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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		
	2019	2018	**Change**
	RMB'million	*RMB'million*	*%*
Revenue	**113,313**	105,470	7.44
Profit before income tax expense	**13,645**	11,985	13.85
Core profit before income tax expense *(note 1)*	**14,427**	13,279	8.65
Profit attributable to owners of the Company	**5,551**	4,634	19.79
Core profit attributable to owners of the Company *(note 2)*	**6,252**	5,885	6.24
Adjusted EBITDA *(note 3)*	**21,491**	20,303	5.85
	RMB cent	*RMB cent*	
Earnings per share (Basic)	**66.71**	57.41	16.20
Core earnings per share (Basic) *(note 4)*	**75.14**	72.91	3.06
Earnings per share (Diluted)	**64.64**	54.68	18.22
	RMB cent	*RMB cent*	
Dividend per share – Final	**26.3**	23.0	14.35
	RMB'million	*RMB'million*	
Profit attributable to owners of the Company (by segment)			
– Natural Gas Sales	**1,994**	1,620	23.09
– LNG Processing and Terminal	**1,228**	1,274	(3.61)
– Natural Gas Pipeline	**2,536**	2,293	10.60
– Exploration and Production	**654**	803	(18.56)
Core profit attributable to owners of the Company (by segment)			
– Natural Gas Sales	**2,378**	2,003	18.72
– LNG Processing and Terminal	**1,255**	1,398	(10.23)
– Natural Gas Pipeline	**2,536**	2,293	10.60
– Exploration and Production	**690**	839	(17.76)

Note:

1 Core profit before income tax expense is defined as profit before income tax expense excluding impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss.

2 Core profit attributable to owners of the Company is defined as profit attributable to owners of the Company excluding impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss attributable to 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 intangible assets, impairment loss on accounts and other receivables, exchange loss, 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 2019

	Note	**2019** *RMB'million*	2018 *RMB'million*
Revenue	*3*	**113,313**	105,470
Other gains/(losses), net		**364**	(259)
Interest income		**274**	295
Purchases, services and others		**(85,116)**	(78,249)
Employee compensation costs		**(5,134)**	(4,845)
Depreciation, depletion and amortisation		**(6,350)**	(6,189)
Impairment loss on property, plant and equipment		**(404)**	(420)
Selling, general and administrative expenses		**(3,112)**	(3,389)
Taxes other than income taxes		**(472)**	(468)
Interest expenses	*4*	**(988)**	(1,130)
Share of profits less losses of:			
– Associates		**951**	858
– Joint ventures		**319**	311
Profit before income tax expense	*5*	**13,645**	11,985
Income tax expense	*6*	**(4,074)**	(3,772)
Profit for the year		**9,571**	8,213
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value gain/(loss) on other financial assets (non-recycling), net of tax		**65**	(127)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		**168**	120
– Associate		**14**	(68)
– Joint ventures		**20**	63
Other comprehensive income for the year		**267**	(12)
Total comprehensive income for the year		**9,838**	8,201

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2019

	Note	**2019**	2018
		RMB'million	*RMB'million*
Profit for the year attributable to:			
– Owners of the Company		**5,551**	4,634
– Non-controlling interests		**4,020**	3,579
		9,571	8,213
Total comprehensive income for the year attributable to:			
– Owners of the Company		**5,779**	4,654
– Non-controlling interests		**4,059**	3,547
		9,838	8,201
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (RMB cent)		**66.71**	57.41
– Diluted (RMB cent)		**64.64**	54.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**2019** **RMB'million**	2018 RMB'million
Assets			
Non-current assets			
Property, plant and equipment		**105,776**	95,933
Advanced operating lease payments		–	3,872
Investments in associates		**5,712**	4,124
Investments in joint ventures		**3,203**	2,870
Intangible and other non-current assets		**2,190**	1,889
Deferred tax assets		**1,366**	1,242
		118,247	109,930
Current assets			
Inventories		**1,398**	1,865
Accounts receivable	*9*	**2,792**	2,459
Prepaid expenses and other current assets		**6,820**	5,859
Cash and cash equivalents		**18,640**	20,474
		29,650	30,657
Total assets		**147,897**	140,587

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Note	**2019** **RMB'million**	2018 RMB'million
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**71**	65
Retained earnings		**28,484**	25,362
Other reserves		**21,433**	17,277
		49,988	42,704
Non-controlling interests		**29,197**	27,390
Total equity		**79,185**	70,094
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**29,300**	27,355
Income tax payable		**728**	794
Other tax payable		**272**	464
Short-term borrowings		**8,772**	7,072
Convertible bonds		–	3,306
Lease liabilities		**225**	150
		39,297	39,141
Non-current liabilities			
Long-term borrowings		**25,727**	28,163
Deferred tax liabilities		**1,697**	1,292
Lease liabilities		**393**	53
Other liabilities		**1,598**	1,844
		29,415	31,352
Total liabilities		**68,712**	70,493
Total equity and liabilities		**147,897**	140,587
Net current liabilities		**9,647**	8,484
Total assets less current liabilities		**108,600**	101,446

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 2019, 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.

Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases - incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempted. As far as the Group is concerned, these newly capitalised leases are primarily in relation to leased office buildings and gas stations in property, plant and equipment.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.28%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The difference between the operating lease commitments as at 31 December 2018 and the opening balance for lease liabilities recognised as at 1 January 2019 arise primarily from short-term leases and other leases with remaining lease term ending on or before 31 December 2019 and the discounting effect of future lease payments for the remaining leases.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The Group presents right-of-use assets in “property, plant and equipment” and presents lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Reclassification	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	RMB million	*RMB million*	*RMB million*	*RMB million*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Property, plant and equipment	95,933	4,102	641	100,676
– equipment and machinery	42,375	(642)	–	41,733
– right-of-use assets	–	4,744	641	5,385
Advanced operating lease payments	3,872	(3,872)	–	–
Total non-current assets	109,930	230	641	110,801
Prepaid expenses and other current assets	5,859	(230)	–	5,629
Current assets	30,657	(230)	–	30,427
Lease liabilities (current) *(note)*	150	–	149	299
Current liabilities	39,141	–	149	39,290
Net current liabilities	8,484	230	149	8,863
Total assets less current liabilities	101,446	–	492	101,938
Lease liabilities (non-current) *(note)*	53	–	492	545
Total non-current liabilities	31,352	–	492	31,844
Net assets	70,094	–	–	70,094

Note: The carrying amounts of obligations under finance lease at 1 January 2019 were included in lease liabilities.

(c) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There is no significant change on the reported profit before income tax expense in the Group's consolidated statement of comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

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

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

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").

Segment assets exclude deferred and current taxes, other financial assets, investments in associates and joint ventures, 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 2019 and 2018 are as follows:

	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Exploration and Production *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the year ended 31 December 2019							
Gross revenue	**94,112**	**9,187**	**10,488**	**2,004**	–	–	**115,791**
Less: Inter-company adjustment	**(645)**	**(1,816)**	**(17)**	–	–	–	**(2,478)**
Revenue from external customers	**93,467**	**7,371**	**10,471**	**2,004**	–	–	**113,313**
Segment results	**4,040**	**3,209**	**5,705**	**250**	**(829)**	–	**12,375**
Share of profits less losses of:							
– Associates	**329**	**1**	–	**621**	–	–	**951**
– Joint ventures	**100**	–	–	**219**	–	–	**319**
Profit/(loss) before income tax expense	**4,469**	**3,210**	**5,705**	**1,090**	**(829)**	–	**13,645**
Income tax expense							**(4,074)**
Profit for the year							**9,571**
Segment results included:							
– Interest income	**524**	**25**	**10**	**9**	**492**	**(786)**	**274**
– Depreciation, depletion and amortisation	**(2,611)**	**(1,280)**	**(2,141)**	**(297)**	**(21)**	–	**(6,350)**
– Impairment loss on property, plant and equipment	**(377)**	**(27)**	–	–	–	–	**(404)**
– Interest expenses	**(487)**	**(442)**	**(93)**	–	**(752)**	**786**	**(988)**
As at 31 December 2019							
Segment assets	**65,006**	**23,424**	**44,622**	**2,915**	**1,439**	–	**137,406**
Investments in associates	**4,632**	**382**	–	**698**	–	–	**5,712**
Investments in joint ventures	**1,706**	–	–	**1,442**	**55**	–	**3,203**
Additions to non-current segment assets during the year	**5,640**	**1,093**	**3,566**	**283**	–	–	**10,582**
Additions to non-current segment assets through acquisition of subsidiaries during the year	**2,866**	–	–	–	–	–	**2,866**

	Natural Gas Sales *RMB million*	LNG Processing and Terminal *RMB million*	Natural Gas Pipeline *RMB million*	Exploration and Production *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the year ended 31 December 2018							
Gross revenue	87,100	9,456	9,706	2,068	–	–	108,330
Less: Inter-company adjustment	(1,013)	(1,831)	(16)	–	–	–	(2,860)
Revenue from external customers	86,087	7,625	9,690	2,068	–	–	105,470
Segment results	2,558	4,056	5,021	466	(1,285)	–	10,816
Share of profits less losses of:							
– Associates	276	1	–	581	–	–	858
– Joint ventures	108	–	–	203	–	–	311
Profit/(loss) before income tax expense	2,942	4,057	5,021	1,250	(1,285)	–	11,985
Income tax expense							(3,772)
Profit for the year							8,213
Segment results included:							
– Interest income	307	42	24	7	423	(508)	295
– Depreciation, depletion and amortisation	(2,341)	(1,302)	(2,235)	(295)	(16)	–	(6,189)
– Impairment loss on property, plant and equipment	(294)	(126)	–	–	–	–	(420)
– Interest expenses	(215)	(494)	(260)	–	(669)	508	(1,130)
As at 31 December 2018							
Segment assets	57,872	24,237	43,008	2,764	4,336	–	132,217
Investments in associates	3,376	6	–	742	–	–	4,124
Investments in joint ventures	1,656	–	–	1,161	53	–	2,870
Additions to non-current segment assets during the year	4,905	1,046	2,851	301	–	–	9,103

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 2019, revenue of approximately RMB22,139 million (2018: RMB20,535 million) is derived from one (2018: one) customer with whom transactions have exceeded 10% of the Group's revenue. The revenue is attributable to the Natural Gas Sales, LNG Processing and Terminal, Natural Gas Pipeline and Exploration and Production segments.

