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

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Six months ended 30 June			
	2014	2013	**Change**	
	HK$'million	*HK$'million*	*HK$'million*	*%*
Revenue	**22,763**	19,427	3,336	17.17
Profit before income tax expense	**6,326**	7,715	(1,389)	(18.00)
Profit attributable to the owners of the Company	**3,171**	3,680	(509)	(13.83)
EBITDA (note)	**9,156**	10,098	(942)	(9.33)
	HK cent	*HK cent*	*HK cent*	*%*
Earnings per share (Basic)	**39.30**	45.68	(6.38)	(13.97)
Earnings per share (Diluted)	**39.27**	45.52	(6.25)	(13.73)
Dividend per share – Interim	**NIL**	NIL	NIL	NIL
	HK$'million	*HK$'million*	*HK$'million*	*%*
Profit before income tax expense (by segment)				
– Exploration and Production	**1,095**	1,969	(874)	(44.39)
– Natural Gas Sales (including LNG Processing)	**1,018**	1,209	(191)	(15.80)
– LNG Terminal	**428**	693	(265)	(38.24)
– Natural Gas Pipeline	**3,952**	3,898	54	1.39
EBITDA (by segment)				
– Exploration and Production	**1,706**	2,398	(692)	(28.86)
– Natural Gas Sales (including LNG Processing)	**1,591**	1,649	(58)	(3.52)
– LNG Terminal	**923**	1,220	(297)	(24.34)
– Natural Gas Pipeline	**5,060**	4,847	213	4.39

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

The Directors of Kunlun Energy Company Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2014 are as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Note	***HK$'million***	*HK$'million*
Revenue	*3*	**22,763**	19,427
Other gains, net		**348**	373
Interest income		**105**	90
Purchases, services and others		**(11,766)**	(8,388)
Employee compensation costs		**(1,028)**	(917)
Exploration expenses		**(20)**	(46)
Depreciation, depletion and amortisation		**(2,713)**	(2,178)
Selling, general and administrative expenses		**(1,213)**	(1,109)
Taxes other than income taxes		**(380)**	(367)
Interest expenses	*4*	**(222)**	(295)
Share of profits less losses of:			
– Associates		**188**	933
– Joint ventures		**264**	192
Profit before income tax expense	*5*	**6,326**	7,715
Income tax expense	*6*	**(1,513)**	(2,046)
Profit for the period		**4,813**	5,669
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Currency translation differences		**(1,760)**	640
– Fair value loss on available-for-sale financial assets		**(8)**	(20)
Other comprehensive income for the period, net of nil tax		**(1,768)**	620
Total comprehensive income for the period		**3,045**	6,289

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Note	***HK$'million***	*HK$'million*
Profit for the period attributable to:			
– Owners of the Company		**3,171**	3,680
– Non-controlling interests		**1,642**	1,989
		4,813	5,669
Total comprehensive income for the period attributable to:			
– Owners of the Company		**1,973**	4,104
– Non-controlling interests		**1,072**	2,185
		3,045	6,289
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic *(HK cent)*		**39.30**	45.68
– Diluted *(HK cent)*		**39.27**	45.52

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	30 June 2014 HK$'million	31 December 2013 HK$'million
Assets			
Non-current assets			
Property, plant and equipment		**82,153**	82,943
Advanced operating lease payments		**2,725**	2,895
Investments in associates		**4,383**	5,720
Investments in joint ventures		**1,830**	1,564
Available-for-sale financial assets		**106**	120
Intangible and other non-current assets		**2,641**	3,104
Deferred tax assets		**424**	254
		94,262	96,600
Current assets			
Inventories		**1,305**	1,173
Accounts receivable	9	**2,411**	1,893
Prepaid expenses and other current assets		**7,578**	4,899
Cash and cash equivalents		**12,083**	14,897
		23,377	22,862
Total assets		**117,639**	119,462
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	81
Retained earnings		**25,814**	24,530
Reserves		**24,659**	25,795
		50,554	50,406
Non-controlling interests		**20,158**	21,862
Total equity		**70,712**	72,268

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2014

	Note	30 June 2014 HK$'million	31 December 2013 HK$'million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**14,854**	12,676
Income tax payable		**379**	510
Other tax payable		**742**	394
Short-term borrowings		**8,763**	13,551
		24,738	27,131
Non-current liabilities			
Long-term borrowings		**20,172**	17,799
Deferred tax liabilities		**1,428**	1,715
Other long-term obligations		**589**	549
		22,189	20,063
Total liabilities		**46,927**	47,194
Total equity and liabilities		**117,639**	119,462
Net current liabilities		**(1,361)**	(4,269)
Total assets less current liabilities		**92,901**	92,331

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 28 August 2014.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out below.

