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

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Year ended 31 December		
	2016	2015	**Change**
	HK$'million	*HK$'million* (restated)	*%*
Revenue	**81,882**	96,335	(15.00)
Profit before income tax expense	**7,115**	7,555	(5.82)
Profit attributable to the owners of the Company	**659**	1,491	(55.80)
Adjusted EBITDA (note)	**18,418**	16,243	13.39
	HK cent	*HK cent*	
Earnings per share (Basic)	**8.16**	18.50	(55.89)
Earnings per share (Diluted)	**8.16**	18.50	(55.89)
Dividend per share – Final	**7.40**	6.00	23.33
	HK$'million	*HK$'million*	
(Loss)/profit attributable to the owners of the Company (by segment)			
– Exploration and Production	**(213)**	(2,906)	(92.67)
– Natural Gas Sales (including LNG Processing)	**(2,515)**	774	(424.94)
– LNG Terminal	**341**	216	57.87
– Natural Gas Pipeline	**4,238**	4,030	5.16
Adjusted EBITDA (by segment)			
– Exploration and Production	**701**	(1,421)	149.33
– Natural Gas Sales (including LNG Processing)	**5,499**	5,589	(1.61)
– LNG Terminal	**1,383**	1,149	20.37
– Natural Gas Pipeline	**11,531**	11,611	(0.69)

Note: Adjusted EBITDA is defined as (loss)/profit before income tax expense, excluding impairment loss on property, plant and equipment, interest, depreciation, depletion and amortisation.

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

(EXCLUDING EFFECT OF IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT)

	Year ended 31 December		
	2016	2015	**Change**
	HK$'million	*HK$'million* (restated)	*%*
Revenue	**81,882**	96,335	(15.00)
Core profit before income tax expense	**11,717**	9,279	26.27
Core profit attributable to the owners of the Company	**4,392**	3,213	36.69
	HK cent	*HK cent*	
Core earnings per share (Basic)	**54.41**	39.80	36.71
Core earnings per share (Diluted)	**54.41**	39.80	36.71
Dividend per share – Final	**7.40**	6.00	23.33
	HK$'million	*HK$'million*	
Core (loss)/profit attributable to the owners of the Company (by segment)			
– Exploration and Production	**(160)**	(1,228)	(86.97)
– Natural Gas Sales (including LNG Processing)	**1,166**	818	42.54
– LNG Terminal	**341**	216	57.87
– Natural Gas Pipeline	**4,238**	4,030	5.16

Note:

Core profit before income tax expense is defined as profit before income tax expense excluding impairment loss on property, plant and equipment.

Core profit attributable to the owners of the Company is defined as profit attributable to the owners of the Company excluding impairment loss on property, plant and equipment attributable to the owners of the Company and its related tax effect.

Core earnings per share is calculated based on the core profit attributble to the owners of the Company and weighted average number of ordinary shares in issue during the year.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016** **HK$'million**	2015 HK$'million (restated) (Note 11)
Revenue	3	**81,882**	96,335
Other gains, net		**793**	694
Interest income		**349**	399
Purchases, services and others		**(56,682)**	(69,683)
Employee compensation costs		**(4,481)**	(4,739)
Depreciation, depletion and amortisation		**(6,365)**	(6,690)
Impairment loss on property, plant and equipment	5	**(4,602)**	(1,724)
Selling, general and administrative expenses		**(3,399)**	(3,821)
Taxes other than income taxes		**(596)**	(697)
Interest expenses	4	**(685)**	(673)
Share of profits less losses of:			
– Associates		**710**	(2,088)
– Joint ventures		**191**	242
Profit before income tax expense	5	**7,115**	7,555
Income tax expense	6	**(3,701)**	(3,325)
Profit for the year		**3,414**	4,230
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of:			
– Subsidiaries		**(3,241)**	(4,597)
– Associates		**(324)**	(310)
– Joint ventures		**(10)**	(18)
– Fair value (loss)/gain on available-for-sale financial assets		**(313)**	768
Other comprehensive income, net of nil tax		**(3,888)**	(4,157)
Total comprehensive income for the year		**(474)**	73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2016

	Note	**2016**	2015
		HK$'million	*HK$'million*
			(restated)
			(Note 11)
Profit for the year attributable to:			
– Owners of the Company		**659**	1,491
– Non-controlling interests		**2,755**	2,739
		3,414	4,230
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(1,621)**	(1,683)
– Non-controlling interests		**1,147**	1,756
		(474)	73
Earnings per share for profit attributable to owners of the Company	7		
– Basic (HK cent)		**8.16**	18.50
– Diluted (HK cent)		**8.16**	18.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016**	2015
		HK$'million	*HK$'million*
			(restated)
			(Note 11)
Assets			
Non-current assets			
Property, plant and equipment		**93,488**	98,878
Advanced operating lease payments		**4,093**	4,199
Investments in associates		**3,154**	2,814
Investments in joint ventures		**1,461**	1,371
Available-for-sale financial assets		**514**	870
Intangible and other non-current assets		**2,725**	1,540
Deferred tax assets		**1,182**	1,165
		106,617	110,837
Current assets			
Inventories		**1,397**	1,518
Accounts receivable	9	**3,114**	3,280
Prepaid expenses and other current assets		**6,075**	10,406
Cash and cash equivalents		**21,566**	17,145
		32,152	32,349
Total assets		**138,769**	143,186

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2016

	Note	**2016** **HK$'million**	2015 HK$'million (restated) (Note 11)
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	81
Retained earnings		**27,087**	27,580
Other reserves		**13,763**	34,100
		40,931	61,761
Non-controlling interests		**25,372**	26,858
Total equity		**66,303**	88,619
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**30,052**	24,539
Income tax payable		**780**	626
Other tax payable		**736**	891
Short-term borrowings		**15,850**	8,076
Obligations under finance leases		**187**	208
		47,605	34,340
Non-current liabilities			
Long-term borrowings		**17,915**	16,414
Convertible bonds		**3,551**	–
Deferred tax liabilities		**1,014**	1,040
Obligations under finance leases		**376**	566
Other liabilities		**2,005**	2,207
		24,861	20,227
Total liabilities		**72,466**	54,567
Total equity and liabilities		**138,769**	143,186
Net current liabilities		**(15,453)**	(1,991)
Total assets less current liabilities		**91,164**	108,846

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2016, but are extracted from those consolidated financial statements.

