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			
	2015	2014	Change	
	HK$'million	*HK$'million*	*HK$'million*	*%*
Revenue	**20,879**	22,763	(1,884)	(8.28)
Profit before income tax expense	**4,705**	6,326	(1,621)	(25.62)
Profit attributable to the owners of the Company	**1,921**	3,171	(1,250)	(39.42)
EBITDA (note)	**7,759**	9,156	(1,397)	(15.26)
	HK cent	*HK cent*	*HK cent*	*%*
Earnings per share (Basic)	**23.80**	39.30	(15.50)	(39.44)
Earnings per share (Diluted)	**23.80**	39.27	(15.47)	(39.39)
Dividend per share – Interim	**NIL**	NIL	NIL	NIL
	HK$'million	*HK$'million*	*HK$'million*	*%*
Profit attributable to the owners of the Company (by segment)				
– Exploration and Production	**(133)**	844	(977)	(115.76)
– Natural Gas Sales (including LNG Processing)	**(98)**	494	(592)	(119.84)
– LNG Terminal	**144**	216	(72)	(33.33)
– Natural Gas Pipeline	**2,012**	1,714	298	17.39
EBITDA (by segment)				
– Exploration and Production	**450**	1,706	(1,256)	(73.62)
– Natural Gas Sales (including LNG Processing)	**919**	1,537	(618)	(40.21)
– LNG Terminal	**699**	970	(271)	(27.94)
– Natural Gas Pipeline	**5,780**	5,067	713	14.07

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 2015 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Note	***HK$'million***	*HK$'million*
Revenue	*3*	**20,879**	22,763
Other gains, net		**488**	348
Interest income		**103**	105
Purchases, services and others		**(11,315)**	(11,766)
Employee compensation costs		**(1,012)**	(1,028)
Exploration expenses		**(2)**	(20)
Depreciation, depletion and amortisation		**(2,899)**	(2,713)
Selling, general and administrative expenses		**(1,143)**	(1,213)
Taxes other than income taxes		**(195)**	(380)
Interest expenses	*4*	**(258)**	(222)
Share of profits less losses of:			
– Associates		**(62)**	188
– Joint ventures		**121**	264
Profit before income tax expense	*5*	**4,705**	6,326
Income tax expense	*6*	**(1,257)**	(1,513)
Profit for the period		**3,448**	4,813
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		**(20)**	(1,270)
– Associates		**(33)**	(481)
– Joint ventures		**–**	(9)
– Fair value gain/(loss) on available-for-sale financial assets		**3**	(8)
Other comprehensive income for the period, net of nil tax		**(50)**	(1,768)
Total comprehensive income for the period		**3,398**	3,045

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2015

	Note	Six months ended 30 June 2015 HK$'million	2014 HK$'million
Profit for the period attributable to:			
– Owners of the Company		**1,921**	3,171
– Non-controlling interests		**1,527**	1,642
		3,448	4,813
Total comprehensive income for the period attributable to:			
– Owners of the Company		**1,884**	1,973
– Non-controlling interests		**1,514**	1,072
		3,398	3,045
Earnings per share for profit attributable to owners of the Company	7		
– Basic (HK cent)		**23.80**	39.30
– Diluted (HK cent)		**23.80**	39.27

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	**30 June 2015** *HK$'million*	31 December 2014 *HK$'million*
Assets			
Non-current assets			
Property, plant and equipment		**86,551**	86,442
Advanced operating lease payments		**3,348**	3,379
Investments in associates		**4,671**	4,775
Investments in joint ventures		**1,569**	1,451
Available-for-sale financial assets		**85**	83
Intangible and other non-current assets		**1,451**	1,509
Deferred tax assets		**793**	456
		98,468	98,095
Current assets			
Inventories		**1,630**	1,157
Accounts receivable	*9*	**2,208**	1,988
Prepaid expenses and other current assets		**4,470**	5,741
Cash and cash equivalents		**15,700**	10,729
		24,008	19,615
Total assets		**122,476**	117,710
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	81
Retained earnings		**27,998**	27,765
Reserves		**25,079**	25,042
		53,158	52,888
Non-controlling interests		**21,945**	21,426
Total equity		**75,103**	74,314

