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		
	2017	2016	**Change**
	RMB'million	*RMB'million* (restated)	*%*
Revenue	**88,706**	70,400	26.00
Profit before income tax expense	**11,480**	6,291	82.48
Core profit before income tax expense *(note 1)*	**12,268**	10,204	20.23
Profit attributable to the owners of the Company	**4,760**	666	614.71
Core profit attributable to the owners of the Company *(note 2)*	**5,522**	3,857	43.17
Adjusted EBITDA *(note 3)*	**18,853**	16,245	16.05
	RMB cent	*RMB cent*	
Earnings per share (Basic)	**58.97**	8.25	614.79
Core earnings per share (Basic) *(note 4)*	**68.41**	47.78	43.18
Earnings per share (Diluted)	**56.21**	8.25	581.33
	RMB cent	*RMB cent*	
Dividend per share – Final	**21.0**	6.5	223.08
	RMB'million	*RMB'million*	
Profit/(loss) attributable to the owners of the Company (by segment)			
– Exploration and Production	**485**	(181)	(367.96)
– Natural Gas Sales	**1,312**	1,874	(29.99)
– LNG Processing and Terminal	**241**	(3,619)	(106.66)
– Natural Gas Pipeline	**2,905**	3,457	(15.97)
Core profit/(loss) attributable to the owners of the Company (by segment)			
– Exploration and Production	**485**	(136)	(456.62)
– Natural Gas Sales	**1,748**	1,896	(7.81)
– LNG Processing and Terminal	**567**	(495)	(214.55)
– Natural Gas Pipeline	**2,905**	3,457	(15.97)

Note:

1. Core profit before income tax expense is defined as profit before income tax expense excluding impairment loss on property, plant and equipment, accounts and other receivables.
2. 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, accounts and other receivables attributable to the owners of the Company and its related tax effect.
3. Adjusted EBITDA is defined as profit before income tax expense, excluding impairment loss on property, plant and equipment, impairment loss on accounts and other receivables, interest and depreciation, depletion and amortisation.
4. Core earnings per share (Basic) is calculated based on the core profit attributable to 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 2017

	Note	2017 RMB'million	2016 RMB'million (restated) (Note 11)
Revenue	3	**88,706**	70,400
Other gains, net		**1,335**	674
Interest income		**211**	300
Purchases, services and others		**(64,145)**	(48,312)
Employee compensation costs		**(4,329)**	(3,847)
Depreciation, depletion and amortisation		**(5,651)**	(5,690)
Impairment loss on property, plant and equipment		**(604)**	(3,913)
Impairment loss on accounts and other receivables		**(184)**	–
Selling, general and administrative expenses		**(3,264)**	(2,912)
Taxes other than income taxes		**(441)**	(525)
Interest expenses	4	**(1,145)**	(651)
Share of profits less losses of:			
– Associates		**767**	605
– Joint ventures		**224**	162
Profit before income tax expense	5	**11,480**	6,291
Income tax expense	6	**(3,531)**	(3,200)
Profit for the year		**7,949**	3,091
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		**9**	66
– Associates		**(18)**	(122)
– Joint ventures		**(66)**	47
– Fair value loss on available-for-sale financial assets, net of tax		**(139)**	(272)
Other comprehensive income		**(214)**	(281)
Total comprehensive income for the year		**7,735**	2,810

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2017

	Note	2017 RMB'million	2016 RMB'million (restated) (Note 11)
Profit for the year attributable to:			
– Owners of the Company		**4,760**	666
– Non-controlling interests		**3,189**	2,425
		7,949	3,091
Total comprehensive income for the year attributable to:			
– Owners of the Company		**4,601**	477
– Non-controlling interests		**3,134**	2,333
		7,735	2,810
Earnings per share for profit attributable to owners of the Company	7		
– Basic (RMB cent)		**58.97**	8.25
– Diluted (RMB cent)		**56.21**	8.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 *RMB'million*	2016 *RMB'million* (restated) *(Note 11)*
Assets			
Non-current assets			
Property, plant and equipment		**95,735**	87,859
Advanced operating lease payments		**3,782**	3,833
Investments in associates		**3,515**	2,803
Investments in joint ventures		**1,918**	1,285
Available-for-sale financial assets		**352**	457
Intangible and other non-current assets		**1,173**	2,424
Deferred tax assets		**1,188**	1,050
		107,663	99,711
Current assets			
Inventories		**1,559**	1,242
Accounts receivable	*9*	**2,846**	2,958
Prepaid expenses and other current assets		**6,640**	5,858
Cash and cash equivalents		**21,850**	19,165
		32,895	29,223
Total assets		**140,558**	128,934

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017

	Note	**2017** *RMB'million*	2016 *RMB'million* (restated) *(Note 11)*
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**65**	65
Retained earnings		**25,280**	21,836
Other reserves		**14,680**	15,951
		40,025	37,852
Non-controlling interests		**25,600**	24,043
Total equity		**65,625**	61,895
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**26,569**	26,784
Income tax payable		**495**	725
Other tax payable		**424**	680
Short-term borrowings		**11,805**	16,585
Obligations under finance leases		**158**	166
		39,451	44,940
Non-current liabilities			
Long-term borrowings		**29,296**	15,920
Convertible bonds		**3,230**	3,156
Deferred tax liabilities		**1,075**	907
Obligations under finance leases		**193**	334
Other liabilities		**1,688**	1,782
		35,482	22,099
Total liabilities		**74,933**	67,039
Total equity and liabilities		**140,558**	128,934
Net current liabilities		**(6,556)**	(15,717)
Total assets less current liabilities		**101,107**	83,994

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 2017, but is 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 September 2017, PetroChina Kunlun Gas Co.,Ltd. ("Kunlun Gas"), a wholly-owned subsidiary of the Company entered into the acquisition agreement with PetroChina Company Limited ("PetroChina"). Pursuant to the acquisition agreement, Kunlun Gas agreed to purchase and PetroChina agreed to sell 51% equity interest in PetroChina Jingtang LNG Co., Ltd. ("Jingtang Co.") at a consideration of approximately RMB1,547 million. The consideration will be settled in RMB and subject to adjustment by the gains or losses during the transition period, as defined in the acquisition agreement.

