



KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)



ANNUAL REPORT

2014



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr Wu Enlai (*Chairman*)
Mr Zhao Yongqi (*Chief Executive Officer*)
Mr Zhang Bowen (*President*)
Mr Cheng Cheng (*Senior Vice President*)

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
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

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

SOLICITOR

Clifford Chance

REGISTERED OFFICE

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Hamilton HM11, Bermuda

PRINCIPAL OFFICE

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PRINCIPAL REGISTRARS

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 2014 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 2014 (the "Year"), the revenue of the Group amounted to HK\$48,044 million, representing an increase of HK\$4,614 million or 10.62% compared with last year, and profit attributable to owners of the Company for the Year was HK\$5,610 million, representing a decrease of HK\$1,241 million or 18.11%. During the year, under the influence of global political and economic factors, great changes happened in the landscape of energy supply and consumption in the world, and the core oil and gas business of the Group also faced severe challenge. The sharp drop in global oil price reduced the profitability of Exploration and Production business. The growth of natural gas demand in China was suppressed amid factors such as a slower domestic economy, higher natural gas price and sustained fall in refined oil prices, resulting in the Group's lacking significant progress in its LNG Terminal, Natural Gas Sales and LNG Processing businesses. Nevertheless, the Natural Gas Pipeline business remained stable with some growth and continued to contribute steady income for the Group.

I. Exploration and Production

For the Year, the sales volume of crude oil in the Exploration and Production business was 16.88 million barrels, representing a decrease of 0.58 million barrels or 3.32% compared with last year. Revenue amounted to HK\$5,336 million, representing a decrease of HK\$324 million or 5.72% as compared to last year. Profit before income tax expense was HK\$2,302 million, representing a decrease of HK\$1,345 million or 36.88% compared to last year. One of the major reasons for the decrease in the profit before income tax expense was the rapid decline in international oil prices in the second half of the Year, reducing the Group's average realised crude oil selling price to US\$84.47 per barrel from US\$97.30 per barrel of last year, representing a reduction of US\$12.83 or 13.19%. Another reason is a decrease in contribution from an associate company in Kazakhstan, which was caused by the substantial depreciation of its local currency and increase in portion of domestic sales volume under the local government's request.

II. Natural Gas Pipeline

During the Year, the transmission volume of Natural Gas Pipeline business was 30,693 million cubic metres, representing an increase of 5,357 million cubic metres or 21.14% compared with last year, of which, the transmission volume of Shaanxi-Beijing Pipeline was 29,962 million cubic metres. The transmission volume of other pipelines in operation was 731 million cubic metres. Revenue for the Year was HK\$12,691 million, representing an increase of HK\$759 million or 6.36% as compared to last year; profit before income tax expense was HK\$8,141 million, representing an increase of HK\$367 million or 4.72% as compared to last year. During the Year, commencement of operation of the Liangxiang-to-Xishatun section in the No. 3 Shaanxi-Beijing Pipeline signaled the full operation of the entire pipeline. Construction for the No. 4 Shaanxi-Beijing Pipeline commenced, with a design capacity of 35,000 million cubic metres per year. Upon its completion and operation, the Group's leading position in the natural gas business in Beijing, Tianjin and Hebei regions will be further strengthened, bringing new source of growth in the Natural Gas Pipeline business.

Chairman's Statement

III. LNG Terminal

During the Year, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal owned by the Group amounted to 5,181 million cubic metres, representing a decrease of 1,656 million cubic metres or 24.22% compared to last year. Revenue for the Year amounted to HK\$1,994 million, representing a decrease of HK\$641 million or 24.33% compared to last year; profit before income tax expense was HK\$806 million, representing a decrease of HK\$329 million or 28.99% as compared to last year. The decrease in both revenue and profit before income tax expense was due to decline in LNG import volume under the adjustment in production plan of the parent company. These two LNG terminals serve an important role in safeguarding the natural gas resources of the parent company in the peak season and opening up the resources channel for the Group in the market for natural gas utilisation in the Southeastern region.

IV. LNG Processing Plant

During the Year, 2 new LNG processing plants of the Group were put into operation. The total number of LNG processing plants in operation increased to 12 with total production capacity amounting to 7.18 million cubic metres per day, while there were 5 completed LNG plants awaiting commencement of operation, of which, Shandong Tai'an LNG processing plant (2.6 million cubic metres per day) and Hubei Huanggang LNG processing plant (5.0 million cubic metres per day), being the Group's landmark projects with proprietary knowledge in natural gas liquefaction technology, had almost completed all preparation work for production. So far, the Group has basically completed the network establishment of its LNG plants, which will provide our end-users with stable resources.

V. Sales of Natural Gas

During the Year, the sales volume of natural gas was 7,757 million cubic metres, representing an increase of 608 million cubic metres or 8.50% compared with last year, of which, the sales volume of LNG was 2,916 million cubic metres, representing an increase of 442 million cubic metres or 17.87% compared with last year. Revenue for the Year amounted to HK\$29,737 million, representing an increase of HK\$4,166 million or 16.29%. Profit before income tax expense was HK\$1,082 million, representing a decrease of HK\$830 million or 43.41% compared with last year. Increase in revenue but with lower profit before income tax expense was mainly due to the rise in cost of natural gas which squeezed the profit margins in LNG sales.

During the Year, upholding the strategy of "Gas in Substitution of Oil", the Group promoted the application of LNG fuel in the transportation sector comprising mainly the urban public transport, long-haul passenger transport and heavy duty trucks, while actively cooperating with the Ministry of Transport to establish the nationwide LNG vessel demonstration regions and projects. During the Year, 23,503 LNG vehicles were newly promoted, making a total of 105,089 LNG vehicles in aggregate. Supported by the operation of 752 LNG refilling stations and 321 CNG refilling stations, a nationwide sales station network has been basically formed, which further consolidated our leading position in the industry.

BUSINESS PROSPECTS

In the current period and onwards, although the pressure of economic slowdown is still prevailing in China, growth in rigid demand for natural gas is expected to maintain. Adjustment in energy structure, progress in urbanization and creation of an ecological friendly civilization will be the major impetus in promoting the growth of natural gas demand. In November 2014, the "Action Plan for Energy Development Strategy (2014-2020)" issued by the State Council clearly stated that the proportion of natural gas in primary energy consumption should be increased to around 10% in 2020. By then, domestic natural gas consumption is expected to increase from the current 183,000 million cubic meters to around 360,000 million cubic meters, presenting a huge room for growth in the natural gas market. With the construction of the East Pipeline between China and Russia kicked off, coupled with the smooth operation of the Central Asia Pipeline, China-Myanmar Pipeline and coastal LNG import channels, the four major oil and gas import channels in China was preliminarily established. Moreover, the gradual improvements in the domestic trunk lines and the branch lines including West-to-East Pipeline and Shaanxi-Beijing Pipeline will provide more powerful sources and infrastructure protection for the future development of the natural gas market. Taking all these into consideration, despite the current challenges, the Group still believes that the domestic natural gas industry is in an important stage of strategic development which offers ample opportunities. In particular, along with the price convergence of incremental natural gas and stock natural gas for non-residential usage on 1 April 2015, and the gradual streamlining of the pricing mechanism of the domestic natural gas, the natural gas industry will enter into a new stage of orderly, healthy and rapid development. The Group will keep up its vigorous support for the implementation of the government's energy policy, and actively promote the upgrade and healthy development of the natural gas industry.

In 2015, the Group will firmly uphold its general principle of "seeking progress in stability", proactively adopt to the new norm of economic development in China and insight into the new development dynamics of the oil and gas industry. By monitoring the development of macro environment, the Group will initiate comprehensive strategy for business development, with an emphasis on strategic positioning. By focusing on the three merits of "low-cost development, business restructuring and fostering of growth points", the Group will put forward reform and innovation, improve the development quality and operating efficiency, thereby bring a satisfactory return to shareholders.

Regarding the Exploration and Production business, encountering the challenge of the low oil price, the Group will vigorously expand revenue sources and reduce costs to enhance efficiency with innovative approaches. The Group will further increase oil recovery rate by technological innovation, reduce operation costs by improved management, and monitor foreign exchange risk by enhanced exchange managing mechanism.

Regarding the Natural Gas Pipeline business, with the existing trunk lines such as the Shaanxi-Beijing Pipeline as the core, the Group will continue to increase the gas transmission and distribution capacity of its pipeline network. At the same time, the Group will carry out the construction of the No. 4 Shaanxi-Beijing Pipelines and key regional branch pipeline network so as to further consolidate its market dominance position in the region.

Regarding the LNG Terminal business, the Group will further utilise its bridging role between resources and the market. While ensuring internal supply, more access will be provided for third parties on a fair basis in order to increase the utilisation rate of LNG terminals. At the same time, the Group will strengthen cost control to enhance operating efficiency.

Chairman's Statement

Regarding the Natural Gas Sales and integrated utilisation business, with the support of the parent company, the Group will fully utilise its current advantage of the entire industry chain by coordinating resources and markets with an aim of achieving production-and-sale balance, optimizing production operation, as well as continuously improving operating efficiency of the existing plants and refilling stations. With its business restructuring in track, the Group will optimize its management of existing assets, further improve the governance structure and keep control of operating financial risk so as to create a new edge in business development. Seizing new opportunities in natural gas development, the Group seeks profit growth in new projects and new areas. By focusing on quality investment projects such as city gas, and combined oil and gas stations, the Group will expand its business structure and promote upgrading of the industry.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK20 cents per share (2013: HK23 cents per share) to Shareholders whose names appear on the Shareholders Register on 11 June 2015 (Thursday), subject to the approval at the Annual General Meeting (the "2015 AGM"). The payment will be made on or before 19 June 2015. The proposed 2014 final dividend amounts to a total of approximately HK\$1,614 million and 2013 dividend of HK\$1,857 million was paid in 2014, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 28.77% (2013: 27.06%).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2015 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 2015 AGM:

| | |
|---|--|
| Latest time to lodge transfer documents for registration | 4:00 p.m. on 27 May 2015 (Wednesday) |
| Closure of shareholders register | from 28 May 2015 (Thursday) to 2 June 2015 (Tuesday) (both dates inclusive) |
| Record date | 2 June 2015 (Tuesday) |

- (ii) For determining entitlement to the final dividend:

| | |
|---|--|
| Latest time to lodge transfer documents for registration | 4:00 p.m. on 9 June 2015 (Tuesday) |
| Closure of shareholders register | from 10 June 2015 (Wednesday) to 11 June 2015 (Thursday) (both dates inclusive) |
| Record date | 11 June 2015 (Thursday) |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2015 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2015 AGM will be held on 3 June 2015 (Wednesday). The Notice of the 2015 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2014 Annual Report. The Notice of the 2015 AGM and the proxy form will also be available on the Company's website.

By the Order of the Board

Wu Enlai

Chairman & Executive Director

Hong Kong, 26 March 2015

Management Discussion and Analysis

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to expand its natural gas business segment during the year ended 31 December 2014 (the "Year"). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 83.88% (2013: 75.39%) of the Group's profit before income tax expense for the Year.

OPERATING RESULTS

Profit before income tax expense of the Group for the Year was approximately HK\$11,956 million, representing a decrease of 16.70% as compared with HK\$14,353 million for the last year. Profit attributable to owners of the Company for the Year was approximately HK\$5,610 million, representing a decrease of 18.11% as compared with HK\$6,851 million for the last year.

Revenue

Revenue for the Year was approximately HK\$48,044 million, representing an increase of 10.62% as compared with amount of HK\$43,430 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 11.11% (2013: 13.03%) of the Group's total revenue amounting to approximately HK\$5,336 million (2013: HK\$5,660 million) while revenue from the Natural Gas Distribution business segment accounted for 88.89% (2013: 86.97%) of the Group's total revenue amounting to approximately HK\$42,708 million (2013: HK\$37,770 million).

The table below sets out the sales volume and revenue for major segments of the Group for the year 2014 and 2013, and percentages of change during these two years.

| | Sales volume (Group's portion) | | | Revenue (Per segment information) | | |
|--|-----------------------------------|-----------------------|-------------|--------------------------------------|----------------------|-------------|
| | for the year ended 31 December | | | for the year ended 31 December | | |
| | 2014 ('000 barrel) | 2013 ('000 barrel) | Change % | 2014 HK\$'million | 2013 HK\$'million | Change % |
| Exploration and Production business (by geographic locations) | | | | | | |
| The People's Republic of China (the "PRC") | 5,368 | 5,273 | 1.80 | 3,477 | 3,610 | (3.68) |
| South America (note (1)) | 653 | 632 | 3.32 | 1,004 | 1,065 | (5.73) |
| Central Asia | 646 | 659 | (1.97) | 465 | 513 | (9.36) |
| South East Asia (note (2)) | 545 | 625 | (12.80) | 390 | 472 | (17.37) |
| Sub-total | 7,212 | 7,189 | 0.32 | 5,336 | 5,660 | (5.72) |
| Share of an associate in Central Asia | 5,773 | 6,456 | (10.58) | - | - | N/A |
| Share of a joint venture in Middle East | 3,892 | 3,811 | 2.13 | - | - | N/A |
| Total of Exploration and Production | 16,877 | 17,456 | (3.32) | 5,336 | 5,660 | (5.72) |

Management Discussion and Analysis

| | Revenue | | |
|--|---------------------------------------|--------------|---------|
| | (Per segment information) | | |
| | for the year ended 31 December | | |
| | 2014 | 2013 | Change |
| | HK\$'million | HK\$'million | % |
| Natural Gas Distribution business | | | |
| (by segments) | | | |
| Natural Gas Pipeline (note (3)) | 12,691 | 11,932 | 6.36 |
| LNG Terminal | 1,994 | 2,635 | (24.33) |
| Natural Gas Sales | 26,291 | 22,073 | 19.11 |
| LNG Processing | 3,446 | 3,498 | (1.49) |
| Sub-total | 29,737 | 25,571 | 16.29 |
| Less: Inter-company adjustment | (1,714) | (2,368) | (27.62) |
| Total of Natural Gas Distribution | 42,708 | 37,770 | 13.07 |
| Total revenue | 48,044 | 43,430 | 10.62 |

| | Sale/processing volume | | |
|--|---------------------------------------|--------------|---------|
| | for the year ended 31 December | | |
| | 2014 | 2013 | Change |
| | ('000 | ('000 | % |
| | cubic metre) | cubic metre) | |
| Natural Gas Distribution business | | | |
| (by activities) | | | |
| Natural Gas Pipeline | 30,692,548 | 25,336,174 | 21.14 |
| LNG Terminal | 5,181,003 | 6,837,051 | (24.22) |
| Natural Gas Sales | 6,845,316 | 6,222,455 | 10.01 |
| LNG Processing | 911,771 | 926,922 | (1.63) |
| Sub-total | 7,757,087 | 7,149,377 | 8.50 |
| Less: Inter-company adjustment | (724,460) | (1,366,508) | (46.98) |
| Total of Natural Gas Distribution | 42,906,178 | 37,956,094 | 13.04 |

Management Discussion and Analysis

Notes:

- (1) Only the Group 50% share of sales volume from an oilfield in South America is stated while its revenue is shown as 100% per consolidation requirement.
- (2) Only the Group 96.11% share of sales volume from an oilfield in South East Asia is stated while its revenue is shown as 100% per consolidation requirement.
- (3) Under the Natural Gas Pipeline segment, it included the following sales:

| | Sales volume | | | Revenue | | |
|-----------------------|--------------------------------|--------|--------------|--------------------------------|------|--------|
| | for the year ended 31 December | | | for the year ended 31 December | | |
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| ('000 cubic metre) | ('000 cubic metre) | % | HK\$'million | HK\$'million | % | |
| Natural Gas Sales | 55,627 | 53,111 | 4.74 | 208 | 146 | 42.47 |

Other gains, net

Other gains, net for the Year was approximately HK\$837 million, representing an increase of 8.98% as compared with amount of HK\$768 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. PetroChina Beijing Gas Pipeline Co., Ltd has received the VAT refunds of HK\$665 million (2013: HK\$538 million) 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\$217 million, representing a decrease of 4.82% as compared with amount of HK\$228 million for the last year. The decrease was mainly due to a decrease in the average balance of cash and cash equivalents.