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

	Note	**30 June 2015** *HK$'million*	31 December 2014 *HK$'million*
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**13,194**	14,776
Income tax payable		**488**	805
Other tax payable		**189**	262
Short-term borrowings		**9,492**	8,465
Obligations under finance leases		**249**	194
		23,612	24,502
Non-current liabilities			
Long-term borrowings		**21,091**	16,224
Deferred tax liabilities		**1,397**	1,414
Obligations under finance leases		**666**	649
Other long-term obligations		**607**	607
		23,761	18,894
Total liabilities		**47,373**	43,396
Total equity and liabilities		**122,476**	117,710
Net current assets/(liabilities)		**396**	(4,887)
Total assets less current liabilities		**98,864**	93,208

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated interim financial information set out in this announcement does not constitute the unaudited interim financial report of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 30 June 2015 but is extracted from that unaudited interim financial report which 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 ("Stock Exchange")(the "Listing Rules"), 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 6 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out below.

The interim financial report 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.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those annual financial statements.

Changes in accouting policies

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

– *Annual Improvements to HKFRSs 2010-2012 Cycle*

– *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2015 and 2014 are as follows:

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	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$'million*	*HK$'million*
For the six months ended 30 June 2015												
Gross revenue	879	507	1,386	11,628	859	12,487	846	6,693	20,026	–	–	21,412
Less: Inter-company adjustment	–	–	–	(81)	(426)	(507)	(23)	(3)	(533)	–	–	(533)
Revenue from external customers	879	507	1,386	11,547	433	11,980	823	6,690	19,493	–	–	20,879
Segment results	(146)	(102)	(248)	419	(485)	(66)	307	4,627	4,868	26	–	4,646
Share of profits less losses of:												
– Associates	–	(71)	(71)	9	–	9	–	–	9	–	–	(62)
– Joint ventures	–	160	160	2	–	2	–	–	2	(41)	–	121
Profit before income tax expense	(146)	(13)	(159)	430	(485)	(55)	307	4,627	4,879	(15)	–	4,705
Income tax expense												(1,257)
Profit for the period												3,448
Segment results included:												
– Interest income	49	2	51	44	4	48	1	18	67	221	(236)	103
– Depreciation, depletion and amortisation	(359)	(299)	(658)	(684)	(123)	(807)	(353)	(1,080)	(2,240)	(1)	–	(2,899)
– Interest expenses	–	(2)	(2)	(32)	(183)	(215)	(40)	(91)	(346)	(146)	236	(258)
As at 30 June 2015												
Non-current assets	2,944	569	3,513	21,886	16,336	38,222	11,010	37,441	86,673	1,164	–	91,350
Current assets	1,046	562	1,608	9,646	1,581	11,227	466	3,953	15,646	6,735	–	23,989
Segment assets	3,990	1,131	5,121	31,532	17,917	49,449	11,476	41,394	102,319	7,899	–	115,339
Investments in associates	–	2,324	2,324	2,340	–	2,340	7	–	2,347	–	–	4,671
Investments in joint ventures	–	1,297	1,297	178	–	178	–	–	178	94	–	1,569
Sub-total	3,990	4,752	8,742	34,050	17,917	51,967	11,483	41,394	104,844	7,993	–	121,579
Available-for-sale financial assets												85
Deferred tax assets												793
Others												19
Total assets												122,476

	Exploration and Production			Natural Gas Distribution						Corporate	Inter-company adjustment	
	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$'million*	*HK$'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	542	209	751	843	(57)	786	475	3,923	5,184	(61)	–	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	542	625	1,167	913	(57)	856	475	3,923	5,254	(95)	–	6,326
Income tax expense												(1,513)
Profit for the period												4,813
Segment results included:												
– Interest income	80	4	84	49	3	52	1	24	77	88	(144)	105
– Depreciation, depletion and amortisation	(321)	(292)	(613)	(509)	(106)	(615)	(439)	(1,045)	(2,099)	(1)	–	(2,713)
– Interest expenses	–	(10)	(10)	(43)	(75)	(118)	(57)	(123)	(298)	(58)	144	(222)
As at 31 December 2014												
Non-current assets	3,152	792	3,944	21,726	14,934	36,660	11,032	38,529	86,221	1,165	–	91,330
Current assets	1,028	1,233	2,261	9,475	1,241	10,716	475	2,476	13,667	3,679	–	19,607
Segment assets	4,180	2,025	6,205	31,201	16,175	47,376	11,507	41,005	99,888	4,844	–	110,937
Investments in associates	–	2,428	2,428	2,341	–	2,341	6	–	2,347	–	–	4,775
Investments in joint ventures	–	1,136	1,136	179	–	179	–	–	179	136	–	1,451
Sub-total	4,180	5,589	9,769	33,721	16,175	49,896	11,513	41,005	102,414	4,980	–	117,163
Available-for-sale financial assets												83
Deferred tax assets												456
Others												8
Total assets												117,710