The acquisition was completed on 14 December 2017 and Jingtang Co. has become a non-wholly-owned subsidiary of the Group since then. As PetroChina and the Group are ultimately controlled by China National Petroleum Corporation ("CNPC"), the acquisition of Jingtang Co. 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 as set out in 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 gains during the transition period amounted to approximately RMB359 million. During the year ended 31 December 2017, the Group paid RMB1,547 million to PetroChina.

Changes in presentation currency and accounting policies

(a) Change in presentation currency

The previous consolidated financial statements of the Group have been presented in Hong Kong dollars ("HK$"). Having considered that most of the Group's transactions are denominated and settled in Renminbi ("RMB") following the Company's acquisition of Kunlun Gas in 2016, the Board of Directors considers that the change of presentation currency from HK$ to RMB in the consolidated financial statements enables the shareholders of the Company to have a more accurate picture of the Group's financial performance.

The change in presentation currency have been applied retrospectively. The comparative figures in the consolidated financial statements were translated from HK$ to RMB using the applicable closing rates for assets and liabilities in the consolidated statement of financial position and applicable average rates that approximated to actual rates for items in the consolidated statement of comprehensive income. Share capital, share premium and reserves were translated at the exchange rate at the date when the respective amounts were determined (i.e. historical exchange rates).

(b) New and amended standards adopted by the Group

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

- *Annual Improvements to HKFRSs 2014-2016 Cycle*
- *Amendments to HKAS 7, Statement of cash flows: Disclosure initiative*
- *Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses*

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 four operating segments: Exploration and Production, Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. The Natural Gas Sales segment is engaged in wholesales and retail sales of various natural gas and LNG products. LNG Processing and Terminal segment is engaged in the processing, unloading, storing, gasification and transportation of LNG. Natural Gas Pipeline segment is engaged in the transmission of natural gas through pipeline.

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 ("segment assets"), as all of which are managed on a central basis.

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, net exchange gains/losses, general and administrative 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 2017 and 2016 are as follows:

	Exploration and Production *RMB million*	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the year ended 31 December 2017							
Gross revenue	1,505	72,109	6,869	10,755	–	–	91,238
Less: Inter-company adjustment	–	(906)	(1,617)	(9)	–	–	(2,532)
Revenue from external customers	1,505	71,203	5,252	10,746	–	–	88,706
Segment results	114	1,826	1,945	6,733	(129)	–	10,489
Share of profits less losses of:							
– Associates	490	276	1	–	–	–	767
– Joint ventures	216	8	–	–	–	–	224
Profit/(loss) before income tax expense	820	2,110	1,946	6,733	(129)	–	11,480
Income tax expense							(3,531)
Profit for the year							7,949
Segment results included:							
– Interest income	6	225	25	10	358	(413)	211
– Depreciation, depletion and amortisation	(225)	(2,315)	(1,277)	(1,818)	(16)	–	(5,651)
– Impairment loss on property, plant and equipment	–	(275)	(329)	–	–	–	(604)
– Interest expenses	(1)	(263)	(405)	(37)	(852)	413	(1,145)
As at 31 December 2017							
Non-current assets	999	37,023	21,473	41,176	19	–	100,690
Current assets	1,422	18,551	3,661	3,472	5,786	–	32,892
Segment assets	2,421	55,574	25,134	44,648	5,805	–	133,582
Investments in associates	533	2,976	6	–	–	–	3,515
Investments in joint ventures	1,109	756	–	–	53	–	1,918
Sub-total	4,063	59,306	25,140	44,648	5,858	–	139,015
Available-for-sale financial assets							352
Deferred tax assets							1,188
Others							3
Total assets							140,558
Additions to non-current segment assets during the year	223	3,483	918	9,978	–	–	14,602

	Exploration and Production *RMB million*	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the year ended 31 December 2016, as restated							
Gross revenue	1,491	54,581	3,263	11,683	–	–	71,018
Less: Inter-company adjustment	–	(84)	(525)	(9)	–	–	(618)
Revenue from external customers	1,491	54,497	2,738	11,674	–	–	70,400
Segment results	(489)	2,283	(3,489)	8,045	(826)	–	5,524
Share of profits less losses of:							
– Associates	338	267	–	–	–	–	605
– Joint ventures	163	8	–	–	(9)	–	162
Profit/(loss) before income tax expense	12	2,558	(3,489)	8,045	(835)	–	6,291
Income tax expense							(3,200)
Profit for the year							3,091
Segment results included:							
– Interest income	29	442	6	35	362	(574)	300
– Depreciation, depletion and amortisation	(565)	(2,280)	(1,091)	(1,752)	(2)	–	(5,690)
– Impairment loss on property, plant and equipment	(47)	(22)	(3,844)	–	–	–	(3,913)
– Interest expenses	–	(404)	(178)	(42)	(601)	574	(651)
As at 31 December 2016, as restated							
Non-current assets	1,133	38,086	20,667	34,209	21	–	94,116
Current assets	1,372	20,459	2,180	2,718	2,468	–	29,197
Segment assets	2,505	58,545	22,847	36,927	2,489	–	123,313
Investments in associates	216	2,582	5	–	–	–	2,803
Investments in joint ventures	1,114	117	–	–	54	–	1,285
Sub-total	3,835	61,244	22,852	36,927	2,543	–	127,401
Available-for-sale financial assets							457
Deferred tax assets							1,050
Others							26
Total assets							128,934
Additions to non-current segment assets during the year	362	3,862	894	5,336	–	–	10,454

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 2017, revenue of approximately RMB15,800 million (2016 restated: RMB11,444 million) are derived from one (2016: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production, Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline segments.