Purchases, services and others

Purchases, services and others were approximately HK\$26,354 million for the Year, representing an increase of 23.71% as compared with amount of HK\$21,303 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\$2,368 million for the Year, representing an increase of 15.74% as compared with amount of HK\$2,046 million for the last year. This increase was mainly due to the expansion of the Group's natural gas business and the increase in the average salary level.

Exploration expenses

There were no exploration expenses charged to profit or loss during the Year (2013: HK\$11 million).

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately HK\$5,392 million, representing an increase of 19.08% as compared with amount of HK\$4,528 million for the last year. This was mainly due to addition of property, plant and equipment during the Year following the business expansion.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year was approximately HK\$2,777 million, representing a decrease of 3.51% as compared with amount of HK\$2,878 million for the last year. This was mainly due to the decrease in royalties in exploration and production business which is in line with the decrease in realised crude oil selling price.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately HK\$737 million, representing a decrease of 1.21% as compared with amount of HK\$746 million for the last year. This decrease was mainly due to the decrease in levy on petroleum in line with the decrease in realised crude oil selling price of the Group's exploration and production business.

Interest expenses

Interest expenses for the Year was approximately HK\$486 million, representing a decrease of 21.86% as compared with amount of HK\$622 million for the last year. Total interest expenses for the Year was approximately HK\$1,521 million of which HK\$1,035 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 56.50% to approximately HK\$716 million (2013: HK\$1,646 million). This was mainly due to the combined effect of the decrease in sales volume and realised crude oil selling price in CNPC–Aktobemunaigas Joint Stock Company and exchange loss due to devaluation of the currency of Republic of Kazakhstan for the Year.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year decreased by 38.31% to approximately HK\$256 million (2013: HK\$415 million). It was mainly due to provision for impairment loss amounting to HK\$150 million (2013: HK\$ Nil) in relation to a joint venture.

Profit before income tax expense

Profit before income tax expense for the Year was approximately HK\$11,956 million, representing a decrease of 16.70% as compared with amount of HK\$14,353 million for the last year.

Management Discussion and Analysis

The table below sets out the profit before income tax expense and percentage of change for major segments of the Group for the year 2014 and 2013.

| | Profit before income tax expense for the year ended 31 December | | |
|--|--|----------------------|-------------|
| | 2014 HK\$'million | 2013 HK\$'million | Change % |
| Exploration and Production business | | | |
| PRC | 837 | 1,148 | (27.09) |
| South America | 423 | 544 | (22.24) |
| Central Asia | (70) | (53) | 32.08 |
| South East Asia | (12) | 210 | (105.71) |
| Sub-total | 1,178 | 1,849 | (36.29) |
| Share of an associate in Central Asia | 601 | 1,365 | (55.97) |
| Share of a joint venture in Middle East | 523 | 433 | 20.79 |
| Total of Exploration and Production | 2,302 | 3,647 | (36.88) |
| Natural Gas Distribution business | | | |
| Natural Gas Pipeline | 8,141 | 7,774 | 4.72 |
| LNG Terminal | 806 | 1,135 | (28.99) |
| Natural Gas Sales | 1,420 | 1,754 | (19.04) |
| LNG Processing | (338) | 158 | (313.92) |
| Sub-total | 1,082 | 1,912 | (43.41) |
| Total of Natural Gas Distribution | 10,029 | 10,821 | (7.32) |
| | 12,331 | 14,468 | (14.77) |

Income tax expense

Income tax expense for the Year was approximately HK\$3,080 million, representing a decrease of 19.90% as compared with amount of HK\$3,845 million for the last year. The effective tax rate (excluding joint ventures and associates) for the Year decrease to 28.04% (2013: 31.28%).

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

The profit for the Year of the Group was approximately HK\$8,876 million, representing a decrease of 15.53% as compared with amount of HK\$10,508 million for the last year. The profit attributable to owners of the Company for the Year was approximately HK\$5,610 million, representing a decrease of 18.11% as compared with amount of HK\$6,851 million for the last year.

Liquidity and capital resources

As at 31 December 2014, the carrying value of total assets of the Group was approximately HK\$117,710 million, representing a decrease of HK\$1,752 million or 1.47% as compared with 31 December 2013 amount of HK\$119,462 million.

The gearing ratio of the Group was 25.57% as at 31 December 2014 compared with 30.26% as at 31 December 2013, representing a decrease of 4.69%. It is computed by dividing the sum of interest-bearing borrowings and obligations under finance leases of HK\$25,532 million (2013: HK\$31,350 million) by the sum of total equity, interest-bearing borrowings and obligations under finance leases of HK\$99,846 million (2013: HK\$103,618 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation ("EBITDA") for the Year was approximately HK\$17,617 million, representing a decrease of 8.60% as compared with amount of HK\$19,275 million for the last year.

The Group received dividends of HK\$401 million from a joint venture in Middle East (2013: HK\$814 million) and HK\$1,041 million mainly from an associate in Central Asia during the Year (2013: HK\$1,826 million).

The Group obtained new borrowings and finance leases of HK\$10,054 million and repaid HK\$15,442 million to financial institutions and related parties resulting a net decrease in the aggregate amount of borrowings and obligations under finance leases of HK\$5,388 million during the Year.

During the Year, a few senior executives of the Company exercised share options. As a result, the Company issued 9.9 million new shares (2013: 15.6 million new shares) and received subscription amount of HK\$32 million (2013: HK\$86 million).

During the Year, the Company has not repurchased any of its shares. As at 31 December 2013, the Company repurchased a total of 4,518,000 shares of the Company with HK\$57 million.

Management Discussion and Analysis

As at 31 December 2014, the Group had net current liabilities of HK\$4,887 million. Notwithstanding the net current liabilities of the Group at 31 December 2014, 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) the Group has certain undrawn facilities which include an undrawn facility provided by the Company's immediate holding company amounting to HK\$2,300 million;
- (ii) the Group expects to generate positive operating cash flows in the future; and
- (iii) the directors consider that the Group could obtain financing from various sources of funding.

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

Use of proceeds

The Group paid interest of HK\$1,486 million (2013: HK\$1,856 million) during the Year.

2013 final dividend of HK23 cents per share amounting to HK\$1,857 million (2012: HK23 cents per share amounting to HK\$1,855 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2014 and 2013, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payments.

New investment in major projects

There is no major acquisition during the Year.

Employee

On 31 December 2014, the Group had approximately 21,751 staff globally (excluding the staff under entrustment contracts) (31 December 2013: 21,589 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 HK20 cents (2013: HK23 cents) per share. The proposed dividend will be paid on or before 19 June 2015 to the shareholders whose names appear on the Register on 9 June 2015 (Tuesday), subject to the approval at the Annual General Meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the 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 2014.

By the Order of the Board

Zhang Bowen

President & Executive Director

Hong Kong, 26 March 2015

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 2014 (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 four 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 seven directors:

Executive Directors:

Mr Wu Enlai (*Chairman since 12 June 2014*)

Mr Zhao Yongqi (*Chief Executive Officer, appointed as Executive Director on 12 June 2014*)

Mr Zhang Bowen (*President, ceased to perform the duties as Chairman from 12 June 2014*)

Mr Cheng Cheng (*Senior Vice President*)

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.

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.

Corporate Governance Report

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.

Board Diversity Policy

Under code provision A.5.6 of the Code, the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the Corporate Governance Report. The Board has adopted a Board Diversity Policy (the "Board Diversity Policy") to align the board diversity.

Selection of candidates will base on a range of diversity criteria, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience, length of services and other qualities of candidates. Board appointments will be made on meritocracy and candidates will be considered against objective criteria, with due regard to the benefits of the diversity on the Board.

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 97, no director will retire by rotation at the 2015 AGM.

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, eight Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and two 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:

| Directors | Attendance/Number of Meetings | | | |
|---|-------------------------------|-----------------|------------------------|----------------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
| <i>Executive Directors:</i> | | | | |
| Mr Wu Enlai (Chairman since 12 June 2014) | 8/8 | – | – | – |
| Mr Zhao Yongqi (Chief Executive Officer, appointed as executive Director on 12 June 2014) | 4/8 | – | – | – |
| Mr Zhang Bowen (President, ceased to perform the duties as Chairman from 12 June 2014) | 8/8 | – | – | – |
| Mr Cheng Cheng (Senior Vice President) | 8/8 | – | – | – |
| <i>Independent Non-Executive Directors:</i> | | | | |
| Dr Lau Wah Sum | 8/8 | 2/2 | 1/1 | 2/2 |
| Mr Li Kwok Sing Aubrey | 8/8 | 2/2 | 1/1 | 2/2 |
| Dr Liu Xiao Feng | 8/8 | 2/2 | 1/1 | 2/2 |

Corporate Governance Report

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 Chief Executive Officer, 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 had performed the duties of the Chairman since 17 December 2013 up to and until the appointment of Mr Wu Enlai as the Chairman on 12 June 2014. Mr Wu Enlai remained as the Chairman of the Board since then. Mr Zhao Yongqi had acted as the Chief Executive Officer throughout the Year. 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.

Corporate Governance Report

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

| | <u>Year 2014</u> |
|-------------------------------|------------------|
| HK\$4,000,001 – HK\$4,500,000 | 1 |
| HK\$4,500,001 – HK\$5,000,000 | 5 |
| HK\$6,500,001 – HK\$7,000,000 | 1 |
| | <u>7</u> |

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 two meetings during the Year to review Board composition, proposal for directors re-election on retirement, the appointment of new director as well as the objectives set for implementing the Board Diversity Policy.

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.

Corporate Governance Report

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 39 and 40.

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\$13 million and approximately HK\$1 million (2013: HK\$12 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, two general meetings were held on 12 June 2014 and 10 December 2014 respectively, one was the 2014 annual general meeting and the other was special general meeting for the approval of the proposed annual caps in respect of the continuing connected transactions from 2015 to 2017. The attendance records of the Directors to the 2014 general meetings are set out below:-

| Directors | Attendance |
|--|-------------------|
| <i>Executive Directors</i> | |
| Mr Wu Enlai | 2/2 |
| Mr Zhao Yongqi (appointed as Executive Director on 12 June 2014) | 1/2 |
| Mr Zhang Bowen | 2/2 |
| Mr Cheng Cheng | 2/2 |
| <i>Independent Non-executive Directors</i> | |
| Dr Lau Wah Sum | 2/2 |
| Mr Li Kwok Sing Aubrey | 2/2 |
| Dr Liu Xiao Feng | 2/2 |

(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 requisitioner(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 requisitioner(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 requisitioner(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Corporate Governance Report

(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.

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 2014 (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 constructed 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 pages 41 and 42.

A final dividend for the year ended 31 December 2013 of HK23 cents per share amounting to approximately HK\$1,857 million was paid during the Year. The directors recommend the payment of a final dividend of HK20 cents per share for the Year, totalling approximately HK\$1,614 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.

Directors' Report

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 46 and 47, and Note 29 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 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2014 and 2013 were as follows:

| | 2014 HK\$'million | 2013 HK\$'million |
|---------------------|------------------------------------|----------------------|
| Contributed surplus | 134 | 134 |
| Retained earnings | 16,984 | 11,905 |
| | 17,118 | 12,039 |

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

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 Wu Enlai

Mr Zhao Yongqi (appointed on 12 June 2014)

Mr Zhang Bowen

Mr Cheng Cheng

Independent Non-Executive Directors:

Dr Lau Wah Sum

Mr Li Kwok Sing Aubrey

Dr Liu Xiao Feng

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.

Directors' Report

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Wu Enlai (*Chairman*)

Aged 55, was appointed as an Executive Director in December 2013 and elected as Chairman in June 2014. He currently is the secretary to the Board of PetroChina Company Limited ("PetroChina"). 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.

Mr Zhao Yongqi (*Chief Executive Officer*)

Aged 54, was appointed as an Executive Director in June 2014. He 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 PetroChina 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 Utilisation.

Mr Zhang Bowen (*President*)

Aged 48, joined the Company as an Executive Director in 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 26 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 47, 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 Jiangnan Institute of Petroleum, the PRC.

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

Independent Non-Executive Directors

Dr Lau Wah Sum, GBS, LLD, DBA, JP

Aged 87, 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 joined the Company as an Independent Non-Executive Director in August 1994.