3. REVENUE

Revenue mainly represents revenue from the sales of natural gas, LNG processing and terminal business, pipeline transmission of natural gas and sales of crude oil. Disaggregation of revenue from contracts with customers within the scope of HKFRS 15 by major products or service lines is as follows:

	2019	2018
	RMB'million	*RMB'million*
Disaggregated by major products or service lines		
– Sales of natural gas products	**93,467**	86,087
– Revenue from LNG processing, gasification and entrucking service	**7,371**	7,625
– Revenue from pipeline transmission service	**10,471**	9,690
– Sales of crude oil	**2,004**	2,068
	113,313	105,470

The Group's revenue are substantially derived from the sales of goods to customers in the PRC and recognised point in time.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales and service contracts such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the sales or service contracts that had an original expected duration of one year or less.

Disaggregation of revenue from contracts with customers is disclosed in Note 2.

4. INTEREST EXPENSES

	2019	2018
	RMB'million	*RMB'million*
Interest expenses on:		
Bank loans	**487**	298
Senior notes	**240**	228
Convertible bonds	**44**	131
Other loans, from:		
– An intermediate holding company	**7**	30
– China Petroleum Finance Company Limited.	**516**	748
– Fellow subsidiaries	**318**	236
Interests on lease liabilities	**28**	13
Less: Amounts capitalised	**(652)**	(554)
	988	1,130

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 4.36% (2018: 4.19%) per annum for the year ended 31 December 2019.

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	2019	2018
	RMB'million	*RMB'million*
Auditors' remuneration		
– audit services	**28**	25
– non-audit services	**5**	4
Cost of inventories recognised as expense	**85,294**	78,487
Minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	454
Depreciation charge and depletion of		
– owned property, plant and equipment*	**5,953**	5,984
– right-of-use assets*	**340**	41
Amortisation cost of		
– advanced operating lease payments for leases previously classified as operating leases under HKAS 17*	**–**	109
– intangible assets	**57**	55
Depreciation, depletion and amortisation	**6,350**	6,189

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amounts of the finance lease assets which were previously included in property, plant and equipment and advanced operating lease payments are also identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 1.

6. INCOME TAX EXPENSE

	2019	2018
	RMB'million	*RMB'million*
Current tax		
– PRC	**3,708**	3,455
– Overseas	**221**	110
	3,929	3,565
Deferred tax	**145**	207
	4,074	3,772

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2018: 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% (2018: 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% (2018: 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 RMB5,551 million (2018: RMB4,634 million) and weighted average number of ordinary shares in issue during the year of approximately 8,321 million shares (2018: 8,072 million shares).

Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately RMB5,577 million (2018: RMB4,722 million) and the weighted average number of ordinary shares of approximately 8,628 million shares (2018: 8,635 million shares) after adjusting for the effect of convertible bonds, calculated as follows:

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

	2019	2018
	RMB'million	*RMB'million*
Profit attributable to owners of the Company	**5,551**	4,634
After tax effect of effective interest on the liability component of convertible bonds	**26**	88
Profit attributable to owners of the Company (diluted)	**5,577**	4,722

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

	2019	2018
	million shares	*million shares*
Weighted average number of ordinary shares at 31 December	**8,321**	8,072
Effect of conversion of convertible bonds	**307**	563
Weighted average number of ordinary shares (diluted) at 31 December	**8,628**	8,635

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2019	2018
	RMB'million	*RMB'million*
Proposed final dividend attributable to owners of the Company for 2019 *(note (a))*	**2,277**	–
Final dividend attributable to owners of the Company for 2018 *(note (b))*	**–**	1,831

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

	2019	2018
	RMB'million	*RMB'million*
Final dividend in respect of the previous financial year, approved and paid during the year	**1,831**	1,742

Notes:

(a) At the meeting on 24 March 2020, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2019 of RMB26.3 cents per share amounting to a total of approximately RMB2,277 million. The amount is based on approximately 8,659 million shares in issue as at 24 March 2020. The consolidated financial statements do not reflect this dividend payable as the final dividend was 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 2020 when it is approved at the 2020 Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2018 of RMB23.0 cents per share amounting to a total of approximately RMB1,831 million were approved by the shareholders in the Annual General Meeting on 6 June 2019. The amount is based on approximately 8,080 million shares in issue as at 19 March 2019 which was paid on 28 June 2019.