3. REVENUE

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

4. INTEREST EXPENSES

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Interest expenses on:		
Bank loans	**400**	245
Senior notes	**234**	229
Debentures payable	**–**	23
Convertible bonds	**128**	54
Other loans, from:		
– An intermediate holding company	**17**	130
– An immediate holding company	**107**	136
– China Petroleum Finance Company Limited	**678**	345
– Fellow subsidiaries	**143**	58
Finance charges on obligations under finance leases, from:		
– A fellow subsidiary	**13**	18
– A third party	**8**	10
Less: Amounts capitalised	**(583)**	(597)
	1,145	651

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 4.08% (2016 restated: 4.06%) per annum for the year ended 31 December 2017.

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Amortisation of advanced operating lease payments and intangible assets	**164**	154
Cost of inventories recognised as expense	**64,322**	48,978
Depreciation and depletion of property, plant and equipment	**5,487**	5,536
Operating lease expenses	**450**	461

6. INCOME TAX EXPENSE

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Current tax		
– PRC	**3,470**	3,227
– Overseas	**61**	23
	3,531	3,250
Deferred tax	**–**	(50)
	3,531	3,200

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2016: 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% (2016: 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% (2016: 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

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately RMB4,760 million (2016 restated: RMB666 million) and weighted average number of ordinary shares in issue during the Year of approximately 8,072 million shares (2016: 8,072 million shares).

Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately RMB4,845 million (2016 restated: RMB666 million) and the weighted average number of ordinary shares of approximately 8,620 million shares (2016: 8,072 million shares) after adjusting for the effect of convertible bonds, calculated as follows:

(i) Profit attributable to owners of the Company (diluted)

	2017	2016
	RMB million	*RMB million* (restated) *(Note 11)*
Profit attributable to owners of the Company	**4,760**	666
After tax effect of effective interest on the liability component of convertible bonds	**85**	–
Profit attributable to owners of the Company (diluted)	**4,845**	666

(ii) Weighted average number of ordinary shares (diluted)

	2017	2016
	million shares	*million shares*
Weighted average number of ordinary shares at 31 December	**8,072**	8,072
Effect of conversion of convertible bonds	**548**	–
Weighted average number of ordinary shares (diluted) at 31 December	**8,620**	8,072

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2016. The share options were lapsed during the year ended 31 December 2017.

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

(i) Dividends payable to owners of the Company attributable to the year

	2017	2016
	RMB'million	*RMB'million*
		(restated)
Proposed final dividend attributable to owners of the Company for 2017 *(note (a))*	**1,695**	–
Final dividend attributable to owners of the Company for 2016 *(note (b))*	**–**	522

(ii) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2017	2016
	RMB'million	*RMB'million*
		(restated)
Final dividend in respect of the previous financial year, approved and paid during the year	**522**	407

Notes:

(a) At the meeting on 20 March 2018, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2017 of RMB21.0 cents per share amounting to a total of approximately RMB1,695 million. The amount is based on approximately 8,072 million shares in issue as at 20 March 2018. 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 2018 when approved at the 2018 Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2016 of HK7.4 cents per share (equivalent to RMB6.5 cents) amounting to a total of approximately HK$597 million (approximately RMB522 million) were approved by the shareholders in the Annual General Meeting on 2 June 2017. The amount is based on approximately 8,072 million shares in issue as at 28 March 2017 which was paid on 30 June 2017.

9. ACCOUNTS RECEIVABLE

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Accounts receivable	**3,027**	2,977
Less: allowance for doubtful debts	**(181)**	(19)
	2,846	2,958

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date and net of allowance for doubtful debts is as follows:

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Within 3 months	**1,957**	1,962
Between 3 to 6 months	**116**	191
Over 6 months	**773**	805
	2,846	2,958

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2017, accounts receivable of approximately RMB889 million (2016 restated: RMB996 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.

Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) **Impairment of accounts receivable**

Impairment loss in respect of accounts receivable is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

The movement in the allowance for doubtful debts during the Year for specific loss components is as follows:

	2017	2016
	RMB'million	*RMB'million*
		(restated)
At 1 January	**19**	19
Impairment loss recognised	**163**	–
Uncollectible amounts written off	**(1)**	–
At 31 December	**181**	19

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Accounts payable	**2,858**	3,289
Advances from customers	**8,481**	7,145
Salaries and welfare payable	**284**	255
Accrued expenses	**26**	21
Dividend payable	**1,069**	3,246
Interest payable	**376**	205
Construction fee and equipment cost payables	**10,279**	9,765
Amounts due to related parties		
– Non-controlling interests	**1**	185
– Others	**14**	11
Deferred income	**400**	278
Other payables	**2,781**	2,384
	26,569	26,784

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

	2017	2016
	RMB'million	*RMB'million*
		(restated)
		(Note 11)
Within 3 months	**2,290**	2,448
Between 3 to 6 months	**109**	446
Over 6 months	**459**	395
	2,858	3,289

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables fall within the credit time frame. The contractual maturity date of accounts payable and accrued liabilities is within one year.

11. COMPARATIVE FIGURES

(a) Change in presentation currency

As a result of the change in presentation currency, certain comparative figures have been restated.

(b) 2016 business combination under common control

On 28 December 2015, the Company entered into the acquisition agreement with PetroChina ("Agreement"), pursuant to which, the Company has agreed to purchase, and PetroChina has agreed to sell, the entire equity interest in Kunlun Gas at a cash 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 completed on 31 May 2016, and Kunlun Gas has become a wholly-owned subsidiary of the Company since then. As PetroChina and the Group are ultimately controlled by CNPC, 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 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 final consideration of RMB15,612 million payable by the Group has been treated as an equity transaction.