Mr Li Kwok Sing Aubrey

Aged 65, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of IAM Holdings (Hong Kong) Limited, a Hong Kong based 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 52, 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 Honghua Group Limited, of which is publicly listed company on the Stock Exchange.

Senior Management

Mr Fa Yuxiao (*Senior Vice President*)

Aged 50, 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. He joined the Company as Senior Vice President in September 2011.

Directors' Report

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

Senior Management (Continued)

Mr Zhong Wenxu (*Senior Vice President*)

Aged 50, 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. He joined the Company as Senior Vice President in September 2011.

Mr Xia Yu (*Assistant Chief Executive Officer*)

Aged 51, 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. He joined the Company as Assistant Chief Executive Officer in September 2011.

Mr Lau Hak Woon (*Chief Financial Officer & Company Secretary*)

Aged 62, 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 2014, 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) | 15,336,000 | Beneficial owner | 0.190% |
| Cheng Cheng (note) | 7,772,000 | Beneficial owner | 0.096% |
| Li Kwok Sing Aubrey (note) | 1,000,000 | Beneficial owner | 0.012% |

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 28 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 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:

| Name | Date of grant | Exercise period | Exercise price HK\$ | Number of Share Options | | | |
|------------------|---------------|---------------------|------------------------|---------------------------------------|---------------------------------|-----------------------------------|---|
| | | | | Outstanding at 1 January 2014 '000 | Granted during the Year '000 | Exercised during the Year '000 | Outstanding at 31 December 2014 '000 |
| Directors | | | | | | | |
| Zhang Bowen | 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 |

Directors' Report

SHARE OPTIONS (Continued)

| Name | Date of grant | Exercise period | Exercise price HK\$ | Number of Share Options | | | |
|---------------------|---------------|---------------------|------------------------|-------------------------------|-------------------------|---------------------------|---------------------------------|
| | | | | Outstanding at 1 January 2014 | Granted during the Year | Exercised during the Year | Outstanding at 31 December 2014 |
| | | | | '000 | '000 | '000 | '000 |
| Cheng Cheng | 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 |
| | | | | 17,100 | - | (3,900) | 13,200 |
| Employees | 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 | 6,000 | - | - | 6,000 |
| | 17/05/12 | 17/08/12 – 16/05/17 | 12.632 | 11,500 | - | - | 11,500 |
| | | | | 29,500 | - | (6,000) | 23,500 |
| | | | | 46,600 | - | (9,900) | 36,700 |

The weighted average closing prices of the Company's shares immediately before the date on which the share options were exercised was HK\$13.00.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2014, 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 | | Percentage of the total number of Shares in issue |
|--|-------------------|-------------------|---|
| | Direct Interest | Indirect Interest | |
| Sun World Limited ("Sun World") ⁽¹⁾ | 4,708,302,133 (L) | – | 58.33% |
| PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") ⁽¹⁾ | – | 4,708,302,133 (L) | 58.33% |
| PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") ⁽¹⁾ | – | 4,708,302,133 (L) | 58.33% |
| PetroChina ⁽¹⁾ | – | 4,708,302,133 (L) | 58.33% |
| CNODC ⁽²⁾ | – | 277,432,000 (L) | 3.43% |
| CNPC International Ltd. ("CNPCI") ⁽²⁾ | – | 277,432,000 (L) | 3.43% |
| Fairy King Investments Ltd. ⁽²⁾ | 277,432,000 (L) | – | 3.43% |
| CNPC ⁽¹⁾⁽²⁾ | – | 4,985,734,133 (L) | 61.76% |

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 Wu Enlai, the Chairman of the Company and Mr Zhang Bowen, the President 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 2014, 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 2014, 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 28 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2014 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.

Directors' Report

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 2014 HK\$' million | Annual cap for 2014 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 | 8,218 | 12,521 |
| (ii) Purchase of the Group's share of crude oil by the CNPC Group | As disclosed in Company's announcement dated 14 November 2011 | 3,477 | 6,873 |
| (iii) Rental payments | As disclosed in the Company's announcement dated 14 November 2011 | 15 | 28 |
| (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 | 12,687 | 40,282 |
| (v) Provision of products and services by the Group to the CNPC Group | As disclosed in the Company's announcement dated 14 November 2011 | 10,954 | 14,071 |
| (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 | 4,690 | 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 116 and 117 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 | 48% |
| Percentage of purchases attributable to the Group's five largest suppliers | 51% |
| Percentage of sales attributable to the Group's largest customer | 30% |
| 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.

Directors' Report

COMPETING BUSINESS

Save as disclosed below, as at 26 March 2015, 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

Messrs KPMG were appointed as the auditor of the Company in 2013 upon the retirement of Messrs PricewaterhouseCoopers, who acted as the auditor of the Company for the year ended 31 December 2012.

The financial statements for the Year have been audited by Messrs KPMG, who retire and, being eligible, offer themselves for re-appointment. A resolution for reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Zhang Bowen

President and Executive Director

Hong Kong, 26 March 2015



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 41 to 128, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014 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

26 March 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|--|------|----------------------|----------------------|
| Revenue | 6 | 48,044 | 43,430 |
| Other gains, net | 7 | 837 | 768 |
| Interest income | 8 | 217 | 228 |
| Purchases, services and others | | (26,354) | (21,303) |
| Employee compensation costs | 9 | (2,368) | (2,046) |
| Exploration expenses | | – | (11) |
| Depreciation, depletion and amortisation | | (5,392) | (4,528) |
| Selling, general and administrative expenses | | (2,777) | (2,878) |
| Taxes other than income taxes | 10 | (737) | (746) |
| Interest expenses | 11 | (486) | (622) |
| Share of profits less losses of: | | | |
| – Associates | | 716 | 1,646 |
| – Joint ventures | 21 | 256 | 415 |
| Profit before income tax expense | 12 | 11,956 | 14,353 |
| Income tax expense | 14 | (3,080) | (3,845) |
| Profit for the year | | 8,876 | 10,508 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Currency translation differences | | | |
| – Subsidiaries | | (1,283) | 1,439 |
| – Associates | | (572) | (46) |
| – Joint ventures | | (9) | (1) |
| – Fair value loss on available-for-sale financial assets | | (29) | (10) |
| Other comprehensive income, net of nil tax | | (1,893) | 1,382 |
| Total comprehensive income for the year | | 6,983 | 11,890 |

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|---|------|----------------------|----------------------|
| Profit for the year attributable to: | | | |
| – Owners of the Company | | 5,610 | 6,851 |
| – Non-controlling interests | | 3,266 | 3,657 |
| | | 8,876 | 10,508 |
| Total comprehensive income for the year attributable to: | | | |
| – Owners of the Company | | 4,307 | 7,842 |
| – Non-controlling interests | | 2,676 | 4,048 |
| | | 6,983 | 11,890 |
| Earnings per share for profit attributable to owners of the Company | | | |
| | 16 | | |
| – Basic (HK cent) | | 69.52 | 85.01 |
| – Diluted (HK cent) | | 69.49 | 84.83 |

The notes on pages 50 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 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|---|------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 86,442 | 82,943 |
| Advanced operating lease payments | 19 | 3,379 | 2,895 |
| Investments in associates | 20 | 4,775 | 5,720 |
| Investments in joint ventures | 21 | 1,451 | 1,564 |
| Available-for-sale financial assets | | 83 | 120 |
| Intangible and other non-current assets | 23 | 1,509 | 3,104 |
| Deferred tax assets | 32 | 456 | 254 |
| | | 98,095 | 96,600 |
| Current assets | | | |
| Inventories | 24 | 1,157 | 1,173 |
| Accounts receivable | 25 | 1,988 | 1,893 |
| Prepaid expenses and other current assets | 26 | 5,741 | 4,899 |
| Cash and cash equivalents | 27 | 10,729 | 14,897 |
| | | 19,615 | 22,862 |
| Total assets | | 117,710 | 119,462 |

Consolidated Statement of Financial Position

As at 31 December 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|---|------|----------------------|----------------------|
| Equity | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 28 | 81 | 81 |
| Retained earnings | 29 | 27,765 | 24,530 |
| Reserves | 29 | 25,042 | 25,795 |
| | | 52,888 | 50,406 |
| Non-controlling interests | | 21,426 | 21,862 |
| Total equity | | 74,314 | 72,268 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 30 | 14,776 | 12,676 |
| Income tax payable | 32 | 805 | 510 |
| Other tax payable | | 262 | 394 |
| Short-term borrowings | 31 | 8,465 | 13,551 |
| Obligations under finance leases | 33 | 194 | – |
| | | 24,502 | 27,131 |
| Non-current liabilities | | | |
| Long-term borrowings | 31 | 16,224 | 17,799 |
| Deferred tax liabilities | 32 | 1,414 | 1,715 |
| Obligations under finance leases | 33 | 649 | – |
| Other long-term obligations | | 607 | 549 |
| | | 18,894 | 20,063 |
| Total liabilities | | 43,396 | 47,194 |
| Total equity and liabilities | | 117,710 | 119,462 |
| Net current liabilities | | (4,887) | (4,269) |
| Total assets less current liabilities | | 93,208 | 92,331 |

Approved and authorised for issue by the board of directors on 26 March 2015.

Zhang Bowen
President

Cheng Cheng
Senior Vice President

The notes on pages 50 to 128 form part of these financial statements.

Statement of Financial Position

As at 31 December 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|---|------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 3 | 4 |
| Investments in associates | 20 | 1,153 | 1,090 |
| Investments in joint ventures | 21 | 122 | 272 |
| Investments in subsidiaries | 22 | 44,298 | 43,337 |
| Intangible and other non-current assets | 23 | 1,264 | 1,290 |
| | | 46,840 | 45,993 |
| Current assets | | | |
| Prepaid expenses and other current assets | 26 | 15,130 | 9,605 |
| Cash and cash equivalents | 27 | 1,586 | 1,857 |
| | | 16,716 | 11,462 |
| Total assets | | 63,556 | 57,455 |
| Equity | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 28 | 81 | 81 |
| Retained earnings | 29 | 16,984 | 11,905 |
| Reserves | 29 | 40,281 | 40,460 |
| | | 57,346 | 52,446 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 30 | 296 | 200 |
| Income tax payable | | 5 | – |
| Short-term borrowings | 31 | – | 4,263 |
| | | 301 | 4,463 |
| Non-current liabilities | | | |
| Long-term borrowings | 31 | 5,909 | 546 |
| Total liabilities | | 6,210 | 5,009 |
| Total equity and liabilities | | 63,556 | 57,455 |
| Net current assets | | 16,415 | 6,999 |
| Total assets less current liabilities | | 63,255 | 52,992 |

Approved and authorised for issue by the board of directors on 26 March 2015.

Zhang Bowen
President

Cheng Cheng
Senior Vice President

The notes on pages 50 to 128 form part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2014

| Note | Attributable to owners of the Company | | | | Non-controlling interests HK\$'million | Total equity HK\$'million |
|---|---------------------------------------|-----------------------------------|--------------------------|---------------------------|---|------------------------------|
| | Share capital HK\$'million | Retained earnings HK\$'million | Reserves HK\$'million | Sub-total 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 | - | (1,855) | - | (1,855) | - | (1,855) |
| Issue of shares upon exercise of share options | 28(a) & (b) | - | 86 | 86 | - | 86 |
| Repurchase of shares | 28(a) | - | (57) | (57) | - | (57) |
| Lapsed share options | | - | (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 |

Consolidated Statement of Changes In Equity

For the year ended 31 December 2014

| | Note | Attributable to owners of the Company | | | Non-controlling interests | Total equity | |
|--|-------------|---------------------------------------|-------------------|--------------|---------------------------|--------------|-----------|
| | | Share capital | Retained earnings | Reserves | | | Sub-total |
| | | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | |
| Balances at 1 January 2014 | | 81 | 24,530 | 25,795 | 50,406 | 21,862 | 72,268 |
| Changes in equity for 2014: | | | | | | | |
| Profit for the year | | - | 5,610 | - | 5,610 | 3,266 | 8,876 |
| Other comprehensive income | | - | - | (1,303) | (1,303) | (590) | (1,893) |
| Total comprehensive income for the year | | - | 5,610 | (1,303) | 4,307 | 2,676 | 6,983 |
| Transfer between reserves | | - | (518) | 518 | - | - | - |
| Final dividend for 2013 | 17 | - | (1,857) | - | (1,857) | - | (1,857) |
| Issue of shares upon exercise of share options | 28(a) & (b) | - | - | 32 | 32 | - | 32 |
| Acquisition from non-controlling interests | | - | - | - | - | (13) | (13) |
| Dividend to non-controlling interests | | - | - | - | - | (3,888) | (3,888) |
| Capital contributions from non-controlling interests | | - | - | - | - | 789 | 789 |
| Balances at 31 December 2014 | | 81 | 27,765 | 25,042 | 52,888 | 21,426 | 74,314 |

The notes on pages 50 to 128 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

| | Note | 2014 HK\$'million | 2013 HK\$'million |
|---|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 8,876 | 10,508 |
| Adjustments for: | | | |
| Income tax expense | | 3,080 | 3,845 |
| Taxes other than income taxes | | 737 | 746 |
| Depreciation, depletion and amortisation | | 5,392 | 4,528 |
| Share of profits less losses of associates | | (716) | (1,646) |
| Share of profits less losses of joint ventures | | (256) | (415) |
| Impairment loss on property, plant and equipment | 18 | 2 | 12 |
| Impairment loss on available-for-sale financial assets | | 6 | – |
| Net losses on disposals of property, plant and equipment | 7 | 16 | 70 |
| Net exchange losses/(gains) | | 123 | (45) |
| Interest income | | (217) | (228) |
| Interest expense | | 486 | 622 |
| Changes in working capital: | | | |
| Accounts receivable and prepaid expenses and other current assets | | (818) | 115 |
| Inventories | | (7) | (457) |
| Accounts payable and accrued liabilities and other tax payable | | 174 | (742) |
| Cash generated from operations | | 16,878 | 16,913 |
| Income tax paid | | (3,180) | (3,427) |
| Net cash generated from operating activities | | 13,698 | 13,486 |