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

On 28 December 2015, the Group entered into the acquisition agreement with PetroChina Company Limited ("PetroChina") ("Agreement"), pursuant to which, the Group has agreed to purchase, and PetroChina has agreed to sell, the entire equity interest in PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") at a cash consideration of approximately RMB14,827 million (approximately HK$17,998 million or US$2,322 million), subject to adjustment on gain or loss of Kunlun Gas during the transition period, as defined in the Agreement. The acquisition was completed on 31 May 2016, and Kunlun Gas has become a wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by China National Petroleum Corporation, the acquisition of Kunlun Gas was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition has been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5, *Merger Accounting for Common Control Combinations* ("AG 5") issued by the HKICPA. The financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The opening balance at 1 January 2015 have been restated, with consequential adjustments to comparatives for the year ended 31 December 2015. The final consideration of HK$18,951 million payable by the Group has been treated as an equity transaction. The details of the restated balances have been disclosed in Note 11 to this financial information.

Changes in accounting policies

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

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

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 Peoples' Republic of China (the "PRC") and other territories).

The Natural Gas Distribution segment is engaged in the sales and distribution 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 assess 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, net exchange gains/losses, general and administration expenses and interest expenses incurred at corporate level.

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

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2016 and 2015 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 year ended 31 December 2016												
Gross revenue	1,029	724	1,753	63,975	1,477	65,452	1,727	13,742	80,921	–	–	82,674
Less: Inter-company adjustment	–	–	–	(71)	(544)	(615)	(166)	(11)	(792)	–	–	(792)
Revenue from external customers	1,029	724	1,753	63,904	933	64,837	1,561	13,731	80,129	–	–	81,882
Segment results	(625)	50	(575)	2,915	(5,322)	(2,407)	704	9,461	7,758	(969)	–	6,214
Share of profits less losses of:												
– Associates	–	397	397	313	–	313	–	–	313	–	–	710
– Joint ventures	–	192	192	10	–	10	–	–	10	(11)	–	191
(Loss)/profit before income tax expense	(625)	639	14	3,238	(5,322)	(2,084)	704	9,461	8,081	(980)	–	7,115
Income tax expense												(3,701)
Profit for the year												3,414
Segment results included:												
– Interest income	31	3	34	507	4	511	1	41	553	426	(664)	349
– Depreciation, depletion and amortisation	(440)	(226)	(666)	(2,548)	(420)	(2,968)	(668)	(2,060)	(5,696)	(3)	–	(6,365)
– Impairment loss on property, plant and equipment	–	(55)	(55)	(25)	(4,522)	(4,547)	–	–	(4,547)	–	–	(4,602)
– Interest expenses	–	–	–	(205)	(374)	(579)	(12)	(51)	(642)	(707)	664	(685)
As at 31 December 2016												
Non-current assets	634	640	1,274	38,531	12,423	50,954	9,556	38,498	99,008	24	–	100,306
Current assets	1,046	497	1,543	23,025	937	23,962	782	3,058	27,802	2,776	–	32,121
Segment assets	1,680	1,137	2,817	61,556	13,360	74,916	10,338	41,556	126,810	2,800	–	132,427
Investments in associates	–	243	243	2,905	–	2,905	6	–	2,911	–	–	3,154
Investments in joint ventures	–	1,253	1,253	132	–	132	–	–	132	76	–	1,461
Sub-total	1,680	2,633	4,313	64,593	13,360	77,953	10,344	41,556	129,853	2,876	–	137,042
Available-for-sale financial assets												514
Deferred tax assets												1,182
Others												31
Total assets												138,769

	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*
				(restated)		(restated)			(restated)			(restated)
				(Note 11)		*(Note 11)*			*(Note 11)*			*(Note 11)*
For the year ended 31 December 2015												
Gross revenue	1,648	931	2,579	77,410	2,070	79,480	1,490	14,043	95,013	–	–	97,592
Less: Inter-company adjustment	–	–	–	(313)	(867)	(1,180)	(65)	(12)	(1,257)	–	–	(1,257)
Revenue from external customers	1,648	931	2,579	77,097	1,203	78,300	1,425	14,031	93,756	–	–	96,335
Segment results	(2,045)	153	(1,892)	2,943	(868)	2,075	403	9,380	11,858	(565)	–	9,401
Share of profits less losses of:												
– Associates	–	(2,249)	(2,249)	160	–	160	1	–	161	–	–	(2,088)
– Joint ventures	–	262	262	15	–	15	–	–	15	(35)	–	242
(Loss)/profit before income tax expense	(2,045)	(1,834)	(3,879)	3,118	(868)	2,250	404	9,380	12,034	(600)	–	7,555
Income tax expense												(3,325)
Profit for the year												4,230
Segment results included:												
– Interest income	86	4	90	278	6	284	1	33	318	436	(445)	399
– Depreciation, depletion and amortisation	(718)	(148)	(866)	(2,722)	(272)	(2,994)	(689)	(2,138)	(5,821)	(3)	–	(6,690)
– Impairment loss on property, plant and equipment	(1,679)	–	(1,679)	(45)	–	(45)	–	–	(45)	–	–	(1,724)
– Interest expenses	–	(3)	(3)	(214)	(370)	(584)	(57)	(126)	(767)	(348)	445	(673)
As at 31 December 2015												
Non-current assets	1,015	810	1,825	40,892	16,446	57,338	10,585	34,842	102,765	27	–	104,617
Current assets	718	416	1,134	23,368	692	24,060	250	590	24,900	6,251	–	32,285
Segment assets	1,733	1,226	2,959	64,260	17,138	81,398	10,835	35,432	127,665	6,278	–	136,902
Investments in associates	–	–	–	2,807	–	2,807	7	–	2,814	–	–	2,814
Investments in joint ventures	–	1,062	1,062	220	–	220	–	–	220	89	–	1,371
Sub-total	1,733	2,288	4,021	67,287	17,138	84,425	10,842	35,432	130,699	6,367	–	141,087
Available-for-sale financial assets												870
Deferred tax assets												1,165
Others												64
Total assets												143,186

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

For the year ended 31 December 2016, revenue of approximately HK$12,787 million (2015 restated: HK$15,108 million) are derived from one (2015 restated: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

3. REVENUE

Revenue mainly represents revenue from the sales of crude oil, the sales and distribution 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

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Interest expenses on:		
Bank loans	**289**	216
Senior notes	**269**	167
Debentures payable	**26**	48
Convertible bonds	**64**	–
Other loans, from:		
– An intermediate holding company	**152**	281
– An immediate holding company	**160**	116
– China Petroleum Finance Company Limited	**304**	522
– Fellow subsidiaries	**69**	61
Finance charges on obligations under finance leases, from:		
– A fellow subsidiary	**21**	37
– A third party	**12**	17
Less: Amounts capitalised	**(681)**	(792)
	685	673

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 4.06% (2015 restated: 4.55%) per annum for the year ended 31 December 2016.