(c) 2017 business combination under common control

As mentioned in Note 1 to this announcement, the acquisition of Jingtang Co. has been accounted for in accordance with AG 5. Accordingly, the assets and liabilities of Jingtang Co. 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 Jingtang Co. on a combined basis. The final consideration of RMB1,906 million payable by the Group has been treated as an equity transaction. The details of the restated balances are as follows:

The summarised results of operations for the year ended 31 December 2016 and the financial position as at 31 December 2016 are set out below:

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Results of operations for the year ended 31 December 2016				
Revenue	69,616	784	–	70,400
Other gains, net	674	–	–	674
Interest income	297	3	–	300
Purchases, services and others	(48,191)	(121)	–	(48,312)
Employee compensation costs	(3,810)	(37)	–	(3,847)
Depreciation, depletion and amortisation	(5,411)	(279)	–	(5,690)
Impairment loss on property, plant and equipment	(3,913)	–	–	(3,913)
Selling, general and administrative expenses	(2,890)	(22)	–	(2,912)
Taxes other than income taxes	(507)	(18)	–	(525)
Interest expenses	(565)	(86)	–	(651)
Share of profits less losses of:				
– Associates	605	–	–	605
– Joint ventures	162	–	–	162
Profit before income tax expense	6,067	224	–	6,291
Income tax expense	(3,144)	(56)	–	(3,200)
Profit for the year	2,923	168	–	3,091

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Results of operations for the year ended 31 December 2016 (Continued)				
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements, net of nil tax, of:				
– Subsidiaries	66	–	–	66
– Associates	(122)	–	–	(122)
– Joint ventures	47	–	–	47
– Fair value loss on available-for-sale financial assets, net of tax	(272)	–	–	(272)
Other comprehensive income	(281)	–	–	(281)
Total comprehensive income for the year	2,642	168	–	2,810

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Results of operations for the year ended 31 December 2016 (Continued)				
Profit for the year attributable to:				
– Owners of the Company	581	85	–	666
– Non-controlling interests	2,342	83	–	2,425
	2,923	168	–	3,091
Total comprehensive income for the year attributable to:				
– Owners of the Company	392	85	–	477
– Non-controlling interests	2,250	83	–	2,333
	2,642	168	–	2,810
Earnings per share for profit attributable to owners of the Company				
– Basic (RMB cent)	7.20	1.05	–	8.25
– Diluted (RMB cent)	7.20	1.05	–	8.25

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Financial position as at 31 December 2016				
Non-current assets				
Property, plant and equipment	83,077	4,782	–	87,859
Advanced operating lease payments	3,637	196	–	3,833
Investments in associates	2,803	–	–	2,803
Investments in joint ventures	1,285	–	–	1,285
Available-for-sale financial assets	457	–	–	457
Intangibles and other non-current assets	2,422	2	–	2,424
Deferred tax assets	1,050	–	–	1,050
	94,731	4,980	–	99,711
Current assets				
Inventories	1,242	–	–	1,242
Accounts receivable	2,767	191	–	2,958
Prepaid expenses and other current assets	5,398	460	–	5,858
Cash and cash equivalents	19,163	2	–	19,165
	28,570	653	–	29,223
Total assets	123,301	5,633	–	128,934

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Financial position as at 31 December 2016 (Continued)				
Equity				
Capital and reserves attributable to owners of the Company				
Share capital	65	2,600	(2,600)	65
Retained earnings	21,671	324	(159)	21,836
Other reserves	14,588	71	1,292	15,951
	36,324	2,995	(1,467)	37,852
Non-controlling interests	22,576	–	1,467	24,043
Total equity	58,900	2,995	–	61,895
Current liabilities				
Accounts payable and accrued liabilities	26,704	80	–	26,784
Income tax payable	693	32	–	725
Other tax payable	654	26	–	680
Short-term borrowings	14,085	2,500	–	16,585
Obligations under finance leases	166	–	–	166
	42,302	2,638	–	44,940

	The Group *RMB'million* (as previously reported)	Jingtang Co. *RMB'million*	Inter-company eliminations *RMB'million*	The Group *RMB'million* (restated)
Financial position as at 31 December 2016 (Continued)				
Non-current liabilities				
Long-term borrowings	15,920	–	–	15,920
Convertible bonds	3,156	–	–	3,156
Deferred tax liabilities	907	–	–	907
Obligations under finance leases	334	–	–	334
Other liabilities	1,782	–	–	1,782
	22,099	–	–	22,099
Total liabilities	64,401	2,638	–	67,039
Total equity and liabilities	123,301	5,633	–	128,934
Net current liabilities	(13,732)	(1,985)	–	(15,717)
Total assets less current liabilities	80,999	2,995	–	83,994

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 2017 (the "Year") of the Company and its subsidiaries (together, the "Group") to the shareholders of the Company (the "Shareholders").

In 2017, China's macroeconomic growth picked up, and ecological civilization construction speeded up. Natural gas consumption recorded fast growth, with annual natural gas consumption of 237.3 billion cubic metres, representing an increase of 15.3%. During the Year, the Group made full use of its advantages in assets and business structure, captured market opportunities and effectively balanced market risks. The city gas sales volume recorded rapid growth, and Natural Gas Pipeline transmission volume maintained steady growth. The integrated operation of LNG produced initial results, and its assets structure and business structure continued to be optimised. The Company received the Best Investment Value Award for Listed Companies of China Securities Golden Bauhinia Awards. The Company showed a good momentum of rapid and steady growth in general.