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

| Note | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Cash flows from investing activities | | |
| Dividends received from associates | 1,041 | 1,826 |
| Dividends received from joint ventures | 401 | 814 |
| Acquisitions of subsidiaries | – | 37 |
| Capital contributions to associates | (84) | (291) |
| Capital contributions to joint ventures | – | (56) |
| Proceeds from disposal of property, plant and equipment | 158 | 353 |
| Capital expenditure | (9,553) | (15,405) |
| Interest received | 210 | 228 |
| Loans repaid by associates | 13 | – |
| Loans to associates | – | (13) |
| Loans to joint ventures | (33) | (38) |
| Loans to third parties | – | (345) |
| Loans repaid by third parties | 246 | 158 |
| | (7,601) | (12,732) |
| Cash flows from financing activities | | |
| Capital contributions from non-controlling interests | 789 | 1,078 |
| Dividends paid to owners of the Company | (1,857) | (1,855) |
| Dividends paid to non-controlling interests | (3,865) | (1,944) |
| Issue of shares, net of share issue expenses | 32 | 86 |
| Repurchase of shares | – | (57) |
| Increase in borrowings | 9,193 | 9,112 |
| Repayments of borrowings | (15,402) | (10,521) |
| Interest paid | (1,486) | (1,856) |
| Proceeds from sale-and-leaseback arrangements | 861 | – |
| Capital element of finance lease rentals paid | (40) | – |
| Interest element of finance lease rentals paid | (1) | – |
| Acquisition from non-controlling interests | (13) | (135) |
| Increase in an amount due to ultimate holding company | 631 | – |
| Increase in an amount due to non-controlling interests | 1,009 | – |
| | (10,149) | (6,092) |
| | (4,052) | (5,338) |
| Cash and cash equivalents at 1 January | 14,897 | 19,592 |
| Effect of foreign exchange rate changes | (116) | 643 |
| Cash and cash equivalents at 31 December | 10,729 | 14,897 |

The notes on pages 50 to 128 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 2014, PetroChina indirectly owned 58.33% (2013: 58.40%) 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, Liaoning 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 are conducted through production sharing arrangements with PetroChina, whereas the oil operations in Azerbaijan are conducted through production sharing arrangements with both PetroChina and a third party. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that 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 2014 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-sale 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2 BASIS OF PREPARATION (CONTINUED)

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

As at 31 December 2014, the Group had net current liabilities of HK\$4,887 million. Notwithstanding the net current liabilities of the Group at 31 December 2014, 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) the Group has certain undrawn facilities which include an undrawn facility provided by the Company's immediate holding company amounting to HK\$2,300 million;
- (ii) the Group expects to generate positive operating cash flows in the future; and
- (iii) the directors consider that the Group could obtain financing from various sources of funding.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 (see Note 3(h)) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 (see Note 3(h)).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 3(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 3(e). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Borrowings (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Government grants (Continued)

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.

(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 rate 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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 for the shares issued. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

(b) (Continued)

- (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.

(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 the following amendments to HKFRSs and one new Interpretation 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 HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK (IFRIC) 21, *Levies*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recovered amount is based on fair value less costs of disposal. These amendments do not have an impact on these financial statements as the Group and the Company does not have any significant impaired non-financial assets.

HK (IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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) | | | |
|---|--|-------------------------------------|---------------------------|-------------------------------------|
| | 2014 | | 2013 | |
| | US dollar HK\$'million | Hong Kong dollar HK\$'million | US dollar HK\$'million | Hong Kong dollar HK\$'million |
| Group | | | | |
| Accounts receivable and other current assets | 2 | 11 | 319 | 16 |
| Cash and cash equivalents | 994 | 406 | 1,024 | 510 |
| Accounts payable and accrued liabilities | (3) | (42) | (3) | (43) |
| Borrowings | (4,265) | (1,646) | (4,371) | (546) |
| Gross exposure arising from recognised assets and liabilities | (3,272) | (1,271) | (3,031) | (63) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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) | | | |
|---|--|-------------------------------------|---------------------------|-------------------------------------|
| | 2014 | | 2013 | |
| | US dollar HK\$'million | Hong Kong dollar HK\$'million | US dollar HK\$'million | Hong Kong dollar HK\$'million |
| Company | | | | |
| Accounts receivable and other current assets | 2 | 11 | 318 | 16 |
| Cash and cash equivalents | 513 | 3 | 511 | 78 |
| Accounts payable and accrued liabilities | (3) | (37) | (3) | (39) |
| Borrowings | (4,263) | (1,646) | (4,263) | (546) |
| Gross exposure arising from recognised assets and liabilities | (3,751) | (1,669) | (3,437) | (491) |

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

4.1 Financial risk factors (Continued)

(a) Foreign exchange rate risk (Continued)

| Group | 2014 | | 2013 | |
|------------------|--|--|--|--|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained earnings HK\$'million | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained earnings HK\$'million |
| US dollar | 5% | (123) | 5% | (114) |
| | (5%) | 123 | (5%) | 114 |
| Hong Kong dollar | 5% | (48) | 5% | (2) |
| | (5%) | 48 | (5%) | 2 |

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 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 25.

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 30 and 31.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 the sum of interest-bearing borrowings and obligations under finance leases divided by the sum of total equity, interest-bearing borrowings and obligations under finance leases. The gearing ratio at 31 December 2014 is 25.6% (2013: 30.3%).

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 carrying amounts of the Group's financial instruments carried at cost or amortised cost as of 31 December 2014 and 2013 are short-term in nature and are not materially different from their fair values.

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 5.45% to 6.15% per annum as at 31 December 2014 depending on the type of the borrowings. An analysis of the carrying amounts of long-term borrowings is presented in Note 31.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Note 28(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 was 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 Kazakhstan.

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

| | 2014 HK\$'million | 2013 HK\$'million |
|--|----------------------|----------------------|
| Net exchange (losses)/gains | (123) | 45 |
| Rental income | 87 | 63 |
| Net losses on disposals of property, plant and equipment | (16) | (70) |
| Government grants | 778 | 656 |
| Others | 111 | 74 |
| | 837 | 768 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

7 OTHER GAINS, NET (CONTINUED)

Government grants for the year ended 31 December 2014 mainly 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 2014, the Group have recognised and received related government grants of HK\$665 million (2013: HK\$538 million).

8 INTEREST INCOME

| | 2014 HK\$'million | 2013 HK\$'million |
|------------------------------------|----------------------|----------------------|
| Interest income on: | | |
| – Amounts due from related parties | 83 | 37 |
| – Amounts due from third parties | – | 1 |
| – Bank deposits | 134 | 190 |
| | 217 | 228 |

9 EMPLOYEE COMPENSATION COSTS

| | 2014 HK\$'million | 2013 HK\$'million |
|--|----------------------|----------------------|
| Salaries, wages and allowances | 2,141 | 1,864 |
| Retirement benefits scheme contributions | 227 | 182 |
| | 2,368 | 2,046 |

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 12% to 21% 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 2014 were HK\$227 million (2013: HK\$182 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\$331 million (2013: HK\$388 million) for the year ended 31 December 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

11 INTEREST EXPENSES

| | 2014 HK\$'million | 2013 HK\$'million |
|--|----------------------|----------------------|
| Interest expenses on: | | |
| Bank loans, wholly repayable within five years | 55 | 17 |
| Other loans, wholly repayable within five years, from: | | |
| – An intermediate holding company | 509 | 798 |
| – An immediate holding company | 35 | 13 |
| – China Petroleum Finance Company Limited (“CP Finance”) | 850 | 980 |
| – Fellow subsidiaries | 64 | 74 |
| Finance charges on obligations under finance leases, from: | | |
| – A fellow subsidiary | 1 | – |
| – A third party | 7 | – |
| Less: Amounts capitalised | (1,035) | (1,260) |
| | 486 | 622 |

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 5.08% (2013: 5.80%) per annum for the year ended 31 December 2014.

12 PROFIT BEFORE INCOME TAX EXPENSE

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

| | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Amortisation of advanced operating lease payments and intangible assets | 81 | 60 |
| Auditors' remuneration | 21 | 19 |
| Cost of inventories recognised as expense | 28,354 | 23,025 |
| Depreciation and depletion of property, plant and equipment | 5,311 | 4,468 |
| Operating lease expenses | 433 | 248 |
| Impairment loss on property, plant and equipment | 2 | 12 |
| Impairment loss on available-for-sale financial assets | 6 | – |

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13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors and the Chief Executive Officer for the years ended 31 December 2014 and 2013 are as follows:

| | 2014 | | | |
|---|------------------|---|---|-------------------|
| | Fees HK\$'000 | Salaries and other benefits HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Total HK\$'000 |
| Directors: | | | | |
| Mr Wu Enlai | - | - | - | - |
| Mr Zhao Yongqi (appointed on 12 June 2014) | - | - | - | - |
| Mr Zhang Bowen | - | 6,375 | 375 | 6,750 |
| Mr Cheng Cheng | - | 4,533 | 300 | 4,833 |
| Dr Lau Wah Sum | 450 | - | - | 450 |
| Mr Li Kwok Sing Aubrey | 300 | - | - | 300 |
| Dr Liu Xiao Feng | 250 | - | - | 250 |
| | 1,000 | 10,908 | 675 | 12,583 |

Notes to the Consolidated Financial Statements

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

| | 2013 | | | |
|---|------------------|---|---|-------------------|
| | Fees HK\$'000 | Salaries and other benefits HK\$'000 | Retirement benefits scheme contributions 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 |

Notes to the Consolidated Financial Statements

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

The five individuals whose emoluments were the highest in the Group for the year including two (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: three) individuals during the year are as follows:

| | 2014 HK\$'000 | 2013 HK\$'000 |
|---|------------------|------------------|
| Salaries, wages and allowances | 13,599 | 15,999 |
| Retirement benefits scheme contributions | 900 | 900 |
| | 14,499 | 16,899 |
| The emoluments fell within the following band: | | |
| HK\$4,500,001 to HK\$5,000,000 | 3 | 3 |

None of the directors has waived their remuneration during the year ended 31 December 2014 (2013: Nil).

During the year ended 31 December 2014, 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 (2013: Nil).

Notes to the Consolidated Financial Statements

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14 INCOME TAX EXPENSE

| | 2014 HK\$'million | 2013 HK\$'million |
|----------------------------------|----------------------|----------------------|
| Current tax | | |
| – PRC | 3,101 | 2,847 |
| – Overseas | 481 | 629 |
| | 3,582 | 3,476 |
| Deferred tax (Note 32(b)) | (502) | 369 |
| | 3,080 | 3,845 |

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2013: 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% (2013: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2013: 10% to 20%).

Income tax on overseas 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\$217 million (2013: HK\$320 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (2013: 20%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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:

| | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Profit before income tax expense | 11,956 | 14,353 |
| Tax calculated at a tax rate of 25% (2013: 25%) | 2,989 | 3,588 |
| Under-provision in prior years | 110 | 7 |
| Effect of income taxes from international operations in different jurisdictions of taxes from the PRC statutory tax rate | (63) | (67) |
| Effect of preferential tax rate | (124) | (103) |
| Tax effect of income not subject to tax | (45) | (114) |
| Tax effect of expenses not deductible for tax purposes | 68 | 166 |
| Tax effect of share of profits less losses of associates | (119) | (272) |
| Tax effect of share of profits less losses of joint ventures | (43) | (68) |
| Tax effect of unused tax losses not recognised | 42 | 229 |
| Tax effect of recognition of tax losses not recognised in prior years | (73) | (8) |
| Withholding tax on dividends received and receivable | 338 | 487 |
| Income tax expense | 3,080 | 3,845 |

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\$6,936 million (2013: HK\$2,550 million), which included dividends from subsidiaries, joint ventures and associates amounting to HK\$7,797 million (2013: HK\$2,634 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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\$5,610 million (2013: HK\$6,851 million) and weighted average number of ordinary shares in issue during the year of approximately 8,070 million shares (2013: 8,059 million shares).
- (b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK\$5,610 million (2013: HK\$6,851 million), and the weighted average number of ordinary shares of approximately 8,073 million shares (2013: 8,076 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 3 million shares (2013: 17 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

| | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Proposed final dividend attributable to owners of the Company for 2014 (note (a)) | 1,614 | – |
| Final dividend attributable to owners of the Company for 2013 (note (b)) | – | 1,854 |

Notes:

- (a) At the meeting on 26 March 2015, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2014 of HK20 cents per share amounting to a total of approximately HK\$1,614 million. The amount is based on approximately 8,072 million shares in issue as at 26 March 2015. These consolidated financial statements do 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 2015 when approved at the 2015 Annual General Meeting.
- (b) 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 were approved by the shareholders in the Annual General Meeting on 12 June 2014. The amount is based on approximately 8,062 million shares in issue as at 20 March 2014. The actual final dividend for 2013 was approximately HK\$1,857 million due to additional shares issued during the period from 21 March 2014 to 19 June 2014, the date of closure of the register of members, and was paid on 30 June 2014.