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Amortisation of advanced operating lease payments and intangible assets	**176**	176
Auditors' remuneration:		
– audit services	**23**	19
– non-audit services	**2**	1
Cost of inventories recognised as expense	**57,470**	71,092
Depreciation and depletion of property, plant and equipment	**6,189**	6,514
Operating lease expenses	**542**	288
Impairment loss on property, plant and equipment	**4,602**	1,724
Impairment loss on other receivables	**–**	83

6. INCOME TAX EXPENSE

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Current tax		
– PRC	**3,729**	3,892
– Overseas	**27**	69
	3,756	3,961
Deferred tax	**(55)**	(636)
	3,701	3,325

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2015: 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% (2015: 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% (2015: 15% to 20%).

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

7. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$659 million (2015 restated: HK$1,491 million) and weighted average number of ordinary shares in issue during the year of approximately 8,072 million shares (2015: 8,072 million shares).

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2016 whereas the effect of the Company's share option was anti-dilutive for the year ended 31 December 2015. Therefore, diluted earnings per share are the same as the basic earnings per share.

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2016	2015
	HK$'million	*HK$'million*
Proposed final dividend attributable to owners of the Company for 2016 *(note (a))*	**597**	–
Final dividend attributable to owners of the Company for 2015 *(note (b))*	**–**	484

Notes:

(a) At the meeting on 28 March 2017, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2016 of HK7.4 cents per share amounting to a total of approximately HK$597 million. The amount is based on approximately 8,072 million shares in issue as at 28 March 2017. This financial information does not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2017 when approved at the 2017 Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2015 of HK6 cents per share amounting to a total of approximately HK$484 million were approved by the shareholders in the Annual General Meeting on 12 May 2016. The amount is based on approximately 8,072 million shares in issue as at 17 March 2016 which was paid on 17 June 2016.

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:

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within 3 months	**1,994**	1,589
Between 3 to 6 months	**214**	509
Over 6 months	**906**	1,182
	3,114	3,280

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 and distribution of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2016, accounts receivable of approximately HK$1,120 million (2015 restated: HK$1,691 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to a number of independent customers that have a good track record with the Group. As of 31 December 2016 and 2015, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 31 December 2016, included in the balance is accounts payable of HK$3,617 million (2015 restated: HK$3,151 million).

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

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within 3 months	**2,670**	2,268
Between 3 to 6 months	**502**	189
Over 6 months	**445**	694
	3,617	3,151

11. COMPARATIVE FIGURES

2016 business combination under common control

As mentioned in Note 1 to this financial information, the acquisition of Kunlun Gas has been accounted for based on AG 5. Accordingly, the assets and liabilities of Kunlun Gas acquired by the Group have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the financial position and results of operation of Kunlun Gas on a combined basis. The details of the restated balances are as follows:

The summarised results of operations for the year ended 31 December 2015 and the financial position as at 31 December 2015 are set out below:

	The Group *HK$'million* (as previously reported)	Kunlun Gas *HK$'million*	Inter-company eliminations *HK$'million*	The Group *HK$'million* (restated)
Results of operations for the year ended 31 December 2015				
Revenue	41,641	54,946	(252)	96,335
Other gains, net	391	303	–	694
Interest income	225	174	–	399
Purchases, services and others	(22,884)	(47,051)	252	(69,683)
Employee compensation costs	(2,029)	(2,710)	–	(4,739)
Depreciation, depletion and amortisation	(5,281)	(1,409)	–	(6,690)
Impairment loss on property, plant and equipment	(1,724)	–	–	(1,724)
Selling, general and administrative expenses	(2,545)	(1,276)	–	(3,821)
Taxes other than income taxes	(402)	(295)	–	(697)
Interest expenses	(577)	(96)	–	(673)
Share of profits less losses of:				
– Associates	(2,124)	36	–	(2,088)
– Joint ventures	236	6	–	242
Profit before income tax expense	4,927	2,628	–	7,555
Income tax expense	(2,607)	(718)	–	(3,325)
Profit for the year	2,320	1,910	–	4,230
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of:				
– Subsidiaries	(3,849)	(748)	–	(4,597)
– Associates	(310)	–	–	(310)
– Joint ventures	(18)	–	–	(18)
– Fair value gain on available-for-sale financial assets	768	–	–	768
Other comprehensive income net of nil tax	(3,409)	(748)	–	(4,157)
Total comprehensive income for the year	(1,089)	1,162	–	73

	The Group *HK$'million* (as previously reported)	Kunlun Gas *HK$'million*	Inter-company eliminations *HK$'million*	The Group *HK$'million* (restated)
Profit for the year attributable to:				
– Owners of the Company	137	1,354	–	1,491
– Non-controlling interests	2,183	556	–	2,739
	2,320	1,910	–	4,230
Total comprehensive income for the year attributable to:				
– Owners of the Company	(2,153)	470	–	(1,683)
– Non-controlling interests	1,064	692	–	1,756
	(1,089)	1,162	–	73
Earnings per share for profit attributable to owners of the Company				
– Basic (HK cents)	1.70	16.80	–	18.50
– Diluted (HK cents)	1.70	16.80	–	18.50

Financial position as at 31 December 2015

	The Group *HK$'million* (as previously reported)	Kunlun Gas *HK$'million*	Inter-company eliminations *HK$'million*	The Group *HK$'million* (restated)
Non-current assets				
Property, plant and equipment	80,390	18,488	–	98,878
Advanced operating lease payments	3,205	994	–	4,199
Investments in associates	2,266	548	–	2,814
Investments in joint ventures	1,321	50	–	1,371
Available-for-sale financial assets	812	58	–	870
Intangibles and other non-current assets	1,045	495	–	1,540
Deferred tax assets	586	579	–	1,165
	89,625	21,212	–	110,837
Current assets				
Inventories	916	602	–	1,518
Accounts receivable	1,837	1,443	–	3,280
Prepaid expenses and other current assets	3,932	6,474	–	10,406
Cash and cash equivalents	11,771	5,374	–	17,145
	18,456	13,893	–	32,349
Total assets	108,081	35,105	–	143,186

