately HK$10,098 million, representing an increase of 5.61% as compared with amount of HK$9,562 million for the same period of last year.

The Group received dividends from joint ventures during the Period which mainly included HK$485 million (same period 2012: nil) from a joint venture in Middle East. No dividends received from an associate in Central Asia during the Period (same period 2012: HK$429 million).

The Group raised new borrowings of HK$5,641 million and repaid HK$3,686 million to financial institutions and related parties resulting a net increase in borrowings of HK$1,955 million during the Period.

During the Period, certain senior executives of the Company exercised their share options. As a result, the Company issued 15.6 million new shares (31 December 2012: 80.0 million new shares) and received subscription amount of HK$86 million (31 December 2012: HK$346 million).

## USE OF PROCEEDS

The Group paid interest of HK$815 million (same period 2012: HK$587 million) during the Period.

2012 final dividend of HK$0.23 per share amounting to HK$1,855 million (2011: HK$0.22 per share amounting to HK$1,766 million) was distributed to owners of the Company during the Period.

## PLEDGE OF ASSETS

As at 30 June 2013 and 31 December 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

There is no major investment during the Period.

## EMPLOYEE

On 30 June 2013, the Group had approximately 18,023 staff globally (excluding the staff under entrustment contracts) (31 December 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. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

## INTERIM DIVIDEND

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

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, 2,000,000 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$'000* |
|---|---|---|---|---|
| June 2013 | 2,000,000 | 12.84 | 12.00 | 24,888 |

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 Period.

## CORPORATE GOVERNANCE

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

## REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2013.

## DETAILED INFORMATION OF INTERIM RESULTS

Detailed interim results containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be released on or before 10 September 2013 on the Stock Exchange's of website (www.hkex.com.hk) and the Company's website (www.irasia.com/listco/hk/kunlun/index.htm or www.kunlun.com.hk).

## MEMBERS OF THE BOARD

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

By the Order of the Board
**KUNLUN ENERGY COMPANY LIMITED**
**Li Hualin**
*Chairman*

Hong Kong, 22 August 2013