9. ACCOUNTS RECEIVABLE

	31 December 2019 *RMB'million*	31 December 2018 *RMB'million*
Accounts receivable, net of loss allowance	**2,792**	2,459

Ageing analysis

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

	2019 *RMB'million*	2018 *RMB'million*
Within 3 months	**2,284**	1,990
Between 3 to 6 months	**78**	76
Over 6 months	**430**	393
	2,792	2,459

The Group's revenue from rendering of terminal and pipeline services and sales of crude oil 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.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	RMB'million	*RMB'million*
Accounts payable	**2,214**	2,791
Contract liabilities	**9,800**	9,383
Salaries and welfare payable	**342**	383
Accrued expenses	**16**	14
Dividend payable	**1,116**	1,059
Interest payable	**144**	139
Construction fee and equipment cost payables	**10,079**	10,361
Amounts due to related parties		
– Non-controlling interests	**1**	1
– Others	**380**	236
Consideration payable	**576**	–
Other payables	**4,632**	2,988
	29,300	27,355

As at 31 December 2019, the Group also had non-current contract liabilities of RMB776 million (2018: RMB744 million) which were included under non-current other liabilities and were expected to be recognised as revenue in over 12 months but less than 5 years.

The Group's contract liabilities represent primarily advances received from customers. In certain regions of the PRC, customers of the Group's city gas business are required to use integrated circuit cards and top up in advance before the balances are deducted upon usage of natural gas. Depending on the market conditions and the customers' credit profile, the Group also require advance for certain customers for sales of other natural gas products. These advance payments from customers are recognised as contract liabilities until the natural gas products are sold to the customers. During the year ended 31 December 2019, the amount of RMB9,383 million (2018: RMB8,881 million) recognised in contract liabilities at beginning of the year has substantially been recognised as revenue during the year.

Ageing analysis

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

	2019	2018
	RMB'million	*RMB'million*
Within 3 months	**1,620**	1,875
Between 3 to 6 months	**81**	124
Over 6 months	**513**	792
	2,214	2,791

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. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus virus disease (COVID-19) epidemic in early 2020 has led to a series of precautionary and control measures implemented across the globe and also casted downward pressure on domestic and international energy prices. It may have certain impacts on the Group's business operations. The Group will pay close attention to the development of the epidemic and assess its impact on the financial position, cash flows and operating results. Up to the date of this announcement, the assessment is still in progress and the related impact could not be reasonably estimated at this stage.

12. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1.

BUSINESS REVIEW

During the Year, amid external risks and challenges including sluggish global economic growth and prolonged Sino-US trade frictions, the PRC government adhered to the general principle of maintaining the momentum of stable and sound progress while promoting quality development with supply-side structural reform as its main guideline, and emphasize the guidance related to the "Six Stabilities" to maintain a sustainable and healthy economic and social development. GDP achieved a year-on-year growth of 6.1%. Meanwhile, the overall pollution prevention and control and ecological construction on the state level would be strengthened. Investment in environmental protection would be increased and "Three-Year Action Plan for Defending the Blue Sky" would be promoted. Full coverage of Beijing-Tianjin-Hebei region and its surrounding areas and the Fenhe-Weihe Plain in respect of the heating with clean energy in northern regions was achieved. A serial of rectification measures in industrial furnace and the key industries as well as the "Dispersed, Disrupted and Polluted" enterprises had also stimulated the demand of natural gas. The national production volume and the net imported volume of natural gas was 306.7 billion cubic metres, representing a year-on-year increase of 9.4%, with its proportion in the total primary energy consumption exceeding 8% for the first time.

The Group took its responsibility seriously for its shareholders, employees and society and it would proactively comply with the nationwide oil and gas system reform and capitalise opportunities bought by high-quality development of the energy industry. The Group actively sought to exchange complementary advantages and strengthen the cooperation with entities within the industry in upstream and downstream. The Group was committed to creating an open, shared, mutually beneficial and symbiotic industrial "Ecosystem". By fully unleash the efficacy of natural gas sales reform of PetroChina Company Limited ("PetroChina"), the Group continued to improve and optimize its business management structure, organizational control system and business operation model. The Group would put efforts in developing end-user market, expansion, increasing end-user sales volume and enhancing operating efficiency. With the steady growth of the newly developed urban gas and other end-users projects, the scale of natural gas sales had expanded rapidly, and the sales structure of LPG had become more reasonable. LNG terminal expansion was progressing as planned, gasification and transmission capacity was further enhanced, and the LNG application in vehicle and ship business has fully rolled out. The Natural Gas Pipeline business increased in transmission volume and growth in profits. The profits of the exploration and development business had dropped due to the decline in international crude oil price. Non-natural gas business enjoyed rapid growth, measures such as "Double Hundred Action" reform had been gradually implemented, thus the development momentum was effectively unleashed, and the overall operating results were better than expected.