	The Group	Kunlun Gas	Inter-company eliminations	The Group
	HK$'million (as previously reported)	*HK$'million*	*HK$'million*	*HK$'million* (restated)
Equity				
Capital and reserves attributable to owners of the Company				
Share capital	81	10,666	(10,666)	81
Retained earnings	25,680	1,900	–	27,580
Other reserves	23,362	72	10,666	34,100
	49,123	12,638	–	61,761
Non-controlling interests	21,201	5,657	–	26,858
Total equity	70,324	18,295	–	88,619
Current liabilities				
Accounts payable and accrued liabilities	11,479	13,060	–	24,539
Income tax payable	582	44	–	626
Other tax payable	248	643	–	891
Short-term borrowings	7,721	355	–	8,076
Obligations under finance leases	208	–	–	208
	20,238	14,102	–	34,340
Non-current liabilities				
Long-term borrowings	15,418	996	–	16,414
Deferred tax liabilities	941	99	–	1,040
Obligations under finance leases	566	–	–	566
Other liabilities	594	1,613	–	2,207
	17,519	2,708	–	20,227
Total liabilities	37,757	16,810	–	54,567
Total equity and liabilities	108,081	35,105	–	143,186
Net current liabilities	(1,782)	(209)	–	(1,991)
Total assets less current liabilities	87,843	21,003	–	108,846

BUSINESS REVIEW

The board of directors (the "Board") of Kunlun Energy Company Limited (the "Company") hereby reports the annual result for the year ended 31 December 2016 (the "Year") of the Company and its subsidiaries (together, the "Group") to the shareholders of the Company (the "Shareholders"). During the Year, facing the severe and complex economic situations, under continuing sluggish international oil prices and the fall in natural gas price in the PRC, the Group actively optimised and adjusted its business structure and assets structure and focused on its core business of natural gas utilisation by facilitating innovative development and vigorously implementing all-around, whole-process, all-element measures to control cost and improve performance. The synergies from acquisition of PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas") began to show. The overall platform of the Group was better than expected. During the Year, the Group's sales revenue was HK$81,882 million; profit before income tax expense was HK$7,115 million; and profit attributable to the owners of the Company was HK$659 million, representing decreases of 15.00%, 5.82% and 55.80%, respectively, as compared with last year (restated). Basic earnings per share for the Year were HK8.16 cents.

As the domestic LNG market recovery was slower than expected, the Group made a provision of HK$4,602 million for impairment of assets including LNG plants. Excluding such factor, core profit before income tax expense for the Year would be HK$11,717 million, representing an increase of 26.27% as compared with last year (restated). Core profit attributable to shareholders and basic core earnings per share were HK$4,392 million and HK54.41 cents, respectively, representing increases of 36.69% and 36.71% as compared with last year.

In May 2016, the Group completed the acquisition of Kunlun Gas, and became a financing platform and investment vehicle for CNPC's natural gas business and a management platform for its natural gas utilisation business. Its natural gas utilisation business covers 31 provinces and cities across China, with the capacity of the annual natural gas sales volume of nearly 18 billion cubic metres and LPG sales volume of over 6 million tons, loading and unloading volume of LNG terminals of 12.5 million tons, LNG plant capacity of 5.8 million tons/year, and over 1,200 CNG/LNG stations, leading in the PRC in terms of the number of gas stations.

During the Year, the Group made use of the synergies to facilitate management consolidation, further improved its three-level management model of "Kunlun Energy– Provincial companies – Project companies", and optimised resource allocation, adopted strong measures to reduce cost and enhance efficiency. As a result, it has initially realised centralised operation, professional management and integrated development. During the Year, labour cost decreased by 5.44% and selling, general and administrative expenses decreased by 11.04% as compared with the restated amount for last year, reflecting initial results for its management integration.

During the Year, the Group successfully issued 3.35 billion RMB-denominated US dollar-settled convertible bonds, which are the first convertible bonds issued in overseas markets that are linked to offshore Renminbi. The Group has made the application with the National Association of Financial Market Institutional Investors of the People's Republic of China for registration of RMB10 billion panda bonds. The Group has obtained A1, A+, and A ratings from Moody's, Standard & Poor's and Fitch respectively and also obtained AAA from China Lianhe Credit Rating Co., Ltd.

Exploration and Production

During the Year, the sales volume of crude oil in the exploration and production business reached 15.22 million barrels, representing a decrease of 1.53 million barrels or 9.13% compared with the volume of 16.75 million barrels for last year. The revenue was HK$1,753 million, representing a decrease of HK$826 million or 32.03% as compared with the revenue of HK$2,579 million for last year; mainly due to the realised crude oil selling price for the year of US$34.66/barrel, which represents a decrease of US$8.35 or 19.41% as compared with US$43.01/barrel for last year. Profit before income tax expense was HK$14 million, representing an increase of HK$3,893 million or 100.36% compared to loss before income tax expense of HK$3,879 million for last year, mainly due to the provision of HK$1,679 million made for the impairment of oil and gas assets as a result of the decrease in average crude oil selling price in 2015.

Natural Gas Pipeline

During the Year, the transmission volume of natural gas pipeline business was 35,731 million cubic metres, representing an increase of 566 million cubic metres or 1.61% as compared with 35,165 million cubic metres (restated) for last year. The revenue was HK$13,742 million, representing a decrease of HK$301 million or 2.14% as compared to HK$14,043 million (restated) for last year. Profit before income tax expense was HK$9,461 million, representing an increase of HK$81 million or 0.86% as compared to HK$9,380 million (restated) for last year.

During the Year, the transmission volume of PetroChina Beijing Gas Pipeline Co., Ltd. under the Group ("Beijing Pipeline Company") was 33,627 million cubic metres, representing an increase of 2.11% as compared with last year. The trunk line of No. 4 Shaanxi-Beijing Pipeline, which is invested by Beijing Pipeline Company, commenced construction in July 2016. Despite unfavourable factors such as tight schedule and difficulties in external coordination, the Baodi-Xianghe-Xiji connection line had the gas supply channel in east Beijing built in less than 100 days, enhancing total natural gas transmission and distribution capacity in Beijing, Tianjin and Hebei.

LNG Terminal

During the Year, the sales volume of LNG Terminal was 4,859 million cubic metres, representing an increase of 891 million cubic metres or 22.45% as compared with 3,968 million cubic metres for last year. The revenue was HK$1,727 million, representing an increase of HK$237 million or 15.91% as compared with HK$1,490 million for last year; profit before income tax expense was HK$704 million, representing an increase of HK$300 million or 74.26% as compared with HK$404 million for last year.

The second phase projects of Jiangsu and Dalian LNG Terminals were completed and put into operation, which has realised the storage of LNG resources in summer for use in winter and effectively improved the emergency peaking capability in winter. Dalian LNG Terminal actively conducted third-party storage and transmission business. Relying on the resources of Jiangsu LNG Terminal and existing projects in Jiangsu Province, a regional LNG trading management and resource coordination platform has been established.