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

Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("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 contents of this interim financial information:

– 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*

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

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 the Group's interim financial information 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 the Group's interim financial information 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 the Group's interim financial information as 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 the Group's interim financial information as the guidance is consistent with the Group's existing accounting policies.

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 sales of crude oil and natural gas. It is further evaluated on a geographic basis (the People's Republic of China (the "PRC") and other territories).

The Natural Gas Distribution segment is engaged in the sales of natural gas, LNG processing, LNG terminal business and transmission of natural gas in the PRC. It is evaluated on a business basis, Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing, LNG Terminal and Natural Gas Pipeline.

No sales between operating segments are undertaken. The Executive Directors assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and joint ventures ("segment results").

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

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

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

The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2014 and 2013 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 six months ended 30 June 2014											
Gross revenue	1,831	1,013	2,844	12,015	1,707	13,722	1,158	6,008	20,888	–	23,732
Less: Inter-company adjustment	–	–	–	(86)	(831)	(917)	(46)	(6)	(969)	–	(969)
Revenue from external customers	1,831	1,013	2,844	11,929	876	12,805	1,112	6,002	19,919	–	22,763
Segment results	470	209	679	929	19	948	428	3,952	5,328	(133)	5,874
Share of profits less losses of:											
– Associates	–	118	118	70	–	70	–	–	70	–	188
– Joint ventures	–	298	298	–	–	–	–	–	–	(34)	264
Profit before income tax expense	470	625	1,095	999	19	1,018	428	3,952	5,398	(167)	6,326
Income tax expense											(1,513)
Profit for the period											4,813
Segment results included:											
– Interest income	8	4	12	49	3	52	1	24	77	16	105
– Depreciation, depletion and amortisation	(321)	(292)	(613)	(509)	(106)	(615)	(439)	(1,045)	(2,099)	(1)	(2,713)
– Interest expenses	–	(10)	(10)	(10)	–	(10)	(57)	(87)	(154)	(58)	(222)
As at 30 June 2014											
Non-current assets	3,133	960	4,093	20,703	11,742	32,445	11,115	38,701	82,261	1,165	87,519
Current assets	1,350	1,805	3,155	12,101	2,250	14,351	431	3,151	17,933	2,274	23,362
Segment assets	4,483	2,765	7,248	32,804	13,992	46,796	11,546	41,852	100,194	3,439	110,881
Investments in associates	–	1,970	1,970	2,407	–	2,407	6	–	2,413	–	4,383
Investments in joint ventures	–	1,304	1,304	156	–	156	–	–	156	370	1,830
Sub-total	4,483	6,039	10,522	35,367	13,992	49,359	11,552	41,852	102,763	3,809	117,094
Available-for-sale financial assets											106
Deferred tax assets											424
Others											15
Total assets											117,639

	Exploration and Production			Natural Gas Distribution						Corporate	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	Natural Gas Sales and LNG Processing Sub-total	LNG Terminal	Natural Gas Pipeline	Sub-total		Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
For the six months ended 30 June 2013											
Gross revenue	1,930	976	2,906	8,584	1,470	10,054	1,474	5,888	17,416	–	20,322
Less: Inter-company adjustment	–	–	–	(71)	(659)	(730)	(39)	(126)	(895)	–	(895)
Revenue from external customers	1,930	976	2,906	8,513	811	9,324	1,435	5,762	16,521	–	19,427
Segment results	651	314	965	1,067	37	1,104	693	3,898	5,695	(70)	6,590
Share of profits less losses of:											
– Associates	–	828	828	105	–	105	–	–	105	–	933
– Joint ventures	–	176	176	–	–	–	–	–	–	16	192
Profit before income tax expense	651	1,318	1,969	1,172	37	1,209	693	3,898	5,800	(54)	7,715
Income tax expense											(2,046)
Profit for the period											5,669
Segment results included:											
– Interest income	10	3	13	36	2	38	2	13	53	24	90
– Depreciation, depletion and amortisation	(300)	(122)	(422)	(320)	(127)	(447)	(437)	(871)	(1,755)	(1)	(2,178)
– Interest expenses	–	(20)	(20)	–	(31)	(31)	(92)	(91)	(214)	(61)	(295)
As at 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