During the Year, the Group's revenue was RMB88,706 million; profit before income tax expense was RMB11,480 million; and profit attributable to the owners of the Company was RMB4,760 million, representing increases of 26.00%, 82.48% and 614.71%, respectively, as compared with last year (restated). Basic earnings per share for the Year were RMB58.97 cents. Excluding the impairment loss on the property, plant and equipment of LNG plants and natural gas sales assets of RMB604 million and the impairment loss on accounts and other receivables of RMB184 million, core profit before income tax for the Year was RMB12,268 million, representing an increase of 20.23% as compared with last year (restated). Core profit and basic core earnings per share attributable to owners of the Company were RMB5,522 million and RMB68.41 cents, respectively, representing increases of 43.17% and 43.18%, respectively, as compared with last year (restated).

The Group agreed to purchase 51% equity interest in PetroChina Jingtang LNG Co., Ltd. ("Jingtang Co.") held by PetroChina Company Limited ("PetroChina") in September 2017, and completed the acquisition of Jingtang Co. in December 2017. Through the acquisition, 3 LNG terminals of PetroChina were all included in the scope of operation and management of the Group, and the Group's intensive operation was further improved.

In November 2017, No. 4 Shaanxi-Beijing Pipeline commenced operation, which will effectively alleviate the shortage of gas supply in Beijing, Tianjin and Hebei in the winter, facilitate the energy structure optimisation in Beijing and Northern China and promote the air pollution treatment in such regions.

In December 2017, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Fortunemate Assets Limited held by the Company, which conducts the exploration and production of crude oil in Kursangi and Karabagli oilfields in Azerbaijan. The Company's strategic positioning of being committed to developing comprehensive natural gas utilisation business has become even clearer.

EXPLORATION AND PRODUCTION

During the Year, the sales volume of crude oil in the Exploration and Production business reached 13.06 million barrels, representing a decrease of 2.16 million barrels or 14.19% as compared with 15.22 million barrels for last year. Revenue was RMB1,505 million, representing an increase of RMB14 million or 0.94% as compared with RMB1,491 million for last year. Without the effect of the Company's exit from Xinjiang Oil Production Sharing Contract in August 2016, sales volume of crude oil only decreased by 0.39 million barrels as compared with last year. Average realised crude oil selling price of the Group during the Year was US$46.63/barrel, representing an increase of US$11.97 or 34.54% as compared with US$34.66 for last year. Profit before income tax expense for the Year was RMB820 million, representing an increase of RMB808 million or 6,733.33% as compared with RMB12 million (restated) for last year.

NATURAL GAS SALES

During the Year, Natural Gas Sales volume was 18,772 million cubic metres, representing an increase of 3,583 million cubic metres or 23.59% as compared with 15,189 million cubic metres (restated) for last year. Revenue was RMB72,109 million, representing an increase of RMB17,528 million or 32.11% as compared with RMB54,581 million (restated) for last year. With the increase in sales volume, raw material procurement and production costs, sales and administrative expenses and labour costs increased, which, together with the impairment loss on property, plant and equipment and the impairment loss on accounts and other receivables, resulted in profit before income tax of RMB2,110 million, representing a decrease of RMB448 million or 17.51% as compared with RMB2,558 million (restated) for last year. Excluding the impairment loss on property, plant and equipment of natural gas sales assets of RMB275 million and the accounts and other receivables of RMB184 million, core profit before income tax of the business segment was RMB2,569 million, representing a decrease of 0.43% as compared with RMB2,580 million (restated) for last year.

During the Year, the Group vigorously promoted projects for city gas and city coal-to-gas conversion, replacement of coal by industrial gas, and oil replacement by gas. The Group developed 110 various utilisation projects and obtained 429,000 new rural coal-to-gas users. City gas sales volume was 11,825 million cubic metres, representing a year-on-year increase of 28.18%. The monthly average Natural Gas Sales volume in Hebei and Jiangsu each exceeded 2,000 million cubic metres, and Natural Gas Sales volume of Shandong, Xinjiang, Gansu each exceeded 1,000 million cubic metres.

For CNG and LNG sales terminals, the Group went all out to reduce costs and increase sales volume. The Group continued to explore potential and improve performance, which has curbed the trend of decline in CNG sales volume. LNG sales volume recorded a significant increase in sales volume as compared with last year.

The development results of natural gas generator and distributed energy projects were fruitful. During the Year, the Group entered into 25 cooperation agreements. The construction of Zengcheng Power Plant commenced, and the construction of Zhoukou Power Plant recorded smooth progress. Operating power plants generated electricity of 6.06 billion kWh during the Year. Heat supply grew by 18 % as compared with last year, and gas consumption increased by 4 %.

LPG sales focused on key links including increasing resources, strengthening terminals, optimising flows and lowering costs, and recorded sales volume of 6.58 million tonnes for the Year, representing the best operational results achieved in recent years.

LNG PROCESSING AND TERMINAL

During the Year, the Group recorded sales volume of LNG Processing and Terminal of 15,995 million cubic metres, representing an increase of 8,067 million cubic metres or 101.75% as compared with 7,928 million cubic metres (restated) for last year. Revenue was RMB6,869 million, representing an increase of RMB3,606 million or 110.51% as compared with RMB3,263 million (restated) for last year. Profit before income tax expense of the business segment for the Year was RMB1,946 million, representing an increase of 155.78% as compared with loss of RMB3,489 million (restated) for last year.

Excluding the impairment loss on the property, plant and equipment of LNG plants RMB329 million, core profit before income tax expense of the business segment was RMB2,275 million, representing an increase of 540.85% as compared with RMB355 million (restated) for last year.

1. LNG Terminal

During the Year, LNG gasification volume of Jiangsu LNG Terminal, Dalian LNG Terminal and Jingtang LNG Terminal under the Group amounted to 12,802 million cubic metres, representing an increase of 6,235 million cubic metres or 94.94% as compared with 6,567 million cubic metres for last year. LNG unloading volume amounted to 2,100 million cubic metres, representing an increase of 1,237 million cubic metres or 143.34% as compared with 863 million cubic metres for last year.