Notes to the Consolidated Financial Statements

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18 PROPERTY, PLANT AND EQUIPMENT

| Years ended 31 December 2014 and 2013 | Group | | | | | | | Company | |
|--|--------------|---------------------------|--------------------------|------------------|-------------------|--------------|---------------|----------------|-----------|
| | Buildings | Oil and gas properties | Natural gas Pipelines | Equipment | | Construction | | Total | Others |
| | | | | and machinery | Motor Vehicles | Others | in progress | | |
| HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | |
| Cost: | | | | | | | | | |
| 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 |
| Balances at 1 January 2014 | 2,729 | 14,206 | 40,876 | 33,669 | 2,362 | 2,529 | 18,886 | 115,257 | 10 |
| Currency translation differences | (53) | (234) | (824) | (719) | (47) | (127) | (314) | (2,318) | - |
| Additions | 13 | 479 | - | 888 | 147 | 49 | 9,951 | 11,527 | - |
| Disposals | (1) | - | - | (1,005) | (8) | (2) | (74) | (1,090) | (1) |
| Transfers | 124 | 444 | 1,004 | 4,613 | - | 45 | (6,230) | - | - |
| Reclassification | (279) | - | (168) | 1,702 | 8 | (1,263) | - | - | - |
| Balances at 31 December 2014 | 2,533 | 14,895 | 40,888 | 39,148 | 2,462 | 1,231 | 22,219 | 123,376 | 9 |
| Accumulated depreciation and depletion: | | | | | | | | | |
| 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 |

Notes to the Consolidated Financial Statements

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18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Years ended 31 December 2014 and 2013 | Group | | | | | | | Company | |
|--|--------------|---------------------------|--------------------------|------------------|-------------------|--------------|-----------------------------|--------------|--------|
| | Buildings | Oil and gas properties | Natural gas Pipelines | Equipment | | Others | Construction in progress | Total | Others |
| | | | | and machinery | Motor Vehicles | | | | |
| HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | |
| Balances at 1 January 2014 | 673 | 9,733 | 12,377 | 8,340 | 789 | 402 | - | 32,314 | 6 |
| Currency translation differences | (14) | (165) | (260) | (184) | (12) | (3) | - | (638) | - |
| Charge for the year | 82 | 1,309 | 1,277 | 2,249 | 251 | 143 | - | 5,311 | 1 |
| Disposals | (1) | - | - | (49) | (4) | (1) | - | (55) | (1) |
| Reclassification | (19) | - | (46) | 264 | 7 | (206) | - | - | - |
| Impairment loss | - | - | - | 2 | - | - | - | 2 | - |
| Balances at 31 December 2014 | 721 | 10,877 | 13,348 | 10,622 | 1,031 | 335 | - | 36,934 | 6 |
| Net book value: | | | | | | | | | |
| Balances at 31 December 2014 | 1,812 | 4,018 | 27,540 | 28,526 | 1,431 | 896 | 22,219 | 86,442 | 3 |
| Balances at 31 December 2013 | 2,056 | 4,473 | 28,499 | 25,329 | 1,573 | 2,127 | 18,886 | 82,943 | 4 |

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 2014, the legal title registration of certain of the Group's properties with carrying amount of approximately HK\$831 million (2013: HK\$837 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.

During the year, the Group leases certain equipment and machinery under finance leases expiring from 5 to 6 years at an effective interest rate of 5.3%. At the end of the lease term the Group has the option to purchase the leased equipment and machinery at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to equipment and machinery of the Group financed by new finance leases from a fellow subsidiary and a third party were HK\$519 million (2013: HK\$Nil) and HK\$364 million (2013: HK\$Nil) respectively. As at 31 December 2014, the net book value of equipment and machinery held under finance leases of the Group was HK\$859 million (2013: HK\$Nil).

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19 ADVANCED OPERATING LEASE PAYMENTS

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

| | Group | |
|---|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Leasehold interest in land outside Hong Kong: | | |
| Leases of between 10 to 50 years | 3,369 | 2,885 |
| Leases of over 50 years | 10 | 10 |
| | 3,379 | 2,895 |
| Balance as at 1 January | 2,895 | 2,199 |
| Currency translation differences | (78) | 54 |
| Acquisition of subsidiaries | – | 17 |
| Additions | 632 | 680 |
| Amortisation for the year | (70) | (55) |
| Balance as at 31 December | 3,379 | 2,895 |

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

20 INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Unlisted shares, at cost | – | – | 1,153 | 1,090 |
| Share of net assets | 4,332 | 5,255 | – | – |
| Goodwill | 443 | 452 | – | – |
| Loans to associates | – | 13 | – | – |
| | 4,775 | 5,720 | 1,153 | 1,090 |

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

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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 | |
|---|-----------------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Gross amounts of the associate's | | |
| Current assets | 3,509 | 6,148 |
| Non-current assets | 33,062 | 35,260 |
| Current liabilities | (8,292) | (13,498) |
| Non-current liabilities | (18,611) | (14,491) |
| Equity | 9,668 | 13,419 |
| Revenue | 22,327 | 34,426 |
| Profit from continuing operations | 2,395 | 5,433 |
| Post-tax profit or loss from discontinued operations | – | – |
| Other comprehensive income | – | – |
| Total comprehensive income | 2,395 | 5,433 |
| Dividend received from the associate | 1,020 | 1,579 |
| Reconciled to the Group's interests in the associate | | |
| Gross amounts of net assets of the associate | 9,668 | 13,419 |
| Group's interest (note) | 25.12% | 25.12% |
| Group's share of net assets of the associate | 2,428 | 3,371 |

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.

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20 INVESTMENTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material:

| | 2014 HK\$'million | 2013 HK\$'million |
|--|----------------------|----------------------|
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 2,347 | 2,336 |
| Aggregate amounts of the Group's share of those associates' | | |
| Profit from continuing operations | 115 | 281 |
| Post-tax profit or loss from discontinued operations | – | – |
| Other comprehensive income | – | – |
| Total comprehensive income | 115 | 281 |

21 INVESTMENTS IN JOINT VENTURES

| | Group | | Company | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Unlisted shares, at cost | – | – | 227 | 227 |
| Share of net assets | 1,336 | 1,481 | – | – |
| Loans to joint ventures | 115 | 83 | 45 | 45 |
| | 1,451 | 1,564 | 272 | 272 |
| Less: impairment loss | – | – | (150) | – |
| | 1,451 | 1,564 | 122 | 272 |

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

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21 INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at 31 December 2014, included in loans to joint ventures is an amount of HK\$45 million (2013: 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 2014 and 2013, the loans to joint ventures are not past due and not impaired.

Dividends declared from joint ventures are approximately HK\$393 million (2013: HK\$336 million) for the year ended 31 December 2014.

During the year ended 31 December 2014, impairment loss of HK\$150 million (2013: HK\$ Nil) was made in respect of the Group's interest in a joint venture. The recoverable amount of the relevant joint venture was estimated by reference to its business performance prepared by the investee's management.

There is no individually material joint venture which significantly affects the results and/or net assets of the Group at 31 December 2014.

Aggregate information of joint ventures that are not individually material:

| | 2014 | 2013 |
|--|---------------------|--------------|
| | HK\$'million | HK\$'million |
| Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements | 1,336 | 1,481 |
| Aggregate amounts of the Group's share of those joint ventures' | | |
| – Profit from continuing operations | 256 | 415 |
| – Post-tax profit or loss from discontinued operations | – | – |
| – Other comprehensive income | – | – |
| – Total comprehensive income | 256 | 415 |

Notes to the Consolidated Financial Statements

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22 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--------------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Unlisted shares, at cost | 44,298 | 43,337 |

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 | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| NCI percentage | 40% | 40% | 40% | 40% |
| Current assets | 2,206 | 1,333 | 659 | 1,251 |
| Non-current assets | 38,026 | 39,190 | 2,428 | 3,371 |
| Current liabilities | (11,938) | (6,968) | (198) | (204) |
| Non-current liabilities | (4,171) | (9,414) | (459) | (718) |
| Net assets | 24,123 | 24,141 | 2,430 | 3,700 |
| Carrying amount of NCI | 9,656 | 9,662 | 972 | 1,480 |
| Revenue | 12,649 | 11,908 | – | – |
| Profit for the year | 5,965 | 5,850 | 366 | 1,012 |
| Total comprehensive income | 5,467 | 6,386 | 366 | 1,012 |
| Profit allocated to NCI | 2,388 | 2,341 | 146 | 405 |
| Dividend paid to NCI | 2,732 | 852 | 472 | 440 |
| Cash flows from operating activities | 9,583 | 8,685 | – | – |
| Cash flows from investing activities | (2,316) | (5,967) | 802 | 1,250 |
| Cash flows from financing activities | (6,969) | (2,734) | (1,394) | (1,331) |

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23 INTANGIBLE AND OTHER NON-CURRENT ASSETS

| | Group | | Company | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Intangible assets (note (i)) | 497 | 503 | – | – |
| Prepaid construction costs | 814 | 2,006 | – | – |
| Loans to third parties | 178 | 592 | – | – |
| Loan to a subsidiary | – | – | 1,263 | 1,289 |
| Others | 20 | 3 | 1 | 1 |
| | 1,509 | 3,104 | 1,264 | 1,290 |

Notes:

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

| | Group | | | 2013 | | |
|--|--------------------------|------------------------|-----------------------|--------------------------|------------------------|-----------------------|
| | Goodwill HK\$'million | Others HK\$'million | Total HK\$'million | Goodwill HK\$'million | Others HK\$'million | Total HK\$'million |
| At 1 January | 375 | 128 | 503 | 280 | 63 | 343 |
| Currency translation differences | (8) | (3) | (11) | 8 | 2 | 10 |
| Additions | – | 16 | 16 | – | 68 | 68 |
| Acquisitions of subsidiaries | – | – | – | 7 | – | 7 |
| Adjustments to purchase consideration and net asset values (note (ii)) | – | – | – | 80 | – | 80 |
| Amortisation for the year | – | (11) | (11) | – | (5) | (5) |
| At 31 December | 367 | 130 | 497 | 375 | 128 | 503 |

- (ii) 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 in 2013, the Group recognised adjustments amounting to HK\$80 million to the provisional amounts.

Notes to the Consolidated Financial Statements

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24 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

| | Group | |
|-------------------------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Natural gas | 530 | 568 |
| Materials for natural gas pipelines | 549 | 527 |
| Crude oil in tanks and others | 78 | 78 |
| | 1,157 | 1,173 |

25 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 | |
|-----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Within 3 months | 1,329 | 1,352 |
| Between 3 to 6 months | 254 | 397 |
| Over 6 months | 405 | 144 |
| | 1,988 | 1,893 |

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 2014, accounts receivable of approximately HK\$659 million (2013: HK\$541 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 2014 and 2013, 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.

Notes to the Consolidated Financial Statements

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26 PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | Group | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Other receivables | 1,058 | 1,170 | 2 | 2 |
| Advances to suppliers | 365 | 273 | – | – |
| Amounts due from related parties | | | | |
| – Intermediate holding company | 1,207 | 697 | – | – |
| – Subsidiaries | – | – | 9,427 | 7,980 |
| – Others | 105 | 253 | – | – |
| | 2,735 | 2,393 | 9,429 | 7,982 |
| Less: Provision for impairment | (21) | (21) | (530) | (244) |
| | 2,714 | 2,372 | 8,899 | 7,738 |
| Loans to third parties | 525 | 357 | – | – |
| Dividends receivable from a joint venture | – | 8 | – | – |
| Dividends receivable from associates | 119 | – | 118 | – |
| Dividends receivable from subsidiaries | – | – | 5,933 | 1,756 |
| Value-added tax recoverable | 992 | 873 | – | – |
| Prepaid expenses | 1,210 | 1,184 | 102 | 106 |
| Other current assets | 181 | 105 | 78 | 5 |
| | 5,741 | 4,899 | 15,130 | 9,605 |

Except for the amounts due from intermediate holding company HK\$1,207 million (2013: HK\$697 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.

27 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Cash at bank and on hand | 6,381 | 11,347 | 30 | 517 |
| Short-term bank deposits | 4,348 | 3,550 | 1,556 | 1,340 |
| Cash and cash equivalents | 10,729 | 14,897 | 1,586 | 1,857 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

27 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash at bank and bank deposits carry interest at prevailing market rate at 0.80% per annum (2013: 0.70% per annum).

Included in bank deposits, bank balances and cash are amounts of approximately HK\$8,222 million or RMB6,510 million (2013: HK\$11,740 million or RMB9,109 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.

28 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

| | Number of ordinary shares million | Nominal value of ordinary shares HK\$'million |
|---|--|--|
| Authorised: | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 16,000 | 160 |
| Issue and fully paid: | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| At 1 January 2013 | 8,051 | 81 |
| Issue of shares upon exercise of share options (note (i)) | 16 | – |
| Repurchase of shares (note (ii)) | (5) | – |
| At 31 December 2013 and 1 January 2014 | 8,062 | 81 |
| Issue of shares upon exercise of share options (note (i)) | 10 | – |
| At 31 December 2014 | 8,072 | 81 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

28 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(a) Share capital (Continued)

Notes:

(i) During the year ended 31 December 2014, the Company allotted and issued approximately 9.9 million shares (2013: 15.6 million shares) of HK\$0.01 each for cash at the average exercise price of HK\$3.250 (2013: HK\$5.527) per share as a result of the exercise of share options. The nominal value of ordinary shares has increased by HK\$99,000 (2013: HK\$156,000).

(ii) Purchase of own shares

During the year ended 31 December 2014, the Company did not repurchase its own shares on the Stock Exchange. The Company repurchased its own shares on the Stock Exchange for the year ended 31 December 2013 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 for the year ended 31 December 2013.

(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.

Notes to the Consolidated Financial Statements

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28 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

The 2002 share option scheme expired on 2 June 2012.

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 2014.