Sales of Natural Gas and LNG Processing

During the Year, the sales volume of natural gas was 23,755 million cubic metres, representing an increase of 796 million cubic metres or 3.47% as compared with 22,959 million cubic metres (restated) for last year. The revenue was HK$65,452 million, representing a decrease of HK$14,028 million or 17.65% as compared with HK$79,480 million (restated) for last year; loss before income tax expense was HK$2,084 million, representing a decrease of HK$4,334 million or 192.62% as compared with profit before income tax expense of HK$2,250 million (restated) for last year. Excluding the effect of the provision for impairment of assets in respect of LNG plants, core profit before income tax expense for this business segment would be HK$2,463 million, representing an increase of 7.32% as compared with HK$2,295 million (restated) for last year.

During the Year, the sales volume of natural gas (excluding LNG processing) was 23,233 million cubic metres, representing an increase of 953 million cubic metres or 4.28% as compared with 22,280 million cubic metres (restated) for last year. The revenue was HK$63,975million, representing a decrease of HK$13,435 million or 17.36% as compared with HK$77,410 million (restated) for last year; profit before income tax expense was HK$3,238 million, representing an increase of HK$120 million or 3.85% as compared with profit before income tax expense of HK$3,118 million (restated) for last year.

Of which: City gas business recorded fast growth with sales volume of 9,225 million cubic metres, representing 38.83% of total natural gas sales volume and representing an increase of 11.00% as compared with the restated amount for last year. Sales volume in three areas including Hebei, Jiangsu and Shandong exceeded 1.5 billion cubic metres each. The development of the No. 4 Shaanxi-Beijing Pipeline and the East Pipeline between China and Russia was planned for in advance, and the Group actively participated in the construction of key projects in Beijing, Tianjin and Hebei.

LPG sales improved in terms of both sales volume and efficiency. In order to maximise overall performance, we fully optimised resource allocation manners. Its self-operated level three stations had all realised profit. LPG terminal sales increased by 10.6%.

The natural gas branch pipeline construction was progressing in an orderly manner. A new 280 kilometre branch pipeline and the Qinzhou Petrochemical Industrial Park branch pipeline commenced operation. Tengchong, Xiangyun and Shidian branch pipelines of Yunnan were almost finished. Yangzhou Power Plant branch pipeline, Bengbu branch pipeline and Taihe branch pipeline were having steady progress. Four new branch pipelines such as Changsha-Liuyang branch pipeline and Lianyuan-Xinhua branch pipeline commenced construction. The sales and sales volume of Kunmin East branch pipeline, Kunming West branch pipeline, Xiangtan-Loudi-Shaoyang branch pipeline significantly increased, further showing their market coverage.

Major progress has been made for the development of the natural gas power generation and distributed energy project. With "controlling major gas supply pipeline of power plants and investing in power plants" as the major model, the Company accelerated strategic cooperation with major power generation companies including China Huadian Corporation and China Power International, and entered into cooperation framework agreements for 8 natural gas power generation projects and 4 distributed energy projects.

The Group strived to increase the production volume and performance of CNG and LNG segments. In order to actively respond to market downturn, the Group adopted multiple measures to develop users and expand marketing channels. Three CNG primary stations in Fushun, Xiaogan and Zhijiang commenced operation. The Company also partnered with refined oil sales enterprises in Inner Mongolia, Anhui and Jiangxi to facilitate the joint construction of 109 oil and gas joint stations.

During the Year, the sales volume of LNG processing was 522 million cubic metres, representing a decrease of 157 million cubic metres or 23.12% as compared with 679 million cubic metres (restated) for last year. The revenue was HK$1,477million, representing a decrease of HK$593 million or 28.65% as compared with HK$2,070 million (restated) for last year; loss before income tax expense was HK$5,322 million, representing an increase of HK$4,454 million or 513.13% as compared with loss before income tax expense of HK$868 million (restated) for last year. Excluding the effect of the provision for impairment of assets, core loss before income tax expense for this LNG processing business would be HK$800 million, representing a decrease HK$68 million or of 7.83% as compared with HK$868 million for last year.

The Group had made a provision of HK$4,522 million for the impairment of LNG processing business related assets, which would affect the profitability of the Group for 2016 but would not have any impact on its operating cash flows. The Group will continue to implement its cost control strategy, improve its operational efficiency through technical and management innovations, and accelerate the building of integrated operation advantage with relevant industries supporting each other, in order to avoid the negative impact of economic environment on the Group's results.

BUSINESS PROSPECTS

The Group believes that while the impact of the international financial crisis still exists and will continue to exist in the foreseeable future, the world economy is gradually recovering from in-depth adjustment, and China's long-term economic fundamentals remain strong. In particular, the Chinese government actively advocates the "One Belt, One Road" initiative and the implementation of five major development concepts, vigorously implements national strategies including innovation-driven development, which has created a good environment for the development of energy enterprises. The Chinese Government has adopted strict measures to control air pollution, and vigorously promoted the market-oriented natural gas reform. It introduced a series of relevant reform policies such as grant of access to oil and gas pipeline network and facilities, monitoring and review of pipeline distribution price and natural gas utilisation reform, which will have positive impacts on stimulating natural gas consumption. During the 13th Five-Year plan, natural gas consumption as a percentage of primary energy consumption will increase from 6% to 10%. China's Government work report this year clearly specifies that the government will tackle both symptoms and root causes and fight pollution with all of its might in order to make the skies blue again. It will promote clean heating in winter in northern China. China will also accelerate the large-scale and efficient utilisation of natural gas in four major areas including urban gas, industrial fuel, gas power generation, transportation fuel, promote the coordinated development across the industrial chain from upstream to downstream and make natural gas become the major energy in China's modern energy system. As a result of favourable policies such as LNG vehicle tax incentives and inclusion of CNG and LNG vehicle into the green procurement list of government, the vehicle LNG market will gradually recover. As a clean, low carbon-emission and green energy by adding natural gas power generator, natural gas will play an important role in chain's efforts to make the skies blue again. There is still broad room for development for the PRC natural gas utilisation market and the Group will embrace the unique opportunity for development.

CNPC accelerates the development of natural gas and pipelines business as a strategic and value-added business. As an important part of the natural gas industrial chain of CNPC, the Group will receive stronger support in terms of resource protection, business allocation and network construction from CNPC and achieve faster growth relying on its overall advantages. In the future, the Group will actively seize the development opportunities of the PRC natural gas industry and accelerate the release of benefit brought by the comprehensive in-depth reform of CNPC. It will promote development led by innovations in an effort to make new breakthroughs in terms of the system reform, structure optimisation and capital operation.

For natural gas pipeline business, the Group will actively adopt measures to maintain the steady operation of its existing trunk pipelines, strictly control quality, safety, construction phase and investment to ensure that No. 4 Shaanxi-Beijing Pipeline will commence operation as scheduled.