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

For the six months ended 30 June 2014, revenue of approximately HK$9,250 million (six months ended 30 June 2013: HK$7,929 million) are derived from one (six months ended 30 June 2013: two) single customer with whom transactions have exceeded 10% of the Group revenues. The revenue is attributable to both the Exploration and Production and Natural Gas Distribution segments.

3 REVENUE AND TURNOVER

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

4 INTEREST EXPENSES

	Six months ended 30 June	
	2014	2013
	HK$'million	*HK$'million*
Interest expenses on:		
Bank loans, wholly repayable within five years	**7**	7
Loans other than bank loans, wholly repayable within five years, to:		
– An intermediate holding company	**273**	396
– An immediate holding company	**8**	6
– China Petroleum Finance Company Limited	**432**	410
– Fellow subsidiaries	**40**	19
Less: Amounts capitalised	**(538)**	(543)
	222	295

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 5.08% (six months ended 30 June 2013: 5.52%) per annum for the six months ended 30 June 2014.

5 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2014	2013
	HK$'million	*HK$'million*
Amortisation on intangibles and other non-current assets	**32**	24
Cost of inventories recognised as expense	**12,771**	9,232
Depreciation and depletion of property, plant and equipment	**2,681**	2,154
Operating lease expenses	**121**	76

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'million	*HK$'million*
Current tax		
– PRC	**1,590**	1,417
– Overseas	**379**	465
	1,969	1,882
Deferred tax	**(456)**	164
	1,513	2,046

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2014 (six months ended 30 June 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% (six months ended 30 June 2013: 25%). The operations of the Group's certain regions in the PRC were qualified for certain tax incentives in the form of a preferential income tax rates ranging from 10% to 15% (six months ended 30 June 2013: 10% to 15%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2014 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas income tax expense is withholding tax of approximately HK$217 million (six months ended 30 June 2013: HK$320 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company, which is charged at 20% (six months ended 30 June 2013: 20%).

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$3,171 million (six months ended 30 June 2013: HK$3,680 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2014 of approximately 8,068 million shares (six months ended 30 June 2013: 8,056 million shares).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$3,171 million (six months ended 30 June 2013: HK$3,680 million) and the weighted average number of ordinary shares of approximately 8,075 million shares (six months ended 30 June 2013: 8,085 million shares) which is the weighted average number of ordinary shares in issue during the six months ended 30 June 2014 plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 7 million shares (six months ended 30 June 2013: 29 million shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

8 DIVIDENDS

(a) 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 28 May 2013, the date of closure of the register of members, and which was paid on 3 June 2013.

(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 which was paid on 30 June 2014.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

9 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable as at 30 June 2014 and 31 December 2013, based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	30 June 2014 *HK$'million*	31 December 2013 *HK$'million*
Within 3 months	**1,754**	1,352
Between 3 to 6 months	**390**	397
Over 6 months	**267**	144
	2,411	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 30 June 2014, accounts receivable of approximately HK$657 million (31 December 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 30 June 2014 and 31 December 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.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 30 June 2014, included in the balance is accounts payable of HK$1,941 million (31 December 2013: HK$1,542 million).

The ageing analysis of accounts payable as at 30 June 2014 and 31 December 2013, based on the invoice date, is as follows:

	30 June 2014 *HK$'million*	31 December 2013 *HK$'million*
Within 3 months	**1,182**	923
Between 3 to 6 months	**499**	254
Over 6 months	**260**	365
	1,941	1,542

BUSINESS REVIEW

I am pleased to report the 2014 interim results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") to the shareholders on behalf of the Board. For the six months ended 30 June 2014 (the "Period"), the revenue of the Group amounted to HK$22,763 million, representing an increase of HK$3,336 million or 17.17% comparing the revenue for the same period of last year while the profit attributable to owners of the Company amounted to HK$3,171 million, representing a decrease of HK$509 million or 13.83% compared with the amount of HK$3,680 million for the same period of last year. During the Period, the main reason for the decrease in the Group's profit is the substantial drop in the profits of Exploration and Production and LNG Terminal. Also, profit did not increase in sales of Natural Gas business due to the increase in natural gas cost. The Natural Gas Pipeline business grew steadily and provided significant contribution to the Group's revenue and profit.