The number of shares in respect of which options had been granted and outstanding at 31 December 2014 under the 2002 Share Option Scheme was approximately 36.7 million shares (2013: 46.6 million shares), representing 0.45% (2013: 0.58%) of the issued share capital of the Company at 31 December 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

28 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 2013 and 2014 are shown in the following table:

| Name of category of participants | Option type | Number of share options | | | | | |
|--|-------------------|------------------------------------|--------------------------------|-----------------------------|---|--------------------------------|--------------------------------------|
| | | Outstanding at 1 January 2013 '000 | Exercised during the year '000 | Lapsed during the year '000 | Outstanding at 31 December 2013 and 1 January 2014 '000 | Exercised during the year '000 | Outstanding at 31 December 2014 '000 |
| Directors | | | | | | | |
| Mr Zhang Bowen | 2008 (note (i)) | 2,400 | (2,400) | - | - | - | - |
| | 2009 (note (ii)) | 2,400 | - | - | 2,400 | (2,400) | - |
| | 2010 (note (iii)) | 2,400 | - | - | 2,400 | - | 2,400 |
| | 2011 (note (iv)) | 2,400 | - | - | 2,400 | - | 2,400 |
| | 2012 (note (v)) | 2,200 | - | - | 2,200 | - | 2,200 |
| Mr Cheng Cheng | 2008 (note (i)) | 1,500 | (1,500) | - | - | - | - |
| | 2009 (note (ii)) | 1,500 | - | - | 1,500 | (1,500) | - |
| | 2010 (note (iii)) | 1,500 | - | - | 1,500 | - | 1,500 |
| | 2011 (note (iv)) | 1,500 | - | - | 1,500 | - | 1,500 |
| | 2012 (note (v)) | 2,000 | - | - | 2,000 | - | 2,000 |
| Dr Lau Wah Sum | 2010 (note (iii)) | 400 | - | - | 400 | - | 400 |
| Mr Li Kwok Sing Aubrey | 2010 (note (iii)) | 400 | - | - | 400 | - | 400 |
| Dr Liu Xiao Feng | 2010 (note (iii)) | 400 | - | - | 400 | - | 400 |
| Mr Li Hualin (resigned on 27 August 2013) | 2008 (note (i)) | 3,200 | (3,200) | - | - | - | - |
| | 2009 (note (ii)) | 3,200 | - | (3,200) | - | - | - |
| | 2010 (note (iii)) | 3,200 | - | (3,200) | - | - | - |
| | 2011 (note (iv)) | 3,200 | - | (3,200) | - | - | - |
| | 2012 (note (v)) | 3,200 | - | (3,200) | - | - | - |
| Subtotal | | 37,000 | (7,100) | (12,800) | 17,100 | (3,900) | 13,200 |
| Chief Executive Officer | | | | | | | |
| Jiang Changliang (resigned on 5 December 2013) | 2012 (note (v)) | 2,400 | - | (2,400) | - | - | - |
| Other employees | | | | | | | |
| | 2008 (note (i)) | 6,000 | (6,000) | - | - | - | - |
| | 2009 (note (ii)) | 6,000 | - | - | 6,000 | (6,000) | - |
| | 2010 (note (iii)) | 6,000 | - | - | 6,000 | - | 6,000 |
| | 2011 (note (iv)) | 7,000 | (1,000) | - | 6,000 | - | 6,000 |
| | 2012 (note (v)) | 13,000 | (1,500) | - | 11,500 | - | 11,500 |
| Subtotal | | 38,000 | (8,500) | - | 29,500 | (6,000) | 23,500 |
| Total | | 77,400 | (15,600) | (15,200) | 46,600 | (9,900) | 36,700 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

28 SHARE CAPITAL AND SHARE OPTION SCHEMES (CONTINUED)

(b) Share option schemes (Continued)

Notes:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2014 ranged from HK\$12.900 (2013: HK\$14.460) to HK\$12.900 (2013: HK\$15.460).

Notes to the Consolidated Financial Statements

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29 RESERVES

(a) Movements in components of reserves

| | Group | | | | | | | | |
|--|--------------------------|---------------------------|---|----------------------------|---|--------------------------|---------------------------|-------------------|---------------|
| | Share premium | Contributed surplus | Employee share-based compensation reserve | Merger reserve | Available-for-sale financial assets reserve | Translation reserve | Other Reserve | Retained earnings | Total |
| | HK\$'million note (i) | HK\$'million note (ii) | HK\$'million | HK\$'million note (iii) | HK\$'million note (iv) | HK\$'million note (v) | HK\$'million note (vi) | HK\$'million | HK\$'million |
| 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 |
| Balances at 31 December 2013 and 1 January 2014 | 39,882 | 134 | 125 | (20,469) | 43 | 3,711 | 2,369 | 24,530 | 50,325 |
| Total comprehensive income for the year | - | - | - | - | (29) | (1,274) | - | 5,610 | 4,307 |
| Transfer between reserves | - | - | - | - | - | - | 518 | (518) | - |
| Final dividend for 2013 | - | - | - | - | - | - | - | (1,857) | (1,857) |
| Issue of shares upon exercise of share options | 42 | - | (10) | - | - | - | - | - | 32 |
| Balances at 31 December 2014 | 39,924 | 134 | 115 | (20,469) | 14 | 2,437 | 2,887 | 27,765 | 52,807 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

29 RESERVES (CONTINUED)

(a) Movements in components of reserves (Continued)

| | Company | | | | | Total HK\$'million |
|--|--|---|--|--------------------------------------|--|-----------------------|
| | 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) | |
| Balances at 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 |
| Balances at 31 December 2013 and 1 January 2014 | 39,882 | 134 | 125 | 11,905 | 319 | 52,365 |
| Total comprehensive income for the year | - | - | - | 6,936 | (211) | 6,725 |
| Issue of shares upon exercise of share options | 42 | - | (10) | - | - | 32 |
| Final dividend for 2013 | - | - | - | (1,857) | - | (1,857) |
| Balances at 31 December 2014 | 39,924 | 134 | 115 | 16,984 | 108 | 57,265 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

29 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 ended 31 December 2013, 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 2014, 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\$17,118 million (2013: HK\$12,039 million). After the end of the reporting period the directors proposed a final dividend of HK20 cents per ordinary share (2013: HK23 cents per share), amounting to HK\$1,614 million (2013: HK\$1,854 million) (Note 17). This dividend has not been recognised as a liability at the end of the reporting period.

Notes to the Consolidated Financial Statements

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30 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | Group | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Accounts payable | 1,871 | 1,542 | – | – |
| Advances from customers | 1,785 | 1,518 | – | – |
| Salaries and welfare payable | 374 | 294 | 18 | 22 |
| Accrued expenses | 40 | 26 | 15 | 15 |
| Dividend payable to non-controlling interests | 95 | 72 | – | – |
| Interest payable | 94 | 68 | 5 | 3 |
| Construction fee and equipment cost payables | 6,809 | 7,248 | – | – |
| Amounts due to related parties | | | | |
| – Ultimate holding company | 631 | – | – | – |
| – Subsidiaries | – | – | 255 | 159 |
| – Non-controlling interests | 1,991 | 982 | – | – |
| – Others | 2 | 2 | – | – |
| Other payables | 1,084 | 924 | 3 | 1 |
| | 14,776 | 12,676 | 296 | 200 |

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

| | Group | |
|-----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Within 3 months | 1,278 | 923 |
| Between 3 to 6 months | 194 | 254 |
| Over 6 months | 399 | 365 |
| | 1,871 | 1,542 |

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.

Notes to the Consolidated Financial Statements

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31 BORROWINGS

| | Group | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Short-term borrowings – unsecured | 5,341 | 929 | – | – |
| Current portion of long-term borrowings | 3,124 | 12,622 | – | 4,263 |
| | 8,465 | 13,551 | – | 4,263 |
| Long-term borrowings – unsecured | 19,348 | 30,421 | 5,909 | 4,809 |
| Less: Current portion of long-term borrowings | (3,124) | (12,622) | – | (4,263) |
| | 16,224 | 17,799 | 5,909 | 546 |
| | 24,689 | 31,350 | 5,909 | 4,809 |

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

| | Group | | Company | |
|------------------|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Renminbi | 18,587 | 26,051 | – | – |
| US dollar | 4,456 | 4,753 | 4,263 | 4,263 |
| Hong Kong dollar | 1,646 | 546 | 1,646 | 546 |
| | 24,689 | 31,350 | 5,909 | 4,809 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

31 BORROWINGS (CONTINUED)

| | Group | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Total borrowings: | | | | |
| – At fixed rates | 18,407 | 25,610 | 1,100 | – |
| – At floating rates | 6,282 | 5,740 | 4,809 | 4,809 |
| | 24,689 | 31,350 | 5,909 | 4,809 |
| Weighted average effective interest rates: | | | | |
| – Bank loans | 5.03% | 4.59% | – | – |
| – Loans from an immediate holding company | 3.19% | 2.34% | 3.19% | 2.34% |
| – Loans from an intermediate holding company | 6.29% | 6.40% | – | – |
| – Loans from CP Finance | 4.30% | 4.67% | 2.32% | 2.41% |
| – Loans from fellow subsidiaries | 4.62% | 4.97% | – | – |

The borrowings are analysed as follows:

| | Group | | | |
|--|-----------------------|----------------------|----------------------|----------------------|
| | Short-term borrowings | | Long-term borrowings | |
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Bank loans, wholly repayable within five years | 820 | – | 2,009 | 339 |
| Loans other than bank loans | | | | |
| – Wholly repayable within five years | 4,521 | 929 | 17,339 | 30,081 |
| – Not wholly repayable within five years | – | – | – | 1 |
| | 5,341 | 929 | 19,348 | 30,421 |

As at 31 December 2014, debentures amounting to HK\$1,005 million (2013: HK\$Nil) issued by 華油天然氣股份有限公司, a subsidiary of the Group, were included as borrowings of the Group. The debentures are unsecured, interest-bearing at 5.20% to 5.63% per annum and repayable within two years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

31 BORROWINGS (CONTINUED)

| | Company | | | |
|--------------------------------------|------------------------------|--------------|-----------------------------|--------------|
| | Short-term borrowings | | Long-term borrowings | |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| Loans other than bank loans | | | | |
| – Wholly repayable within five years | – | – | 5,909 | 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 2014 and 2013, the long-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 | |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| Within one year | 29 | 17 | 3,095 | 12,605 |
| Between one to two years | 868 | 26 | 4,420 | 9,132 |
| Between two to five years | 1,112 | 296 | 9,824 | 8,344 |
| After five years | – | – | – | 1 |
| | 2,009 | 339 | 17,339 | 30,082 |

| | Company | | | |
|---------------------------|---------------------|--------------|------------------------------------|--------------|
| | Bank loans | | Loans other than bank loans | |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| Within one year | – | – | – | 4,263 |
| Between one to two years | – | – | – | – |
| Between two to five years | – | – | 5,909 | 546 |
| | – | – | 5,909 | 4,809 |

Notes to the Consolidated Financial Statements

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31 BORROWINGS (CONTINUED)

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

| | Group | | | |
|---------------------------|---------------------|--------------|------------------------------------|--------------|
| | Bank loans | | Loans other than bank loans | |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| Within one year | 141 | 29 | 3,820 | 14,050 |
| Between one to two years | 954 | 94 | 4,924 | 7,209 |
| Between two to five years | 1,152 | 248 | 10,250 | 13,147 |
| | 2,247 | 371 | 18,994 | 34,406 |

| | Company | | | |
|---------------------------|---------------------|--------------|------------------------------------|--------------|
| | Bank loans | | Loans other than bank loans | |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| Within one year | – | – | 151 | 4,326 |
| Between one to two years | – | – | 151 | 13 |
| Between two to five years | – | – | 5,979 | 564 |
| | – | – | 6,281 | 4,903 |

Notes to the Consolidated Financial Statements

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32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

| | Group | |
|---|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| Tax payables in respect of subsidiaries in: | | |
| – PRC | 450 | 366 |
| – Overseas | 42 | 51 |
| | 492 | 417 |
| Withholding tax on dividend distributed by the subsidiaries | 313 | 93 |
| | 805 | 510 |

(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 | |
|---|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million |
| At 1 January | (1,461) | (1,091) |
| Acquisition of subsidiaries | – | 2 |
| Currency translation differences | 1 | (3) |
| Credit/(charged) to the consolidated profit or loss (Note 14) | 502 | (369) |
| At 31 December | (958) | (1,461) |
| Representing: | | |
| Deferred tax assets | 456 | 254 |
| Deferred tax liabilities | (1,414) | (1,715) |
| | (958) | (1,461) |

Notes to the Consolidated Financial Statements

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32 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 | | | Total HK\$'million |
|--|--|---|------------------------|-----------------------|
| | Accelerated tax depreciation HK\$'million | Undistributed profits of PRC and overseas subsidiaries, associate and joint ventures HK\$'million | Others HK\$'million | |
| At 1 January 2013 | (443) | (742) | 94 | (1,091) |
| Additions through business combination | 2 | – | – | 2 |
| Currency translation differences (Charged)/credited to the consolidated profit or loss | (4) | – | 1 | (3) |
| | (260) | (126) | 17 | (369) |
| At 31 December 2013 | (705) | (868) | 112 | (1,461) |
| At 1 January 2014 | (705) | (868) | 112 | (1,461) |
| Currency translation differences Credited to the consolidated profit or loss | 4 | – | (3) | 1 |
| | 280 | 122 | 100 | 502 |
| At 31 December 2014 | (421) | (746) | 209 | (958) |

Notes to the Consolidated Financial Statements

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33 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2014, the Group had obligations under finance leases repayable as follows:

| | 2014 | | 2013 | |
|--------------------------------------|---|--|---|--|
| | Present value of the minimum lease payments HK\$'million | Total minimum lease payments HK\$'million | Present value of the minimum lease payments HK\$'million | Total minimum lease payments HK\$'million |
| Within 1 year | 194 | 199 | - | - |
| After 1 year but within 2 years | 176 | 190 | - | - |
| After 2 years but within 5 years | 431 | 518 | - | - |
| After 5 years | 42 | 57 | - | - |
| | 649 | 765 | - | - |
| | 843 | 964 | - | - |
| Less: total future interest expenses | | (121) | | - |
| Present value of lease obligations | | 843 | | - |

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 2014 and 2013 under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Not later than one year | 140 | 108 | 2 | 2 |
| Later than one year and not later than five years | 384 | 275 | 6 | 8 |
| More than five years | 567 | 274 | - | - |
| | 1,091 | 657 | 8 | 10 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

34 COMMITMENTS (CONTINUED)

(b) Capital commitments

| | Group | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2014 HK\$'million | 2013 HK\$'million | 2014 HK\$'million | 2013 HK\$'million |
| Contracted but not provided for: | | | | |
| Oil field development costs | 404 | 547 | – | – |
| Acquisitions of/capital contributions to investments | – | – | – | – |
| Other property, plant and equipment | 7,179 | 5,045 | – | – |
| | 7,583 | 5,592 | – | – |
| Authorised but not contracted for: | | | | |
| Oil field development costs | 623 | 601 | – | – |
| Acquisitions of/capital contributions to investments | 5,841 | 4,350 | – | – |
| Other property, plant and equipment | – | 15,514 | – | – |
| | 6,464 | 20,465 | – | – |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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:

| | 2014 HK\$'million | 2013 HK\$'million |
|------------------------------------|----------------------|----------------------|
| (i) Results for the year | | |
| Income | 1,769 | 1,875 |
| Expenses | (1,140) | (1,302) |
| (ii) Assets and liabilities | | |
| Oil and gas properties | 508 | 385 |
| Other non-current assets | 47 | 60 |
| Current assets | 318 | 294 |
| Current liabilities | (135) | (142) |
| Net assets | 738 | 597 |
| (iii) Capital commitments | | |
| Contracted but not provided for | 182 | 177 |

(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 LJP operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to PetroChina towards investment recovery and profit.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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:

| | 2014 HK\$'million | 2013 HK\$'million |
|------------------------------------|----------------------|----------------------|
| (i) Results for the year | | |
| Income | 1,723 | 1,756 |
| Expenses | (1,850) | (1,502) |
| (ii) Assets and liabilities | | |
| Oil and gas properties | 2,643 | 2,876 |
| Current assets | 664 | 804 |
| Current liabilities | (484) | (446) |
| Non-current liabilities | (160) | (210) |
| Net assets | 2,663 | 3,024 |
| (iii) Capital commitments | | |
| Contracted but not provided for | 222 | 370 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

35 OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

(c) K&K Contract

K&K Contract provides twenty-five consecutive years of production sharing which commences on 5 November 1999 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:

| | 2014 HK\$'million | 2013 HK\$'million |
|------------------------------------|----------------------|----------------------|
| (i) Results for the year | | |
| Income | 464 | 514 |
| Expenses | (450) | (502) |
| (ii) Assets and liabilities | | |
| Oil and gas properties | 73 | 106 |
| Current assets | 61 | 19 |
| Current liabilities | (7) | (7) |
| Net assets | 127 | 118 |
| (iii) Capital commitments | | |
| Authorised but not contracted for | 7 | 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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, the third supplemental agreement in 2010 and the fourth supplemental agreement in 2011.