During the Year, the Group recorded revenue of RMB113,313 million, representing a year-on-year increase of RMB7,843 million or 7.44%; profit before income tax expense was RMB13,645 million, representing a year-on-year increase of RMB1,660 million or 13.85%; profit attributable to owners of the Company was RMB5,551 million, representing a year-on-year increase of RMB917 million or 19.79%. Earnings per share (basic) was RMB66.71 cents. Excluding the impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss and gain, the core profit attributable to owners of the Company and core earnings per share (basic) was RMB6,252 million and RMB75.14 cents respectively, representing an increase of 6.24% and 3.06% respectively when compared with last year.

NATURAL GAS SALES

The Group concentrated on its end-users business and focused its strengths on market expansion, thus its new project developments achieved significant results. The acquisition of equity interests in 17 gas projects of Jinhong Holding Group Co., Ltd. (金鴻控股集團股份有限公司) was completed; and the strategic cooperation agreement entered into and between PetroChina and the government of Heilongjiang Province had signified the introduction of resources from Sino-Russian Eastern Pipeline, which served the strategic of "Gasification in Longjiang", and the Group had also make all-out effort to promote the development of end-users utilization projects in the northeast regions. During the Year, 70 new development projects have commenced operation and 58 projects completed business registration. During the Year, the number of city gas projects of the Group amounted to 402, covering 31 provinces, cities and autonomous regions across the country.

To fully capitalize on the development opportunities bought by the nationwide battle of pollution prevention and control and policies regarding the usage of natural gas implemented by regional governments, the Group would maximize the advantages of its resource and explored gas-usage potential of existing users so as to realized the rapid growth of natural gas sales volume. During the Year, natural gas sales volume was 28,029 million cubic metres, representing a year-on-year increase of 27.44%, among which, retail gas sales volume was 18,011 million cubic metres, representing a year-on-year increase of 24.83%. During the Year, the number of new users amounted to 1,463,000, including 1,446,700 new residential users and 16,200 new industrial and commercial users, and the cumulative number of users has reached 11,277,000, representing a year-on-year increase of 14.90%.

During the Year, the Natural Gas Sales business recorded a revenue of RMB 94,112 million, representing a year-on-year increase of 8.05%. Profit before income tax was RMB4,469 million, representing a year-on-year increase of 51.90%.

LNG PROCESSING AND TERMINAL

Jingtang LNG terminal, Jiangsu LNG terminal and Dalian LNG terminal maintained safe and stable production and operation. Due to the changes occurred in parent's resource structure, the volume of imported LNG dropped while gasification volume transmitted also declined. Through integrating LNG sales resources, increasing the capability of LNG plants processing and improving the sales system of liquefied product and other measures like increasing the liquefied product sales volume in the transportation field, thus gradually manifested the value of LNG business chain. The expansion construction of Jingtang LNG terminal and Jiangsu LNG terminal were proceeded smoothly.

During the Year, LNG gasification and entrucking volume of Jingtang LNG Terminal, Jiangsu LNG Terminal and Dalian LNG Terminal under the Group amounted to 18,557 million cubic metres in total, representing a year-on-year decrease of 12.61%. The average terminal utilisation rate decreased 9.0 percentage points as compared with last year. 14 LNG processing plants were put into operation during the Year, and the processing volume of LNG processing plants was 2,054 million cubic metres, representing a year-on-year increase of 32.89%. The production capacity rate increased to 43.8%, representing a year-on-year increase of 7.9 percentage points

During the Year, LNG Processing and Terminal business recorded revenue of RMB9,187 million, representing a year-on-year decrease of 2.84%. Profit before income tax was RMB3,210 million, representing a year-on-year decrease of 20.88%.

NATURAL GAS PIPELINE

During the Year, PetroChina Beijing Gas Pipeline Co., Ltd. vigorously improved its safety management, accelerated the construction of interconnection projects, and maintained a safe and stable operation of the pipelines, thus increasing "both the transmission volume and results". The Group adhered to the strategy of stimulating retail sales with the construction of branch pipelines, and it promoted the key branch pipeline projects in an orderly manner during the Year. The Group commenced the operations of 6 branch pipeline projects including Guizhou Duyun-Kaili branch pipeline and completed 2 projects including Yueyang-Linxiang branch pipeline.

During the Year, the transmission volume of the Group amounted to 55,602 million cubic metres, representing a year-on-year increase of 5.02%. The revenue of Natural Gas Pipeline business reached RMB10,488 million, representing a year-on-year increase of 8.06%. Profit before income tax was RMB5,705 million, representing a year-on-year increase of 13.62%.

EXPLORATION AND PRODUCTION

During the Year, as international crude oil price declined compared with last year, the average realised crude oil selling price of the Group decreased to US$54.54/barrel from US$60.30/barrel of last year. During the Year, the sales volume of crude oil of the Group was 13.54 million barrels, representing an increase of 0.27 million barrels or 2.03% compared with 13.27 million barrels of last year. Sales revenue of crude oil was RMB2,004 million, representing a year-on-year decrease of 3.09%. Profit before income tax was RMB1,090 million, representing a year-on-year decrease of 12.80%.