For LNG terminal business, the Group will accelerate the development of the emergency peak protection project. The Group will closely monitor the developments of the third-party access policies for LNG terminals and strive to obtain the spot sales right in the window period to expand sales volume.

For natural gas utilisation business, the Group will focus on optimising urban gas business, developing natural gas branch pipeline business, actively participating in natural gas power generation and distributed energy business, actively developing LNG/CNG terminal business, optimising LNG processing, storage, transportation and trading business, as well as refining LPG sale business, so as to realise the combination of production with capital, greatly improve the quality and fully improve its image and enterprise value.

For city gas business, it strives to register over 700,000 new customers. For branch pipeline development, it will complete and commence operation of over 10 branch pipelines including Changsha-Liuyang branch pipeline. For natural gas power generation and distributed energy business, the Group will speed up its cooperation with major power generation companies, seek opportunities to provide gas supply to national projects, and continue to promote the cooperation between gas and electricity companies and the development of distributed energy projects. For CNG/LNG terminal business, it will strengthen the practical cooperation with refined oil sales enterprises in gas refilling for vehicles and vessels, keep a close eye on the transportation fuel upgrading projects and capture the new round of development opportunities brought by the "oil-to-gas conversion". For LNG processing, storage, transportation and trading business, the Company will conduct in-depth research of coordinated development of the LNG industrial chain, coordinate the development of terminal, plant and end business, establish a mechanism for integrated operation of regional plants and stations, and increase the overall load of LNG plants. For LPG sales business, the Group will strive to increase the percentage of end sales to above 25%.

In the meantime, the Group will adhere to its development concepts of safety and environmental protection, compliance, cooperation and sharing and open integration, vigorously implements its five major strategies in respect of market, resources, capital, quality and innovations. With "providing clean energy to serve a harmonious society" as its corporate missions, the Group will continue to implement a sound Health, Safety & Environment system and build an appropriate and effective "environmental, social and governance" risk management and internal control system. It will further strengthen its sustainable development ability, accelerate its development towards a world-class natural gas utilisation company with a leading position in the PRC and create values for shareholders through outstanding performance.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK7.4 cents per share (2015: HK6 cents per share) to Shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 14 June 2017 (Wednesday) subject to the approval at the Annual General Meeting of the Company (the "2017 AGM"). The payment will be made on or before 30 June 2017. The proposed 2016 final dividend amounts to a total of approximately HK$597 million and 2015 dividend of HK$484 million was paid in 2016, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 90.69% or 13.60% of core earnings per share (2015 restated: 32.43% or 15.08%).

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2017 AGM, and entitlement to the final dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2017 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 29 May 2017 (Monday)
Closure of Shareholders Register	from 31 May 2017 (Wednesday) to 1 June 2017 (Thursday) (both dates inclusive)
Record date	1 June 2017 (Thursday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 12 June 2017 (Monday)
Closure of Shareholders Register	from 13 June 2017 (Tuesday) to 14 June 2017 (Wednesday) (both dates inclusive)
Record date	14 June 2017 (Wednesday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2017 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on 2 June 2017 (Friday). The Notice of the 2017 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2016 Annual Report. The Notice of the 2017 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 year ended 31 December 2016 (the "Year"). Profit before income tax expense of the Group for the Year was approximately HK$7,115 million, representing a decrease of 5.82% as compared with HK$7,555 million (restated) for the last year. Profit attributable to owners of the Company for the Year was approximately HK$659 million, representing a decrease of 55.80% as compared with HK$1,491 million (restated) for the last year.

Revenue

Revenue for the Year was approximately HK$81,882 million, representing a decrease of 15.00% as compared with amount of HK$96,335 million (restated) for the last year. The decrease was mainly due to the decrease in selling price of natural gas and depreciation of Renminbi ("RMB") against HK$ compared to the last year.

Revenue mostly from the Natural Gas Distribution business segment accounted for 97.86% (2015 restated: 97.32%) of the Group's total revenue amounting to approximately HK$80,129 million (2015 restated: HK$93,756 million).

The table below sets out the sales volume and revenue of different segments of the Group for the year 2016 and 2015, and percentages of change during these two years.

	Sale volume (Group's portion) for the year ended 31 December			Revenue (Per segment information) for the year ended 31 December		
	2016	2015	Change	**2016**	2015	Change
	('000 Barrel)	*('000 Barrel)*	%	***HK$'million***	*HK$'million*	%
Exploration and Production business (by geographic locations)						
The People's Republic of China (the "PRC") *(note (1))*	**4,049**	5,258	(22.99)	**1,029**	1,648	(37.56)
South America *(note (2))*	**594**	622	(4.50)	**409**	515	(20.58)
Central Asia	**583**	617	(5.51)	**163**	220	(25.91)
South East Asia *(note (3))*	**516**	512	0.78	**152**	196	(22.45)
Sub-total	**5,742**	7,009	(18.08)	**1,753**	2,579	(32.03)
Share of an associate in Central Asia	**4,962**	5,471	(9.30)	**–**	–	N/A
Share of a joint venture in Middle East	**4,519**	4,267	5.91	**–**	–	N/A
Total of Exploration and Production	**15,223**	16,747	(9.10)	**1,753**	2,579	(32.03)

	Revenue (Per segment information) for the year ended 31 December		
	2016	2015	**Change**
	HK$'million	*HK$'million* (restated)	*%*
Natural Gas Distribution business (by segments)			
Natural Gas Pipeline *(note (4))*	**13,742**	14,043	(2.14)
LNG Terminal	**1,727**	1,490	15.91
Natural Gas Sales, as previously reported	**63,975**	22,464	184.79
Business combination under common control	**N/A**	54,946	N/A
Natural Gas Sales, as restated *(note (5))*	**63,975**	77,410	(17.36)
LNG Processing	**1,477**	2,070	(28.65)
Sub-total	**65,452**	79,480	(17.65)
Less: Inter-company adjustment	**(792)**	(1,257)	(36.99)
Total of Natural Gas Distribution, as restated	**80,129**	93,756	(14.53)
Total revenue, as restated	**81,882**	96,335	(15.00)

	Sale/processing volume for the year ended 31 December		
	2016	2015	**Change**
	('000 cubic metre)	*('000 cubic metre)* (restated)	*%*
Natural Gas Distribution business (by activities)			
Natural Gas Pipeline, as previously reported	**35,730,794**	33,978,095	5.16
Business combination under common control	**N/A**	1,186,869	N/A
Natural Gas Pipeline, as restated	**35,730,794**	35,164,964	1.61
LNG Terminal	**4,859,400**	3,967,649	22.48
Natural Gas Sales, as previously reported	**23,233,173**	6,576,776	253.26
Business combination under common control	**N/A**	15,703,076	N/A
Natural Gas Sales, as restated	**23,233,173**	22,279,852	4.28
LNG Processing	**521,845**	679,207	(23.17)
Sub-total	**23,755,018**	22,959,059	3.47
Less: Inter-company adjustment	**(885,292)**	(651,994)	35.78
Total of Natural Gas Distribution, as restated	**63,459,920**	61,439,678	3.29

Notes:

(1) One of the oil production contracts in PRC expired on 31 August 2016.