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 2014. On 6 November 2014, the Group and CNPC entered into the fifth supplemental agreement for the purpose of renewing the term of the master agreement for three years ending on 31 December 2017.

- Provision of general products and services by the CNPC Group to the Group amounted to approximately HK\$8,218 million (2013: HK\$6,783 million) for the year ended 31 December 2014 which includes interest charged on the loans and advances obtained from CNPC, PetroChina, Sun World and fellow subsidiaries of approximately HK\$1,459 million (2013: HK\$1,865 million).
- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK\$3,477 million (2013: HK\$3,610 million) for the year ended 31 December 2014.
- 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\$15 million (2013: HK\$19 million) for the year ended 31 December 2014.
- 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\$12,687 million (2013: HK\$12,514 million) for the year ended 31 December 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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\$10,809 million (2013: HK\$6,205 million) for the year ended 31 December 2014.

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\$145 million (2013: HK\$156 million) for the year ended 31 December 2014.
- (iii) As at 31 December 2014 and 2013, 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:

| | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Intangible and other non-current assets | 239 | 150 |
| Accounts receivable | 435 | 434 |
| Accounts payable and accrued liabilities | 2,769 | 2,565 |
| Borrowings | 21,860 | 31,011 |
| Prepaid expenses and other current assets | 1,312 | 950 |
| Obligations under finance leases | 504 | – |

(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\$4,690 million (2013: HK\$4,807 million) for the year ended 31 December 2014. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

| | 2014 HK\$'million | 2013 HK\$'million |
|---|----------------------|----------------------|
| Salaries and allowances | 36 | 42 |
| Retirement benefits – defined contribution scheme | 2 | 2 |
| | 38 | 44 |

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

37 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2014 and 2013 are as follows:

| Exploration and Production | Natural Gas Distribution | | | | | | | | | | Corporate HK\$'million | Inter- company adjustment HK\$'million | Total HK\$'million |
|----------------------------|---------------------------|---------------------------|-----------------------------------|--------------------------------|---|------------------------------|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---|-----------------------|
| | Natural Gas Sales and LNG | | | | | Natural Gas Pipeline | | | | | | | |
| | Others HK\$'million | Sub-total HK\$'million | Natural Gas Sales HK\$'million | LNG Processing HK\$'million | LNG Processing Sub-total HK\$'million | LNG Terminal HK\$'million | Natural Gas Pipeline HK\$'million | Sub-total HK\$'million | Sub-total HK\$'million | Sub-total HK\$'million | | | |
| PRC HK\$'million | 1,859 | 5,336 | 26,291 | 3,446 | 29,737 | 1,994 | 12,691 | 44,422 | 44,422 | 44,422 | - | - | 49,758 |
| | - | - | - | (1,654) | (1,654) | (48) | (12) | (1,714) | (1,714) | (1,714) | - | - | (1,714) |
| | 1,859 | 5,336 | 26,291 | 1,792 | 28,083 | 1,946 | 12,679 | 42,708 | 42,708 | 42,708 | - | - | 48,044 |
| 837 | 341 | 1,178 | 1,303 | (338) | 965 | 805 | 8,141 | 9,911 | 9,911 | (105) | - | - | 10,984 |
| - | 601 | 601 | 114 | - | 114 | 1 | - | 115 | 115 | - | - | - | 716 |
| - | 523 | 523 | 3 | - | 3 | - | - | 3 | 3 | (270) | - | - | 256 |
| 837 | 1,465 | 2,302 | 1,420 | (338) | 1,082 | 806 | 8,141 | 10,029 | 10,029 | (375) | - | - | 11,956 |
| | | | | | | | | | | | | | (3,080) |
| | | | | | | | | | | | | | 8,876 |
| 140 | 8 | 148 | 86 | 6 | 92 | 2 | 61 | 155 | 155 | 245 | (331) | - | 217 |
| (672) | (596) | (1,268) | (1,109) | (211) | (1,320) | (702) | (2,100) | (4,122) | (4,122) | (2) | - | - | (5,392) |
| - | (17) | (17) | (212) | (142) | (354) | (85) | (203) | (642) | (642) | (158) | 331 | - | (486) |
| 3,152 | 792 | 3,944 | 21,726 | 14,934 | 36,660 | 11,032 | 38,529 | 86,221 | 86,221 | 1,165 | - | - | 91,330 |
| 1,028 | 1,233 | 2,261 | 9,475 | 1,241 | 10,716 | 475 | 2,476 | 13,667 | 13,667 | 3,679 | - | - | 19,607 |
| 4,180 | 2,025 | 6,205 | 31,201 | 16,175 | 47,376 | 11,507 | 41,005 | 99,888 | 99,888 | 4,844 | - | - | 110,937 |
| - | 2,428 | 2,428 | 2,341 | - | 2,341 | 6 | - | 2,347 | 2,347 | - | - | - | 4,775 |
| - | 1,136 | 1,136 | 179 | - | 179 | - | - | 179 | 179 | 136 | - | - | 1,451 |
| 4,180 | 5,589 | 9,769 | 33,721 | 16,175 | 49,896 | 11,513 | 41,005 | 102,414 | 102,414 | 4,980 | - | - | 117,163 |
| | | | | | | | | | | | | | 83 |
| | | | | | | | | | | | | | 456 |
| | | | | | | | | | | | | | 8 |
| | | | | | | | | | | | | | 117,710 |

For the year ended 31 December 2014

Gross revenue
Less: Inter-company adjustment

Revenue from external customers

Segment results

Share of profits less losses of:

- Associates

- Joint ventures

Profit before income tax expense

Income tax expense

Profit for the year

Segment results included:

- Interest income

- Depreciation, depletion and amortisation

- Interest expenses

As at 31 December 2014

Non-current assets

Current assets

Segment assets

Investments in associates

Investments in joint ventures

Sub-total

Available-for-sale financial assets

Deferred tax assets

Others

Total assets

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 2014, revenue of approximately HK\$14,431 (2013: HK\$16,800 million) are derived from one (2013: two) single customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

38 ACQUISITIONS

Completion of acquisition 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 are as follows:

| | Fair value 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 outflow 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

39 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 26 March 2015 and will be submitted to the shareholders for approval at the 2015 Annual General Meeting to be held on 3 June 2015 (Wednesday).

40 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2014, 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 | 160 ordinary shares | 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% |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 | RMB11,282 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 | RMB330 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)) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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) Apart from the debentures of 華油天然氣股份有限公司 disclosed in Note 31, no other subsidiaries had any debt securities at 31 December 2014 or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

41 PRINCIPAL ASSOCIATES

At 31 December 2014 and 2013, 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 | RMB1,000 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

42 PRINCIPAL JOINT VENTURES

As at 31 December 2014 and 2013, 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 2014, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 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 19, <i>Defined benefit plans: Employee contributions</i> | 1 July 2014 |
| <i>Annual improvements to HKFRSs 2010-2012 cycle</i> | 1 July 2014 |
| <i>Annual improvements to HKFRSs 2011-2013 cycle</i> | 1 July 2014 |
| Amendments to HKFRS 11, <i>Accounting for acquisitions of interests in joint operations</i> | 1 January 2016 |
| Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i> | 1 January 2016 |
| HKFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2017 |
| HKFRS 9, <i>Financial instruments</i> | 1 January 2018 |

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.

Financial Summary

| | Year ended 31 December | | | | |
|--|------------------------|----------------------|----------------------|--|--|
| | 2014 HK\$'million | 2013 HK\$'million | 2012 HK\$'million | 2011 HK\$'million (unrestated) (note) | 2010 HK\$'million (unrestated) (note) |
| Results | | | | | |
| Revenue | 48,044 | 43,430 | 32,953 | 25,398 | 9,068 |
| Profit before income tax expense | 11,956 | 14,353 | 13,306 | 10,450 | 4,393 |
| Income tax expense | (3,080) | (3,845) | (3,392) | (2,281) | (1,015) |
| Profit for the year | 8,876 | 10,508 | 9,914 | 8,169 | 3,378 |
| Non-controlling interests | (3,266) | (3,657) | (3,396) | (2,560) | (952) |
| Profit attributable to owners of the Company | 5,610 | 6,851 | 6,518 | 5,609 | 2,426 |
| Earnings per share | | | | | |
| – Basic (HK cent) | 69.52 | 85.01 | 83.54 | 78.44 | 49.02 |
| – Diluted (HK cent) | 69.49 | 84.83 | 83.13 | 77.52 | 48.22 |

| | As at 31 December | | | | |
|-------------------------------|----------------------|----------------------|----------------------|--|--|
| | 2014 HK\$'million | 2013 HK\$'million | 2012 HK\$'million | 2011 HK\$'million (unrestated) (note) | 2010 HK\$'million (unrestated) (note) |
| Assets and liabilities | | | | | |
| Total assets | 117,710 | 119,462 | 108,542 | 84,069 | 32,226 |
| Total liabilities | (43,396) | (47,194) | (46,364) | (38,482) | (11,188) |
| Total equity | 74,314 | 72,268 | 62,178 | 45,587 | 21,038 |

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 comparison 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 2012, 2013 and 2014. 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 31 December 2011 | 27.6 | 45.0 | 72.6 |
| 2012 Revision | 0.0 | 10.6 | 10.6 |
| 2012 Production | (5.6) | (12.1) | (17.7) |
| Reserve as at 31 December 2012 | 22.0 | 43.5 | 65.5 |
| 2013 Revision | 12.8 | 18.9 | 31.7 |
| 2013 Production | (5.4) | (12.4) | (17.8) |
| Reserve as at 31 December 2013 | 29.4 | 50.0 | 79.4 |
| 2014 Revision | 2.8 | 0.1 | 2.9 |
| 2014 Production | (5.4) | (11.9) | (17.3) |
| Reserve as at 31 December 2014 | 26.8 | 38.2 | 65.0 |

Reserve Quantities Information

NATURAL GAS

| | PRC | Others | Total |
|--------------------------------|-------------------|-------------------|-------------------|
| | (million cu feet) | (million cu feet) | (million cu feet) |
| Reserve as at 31 December 2011 | 0.0 | 43,517.6 | 43,517.6 |
| 2012 Revision | 0.0 | 13,467.7 | 13,467.7 |
| 2012 Production | 0.0 | (19,283.5) | (19,283.5) |
| Reserve as at 31 December 2012 | 0.0 | 37,701.8 | 37,701.8 |
| 2013 Revision | 0.0 | 60,788.1 | 60,788.1 |
| 2013 Production | 0.0 | (19,756.6) | (19,756.6) |
| Reserve as at 31 December 2013 | 0.0 | 78,733.3 | 78,733.3 |
| 2014 Revision | 0.0 | 21,848.7 | 21,848.7 |
| 2014 Production | 0.0 | (20,629.4) | (20,629.4) |
| Reserve as at 31 December 2014 | 0.0 | 79,952.6 | 79,952.6 |

Reserve Quantities Information

Proved reserves (Estimation)

CRUDE OIL

| | PRC (million barrels) | Others (million barrels) | Total (million barrels) |
|--------------------------------|--------------------------|-----------------------------|----------------------------|
| Reserve as at 31 December 2011 | 34.4 | 71.2 | 105.6 |
| 2012 Revision | 0.0 | 7.7 | 7.7 |
| 2012 Production | (5.6) | (12.2) | (17.8) |
| Reserve as at 31 December 2012 | 28.8 | 66.7 | 95.5 |
| 2013 Revision | 6.0 | 28.9 | 34.9 |
| 2013 Production | (5.4) | (12.4) | (17.8) |
| Reserve as at 31 December 2013 | 29.4 | 83.2 | 112.6 |
| 2014 Revision | 2.8 | (13.3) | (10.5) |
| 2014 Production | (5.4) | (11.9) | (17.3) |
| Reserve as at 31 December 2014 | 26.8 | 58.0 | 84.8 |

NATURAL GAS

| | PRC (million cu feet) | Others (million cu feet) | Total (million cu feet) |
|--------------------------------|--------------------------|-----------------------------|----------------------------|
| Reserve as at 31 December 2011 | 0.0 | 112,079.3 | 112,079.3 |
| 2012 Revision | 0.0 | 45,665.6 | 45,665.6 |
| 2012 Production | 0.0 | (19,283.5) | (19,283.5) |
| Reserve as at 31 December 2012 | 0.0 | 138,461.4 | 138,461.4 |
| 2013 Revision | 0.0 | 23,381.2 | 23,381.2 |
| 2013 Production | 0.0 | (19,756.6) | (19,756.6) |
| Reserve as at 31 December 2013 | 0.0 | 142,086.0 | 142,086.0 |
| 2014 Revision | 0.0 | 6,377.9 | 6,377.9 |
| 2014 Production | 0.0 | (20,629.4) | (20,629.4) |
| Reserve as at 31 December 2014 | 0.0 | 127,834.5 | 127,834.5 |

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.