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 2015, revenue of approximately HK$8,764 million (six months ended 30 June 2014: HK$7,498 million) is derived from two (six months ended 30 June 2014: one) 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

Revenue 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	
	2015	2014
	HK$'million	*HK$'million*
Interest expenses	**657**	760
Less: Amounts capitalised	**(399)**	(538)
Total interest expenses	**258**	222

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 4.68% (six months ended 30 June 2014: 5.08%) per annum for the six months ended 30 June 2015.

5 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2015	2014
	HK$'million	*HK$'million*
Amortisation of advanced operating lease payments and intangible assets	**43**	32
Cost of inventories recognised as expense	**12,224**	12,771
Depreciation and depletion of property, plant and equipment	**2,856**	2,681
Operating lease expenses	**125**	121

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	HK$'million	*HK$'million*
Current tax		
– PRC	**1,556**	1,590
– Overseas	**55**	379
	1,611	1,969
Deferred tax	**(354)**	(456)
	1,257	1,513

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2015 (six months ended 30 June 2014: 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 2014: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (six months ended 30 June 2014: 10% to 15%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2015 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

There is no withholding tax included in overseas income tax expense (six months ended 30 June 2014: HK$217 million) in respect of dividend received/receivable from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (six months ended 30 June 2014: 20%) on the amount of dividend received/receivable.

There is no tax impact relating to components of other comprehensive income for the six months ended 30 June 2015 (six months ended 30 June 2014: 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$1,921 million (six months ended 30 June 2014: HK$3,171 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2015 of approximately 8,072 million shares (six months ended 30 June 2014: 8,068 million shares).

(b) Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately HK$1,921 million (six months ended 30 June 2014: HK$3,171 million) and the weighted average number of ordinary shares of approximately 8,072 million shares (six months ended 30 June 2014: 8,075 million shares), calculated as follow:

	Six months ended 30 June	
	2015	2014
	HK$'million	*HK$'million*
Weighted average number of ordinary shares as at 30 June	**8,072**	8,068
Effect of deemed issue of shares, under the Company's share option scheme for nil consideration	**–**	7
Weighted average number of ordinary shares (diluted) as at 30 June	**8,072**	8,075

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

8 DIVIDENDS

(a) 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.

(b) Final dividend attributable to owners of the Company in respect of 2014 of HK20 cents per share amounting to a total of approximately HK$1,614 million were approved by the shareholders in the Annual General Meeting on 3 June 2015. The amount is based on approximately 8,072 million shares in issue as at 26 March 2015 which was paid on 19 June 2015.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

9 ACCOUNTS RECEIVABLE

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

	30 June 2015	31 December 2014
	HK$'million	*HK$'million*
Within 3 months	**1,134**	1,329
Between 3 to 6 months	**324**	254
Over 6 months	**750**	405
	2,208	1,988

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 2015, accounts receivable of approximately HK$1,074 million (31 December 2014: HK$659 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 2015 and 31 December 2014, 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 2015, included in the balance is accounts payable of HK$1,918 million (31 December 2014: HK$1,871 million).

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

	30 June 2015 *HK$'million*	31 December 2014 *HK$'million*
Within 3 months	**1,009**	1,278
Between 3 to 6 months	**269**	194
Over 6 months	**640**	399
	1,918	1,871

BUSINESS REVIEW

I am pleased to report the 2015 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 2015 (the "Period"), the revenue of the Group amounted to HK$20,879 million, representing a decrease of HK$1,884 million or 8.28% compared with the revenue of HK$22,763 million for the same period of last year, and profit attributable to owners of the Company amounted to HK$1,921 million, representing a decrease of HK$1,250 million or 39.42% compared with the amount of HK$3,171 million for the same period of last year. During the Period, affected by the persistently low international crude oil price, slowdown in domestic economy, significant downturn in natural gas consumption growth and other factors, the Group's production and operation is facing greater pressure. Facing the complex environmental situations, the Group actively implemented various cost reduction and efficiency measures to speed up the adjustment on business structure and operation optimization, so as to achieve the overall smooth control of production and operation.