(2) 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.

(3) 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.

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

	Sales volume for the year ended 31 December			Revenue for the year ended 31 December		
	2016	2015	Change	**2016**	2015	Change
	('000 cubic metre)	*('000 cubic metre)*	*%*	***HK$'million***	*HK$'million*	*%*
Natural Gas Sales	**54,662**	47,608	14.82	**235**	174	35.06

(5) Under the Natural Gas Sales segment, it included the following natural gas pipeline sales:

	Sales volume for the year ended 31 December			Revenue for the year ended 31 December		
	2016	2015	Change	**2016**	2015	Change
	('000 cubic metre)	*('000 cubic metre)*	*%*	***HK$'million***	*HK$'million*	*%*
Natural Gas Pipeline Sales	**2,103**	2,232	(5.78)	**331**	327	1.22

Other gains, net

Other gains, net for the Year was approximately HK$793 million, representing an increase of 14.27% as compared with amount of HK$694 million (restated) for the last year.

Interest income

Interest income for the Year was approximately HK$349 million, representing a decrease of 12.53% as compared with amount of HK$399 million (restated) for the last year. The decrease was mainly due to a decrease in interest rate and depreciation of RMB against HK$ during the Year.

Purchases, services and others

Purchases, services and others were approximately HK$56,682 million for the Year, representing a decrease of 18.66% as compared with amount of HK$69,683 million (restated) for the last year. This was mainly due to the decrease in purchase price of natural gas and depreciation of RMB against HK$.

Employee compensation costs

Employee compensation costs of the Group was approximately HK$4,481 million for the Year, representing a decrease of 5.44% as compared with amount of HK$4,739 million (restated) for the last year. This decrease was mainly due to the depreciation of RMB against HK$ and the decrease in the number of headcount during the Year. The effect was net off by the increase in average salary level.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$6,365 million, representing a decrease of 4.86% as compared with amount of HK$6,690 million (restated) for the last year. This was mainly due to the depreciation of RMB against HK$ and the impairment of property, plant and equipment in PRC in 2015 which led to the decrease in their carrying amounts less residual value. The effect was net off by the increase in property, plant and equipment transferred from construction in progress in 2016.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment was HK$4,602 million (2015: HK$1,724 million). This was mainly due to the persistent low LNG prices and the slowdown of the economic growth both domestically and internationally which led to the impairment loss on property, plant and equipment.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately HK$3,399 million, representing a decrease of 11.04% as compared with amount of HK$3,821 million (restated) for the last year. This was mainly due to the effective cost control and the depreciation of RMB against HK$.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately HK$596 million, representing a decrease of 14.49% as compared with amount of HK$697 million (restated) for the last year. This was mainly due to the depreciation of RMB against HK$ and the decrease was in line with the decrease in sales of natural gas business.

Interest expenses

Interest expenses for the Year was approximately HK$685 million, representing of 1.78% as compared with amount of HK$673 million (restated) for the last year. Total interest expenses for the Year was approximately HK1,366 million (2015 restated: HK$1,465 million) of which HK$681 million (2015 restated: HK$792 million) was capitalised under construction-in-progress.

The decrease in total interest expenses is mainly due to decrease in the average borrowing rate and the depreciation of RMB against HK$ offsetting the effect of the increase in average borrowing balance.

Share of profits less losses of associates

Share of profits less losses of associates for the Year increased by 134.00% from loss to profit of approximately HK$710 million (2015 restated: loss of HK$2,088 million). This was mainly due to the devaluation of the Kazakhstani Tenge which resulted in the exchange loss of HK$3,136 million recognised by CNPC-Aktobemunaigas Joint Stock Company ("Akotbe") in 2015.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was decreased by 21.07% to approximately HK$191 million (2015 restated: HK$242 million). The decrease was mainly due to the decrease in realised crude oil selling price in Oman project 2016.

Profit before income tax expense

Profit before income tax expense for the Year was approximately HK$7,115 million, representing a decrease of 5.82% as compared with amount of HK$7,555 million (restated) for the last year.

The table below sets out the profit/(loss) before income tax expense and percentage of change of different segments of the Group for the year 2016 and 2015.

	Profit/(loss) before income tax expense for the year ended 31 December		
	2016	2015	**Change**
	HK$'million	*HK$'million* (restated)	*%*
Exploration and Production business			
The PRC	**(625)**	(2,045)	(69.44)
South America	**91**	163	(44.17)
Central Asia	**(24)**	(21)	14.29
South East Asia	**(17)**	11	(254.55)
Sub-total	**(575)**	(1,892)	(69.61)
Share of an associate in Central Asia	**397**	(2,249)	(117.65)
Share of a joint venture in Middle East	**192**	262	(26.72)
Total of Exploration and Production	**14**	(3,879)	(100.36)
Natural Gas Distribution business			
Natural Gas Pipeline	**9,461**	9,380	0.86
LNG Terminal	**704**	404	74.26
Natural Gas Sales, as previously reported	**3,238**	490	560.82
Business combination under common control	**N/A**	2,628	N/A
Natural Gas Sales, as restated	**3,238**	3,118	3.85
LNG Processing	**(5,322)**	(868)	513.13
Sub-total	**(2,084)**	2,250	(192.62)
Total of Natural Gas Distribution, as restated	**8,081**	12,034	(32.85)
	8,095	8,155	(0.74)

Income tax expense

Income tax expense for the Year was approximately HK$3,701 million, representing an increase of 11.31% as compared with amount of HK$3,325 million (restated) for the last year. The effective tax rate (excluding joint ventures and associates) for the Year increased to 59.56% (2015 restated: 35.37%). Such increase was mainly due to the increase in impairment loss on property, plant and equipment on which deferred tax assets were not recognised in the Year and the reversal of deferred tax liabilities with respect to the dividend withholding tax on Aktobe's undistributed profit in 2015 as a result of its huge loss.