During the Year, LNG terminals are benefited from the demand growth in domicile natural gas and the enhancement of operating capacity, and Jingtang Terminal started to be available to third parties. Dalian Terminal adopted a staged operation model and its unit energy consumption decreased by 50.8%. Jiangsu Terminal finished the wharf loading project upgrading, with a LNG vessel loading and transfer capacity of 40,000 tonnes.

2. LNG Processing

During the Year, the Group's LNG sales volume was 1,093 million cubic metres, representing an increase of 595 million cubic metres or 119.48% as compared with 498 million cubic metres for last year.

During the Year, 8 LNG processing plants of the Group entered into processing agreements with PetroChina, and the utilisation rate of production equipment of LNG processing plants has improved. 14 LNG processing plants operated during the Year, with an 18.6% increase in utilisation rate.

NATURAL GAS PIPELINE

During the Year, Natural Gas Pipeline transmission volume was 41,689 million cubic metres, representing an increase of 5,958 million cubic metres or 16.67% as compared with 35,731 million cubic metres (restated) for last year. As a result of the lowering of prices for cross-province pipeline transmission of natural gas with effective from 1 September 2017, the Group's revenue from the Natural Gas Pipeline transmission business was RMB10,755 million, representing a decrease of RMB928 million or 7.94% as compared with RMB11,683 million (restated) for last year. Profit before income tax expense was RMB6,733 million, representing a decrease of RMB1,312 million (restated) or 16.31% as compared with RMB8,045 million for last year.

BUSINESS PROSPECTS

The National Energy Administration issued the 13th Five-year Plan for Energy Development (the "plan"), which states the objective to increase the percentage of natural gas consumption to primary energy consumption to 10% by 2020 and that the government shall actively promote the oil and gas system reform and the natural gas price mechanism reform and natural gas market development, reduce the natural gas utilisation cost and expand the size of natural gas consumption. In 2018, China will continue to facilitate energy production and consumption revolution to promote the replacement of major energy consumed by green energy with low carbon-emission. Environmental supervision will become an important driving force for rapid growth of the demand for natural gas, and the trend for natural gas to become a major energy in the PRC will become more obvious. It is expected that city gas and industrial gas consumption will maintain rapid growth, and the demand for natural gas generator and distributed energy will steadily increase. Imported natural gas will maintain growth momentum. The macro-environment for the development of the Group will be more favourable.

The Group is confident in capturing development opportunities and effectively making full use of its advantages in assets and business structure in 2018. By centering around structure optimisation, it will continue to advance the development of QHSE system building. It will vigorously develop high-end and high-profitability market and terminal business, expand its natural gas generator, distributed energy and city gas terminal market, and play a positive role in PetroChina's accelerated development of natural gas business and building strategic and valuable projects.

Fully promote increase in both sales volume and efficiency of city gas. The Group will strengthen its coordinated development with PetroChina, accelerate the development of new projects, and strive to develop a number of new high-quality and high-efficiency projects. It will strengthen the development of users in the existing regions in which it operates city gas projects, adhere to a flexible marketing strategy, deeply explore users' potential, stabilize market, and realize the increase in sales volume and efficiency. The Group will promote value-added services such as smart home, technical services and physical stores, and build the growth drivers for non-natural gas business.

Coordinate and optimise the integrated LNG operation. The Group will accelerate the expansion of Jingtang and Jiangsu Terminals, optimise the management of terminals, improve unloading capacity. The Group will further optimise its LNG plant layout, effectively implement contracted processing, raise processing volume, and lower operation cost. It will actively explore the model of making reserves in the summer for later use in the winter and play the role of emergency peak adjustment. The Group will strengthen the cooperation with refined oil distributors and facilitate the construction of oil-gas stations. The Group will continue to expand the construction of the refilling stations along the transportation paths and transportation hubs, optimise its LNG trading network, develop point-to-point supply market, and improve the competitiveness of CNG and LNG in end-users' markets.

Accelerate strategic planning for natural gas generator and distributed energy projects. The Group will continue to advance the development and construction of natural gas generator projects in key areas such as Beijing, Tianjin, Hebei, Shandong, the Yangtze River Delta and the Pearl River Delta, and expand the size of natural gas generator business. The Group will actively explore the new mode for energy management and utilisation, accelerate the development of distributed energy projects, and expand electricity sales business in an orderly manner.

Advance the construction of key strategic branch pipelines in an orderly manner. The Group will insist on early development of terminal markets as well as mutual support and promotion of branch pipeline construction and terminal market. During the Year, the Group strives to commence operation of 4 branch pipelines including Tengchong and Taihe and complete the construction of 10 branch pipelines including Chuxiong-Panzhihua, Yueyang-Linxiang, Honghe and Wafangdian-Changxingdao.

Accelerate the transformation and upgrading of LPG sales. The Group will consolidate and strive to expand its resources, facilitate the construction of wharf tanks and the commencement of operation of projects under construction, and optimise its three-level network. The Group will strengthen the development of institutional customers and promote the exchange of resources with major domestic distributors to lower operation costs. The Group will strengthen the increase in both sales volume and efficiency of end-users, and establish a big data platform and terminal logistics distribution system for LPG sales using the internet and the internet of things.