Reserve Quantities Information

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.

Reserve Quantities Information

Results of Operations for Exploration and Production Segments

| | PRC HK\$'million | Others HK\$'million | Sub-total HK\$'million |
|--|---------------------|------------------------|---------------------------|
| For the year ended 31 December 2014 | | | |
| Gross revenue | 3,477 | 1,859 | 5,336 |
| Less: Inter-company adjustment | – | – | – |
| Revenue from external customers | 3,477 | 1,859 | 5,336 |
| Segment results | 837 | 341 | 1,178 |
| Share of profits less losses of: | | | |
| – Associates | – | 601 | 601 |
| – Joint ventures | – | 523 | 523 |
| Profit before income tax expense | 837 | 1,465 | 2,302 |
| Income tax expense | | | |
| Profit for the year | | | |
| Segment results included: | | | |
| – Interest income | 140 | 8 | 148 |
| – Depreciation, depletion and amortisation | (672) | (596) | (1,268) |
| – Interest expenses | – | (17) | (17) |
| 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 | 1,148 | 701 | 1,849 |
| Share of profits less losses of: | | | |
| – Associates | – | 1,365 | 1,365 |
| – Joint ventures | – | 433 | 433 |
| Profit before income tax expense | 1,148 | 2,499 | 3,647 |
| Income tax expense | | | |
| Profit for the year | | | |
| Segment results included: | | | |
| – Interest income | 173 | 6 | 179 |
| – Depreciation, depletion and amortisation | (613) | (249) | (862) |
| – Interest expenses | – | (38) | (38) |

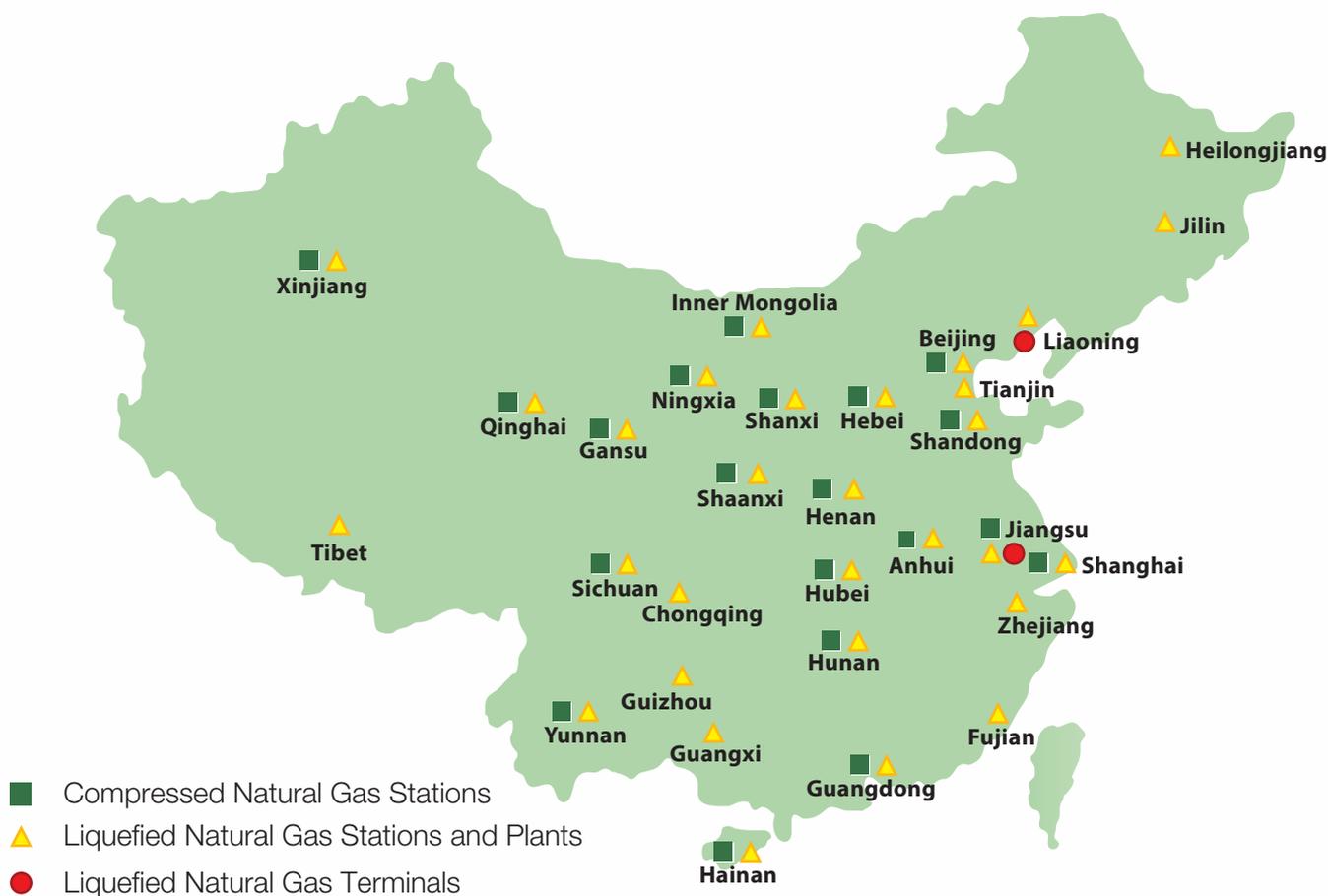
Reserve Quantities Information

Costs Incurred for Property Acquisitions, Exploration and Production:

Costs Incurred for Property Acquisitions, Exploration and Development Activities

| | 2014 HK\$'million | 2013 HK\$'million |
|--|-----------------------------|----------------------|
| The Group | | |
| Property acquisition costs | - | - |
| Exploration costs | - | - |
| Development cost | 866 | 792 |
| Total | 866 | 792 |
| Equity method investments | | |
| Share of costs of property acquisition, exploration and development of associates and joint ventures | 1,406 | 2,083 |

Locations of Natural Gas Distribution Activities in PRC



| Province | CNG Station | LNG Station | LNG Plant | LNG Terminal | Total | Under Planning or Construction | | | | | |
|-------------------|-------------|-------------|-----------|--------------|--------------|--------------------------------|-------------|-------------|-----------|--------------|--------------|
| | | | | | | In Operation | CNG Station | LNG Station | LNG Plant | LNG Terminal | Total |
| 1. Xinjiang | 146 | 49 | 4 | - | 199 | 183 | 3 | 11 | 2 | - | 199 |
| 2. Hebei | 49 | 145 | 1 | - | 195 | 164 | 8 | 23 | - | - | 195 |
| 3. Shandong | 31 | 114 | 2 | - | 147 | 129 | 1 | 16 | 1 | - | 147 |
| 4. Henan | 5 | 79 | - | - | 84 | 75 | 1 | 8 | - | - | 84 |
| 5. Shanxi | 2 | 77 | - | - | 79 | 68 | - | 11 | - | - | 79 |
| 6. Inner Mongolia | 11 | 58 | 3 | - | 72 | 42 | - | 29 | 1 | - | 72 |
| 7. Jiangsu | 3 | 60 | - | 1 | 64 | 54 | - | 10 | - | - | 64 |
| 8. Sichuan | 20 | 35 | 2 | - | 57 | 47 | 1 | 8 | 1 | - | 57 |
| 9. Shaanxi | 7 | 47 | 1 | - | 55 | 35 | 1 | 19 | - | - | 55 |
| 10. Guangdong | 2 | 40 | 1 | - | 43 | 31 | - | 11 | 1 | - | 43 |
| 11. Hubei | 2 | 39 | 1 | - | 42 | 28 | - | 13 | 1 | - | 42 |
| 12. Hainan | 27 | 13 | 1 | - | 41 | 40 | 1 | - | - | - | 41 |
| 13. Liaoning | - | 39 | 1 | 1 | 41 | 24 | - | 17 | - | - | 41 |
| 14. Zhejiang | - | 25 | - | - | 25 | 25 | - | - | - | - | 25 |
| 15. Guizhou | - | 24 | - | - | 24 | 14 | - | 10 | - | - | 24 |
| 16. Tianjin | - | 23 | 1 | - | 24 | 23 | 1 | - | - | - | 24 |
| 17. Qinghai | 14 | 6 | 3 | - | 23 | 23 | - | - | - | - | 23 |
| 18. Ningxia | 8 | 15 | - | - | 23 | 23 | - | - | - | - | 23 |
| 19. Fujian | - | 15 | - | - | 15 | 11 | - | 4 | - | - | 15 |
| 20. Yunnan | 1 | 12 | - | - | 13 | 6 | - | 7 | - | - | 13 |
| 21. Shanghai | 3 | 7 | - | - | 10 | 9 | - | 1 | - | - | 10 |
| 22. Beijing | 1 | 7 | - | - | 8 | 8 | - | - | - | - | 8 |
| 23. Hunan | 1 | 6 | - | - | 7 | 2 | - | 5 | - | - | 7 |
| 24. Jilin | - | 6 | 1 | - | 7 | 6 | - | - | 1 | - | 7 |
| 25. Anhui | 1 | 5 | - | - | 6 | 5 | - | 1 | - | - | 6 |
| 26. Gansu | 3 | 3 | - | - | 6 | 5 | - | 1 | - | - | 6 |
| 27. Guangxi | 1 | 5 | - | - | 6 | 4 | - | 2 | - | - | 6 |
| 28. Tibet | - | 3 | - | - | 3 | 3 | - | - | - | - | 3 |
| 29. Heilongjiang | - | 2 | - | - | 2 | 2 | - | - | - | - | 2 |
| 30. Chongqing | - | 1 | - | - | 1 | - | - | 1 | - | - | 1 |
| Total | 338 | 960 | 22 | 2 | 1,322 | 1,089 | 17 | 208 | 8 | - | 1,322 |

Note: include 39 CNG stations, 14 LNG stations and 2 LNG plants owned by associated companies.

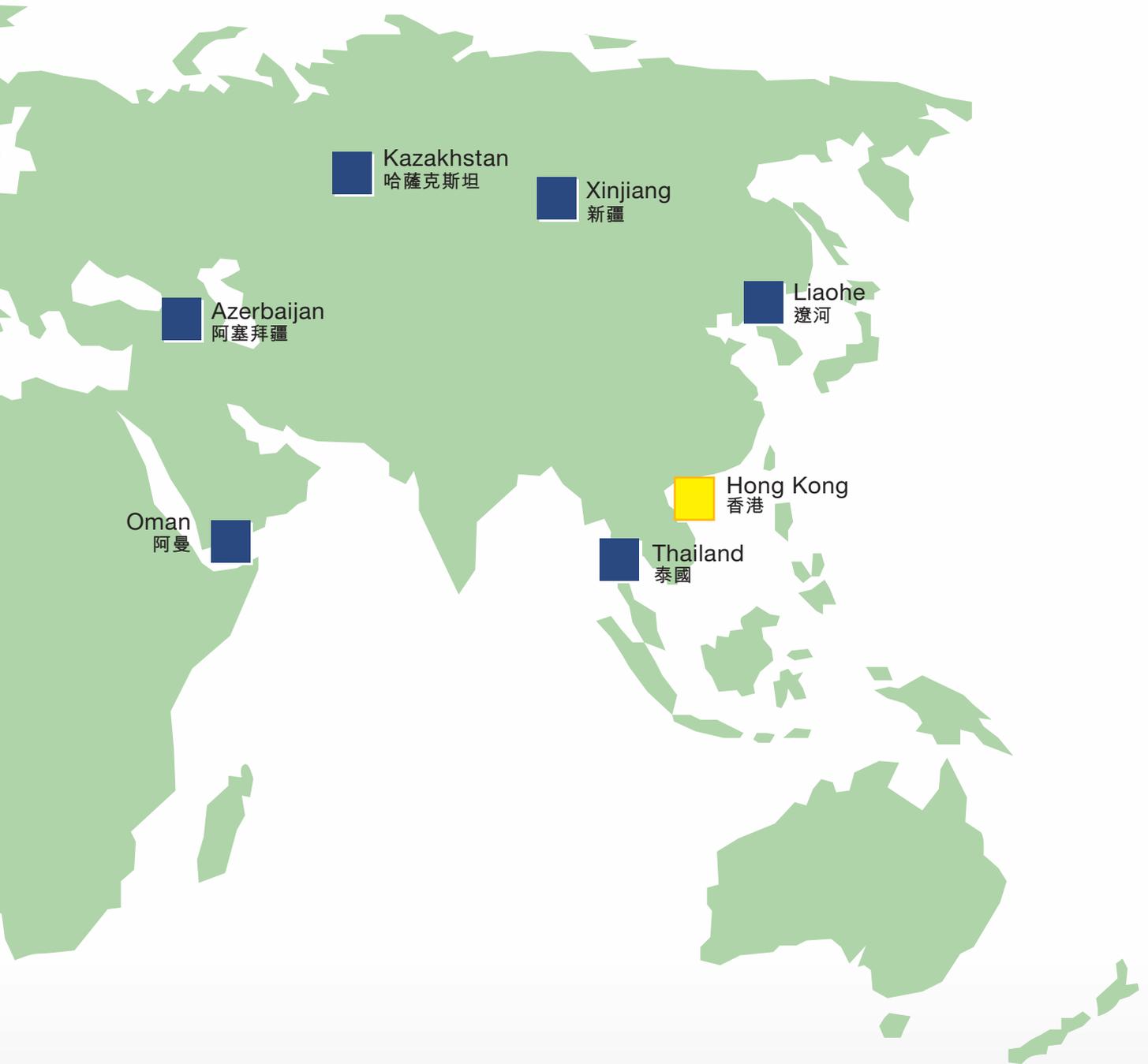
LOCATIONS OF CRUDE OIL EXPLORATION AND PRODUCTION BUSINESS

原油勘探及生產業務分佈圖



Existing Projects
現有項目

Headquarters
總部



Kazakhstan
哈薩克斯坦

Xinjiang
新疆

Azerbaijan
阿塞拜疆

Liaohe
遼河

Oman
阿曼

Hong Kong
香港

Thailand
泰國