BUSINESS PROSPECTS

At the beginning of 2020, the sudden outbreak of novel coronavirus virus disease (COVID-19) epidemic has created a greater impact on the economy and society and the normal life of people, especially on the social demand and supply side, while the industries the Group operates in upstream and downstream related industries have also been affected. The outbreak of epidemic together with the drop of international crude oil prices, the uncertainties in the global economy increased, which may affect and restrict the turnaround of the domestic economic situation. As the PRC government adopts strong measures to scientifically prevent and control the epidemic which in turn controlled the spread of the epidemic in China with a relatively short time and laid a solid foundation for strong economic growth and a stable and harmony society, and the prospect of PRC's positive economic growth in the long run remained unchanged. The PRC government has recently intensified its effort on adjusting macro policies and introduced policies such as tax and fee reduction, proposed fundamental measures to stabilize foreign trade and foreign investments, and continued to improve business environment, aiming to increase confidence in foreign long-term investment and operation and facilitate stable economic growth.

Crisis creates opportunity. 2020 is the year to achieve building a moderately well-off society and materializing the "13th Five-Year Plan" and the year to implement the "Three-Year Action Plan for Defending the Blue Sky". The PRC government persists in preventing and controlling pollution with full force, being resolute in promoting clean production in enterprises, and steadily implements coal-control objectives in key regions, and as a result it will continue to increase the demand for natural gas. The National Development and Reform Commission addressed favourable policy direction such as the prices of natural gas will be "depending on the timely release of natural gas marketization reform and be determined by the market". Many local and overseas analysts believe that the epidemic will have a certain impact on the domestic natural gas consumption in the first quarter of 2020, but with the resumption of work and production nationwide, natural gas consumption will continue to increase throughout the year.

The pipeline business will be subject to adjustment due to the establishment of China Oil & Gas Pipeline Network Corporation. The Group will fully leverage on the integrated operation of its parent's natural gas sales business, seizes market opportunities, optimizes strategic deployment, strives to turn crisis into opportunity, and establish extensive cooperation with various types of capital to speed up the development of retail sales market, steadily increase business operating efficiency, and promote various business to made new progress and new achievements.

Fully expand the retail sales business scale. The Group will leverage the advantages of PetroChina's resources, technical talents and the integration of upstream, midstream and downstream business to establish innovative business models, focus its strengths on large-scale projects, resulting the development of the city gas market. The Group will position on exploring new high quality and high-end projects, vigorously promote joint ventures and cooperation with local governments and market entities, push forward strategic cooperation and cross-regional cooperation. In addition, the Group will accelerate the construction of municipal supporting pipeline network and expansion of user scale, increase the gasification rate of existing market regions, and facilitate fast growth of natural gas sales volume, so as to enable rapid expansion of the retail sales market scale. It will enhance the development of natural gas generator projects and distributed energy projects, actively participate in complementary projects between natural gas and hydrogen energy with renewable energy and push forward the plan of projects including municipal heating and integrated energy.

Facilitate the construction progress of key branch pipeline projects. Based on the leverage functions of its branch pipelines, the Group will target on branch pipelines with strategic values and radial effects, and develop integrated operation along with the end-user projects. The Group will speed up the construction and implementation of related branch pipelines and end-user projects of "Gasification in Longjiang", and organize the construction of 9 major branch pipeline projects such as Chaozhou branch pipeline and Jieyang branch pipeline.

Continue to promote the integrated operations of LNG industrial chain. The Group will set up a whole industrial chain of the sales system of liquefied product with "Terminals and processing plants as base, self-operated stations and end-users as support, logistic optimization as security, and tank distribution as an auxiliary". By applying various methods such as commissioned processing and self-operations, the Group will further revitalise LNG plant assets, increase processing volume, raise capacity and speed up network layout construction of vehicle and ship refilling stations, actively develop businesses such as coastal power vessels refilling, sea vessels refilling, "Gas in Substitution of Oil" of inland river vessels and inland river tank transportation, vigorously increase the LNG sales volume in transportation fields such area vehicles and vessels, and put effort into creating new growth points.

Focus on improving LPG sales business efficiency. The Group will strengthen the synergy between LPG, pipeline natural gas and LNG, accelerate the transformation from single resource and single market to multiple resources and multiple markets, from direct sales to multidimensional sales, from semi-industry chain to full industry chain, and from single business model to diversified business model. Moreover, it will strive to stabilize LPG resources from PetroChina, deepen resource channel cooperation with large-scale domestic chemical enterprises, and expand import channels of Central Asia, Russia and maritime resources. Capturing the opportunity of market regulation by the government, the Group will speed up and promote the construction of end-user retail network and increase its proportion of retail sales. In addition, the Group will explore the related product values of LPG, and also actively search for the sale and purchase market of upstream and downstream chemical products (such as coal chemical alkene, alkane and isooctane) to realize product and market diversification.