I. Exploration and Production

For the Period, the sales volume of crude oil in the Exploration and Production business reached 8.40 million barrels, representing a decrease of 0.47 million barrels or 5.30% compared with the same period of last year. The Group's average realised crude oil selling price was US$87.80 per barrel for the Period, representing a decrease of US$9.42 or 9.69% compared with the same period of last year. The revenue was HK$2,844 million, representing 12.49% of the overall revenue of the Group and a decrease of HK$62 million or 2.13% as compared to the same period of last year. The profit before income tax expense was HK$1,095 million, representing a decrease of HK$874 million or 44.39% compared to the same period of last year. The decrease in the profit before income tax expense was mainly due to the decrease in contribution of HK$710 million of an associate company located in the Kazakhstan which included an one-off foreign exchange loss of approximately HK$500 million arising from the substantial depreciation of its local currency of 19.00%. Besides, this associate company increased the domestic sales volume under the request by local government, which resulted in a decrease in average oil selling price by 25.27% as compared to the same period of last year.

II. Natural Gas Pipeline

During the Period, the Group's Natural Gas Pipeline had a stable operation. The transmission volume of Natural Gas Pipeline business was 15,044 million cubic metres, representing an increase of 2,734 million cubic metres or 22.21% compared with the same period of last year. Of which, the transmission volume of PetroChina Beijing Gas Pipeline Co. Ltd. was 14,695 million cubic metres. The transmission volume of other pipelines in operation was 349 million cubic metres. The revenue for the Period was HK$6,002 million, representing an increase of HK$240 million or 4.17% as compared to the same period of last year; the profit before income tax expense was HK$3,952 million, representing an increase of HK$54 million or 1.39% as compared to the same period of last year. During the Period, the construction for the No. 4 Shaanxi-Beijing Pipeline controlling work began, which will bring a new growth in the Natural Gas Pipeline business of the Group.

III. LNG Terminal

During the Period, gasification volume of natural gas of Jiangsu LNG Terminal and Dalian LNG Terminal owned by the Group amounted to 2,879 million cubic metres, representing a decrease of 866 million cubic metres or 23.12% compared to the same period of last year. The revenue for the Period amounted to HK$1,112 million, representing a decrease of HK$323 million or 22.51% compared to the same period of last year; the profit before income tax expense amounted to HK$428 million, representing a decrease of HK$265 million or 38.24% as compared to the same period of last year. The decrease was due to the adjustment in production plan of the parent company. These two LNG terminals had the mission to safeguard the natural gas resources of the parent company and also opened up the resources channel for the Group in the market for natural gas utilisation in the Southeastern region.

IV. LNG Processing Plant

During the Period, 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/day. Of which, the LNG localized liquefaction plant with the largest scale in the country, Hubei Huanggang (5.00 million cubic metres/day) LNG processing plant had carried out a successful trial production. It produced qualified products and reached the designed capacity during the trial operation.

V. Sales of Natural Gas

During the Period, the sales volume of the Group's natural gas was 3,354 million cubic metres, representing an increase of 24 million cubic metres or 0.71% compared with the same period of last year. The revenue from the sales of natural gas business was HK$12,805 million, representing an increase of HK$3,481 million or 37.33% compared with the same period of last year and representing 56.25% of the overall revenue of the Group. The profit before income tax expense was HK$1,018 million, representing a decrease of HK$191 million or 15.80% compared with the same period of last year. However, the increase in cost and expenses led to a decrease in profit.

During the Period, both sales volume in LNG increased by 64 million cubic metres or 6.91% and the revenue increased by HK$1,746 million or 62.54%.

During the Period, the Group continued to target the high-end market of natural gas utilisation, promoting the application of LNG fuel in the transportation sector comprising mainly the urban public transport, long-haul passenger transport and heavy duty trucks. The Group also continued to promote the LNG vessels demonstration project and the study on the relevant standards of LNG vessels. During the Period, 9,100 LNG vehicles were newly promoted, with 90,686 LNG vehicles promoted in aggregate. Ancillary facilities such as 644 LNG stations and 290 CNG stations were in operation.