During the Period, the Group issued its first senior notes in the amount of US$1 billion. They were rated A+/A1/A by Standard & Poor's, Moody's and Fitch respectively. To the Group, this issuance not only effectively optimized our debt financing and capital structure, but also successfully broadened our financing channels and investors' scope.

I. Exploration and Production

During the Period, the sales volume of crude oil in the Exploration and Production business reached 8.42 million barrels, representing an increase of 0.02 million barrels or 0.24% compared with the volume of 8.40 million barrels the same period of last year. The revenue was HK$1,386 million, representing a decrease of HK$1,458 million or 51.27% as compared with the revenue of HK$2,844 million for the same period of last year. Loss before income tax expense was HK$159 million, representing a decrease of HK$1,326 million or 113.62% compared with the profit before income tax expense of HK$1,167 million for the same period of last year. The decrease in revenue and the profit before income tax expense was mainly due to the Group's average realised crude oil selling price was only US$47.01 per barrel for the Period, representing a substantial decrease of US$40.79 or 46.46% compared with US$87.80 in the same period of last year.

During the Period, the Group has faced gradual decline in oil field production, increase in exploitation cost and other adverse impact. The Group has adopted measures such as integrative optimisation and accelerating the production schedule of drilling new wells. Oil and gas production are run under scientific approach so as to keep the overall production volume stable; meanwhile, arrange the workforce on an efficient basis, propel fine management of production and operational flow and strengthen the cost control resulting the reduction of operating cost by US$3.04 per barrel.

II. Natural Gas Pipeline

During the Period, the transmission volume of Natural Gas Pipeline business was 16,090 million cubic metres, representing an increase of 977 million cubic metres or 6.46% compared with the volume of 15,113 million cubic metres for the same period of last year. Revenue was HK$6,693 million, representing an increase of HK$685 million or 11.40% as compared with the revenue of HK$6,008 million for the same period of last year; profit before income tax expense was HK$4,627 million, representing an increase of HK$704 million or 17.95% as compared with the amount of HK$3,923 million for the same period of last year.

During the Period, the transmission volume of Petrochina Beijing Gas Pipeline Co., Ltd. under the Group was 15,694 million cubic metres, representing an increase in 6.80% compared with the same period of last year. Of which, the transmission volume in Beijing region increased by 1,386 million cubic metres, representing an increase in 25.71% compared with the same period of last year, which fully supported the increase in demand from the region's citizens, public utilities and key industrial users.

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 2,217 million cubic metres (approximately 1.58 million tons), representing a decrease of 784 million cubic metres (approximately 0.56 million tons) or 26.12% compared with the volume of 3,001 million cubic metres (approximately 2.14 million tons) for the same period of last year. Revenue amounted to HK$846 million, representing a decrease of HK$312 million or 26.94% compared with the revenue of HK$1,158 million for the same period of last year; profit before income tax expense amounted to HK$307 million, representing a decrease of HK$168 million or 35.37% as compared with the amount of HK$475 million for the same period of last year. The decrease in both revenue and profit before income tax expense was due to decline in LNG import volume of the parent company.

IV. Sales of Natural Gas and LNG Processing

During the Period, the sales volume of the Group's natural gas was 3,517 million cubic metres, representing a decrease of 78 million cubic metres or 2.17% compared with the volume of 3,595 million cubic metres for the same period of last year. The revenue was HK$12,487 million, representing a decrease of HK$1,235 million or 9.00% compared with the revenue of HK$13,722 million for the same period of last year. The loss before income tax expense was HK$55 million, representing a decrease of profit of HK$911 million or 106.43% compared with the amount of HK$856 million for the same period of last year. The decrease in both revenue and profit before income tax expense was mainly due to the substantial fall in the average selling price of natural gas caused by the reduced economic advantage of natural gas under low crude oil price.

During the Period, Hainan LNG storage tank was invested and constructed by the Group and began trial operation. Its capacity of loading and unloading reaches 300,000 tons/year and 25,200 tons of LNG were successfully loaded and unloaded. The completion of Hainan storage tank immensely increased the supply of natural gas and secured the capability in emergency, which will effectively improve the insufficient supply of natural gas in the region.