Actively expand the non-gas and new energy businesses. The Group will further optimize the positioning of its non-gas business, enhance the value extension of "one-stop" services, vigorously introduce product sales and customer value-added services etc, and promote businesses such as gas insurance. The Group will explore the path of integrated development of natural gas business and new energy (such as hydrogen energy, photovoltaic and wind power) and the path of transformation into clean energy integrated service provider, actively participate in new business researches on power generation such as "wind-gas complementation; light-gas complementation; water-gas complementation (風氣互補、光氣互補、水氣互補)", and expand "Clean energy + engineering technology, financial services etc.".

The Group will continue to adhere to the concept of openness, coordination and sharing development, strengthen its development on ESG systems and capture industry opportunity, persist in adopting a market-oriented approach and focusing on benefits, continue to orderly withdraw from its exploration and production business, maintain safe and stable operation of natural gas pipelines, safeguard the interests of shareholders, focus on end-users sales business, support the foundation of safety and environmental protection, enhance gas project benchmarking management, natural gas stations standardized management and integrated management of branch pipelines, strongly promote cost reduction and efficiency, continue to enhance its corporate values and development quality in order to strive to bring more returns to its shareholders.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB26.3 cents per share (2018: RMB23.0 cents per share) to shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 5 June 2020 (Friday) subject to the approval at the Annual General Meeting of the Company (the "2020 AGM"). The payment will be made on or before 31 July 2020. The proposed 2019 final dividend amounts to a total of approximately RMB2,277 million and 2018 dividend of RMB1,831 million was paid in 2019. The payout ratio for 2019 (dividend per share divided by basic earnings per share) was approximately 39.42% (2018: 40.06%).

ANNUAL GENERAL MEETING

The 2020 AGM will be held on 27 May 2020 (Wednesday). The Notice of the 2020 AGM, which constitutes part of the circular to shareholders, will be sent together with the 2019 Annual Report. The Notice of the 2020 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 2020 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 2020 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 21 May 2020 (Thursday)
Closure of Shareholders Register	from 22 May 2020 (Friday) to 27 May 2020 (Wednesday) (both dates inclusive)
Record date	27 May 2020 (Wednesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 3 June 2020 (Wednesday)
Closure of Shareholders Register	from 4 June 2020 (Thursday) to 5 June 2020 (Friday) (both dates inclusive)
Record date	5 June 2020 (Friday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2020 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 54, 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 2019 (the "Year"). Profit before income tax expense of the Group for the Year was approximately RMB13,645 million, representing an increase of 13.85% as compared with RMB11,985 million for the last year. Profit attributable to owners of the Company for the Year was approximately RMB5,551 million, representing an increase of 19.79% as compared with RMB4,634 million for the last year.

Revenue

Revenue for the Year was approximately RMB113,313 million, representing an increase of 7.44% as compared with amount of RMB105,470 million for the last year. The increase was mainly due to the expansion of natural gas business.

The Group's revenue was mainly derived from the Natural Gas Sales segment, LNG Processing and Terminal segment and Natural Gas Pipeline segment, which in aggregate accounted for 98.23% (2018: 98.04%) of the Group's total revenue amounting to approximately RMB111,309 million (2018: RMB103,402 million).

Other gains/losses, net

Other gains, net for the Year was approximately RMB364 million (2018: losses of RMB259 million). The decrease in losses were mainly due to decrease in exchange losses resulted from depreciation of RMB against US$ to a lesser extent compared with last year.

Interest income

Interest income for the Year was approximately RMB274 million, representing a decrease of 7.12% as compared with amount of RMB295 million for the last year. The decrease was mainly due to the decrease in average balance of cash at bank compared with last year.

Purchases, services and others

Purchases, services and others were approximately RMB85,116 million for the Year, representing an increase of 8.78% as compared with amount of RMB78,249 million for the last year. The increase was mainly due to the increase in purchase volume and price of natural gas which was generally in line with the increase in sales of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs of the Group was approximately RMB5,134 million for the Year, representing an increase of 5.96% as compared with amount of RMB4,845 million for the last year. This increase was mainly due to the increase in average salary and bonus resulting from improved business performance as well as economic inflation during the Year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately RMB6,350 million, representing an increase of 2.60% as compared with amount of RMB6,189 million for the last year. The increase was mainly due to the increase in property, plant and equipment arising from right-of-use assets recognised upon the adoption of HKFRS 16 during the Year.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment amounted to RMB404 million for the Year, representing a decrease of 3.81% as compared with that of RMB420 million for the last year. Impairment loss recognised during the Year was mainly attributable to a LNG storage tank and CNG/LNG filling stations whose carrying amounts exceeded the recoverable amounts.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately RMB3,112 million, representing a decrease of 8.17% as compared with amount of RMB3,389 million for the last year. The decrease was mainly due to the decrease of selling, general and administrative expenses incurred by certain subsidiaries, which the Group ceased to consolidate upon losing the absolute control during the restructuring processes in last year.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately RMB472 million, representing an increase of 0.85% as compared with amount of RMB468 million for the last year. Taxes other than income taxes remained fairly stable during the Year.