BUSINESS PROSPECTS

The constant promotion of comprehensive management that aimed at improving the environment in China has enabled an extensive development of natural gas business. The construction of No. 4 Shaanxi-Beijing Pipeline and natural gas cooperation project between China and Russia will safeguard a solid foundation of resources and infrastructures for the sustainable and healthy development of natural gas market. Notwithstanding the fact that the prevailing mechanism of natural gas price was still under modification and there was an unbalanced seasonal demand and supply which resulted in the unprecedented challenges encountered by the Company in respect of the healthy development of "Gas in Substitution of Oil" business, the global reserve and production volume of natural gas remained an upward trend and the development trend of LNG as a vehicle alternative fuel was promising thanks to the mature LNG vehicle technology and competitive edges of LNG as a vehicle fuel in terms of price and environmental concern.

Looking forward, the Group will continue to uphold the general principle of "seeking progress in stability", adhere to the strategic development approach of "Gas in Substitution of Oil" and place more emphasis on the coordination among development scale, pace and quality and efficiency. We will continue to strengthen the cooperation with enterprises and the liaison with governmental authorities so as to capture the favorable policy support to the LNG fuel promotion and application. While reinforcing the communication and coordination between relevant units of parent company, we will maintain a stable development of Exploration and Production, Pipeline and Terminal business, highlight the development of natural gas end-user sales and integrated utilisation business and actively carry out the resources planning and coordination work with basis on customer development and improvement of utilisation efficiency of business assets. Furthermore, we will be dedicated to enhancing the utilisation rate of LNG plant and refilling stations and improving the operating efficiency and rate of investment return of the existing assets. We, aimed at improving the operating efficiency, risk management and cost reduction will continue to create new competitive edges through continuous restructuring of equity and assets within the enterprises.

The Group will continue to leverage on the benefits of the parent company in terms of management, technology, talent and resources. The Group will continue to deepen the cooperation with the parent company's subsidiaries, improve the management level and ability in technological innovation, enhance operation efficiency, reduce operation risk and provide satisfactory returns to shareholders.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment during the six months ended 30 June 2014 (the "Period"). The profit before income tax expense from the Natural Gas Distribution business segment contributed around 85.33% (same period 2013: 75.18%) of the Group's profit before income tax expense for the Period.

OPERATING RESULTS

Profit before income tax expense of the Group for the Period was approximately HK$6,326 million, representing a decrease of 18.00% as compared with amount of HK$7,715 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$3,171 million, representing a decrease of 13.83% as compared with amount of HK$3,680 million for the same period of last year.

REVENUE

Revenue for the Period was approximately HK$22,763 million, representing an increase of 17.17% as compared with amount of HK$19,427 million for the same period of last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 12.49% of the Group's total revenue amounting to approximately HK$2,844 million while revenue from the Natural Gas Distribution business segment accounted for 87.51% of the Group's total revenue amounting to approximately HK$19,919 million.

The table below sets out the sales volume and revenue for major segments of the Group for the six months ended 30 June 2014 and 2013, and percentages of change during these two periods.

	Sale volume (Group's portion) for the six months ended 30 June			Revenue (Per segment information) for the six months ended 30 June		
	2014	2013	Change	**2014**	2013	Change
	('000 barrel)	*('000 barrel)*	%	***HK$'million***	*HK$'million*	%
Exploration and Production business (by geographic location)						
The People's Republic of China (the "PRC")	**2,717**	2,807	(3.21)	**1,831**	1,930	(5.13)
South America (note (1))	**325**	299	8.70	**545**	498	9.44
Central Asia	**313**	327	(4.28)	**242**	248	(2.42)
South East Asia (note (2))	**294**	303	(2.97)	**226**	230	(1.74)
Sub-total	**3,649**	3,736	(2.33)	**2,844**	2,906	(2.13)
Share of an associate in Central Asia	**2,899**	3,256	(10.96)	**–**	–	N/A
Share of a joint venture in Middle East	**1,854**	1,880	(1.38)	**–**	–	N/A
Total of Exploration and Production	**8,402**	8,872	(5.30)	**2,844**	2,906	(2.13)
Natural Gas Distribution business (by segment)						
Natural Gas Pipeline (note (3))				**6,002**	5,762	4.17
LNG Terminal				**1,112**	1,435	(22.51)
Natural Gas Sales				**11,929**	8,513	40.13
LNG Processing				**876**	811	8.01
Sub-total				**12,805**	9,324	37.33
Total of Natural Gas Distribution				**19,919**	16,521	20.57
Total revenue				**22,763**	19,427	17.17