By centering around innovations, breakthroughs, quality improvement and efficiency enhancement, the Group will continue to adhere to its operation and management philosophy of safety, environmental protection, compliance with laws and regulations, cooperation and sharing, openness and integration. With the corporate objective of "providing clean energy to serve a harmonious society", it will continue to implement its market, resource, capital, quality and innovation strategies and actively practice its social responsibility. The Group believes that it will be able to capture the opportunities and overcome the challenges for development, make full use of its industry structure advantages, stick to its philosophy of green development, realise coordinated development with the natural gas business of PetroChina, and play a positive role in the development of ecological civilization and facilitating economic and social development with low carbon emission. It will continue to improve its corporate values and bring favorable returns to its shareholders.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB21.0 cents per share (2016: RMB6.5 cents per share) to Shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 4 June 2018 (Monday) subject to the approval at the Annual General Meeting of the Company (the "2018 AGM"). The payment will be made on or before 30 June 2018. The proposed 2017 final dividend amounts to a total of approximately RMB1,695 million and 2016 dividend of RMB522 million was paid in 2017. The payout ratio for 2017 (dividend per share divided by basic earnings per share) was approximately 35.61% (2016 restated: 78.79%).

ANNUAL GENERAL MEETING

The 2018 AGM will be held on 24 May 2018 (Thursday). The Notice of the 2018 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2017 Annual Report. The Notice of the 2018 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").

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2018 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 2018 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 17 May 2018 (Thursday)
Closure of Shareholders Register	from 18 May 2018 (Friday) to 24 May 2018 (Thursday) (both dates inclusive)
Record date	24 May 2018 (Thursday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 31 May 2018 (Thursday)
Closure of Shareholders Register	from 1 June 2018 (Friday) to 4 June 2018 (Monday) (both dates inclusive)
Record date	4 June 2018 (Monday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2018 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.

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 2017 (the "Year"). Profit before income tax expense of the Group for the Year was approximately RMB11,480 million, representing an increase of 82.48% as compared with RMB6,291 million (restated) for the last year. Profit attributable to owners of the Company for the Year was approximately RMB4,760 million, representing an increase of 614.71% as compared with RMB666 million (restated) for the last year.

Revenue

Revenue for the Year was approximately RMB88,706 million, representing an increase of 26.00% as compared with amount of RMB70,400 million (restated) for the last year. The increase was mainly due to the expansion of natural gas business.

Revenue mostly from the Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline accounted for 98.30% (2016 restated: 97.88%) of the Group's total revenue amounting to approximately RMB87,201 million (2016 restated: RMB68,909 million).

Other gains, net

Other gains, net for the Year was approximately RMB1,335 million, representing an increase of 98.07% as compared with amount of RMB674 million (restated) for the last year. The increase was mainly due to appreciation of RMB against US$ during the Year.

Interest income

Interest income for the Year was approximately RMB211 million, representing a decrease of 29.67% as compared with amount of RMB300 million (restated) for the last year. The decrease was mainly due to the decrease in average balance of amounts due from related parties which were interest-bearing.

Purchases, services and others

Purchases, services and others were approximately RMB64,145 million for the Year, representing an increase of 32.77% as compared with amount of RMB48,312 million (restated) for the last year. The increase was mainly due to the increase in purchase volume of natural gas which was generally in line with the increase in sales of natural gas business.

Employee compensation costs

Employee compensation costs of the Group was approximately RMB4,329 million for the Year, representing an increase of 12.53% as compared with amount of RMB3,847 million (restated) for the last year. This increase was mainly due to the increase in the number of headcount which was generally in line with the expansion of natural gas business during the Year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately RMB5,651 million, representing a decrease of 0.69% as compared with amount of RMB5,690 million (restated) for the last year. This was mainly due to the impairment of property, plant and equipment in the People's Republic of China (the "PRC") in 2016 which led to the decrease in their carrying amounts in 2017. The effect was net off by the increase in property, plant and equipment transferred from construction in progress during the Year.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment was RMB604 million for the Year, representing a decrease of 84.56% as compared with amount of RMB3,913 million (restated) for the last year. This decrease was mainly due to the recoverable amount of property, plant and equipment was higher than the carrying amount.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately RMB3,264 million, representing an increase of 12.09% as compared with amount of RMB2,912 million (restated) for the last year. The increase in selling, general and administrative expenses was generally in line with the expansion of natural gas business and the increase in royalty expenses in Exploration and Production business as a result of the increase in realised crude oil selling price.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately RMB441 million, representing a decrease of 16.00% as compared with amount of RMB525 million (restated) for the last year. The decrease was mainly due to implementation of VAT Reform that eliminated business tax in the PRC.

Interest expenses

Interest expenses for the Year was approximately RMB1,145 million, representing an increase of 75.88% as compared with amount of RMB651 million (restated) for the last year. The increase was mainly due to the increase in borrowings in 2017.

Total interest expenses for the Year was approximately RMB1,728 million of which RMB583 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year was approximately RMB767 million, representing an increase of 26.78%, as compared with amount of RMB605 million (restated) for the last year. The increase was mainly due to the increase in realised crude oil selling price during the Year that in turn led to the increase in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company ("Aktobe").

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was increased by 38.27% to approximately RMB224 million (2016 restated: RMB162 million). The increase was mainly due to the increase in realised crude oil selling price in Oman project during the Year.

Profit before income tax expense

Profit before income tax expense for the Year was approximately RMB11,480 million, representing an increase of 82.48% as compared with amount of RMB6,291 million (restated) for the last year.

Income tax expense

Income tax expense for the Year was approximately RMB3,531 million, representing an increase of 10.34% as compared with amount of RMB3,200 million (restated) for the last year. The effective tax rate (excluding joint ventures and associates) for the Year decreased to 33.66% (2016 restated: 57.93%). The decrease was mainly due to the decrease of impairment loss on property, plant and equipment. Excluding the effect of this, the effective tax rate for the Year was 31.83%. (2016 restated: 33.91%).

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

The profit for the Year of the Group was approximately RMB7,949 million, representing an increase of 157.17% as compared with amount of RMB3,091 million (restated) for the last year. The profit attributable to owners of the Company for the Year was approximately RMB4,760 million, representing an increase of 614.71% as compared with amount of RMB666 million (restated) for the last year.

