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

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Year ended 31 December		
	2013	2012	**Change**
	HK$'million	*HK$'million*	*%*
Revenue	**43,430**	32,953	31.79
Profit before income tax expense	**14,353**	13,306	7.87
Profit attributable to the owners of the Company	**6,851**	6,518	5.11
EBITDA (note)	**19,275**	18,229	5.74
	HK cent	*HK cent*	
Earnings per share (Basic)	**85.01**	83.54	1.76
Earnings per share (Diluted)	**84.83**	83.13	2.04
Dividend per share – Final	**23.00**	23.00	0.00
	HK$'million	*HK$'million*	
Profit attributable to the owners of the Company (by business)			
– Exploration and Production	**2,077**	2,662	(21.98)
– Natural Gas Sales (including LNG Processing)	**1,365**	1,156	18.08
– LNG Terminal	**311**	225	38.22
– Natural Gas Pipeline	**3,216**	2,459	30.78
EBITDA (by business)			
– Exploration and Production	**4,368**	5,482	(20.32)
– Natural Gas Sales (including LNG Processing)	**3,359**	2,703	24.27
– LNG Terminal	**2,075**	1,537	35.00
– Natural Gas Pipeline	**9,532**	8,593	10.93

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	**2013** ***HK$'million***	2012 *HK$'million*
Revenue	*3*	**43,430**	32,953
Other gains, net		**768**	361
Interest income		**228**	172
Purchases, services and others		**(21,303)**	(12,912)
Employee compensation costs		**(2,046)**	(1,684)
Exploration expenses, including exploratory dry holes		**(11)**	(42)
Depreciation, depletion and amortisation		**(4,528)**	(4,434)
Selling, general and administrative expenses		**(2,878)**	(2,165)
Taxes other than income taxes		**(746)**	(923)
Interest expenses	*4*	**(622)**	(661)
Share of profits less losses of:			
– Associates		**1,646**	2,334
– Joint ventures		**415**	307
Profit before income tax expense	*5*	**14,353**	13,306
Income tax expense	*6*	**(3,845)**	(3,392)
Profit for the year		**10,508**	9,914
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
– Currency translation differences		**1,392**	663
– Fair value (loss)/gain on available-for-sale financial assets		**(10)**	1
Other comprehensive income, net of nil tax		**1,382**	664
Total comprehensive income for the year		**11,890**	10,578

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2013

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	**2013** **HK$'million**	2012 HK$'million
Assets			
Non-current assets			
Property, plant and equipment		**82,943**	69,225
Advanced operating lease payments		**2,895**	2,199
Investments in associates		**5,720**	5,606
Investments in joint ventures		**1,564**	1,541
Available-for-sale financial assets		**120**	173
Intangible and other non-current assets		**3,104**	2,360
Deferred tax assets		**254**	187
		96,600	81,291
Current assets			
Inventories		**1,173**	717
Accounts receivable	*9*	**1,893**	1,367
Prepaid expenses and other current assets		**4,899**	5,575
Cash and cash equivalents		**14,897**	19,592
		22,862	27,251
Total assets		**119,462**	108,542

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2013

	Note	2013 HK$'million	2012 HK$'million
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	81
Retained earnings		**24,530**	20,059
Reserves		**25,795**	24,282
		50,406	44,422
Non-controlling interest		**21,862**	17,756
Total equity		**72,268**	62,178
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**12,676**	12,438
Income tax payable		**510**	461
Other tax payable		**394**	353
Short-term borrowings		**13,551**	5,111
		27,131	18,363
Non-current liabilities			
Long-term borrowings		**17,799**	26,562
Deferred tax liabilities		**1,715**	1,278
Other long-term obligations		**549**	161
		20,063	28,001
Total liabilities		**47,194**	46,364
Total equity and liabilities		**119,462**	108,542
Net current (liabilities)/assets		**(4,269)**	8,888
Total assets less current liabilities		**92,331**	90,179

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated results set out in this announcement do not constitute the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2013, but are extracted from those consolidated financial statements.

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

Changes in accounting policies

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

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

– HKFRS 10, *Consolidated financial statements*

– HKFRS 11, *Joint arrangements*

– HKFRS 12, *Disclosure of interests in other entities*

– HKFRS 13, *Fair value measurement*

– *Annual Improvements to HKFRSs 2009-2011 Cycle*

– Amendments to HKFRS 7, *Financial instruments: Disclosures − Offsetting financial assets and financial liabilities*

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

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

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

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

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

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

HKFRS 12, Disclosure of interests in other entities

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

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

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

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

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

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

2. SEGMENT INFORMATION

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

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

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

The Natural Gas Distribution segment is engaged in the sale 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.

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

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

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

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

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

3. REVENUE AND TURNOVER

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

4. INTEREST EXPENSES

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

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

5. PROFIT BEFORE INCOME TAX EXPENSE

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

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

6. INCOME TAX EXPENSE

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

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (2012: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in the PRC is principally 25% (2012: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 20% (2012: 15% to 20%).

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

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

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

7. BASIC AND DILUTED EARNINGS PER SHARE

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

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

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

Notes:

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

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

9. ACCOUNTS RECEIVABLE

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

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

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2013, accounts receivable of approximately HK$541 million (2012: HK$263 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group. As of 31 December 2013 and 2012, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 31 December 2013, included in the balance is accounts payable of HK$1,542 million (2012: HK$1,935 million).

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

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

BUSINESS REVIEW

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

I. Exploration and Production

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

II. Sales of Natural Gas

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

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

III. LNG Processing Plant

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

IV. LNG Terminal

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

V. Natural Gas Pipeline

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

BUSINESS PROSPECTS

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

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

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

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

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

FINAL DIVIDEND

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

CLOSURE OF SHAREHOLDERS REGISTER

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

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

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

(ii) For determining entitlement to the final dividend:

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

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

ANNUAL GENERAL MEETING

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Operating results

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

Revenue

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

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

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

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

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

Notes:

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

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

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

Other gains, net

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

Interest income

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

Purchases, services and others

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

Employee compensation costs

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

Exploration expenses

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

Depreciation, depletion and amortisation

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

Selling, general and administrative expenses

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

Taxes other than income taxes

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

Interest expenses

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

Share of profits less losses of associates

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

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

Share of profits less losses of joint ventures

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

Profit before income tax expense

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

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

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

Income tax expense

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

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

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

Liquidity and capital resources

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

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

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

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

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

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

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

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

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

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

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

Use of proceeds

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

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

Pledge of assets

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

New investment in major projects

The Group had no major acquisition during the Year.

Employee

On 31 December 2013, the Group had approximately 21,589 staff globally (excluding the staff under entrustment contracts) (2012: 17,475 staff). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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

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

CORPORATE GOVERNANCE

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

Pursuant to paragraph 45(6) of Appendix 16 to the Listing Rules Governing the Listing of Securities on the Stock Exchange, the board of directors of the Company wishes to confirm that the Audit Committee of the Company has reviewed with the management the accounting policies and standards adopted by the Company and its subsidiaries and discussed the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2013. The Audit Committee has also reviewed the annual results in conjunction with the Company's external auditor.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising three Independent Non-Executive Directors was established in December 1998.

Two meetings were held during the current financial year.

Written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the directors of the Company. The principal activities of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

The figures in respect of the preliminary announcement of the Group's results of the year ended 31 December 2013 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE WEBSITE

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Company's and the Stock Exchange's website in due course.

By the Order of the Board
KUNLUN ENERGY COMPANY LIMITED
Zhang Bowen
President and Executive Director
(performing the duties of the Chairman)

Hong Kong, 20 March 2014

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