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

The profit for the Year of the Group was approximately HK$3,414 million, representing a decrease of 19.29% as compared with amount of HK$4,230 million (restated) for the last year. The profit attributable to owners of the Company for the Year was approximately HK$659 million, representing a decrease of 55.80% as compared with amount of HK$1,491 million (restated) for the last year.

Liquidity and capital resources

As at 31 December 2016, the carrying value of total assets of the Group was approximately HK$138,769 million, representing a decrease of HK$4,417 million or 3.08% as compared with HK$143,186 million (restated) as at 31 December 2015.

The gearing ratio of the Group was 36.36% as at 31 December 2016 compared with 22.18% (restated) as at 31 December 2015, representing an increase of 14.18%. It is computed by dividing the sum of interest bearing borrowings, convertible bonds and obligations under finance leases of HK$37,879 million (2015 restated: HK$25,264 million) by the total equity, interest bearing borrowings, convertible bonds and obligations under finance leases of HK$104,182 million (2015 restated: HK$113,883 million).

Adjusted (loss)/profit before income tax expense, interest, depreciation, depletion and amortisation, is defined as (loss)/profit before income tax expense excluding impairment loss on property, plant and equipment, interest, depreciation, depletion and amortisation for the year was approximately HK$18,418 million, representing an increase of 13.39% as compared with the amount of HK$16,243 million (restated) for the last year.

The Company has issued convertible bonds and two senior notes during the Year and 2015 respectively to improve the debt profile:

Items	**Date of issue**	**Nominal Amount**	**Tenor**	**Annual Interest**
		million	*year*	*%*
Convertible bonds (Stock code: 5690) *(note 1)*	25 July 2016	RMB3,350	3	1.625
Senior notes due 2020 (Stock code: 5510) *(note 2)*	13 May 2015	US$500	5	2.875
Senior notes due 2025 (Stock code: 5511) *(note 2)*	13 May 2015	US$500	10	3.750

Note 1: Please refer to the announcements on the issue of convertible bonds published by the Company on the websites of The Stock Exchange of Hong Kong Limited and the Company in July 2016.

Note 2: Please refer to the announcements on the issue of senior notes published by the Company on the websites of The Stock Exchange of Hong Kong Limited and the Company in April and May 2015.

As at 31 December 2016, the Group has total borrowings of HK$33,765 million which will be repayable as follows:

	2016	2015
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within one year	**15,850**	8,076
Between one to two years	**1,619**	2,892
Between two to five years	**11,439**	9,014
After five years	**4,857**	4,508
	33,765	24,490

The carrying amounts of the borrowings are denominated in RMB, U.S. dollars, Hong Kong dollars, Japanese yen and Euro.

The functional currency of the Company and most of its subsidiaries is RMB and the Company and most of its subsidiaries are exposed to the exchange gain/(loss) when the RMB is appreciated/depreciated against other currencies.

During the Year, no share option (2015: none) has been exercised by the senior executives of the Company as the exercise price of HK$11.73 was above the market price of HK$6.40 on the share option expiry date and the share options were lapsed.

As at 31 December 2016, the Group had net current liabilities of HK$15,453 million. Notwithstanding the net current liabilities of the Group at 31 December 2016, the Group's consolidated financial statements have been prepared on a going concern basis because the directors of the Company (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 undrawn facilities provided by the Company's immediate holding company amounting to HK$2,300 million;

(ii) the Group has committed credit from China Petroleum Finance Company Limited ("CP Finance") amounting to RMB23 billion, of which RMB16.5 billion is undrawn as at 31 December 2016;

(iii) the Group expects to generate positive operating cash flows in the future; and

(iv) the Directors consider that the Group could obtain financing from various sources of funding.

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

Use of proceeds

The Group paid interest of HK$1,024 million (2015 restated: HK$1,341 million) during the Year.

2015 final dividend of HK6 cents per share amounting to HK$484 million (2014: HK20 cents per share amounting to HK$1,614 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2016, no short-term or long-term borrowings were secured by property, plant and equipment or advance operating lease payment. As at 31 December 2015, pledged borrowings were secured by shareholdings held by the subsidiaries of the Company in corresponding subsidiaries with carrying value of HK$152 million (restated).

New investment in major projects

The Company entered into acquisition agreement dated 28 December 2015 with PetroChina Company Limtied ("PetroChina"), pursuant to which PetroChina has conditionally agreed to sell and the Company has conditionally agreed to purchase the entire equity interest in Kunlun Gas at a consideration of approximately RMB14,827 million subject to adjustment on gain or loss of Kunlun Gas during the transition period, as defined in the Agreement. The acquisition was approved by the shareholders of the Company (the "Shareholders") in the Company's special general meeting held on 18 February 2016. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, will generate synergies among the businesses, enhance operational efficiency and increase the market competitiveness. In the second quarter of 2016, the Company obtained all the necessary approvals of the government authorities of the Acquisition and Kunlun Gas becomes a wholly-owned subsidiary of the Company.

Material Investments

Material investments of the Group are its investments in associates and in joint ventures.

The Group's major investment in associates are mainly in its Exploration and Production segment. The Group has invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

There is no single material joint venture which significantly affects the results and/or net assets of the Group.

Employee

As at 31 December 2016, the Group had approximately 37,281 employees globally (excluding the employees under entrustment contracts) (2015 restated: 39,655 employees). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

CORPORATE GOVERNANCE

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

Pursuant to paragraph 45(6) of Appendix 16 to the Listing Rules, the Board wishes to confirm that the Audit Committee of the Company has reviewed with the management the accounting policies and standards adopted by the Company and its subsidiaries and discussed the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2016. The Audit Committee of the Company has also reviewed the annual results in conjunction with the Company's external auditor.

AUDIT COMMITTEE

Pursuant to the Listing Rules, the Audit Committee of the Company, currently comprising three Independent Non-executive Directors, was established in December 1998.

Three meetings were held during the Year.

Written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company's annual report containing all the information required by Appendix 16 to the Listing Rules and other applicable requirements will be published on the Company's and the Stock Exchange's websites in due course.

By the Order of the Board
KUNLUN ENERGY COMPANY LIMITED
Huang Weihe
Chairman and Executive Director

Hong Kong, 28 March 2017

The Board of Directors as at the date of this announcement comprises of Mr Huang Weihe as Chairman and Executive Director, Mr Wu Enlai as Executive Director, Mr Zhao Yongqi as Chief Executive Officer and Executive Director, Mr Zhao Zhongxun as Executive Director, Mr Ding Shilu as Executive Director, Mr Zhang Yaoming as Executive Director, and Mr Li Kwok Sing Aubrey, Dr Liu Xiao Feng and Mr Sun Patrick as Independent Non-executive Directors.