	Sale/processing volume for the six months ended 30 June		
	2014	2013	Change
	('000 cubic metre)	*('000 cubic metre)*	%
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline	**15,043,667**	12,309,874	22.21
LNG Terminal	**2,878,841**	3,744,699	(23.12)
Natural Gas Sales	**3,154,691**	3,151,109	0.11
LNG Processing	**198,937**	178,724	11.31
Sub-total	**3,353,628**	3,329,833	0.71
Total of Natural Gas Distribution	**21,276,136**	19,384,406	9.76

Notes:

(1) Only the Group's 50% (same period 2013: 50%) share of sale volume from South America is stated while its revenue is shown as 100% per consolidated requirement.

(2) An oilfield in South East Asia only 96.11% (same period 2013: 95.67%) share of sales volume is stated while its revenue is shown as 100% per consolidated requirement.

(3) Under the Natural Gas Pipeline segment, it included the following natural gas sales:

	Sales volume for the six months ended 30 June			Revenue for the six months ended 30 June		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
	('000 cubic metre)	*('000 cubic metre)*	*%*	***HK$'million***	*HK$'million*	*%*
Natural Gas Sales	29,135	27,450	6.14	91	60	51.67

OTHER GAINS, NET

Other gains, net for the Period was approximately HK$348 million, representing a decrease of 6.70% as compared with amount of HK$373 million for the same period of last year. The decrease was mainly due to an exchange loss on the borrowings which are denominated in USD, amounting to HK$87 million for the Period.

INTEREST INCOME

Interest income for the Period was approximately HK$105 million, representing an increase of 16.67% as compared with amount of HK$90 million for the same period of last year. The increase was mainly due to an increase in proportion of time deposit held by the Group.

PURCHASES, SERVICES AND OTHERS

Purchases, services and others were approximately HK$11,766 million for the Period, representing an increase of 40.27% as compared with amount of HK$8,388 million for the same period of last year. This was mainly due to the increase in purchase volume of natural gas which is in line with the expansion of natural gas business.

EMPLOYEE COMPENSATION COSTS

Employee compensation costs of the Group was approximately HK$1,028 million for the Period, representing an increase of 12.10% as compared with amount of HK$917 million for the same period of last year. This increase was mainly due to the expansion of the Group's natural gas business.

EXPLORATION EXPENSES

Exploration expenses for the Period was approximately HK$20 million, representing a decrease of 56.52% as compared with HK$46 million for the same period of 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 Period was approximately HK$2,713 million, representing an increase of 24.56% as compared with amount of HK$2,178 million for the same period of last year. This was mainly due to more property, plant and equipment being used during the Period following the business expansion.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the Period was approximately HK$1,213 million, representing an increase of 9.38% as compared with amount of HK$1,109 million for the same period of last year. This was mainly due to the expansion of the Group's natural gas business.

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the Period was approximately HK$380 million, representing an increase of 3.54% as compared with amount of HK$367 million for the same period of last year. This increase was mainly due to the expansion of the Group's natural gas business.

INTEREST EXPENSES

Interest expenses for the Period was approximately HK$222 million, representing a decrease of 24.75% as compared with amount of HK$295 million for the same period of last year. Total interest expenses for the Period was approximately HK$760 million of which HK$538 million had been capitalised under construction-in-progress.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the Period decreased by 79.85% to approximately HK$188 million (same period 2013: HK$933 million). This was mainly due to the combined effect of the decrease in sales volume and crude oil realised selling price in CNPC–Aktobemunaigas Joint Stock Company and devaluation of the currency of Republic of Kazakhstan for the Period.

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES

Share of profits less losses of joint ventures for the Period increased by 37.50% to approximately HK$264 million (same period 2013: HK$192 million). It was mainly due to the decrease in amortisation of the oil properties in Oman project as a result of the revision of oil reserve at the beginning of the Period and decrease in royalty expense.

PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense for the Period was approximately HK$6,326 million, representing a decrease of 18.00% as compared with amount of HK$7,715 million for the same period of 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 six months ended 30 June 2014 and 2013.

	Profit before income tax expense for the six months ended 30 June		
	2014	2013	Change
	HK$'million	*HK$'million*	*%*
Exploration and production business			
PRC	**470**	651	(27.80)
South America	**252**	249	1.20
Central Asia	**(38)**	(17)	(123.53)
South East Asia	**(5)**	82	(106.10)
Sub-total	**679**	965	(29.64)
Share of an associate in Central Asia	**118**	828	(85.75)
Share of a joint venture in Middle East	**298**	176	69.32
Total of Exploration and Production	**1,095**	1,969	(44.39)
Natural Gas Distribution business			
Natural Gas Pipeline	**3,952**	3,898	1.39
LNG Terminal	**428**	693	(38.24)
Natural Gas Sales	**999**	1,172	(14.76)
LNG Processing	**19**	37	(48.65)
Sub-total	**1,018**	1,209	(15.80)
Total of Natural Gas Distribution	**5,398**	5,800	(6.93)
	6,493	7,769	(16.42)

INCOME TAX EXPENSE

Income tax expense for the Period was approximately HK$1,513 million, representing a decrease of 26.05% as compared with amount of HK$2,046 million for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period was 25.76% (same period 2013: 31.05%).

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

The profit for the Period of the Group was approximately HK$4,813 million, representing a decrease of 15.10% as compared with amount of HK$5,669 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$3,171 million, representing a decrease of 13.83% as compared with amount of HK$3,680 million for the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2014, the carrying value of total assets of the Group is approximately HK$117,639 million, representing a decrease of HK$1,823 million or 1.53% as compared with 31 December 2013 amount of HK$119,462 million.

The gearing ratio of the Group was 29.04% as at 30 June 2014 compared with 30.26% as at 31 December 2013, representing a decrease of 1.22%. It is computed by dividing the total borrowings of HK$28,935 million (31 December 2013: HK$31,350 million) by the total equity plus borrowings of HK$99,647 million (31 December 2013: HK$103,618 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation for the Period was approximately HK$9,156 million, representing a decrease of 9.33% as compared with amount of HK$10,098 million for the same period of last year.

The Group received dividends of HK$458 million from an associate in Central Asia during the Period (same period 2013: nil) and received no dividends from a joint venture in Middle East (same period 2013: HK$485 million).

The Group raised new borrowings of HK$5,243 million and repaid HK$7,162 million to financial institutions and related parties resulting a net decrease in borrowings of HK$1,919 million during the Period.

During the Period, a few senior executives of the Company exercised their share options. As a result, the Company issued 9.9 million new shares (31 December 2013: 15.6 million new shares) and received subscription amount of HK$32 million (31 December 2013: HK$86 million).

During the Period, the Company has not repurchased any of its shares. During the year ended 31 December 2013, the Company repurchased a total of 4,518,000 shares of the Company for HK$57 million.

As at 30 June 2014, the Group had net current liabilities of HK$1,361 million. Notwithstanding the net current liabilities of the Group at 30 June 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 an undrawn facility provided by the Company's immediate holding company, amounting to HK$2,300 million; and

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

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

USE OF PROCEEDS

The Group paid interest of HK$763 million (same period 2013: HK$815 million) during the Period.

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 Period.

PLEDGE OF ASSETS

As at 30 June 2014 and 31 December 2013, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

There is no major acquisition during the Period.

EMPLOYEE

On 30 June 2014, the Group had approximately 21,304 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2014.

DETAILED INFORMATION OF INTERIM RESULTS

Detailed interim results containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be released on or before 17 September 2014 on the Stock Exchange's of website (www.hkex.com.hk) and the Company's website (www.irasia.com/listco/hk/kunlun/index.htm or www.kunlun.com.hk).

By the Order of the Board
KUNLUN ENERGY COMPANY LIMITED
Wu Enlai
Chairman

Hong Kong, 28 August 2014

The Board of Directors as at the date of this announcement comprises of Mr Wu Enlai as the Chairman and Executive Director, Mr Zhao Yongqi as Chief Executive Officer and Executive Director, Mr Zhang Bowen as the President and Executive Director, Mr Cheng Cheng as the Senior Vice President and Executive Director and Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng as Independent Non-Executive Directors.