Liquidity and capital resources

As at 31 December 2017, the carrying value of total assets of the Group was approximately RMB140,558 million, representing an increase of RMB11,624 million or 9.02% as compared with RMB128,934 million (restated) as at 31 December 2016.

The gearing ratio of the Group was 40.51% as at 31 December 2017 compared with 36.88% (restated) as at 31 December 2016, representing an increase of 3.63%. It is computed by dividing the sum of interest bearing borrowings, convertible bonds and obligations under finance leases of RMB44,682 million (2016 restated: RMB36,161 million) by the total equity, interest bearing borrowings, convertible bonds and obligations under finance leases of RMB110,307 million (2016 restated: RMB98,056 million).

Adjusted profit before income tax expense, interest, depreciation, depletion and amortisation, is defined as profit before income tax expense excluding impairment loss on property, plant and equipment, impairment loss on accounts and other receivables, interest and depreciation, depletion and amortisation for the Year was approximately RMB18,853 million, representing an increase of 16.05% as compared with the amount of RMB16,245 million (restated) for the last year.

The Company has issued convertible bonds in 2016 to improve the debt profile:

Items	**Date of issue**	**Nominal Amount**	**Tenor**	**Annual Interest**
		RMB'million	*year*	*%*
Convertible bonds (Stock code: 5690) *(note)*	25 July 2016	3,350	3	1.625

Note: 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.

As at 31 December 2017, the Group has total borrowings of RMB41,101 million which will be repayable as follows:

	2017	2016
	RMB'million	*RMB'million*
		(restated)
Within one year	**11,805**	16,585
Between one to two years	**4,431**	1,440
Between two to five years	**20,410**	10,164
After five years	**4,455**	4,316
	41,101	32,505

The carrying amounts of the borrowings are denominated in RMB, US$, Hong Kong dollars ("HK$"), 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 (2016: none) has been exercised by the senior executives of the Company as the exercise price of HK$12.632 was above the market price of HK$7.06 on the share option expiry date and the share options were lapsed.

As at 31 December 2017, the Group had net current liabilities of RMB6,556 million. Notwithstanding the net current liabilities of the Group at 31 December 2017, 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 expected to obtain credit facility from China Petroleum Finance Company Limited ("CP Finance") amounting to RMB15 billion. On 12 March 2018, the Group obtained the credit facility of RMB15 billion from CP Finance;

(ii) the Group expects to generate positive cash inflows in the future; and

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

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

Use of Proceeds

Use of Net Proceeds from Issuance of Convertible Bonds

Reference is made to the Company's announcements dated 14 July 2016 and 25 July 2016 in relation to, among other things, the issuance of RMB3,350 million in aggregate principal amount of 1.625% US$ settled convertible bonds due 2019 (stock code: 5690) (the "Convertible Bonds") (the "CB Announcements"). Consistent with the intended use as disclosed in the CB Announcements, the Company has utilised all of the net proceeds from the issuance of the Convertible Bonds of approximately US$497 million for the payment for the acquisition of Kunlun Gas. As of 31 December 2017, the net proceeds from the issuance of Convertible Bonds have been fully utilised.

Interest Paid

The Group paid interest of RMB1,438 million (2016 restated: RMB947 million) during the Year.

Dividend Paid

2017 final dividend of RMB21.0 cents per share amounting to RMB1,695 million (2016: RMB6.5 cents per share amounting to RMB522 million) was distributed to owners of the Company during the Year.

Pledge of assets

As at 31 December 2017 and 31 December 2016, no short-term or long-term borrowings were secured by property, plant and equipment or advance operating lease payment.

New investment in major projects

Kunlun Gas, a wholly-owned subsidiary of the Company, entered into acquisition agreement dated 28 September 2017 with PetroChina Company Limited ("PetroChina"), pursuant to which PetroChina has conditionally agreed to sell and Kunlun Gas has conditionally agreed to purchase 51% equity interest in PetroChina Jingtang LNG Co., Ltd ("Jingtang Co.") at a consideration of approximately RMB1,547 million subject to adjustment on gain or loss of Jingtang Co. during the transition period, as defined in the acquisition agreement. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, which will generate synergies among the Group's businesses, enhance operational efficiency and increase market competitiveness. In the fourth quarter of 2017, Kunlun Gas obtained all the necessary approvals of the government authorities of the acquisition and Jingtang Co. has become a non-wholly-owned subsidiary of the Company upon the completion of acquisition. The final consideration was RMB1,906 million, including the gains during the transition period amounting to approximately RMB359 million.

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 2017, the Group had approximately 41,835 employees globally (excluding the employees under entrustment contracts) (2016 restated: 37,417 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.

Final dividend

The Board recommended the payment of a final dividend of RMB21.0 cents (2016: RMB6.5 cents) per share. The proposed dividend will be paid on or before 30 June 2018 to the shareholders whose names appear on the Company's register of the members on 4 June 2018 (Monday), subject to the approval at the annual general meeting of the Company. The dividends payable shall be paid in HK$. The applicable exchange rate shall be the average exchange rate for RMB to HK$ as announced by the Hong Kong Association of Banks for the 7 working days prior to the declaration of final dividend, which is RMB1 to HK$1.2284. Accordingly, proposed final dividend attributable to owners of the Company is HK25.8 cents per share and HK$2,083 million in total.

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 2017.

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 2017. 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 Audit Committee of the Company has reviewed and confirmed the annual results for the year ended 31 December 2017.

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 2017 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
Ling Xiao
Chairman and Executive Director

Hong Kong, 20 March 2018

As at the date of this announcement, the Board comprises Mr. Ling Xiao as the Chairman and Executive Director, Mr. Zhao Yongqi as the Chief Executive Officer and Executive Director, Mr. Zhao Zhongxun as Executive Director, Mr. Zhou Yuanhong as Executive Director, Mr. Miao Yong as Executive Director, and Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Patrick as Independent Non-Executive Directors.