Interest expenses

Interest expenses for the Year was approximately RMB988 million, representing a decrease of 12.57% as compared with amount of RMB1,130 million for the last year. The decrease was mainly due to the conversion of convertible bonds during the Year and the increase in the amount of interest capitalised in 2019.

Total interest incurred for the Year was approximately RMB1,640 million of which RMB652 million was capitalised as construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year was approximately RMB951 million, representing an increase of 10.84%, as compared with amount of RMB858 million for the last year. The increase was mainly due to the increase in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which incurred less exchange losses during the Year.

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was increased by 2.57% to approximately RMB319 million (2018: RMB311 million). Share of profits less losses of joint ventures remained fairly stable during the Year.

Profit before income tax expense

Profit before income tax expense for the Year was approximately RMB13,645 million, representing an increase of 13.85% as compared with amount of RMB11,985 million for the last year.

Income tax expense

Income tax expense for the Year was approximately RMB4,074 million, representing an increase of 8.01% as compared with amount of RMB3,772 million for the last year. The increase was generally in line with the increase in profit before income tax expense.

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

The profit for the Year of the Group was approximately RMB9,571 million, representing an increase of 16.53% as compared with amount of RMB8,213 million for the last year. The profit attributable to owners of the Company for the Year was approximately RMB5,551 million, representing an increase of 19.79% as compared with amount of RMB4,634 million for the last year.

Liquidity and capital resources

As at 31 December 2019, the carrying value of total assets of the Group was approximately RMB147,897 million, representing an increase of RMB7,310 million or 5.20% as compared with RMB140,587 million as at 31 December 2018.

The gearing ratio of the Group was 30.72% as at 31 December 2019 compared with 35.60% as at 31 December 2018, representing a decrease of 4.88%. It is computed by dividing the sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities of RMB35,117 million (2018: RMB38,744 million) by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities of RMB114,302 million (2018: RMB108,838 million).

As at 31 December 2019, the Group has total borrowings of RMB34,499 million which will be repayable as follows:

	2019	2018
	RMB'million	*RMB'million*
Within one year	**8,772**	7,072
Between one to two years	**2,314**	9,176
Between two to five years	**17,076**	13,559
After five years	**6,337**	5,428
	34,499	35,235

The functional currency of the Company and most of its subsidiaries is RMB. As such, the Group is exposed to exchange rate risks arisen from borrowings denominated in other currencies raised by the Company or these subsidiaries. The Group will incur exchange gain/loss from such foreign currency borrowings when RMB appreciates/depreciates against other currencies.

During the Year, no share option (2018: none) has been exercised by the senior executives of the Company as all share options were lapsed.

As at 31 December 2019, the Group had net current liabilities of RMB9,647 million. Notwithstanding the net current liabilities of the Group at 31 December 2019, 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 expects to obtain credit facility from China Petroleum Finance Company Limited ("CP Finance"). On 3 March 2020, the Group obtained a credit facility of RMB26 billion from CP Finance covering a period ending 31 March 2021;

(ii) the Group expects to generate operating 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.

Pledge of Assets

As at 31 December 2019, certain property, plant and equipment of the Group amounting to RMB21 million (2018: Nil) were pledged to banks for loan facilities granted to the Group.

New Investment in Major Projects

PetroChina Kunlun Gas Co., Ltd. ("Kunlun Gas"), a wholly-owned subsidiary of the Company, entered into equity transfer agreement dated 15 August 2019 with certain indirect wholly-owned subsidiaries of Jinhong Holding Group Co., Ltd. ("Jinhong Holding"), in which Kunlun Gas agreed to purchase equity interests in 17 companies from Jinhong Holding at a consideration of approximately RMB1,640 million. This acquisition will help the Group to achieve rapid development in target markets, generate synergies among the Group's businesses, enhance operational efficiency and increase market competitiveness. In the third quarter of 2019, Kunlun Gas obtained all the necessary approvals of the government authorities of the equity transfer and fifteen entities have become the subsidiaries of Kunlun Gas while two entities have become the associates of Kunlun Gas.

Material Investments

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

The Group's major investments 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 2019, the Group had approximately 38,557 employees globally, excluding the employees under entrustment contracts (2018: 42,278 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 RMB26.3 cents (2018: RMB23.0 cents) per share. The proposed dividend will be paid on or before 31 July 2020 to the shareholders whose names appear on the Company's register of the members on 5 June 2020 (Friday), subject to the approval at the annual general meeting of the Company.

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 2019.

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 Corporate Governance Code 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 2019. 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 of four 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 2019.

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 2019 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, 24 March 2020

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 Chief Financial Officer and Executive Director, and Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng, Mr. Sun Patrick and Mr. Tsang Yok Sing Jasper as Independent Non-Executive Directors.