During the Period, the Group's sales volume of LNG was 1,367 million cubic metres, representing an increase of 132 million cubic metres or 10.69% compared with the volume of 1,235 million for the same period of last year. There were still 12 LNG plants in operation with daily capacity of 7.18 million cubic meter. During the Period, to actively respond to unfavorable situation such as market impact of importing gas at low price and weakened downstream demand, the Group turn the situation of over-capacity around through shutting down and optimizing capacity, and strengthened the co-ordination of resources. Meanwhile, the Group actively launched import LNG business, facilitating the stable growth in the sales of LNG and providing security of resources through multiple channels to the "Gas In Substitution of Oil" business.

BUSINESS PROSPECTS

In the second half of the year, along with the gradual implementation of a series of steady growth policies from the Chinese Government, it is expected that the domestic energy demand will rebound compared with the first half of the year. Besides, the comprehensive management work for the purpose of improving the atmospheric environment and the continuous implementation of price reform policy on natural gas pricing will also create favorable conditions for the healthy development of the natural gas industry. The Group will closely monitor the progress of reformation, continue to maintain good communication with government departments and cooperation between enterprises, so as to actively promote the industrial upgrading and the healthy development of the natural gas industry.

In the current period and onwards, the Group will continue to focus on the three merits of "low-cost development, business restructuring and fostering of growth points", vigorously promote corporate reform and marketing efficiency with innovative approaches in an effort to maintain a steady and positive improvement of its production and operation.

Regarding low-cost development, the Group will implement precision management, investment control, cost reduction, promote saving and improve efficiency on the basis of maintaining the stable operation of the exploration and production business, natural gas pipeline business and terminal business; actively explore effective ways of cost control under low oil price, forming sustainable competitiveness.

Regarding business restructuring, the Group will further improve its business positioning and investment direction, focus on the development of natural gas business; broaden the channels of resources and actively develop the import LNG business by utilising LNG terminals; optimize the regional and customer mix, upgrade the LNG plant and terminal assets operating efficiency and overall effectiveness; accelerate the construction of integrated oil and gas stations by relying on the sales network and channels of the parent company, make more significant advancements with the end-user markets and continue to enhance the market competitiveness.

Regarding fostering of growth points, the Group will highlight the regions with advantages and efficient market development, foster growth points from the market development; fully develop the advantages of different natural gas products, provide differentiated services and cultivate potential markets; make active efforts to develop businesses of city gas, branch pipeline network and natural gas power generation, which forms a new competitive advantage.

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 2015 (the "Period"). The profit before income tax expense from the Natural Gas Distribution business segment contributed about 103.70% (same period of 2014: 83.05%) 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$4,705 million, representing a decrease of 25.62% as compared with HK$6,326 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately HK$1,921 million, representing a decrease of 39.42% as compared with HK$3,171 million for the same period of last year.

Revenue

Revenue for the Period was approximately HK$20,879 million, representing a decrease of 8.28% as compared with amount of HK$22,763 million for the same period of last year. The decrease was mainly due to the decrease in realised crude oil selling price compared to the same period of last year.

Revenue from the Exploration and Production segment accounted for 6.64% (same period of 2014: 12.49%) of the Group's total revenue amounting to approximately HK$1,386 million (same period of 2014: HK$2,844 million) while revenue from the Natural Gas Distribution business segment accounted for 93.36% (same period of 2014: 87.51%) of the Group's total revenue amounting to approximately HK$19,493 million (same period of 2014: HK$19,919 million).

The table below sets out the sales volume and revenue of different segments of the Group for the six months ended 30 June 2015 and 2014, 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		
	2015	2014	Change	**2015**	2014	Change
	('000 Barrel)	('000 Barrel)	%	**HK$'million**	HK$'million	%
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC")	**2,594**	2,717	(4.53)	**879**	1,831	(51.99)
South America (note (1))	**310**	325	(4.62)	**285**	545	(47.71)
Central Asia	**295**	313	(5.75)	**111**	242	(54.13)
South East Asia (note (2))	**251**	294	(14.63)	**111**	226	(50.88)
Sub-total	**3,450**	3,649	(5.45)	**1,386**	2,844	(51.27)
Share of an associate in Central Asia	**2,768**	2,899	(4.52)	**–**	–	N/A
Share of a joint venture in Middle East	**2,200**	1,854	18.66	**–**	–	N/A
Total of Exploration and Production	**8,418**	8,402	0.19	**1,386**	2,844	(51.27)

	Revenue (Per segment information) for the six months ended 30 June		
	2015	2014	Change
	HK$'million	HK$'million	%
Natural Gas Distribution business (by segments)			
Natural Gas Pipeline (note (3))	**6,693**	6,008	11.40
LNG Terminal	**846**	1,158	(26.94)
Natural Gas Sales	**11,628**	12,015	(3.22)
LNG Processing	**859**	1,707	(49.68)
Sub-total	**12,487**	13,722	(9.00)
Less: Inter-company adjustment	**(533)**	(969)	(44.99)
Total of Natural Gas Distribution	**19,493**	19,919	(2.14)
Total revenue	**20,879**	22,763	(8.28)

	Sale/processing volume for the six months ended 30 June		
	2015	2014	Change
	('000 cubic metre)	('000 cubic metre)	%
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline	**16,089,759**	15,113,371	6.46
LNG Terminal	**2,217,389**	3,001,113	(26.11)
Natural Gas Sales	**3,271,074**	3,168,697	3.23
LNG Processing	**246,175**	426,276	(42.25)
Sub-total	**3,517,249**	3,594,973	(2.16)
Less: Inter-company adjustment	**(256,337)**	(433,321)	(40.84)
Total of Natural Gas Distribution	**21,568,060**	21,276,136	1.37

Notes:

(1) Only the Group's 50% share of sales volume from an oilfield in South America is stated while its revenue is shown as 100% per consolidation requirement.

(2) Only the Group's 96.11% share of sales volume from an oilfield in South East Asia is stated while its revenue is shown as 100% per consolidation requirement.

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

	Sales volume for the six months ended 30 June			Revenue for the six months ended 30 June		
	2015	2014	Change	**2015**	2014	Change
	('000 cubic metre)	('000 cubic metre)	%	**HK$'million**	HK$'million	%
Natural Gas Sales	**25,506**	29,135	(12.46)	**87**	91	(4.40)

Other gains, net

Other gains, net for the Period was approximately HK$488 million, representing an increase of 40.23% as compared with amount of HK$348 million for the same period of last year. The increase was mainly due to stable exchange rate during the Period compared with the same period of last year which has exchange loss on the borrowing which were denominated in USD of HK$87 million.

Interest income

Interest income for the Period was approximately HK$103 million, representing a decrease of 1.90% as compared with amount of HK$105 million for the same period of last year.

Purchases, services and others

Purchases, services and others were approximately HK$11,315 million for the Period, representing a decrease of 3.83% as compared with amount of HK$11,766 million for the same period of last year.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$1,012 million for the Period, representing a decrease of 1.56% as compared with amount of HK$1,028 million for the same period of last year. This decrease was mainly due to the decrease in the number of staff of the Group.

Exploration expenses

Exploration expenses for the Period was approximately HK$2 million, representing a decrease of 90.00% as compared with HK$20 million for the same period of last year. This was mainly related to the decrease in exploration activities in a small exploration area in South East Asia undertaken by the Group's exploration and production projects.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Period was approximately HK$2,899 million, representing an increase of 6.86% as compared with amount of HK$2,713 million for the same period of last year. This was mainly due to addition of property, plant and equipment during the Period and the second half of 2014.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Period were approximately HK$1,143 million, representing a decrease of 5.77% as compared with amount of HK$1,213 million for the same period of last year. This was mainly due to the decrease in royalties in Exploration and Production business which is in line with the decrease in realised crude oil selling price.

Taxes other than income taxes

Taxes other than income taxes for the Period was approximately HK$195 million, representing a decrease of 48.68% as compared with amount of HK$380 million for the same period of last year. This decrease was mainly due to the decrease in levy on petroleum which is in line with the decrease in realised crude oil selling price in the Group's Exploration and Production business.

Interest expenses

Interest expenses for the Period was approximately HK$258 million, representing an increase of 16.22% as compared with amount of HK$222 million for the same period of last year. Total interest expenses for the Period was approximately HK$657 million of which HK$399 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 132.98% to loss of approximately HK$62 million (same period of 2014: profit of HK$188 million). This was mainly due to the decrease in realised crude oil selling price during the Period which led to the decrease in the shared operating results from CNPC-Aktobemunaigas Joint Stock Company.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Period decreased by 54.17% to approximately HK$121 million (same period of 2014: HK$264 million). This was mainly due to the decrease in realised crude oil selling price during the Period which led to the decrease in the shared operating results from Oman project.

Profit before income tax expense

Profit before income tax expense for the Period was approximately HK$4,705 million, representing a decrease of 25.62% as compared with amount of HK$6,326 million for the same period of last year.

The table below sets out the profit before income tax expense and percentage of change of different segments of the Group for the six months ended 30 June 2015 and 2014.

	Profit before income tax expense for the six months ended 30 June		
	2015	2014	Change
	HK$'million	HK$'million	%
Exploration and Production business			
PRC	**(146)**	542	(126.94)
South America	**124**	252	(50.79)
Central Asia	**(22)**	(38)	(42.11)
South East Asia	**(204)**	(5)	3980.00
Sub-total	**(248)**	751	(133.02)
Share of an associate in Central Asia	**(71)**	118	(160.17)
Share of a joint venture in Middle East	**160**	298	(46.31)
Total of Exploration and Production	**(159)**	1,167	(113.62)
Natural Gas Distribution business			
Natural Gas Pipeline	**4,627**	3,923	17.95
LNG Terminal	**307**	475	(35.37)
Natural Gas Sales	**430**	913	(52.90)
LNG Processing	**(485)**	(57)	750.88
Sub-total	**(55)**	856	(106.43)
Total of Natural Gas Distribution	**4,879**	5,254	(7.14)
	4,720	6,421	(26.49)

Income tax expense

Income tax expense for the Period was approximately HK$1,257 million, representing a decrease of 16.92% as compared with amount of HK$1,513 million for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period increased to 27.06% (same period of 2014: 25.76%).

Profit for the Period and profit attributable to owners of the company

The profit for the Period of the Group was approximately HK$3,448 million, representing a decrease of 28.36% as compared with amount of HK$4,813 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately HK$1,921 million, representing a decrease of 39.42% as compared with amount of HK$3,171 million for the same period of last year.

Liquidity, capital resources and use of proceeds

As at 30 June 2015, the carrying value of total assets of the Group was approximately HK$122,476 million, representing an increase of HK$4,766 million or 4.05% as compared with 31 December 2014 amount of HK$117,710 million.

The gearing ratio of the Group was 29.55% as at 30 June 2015 compared with 25.57% as at 31 December 2014, representing an increase of 3.98%. It is computed by dividing the sum of interest bearing borrowings and obligations under finance leases of HK$31,498 million (31 December 2014: HK$25,532 million) by the total equity, interest bearing borrowings and obligations under finance leases of HK$106,601 million (31 December 2014: HK$99,846 million).

Profit before income tax expense, excluding interest, depreciation, depletion and amortisation ("EBITDA") for the Period was approximately HK$7,759 million, representing a decrease of 15.26% as compared with the amount of HK$9,156 million for the last Period.

During the Period, the Company has issued two Senior Notes to improve the debt financing structure:

Items	Date of issue	Nominal Amount US$'million	Tenor year	Annualised Interest Rate %
Senior Notes due 2020 (Stock code: 5510)	13 May 2015	500	5	2.875
Senior Notes due 2025 (Stock code: 5511)	13 May 2015	500	10	3.750

Note: Please refer to the announcements on the issue of Senior Notes published by the Company on the website of The Stock Exchange of Hong Kong Limited and the website of the Company in April and May 2015.

The Group raised new borrowings of HK$17,374 million including the net amount of the Senior Notes of US$988 million (equivalent to HK$7,655 million) mentioned above and repaid HK$11,479 million resulting an net increase of HK$5,895 million during the Period.

The Group received no dividends (same period of 2014: nil) from a joint venture in Middle East and no dividends (same period of 2014: HK$458 million) from an associate in Central Asia during the Period.

During the Period, no share option (31 December 2014: 9.9 million shares exercised and HK$32 million received) has been exercised by the senior executives of the Company as the exercise price of HK$10.32 was above the market price of HK$7.36 on the share option expiry date and the share options were lapsed.

The Group paid interest of HK$636 million (same period of 2014: HK$763 million) during the Period excluding the accrued interest of the Senior Notes which will be paid on 12 November 2015.

2014 final dividend of HK20 cents per share amounting to HK$1,614 million (2013: HK23 cents per share amounting to HK$1,857 million) was distributed to owners of the Company during the Period.

Pledge of assets

As at 30 June 2015 and 31 December 2014, no short-term and long-term borrowings were secured with 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 2015, the Group had approximately 20,507 staff globally (excluding the staff under entrustment contracts) (31 December 2014: 21,751 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 2015.

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 27 August 2015 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, 6 August 2015

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.