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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

	Six months ended 30 June		Change %
	2020 <i>RMB million</i>	2019 <i>RMB million</i>	
Revenue	<b>52,254</b>	53,543	(2.41)
Profit before income tax expense	<b>6,131</b>	7,673	(20.10)
Core profit before income tax expense <i>(note 1)</i>	<b>6,411</b>	7,765	(17.44)
Profit attributable to the owners of the Company	<b>2,363</b>	3,143	(24.82)
Core profit attributable to owners of the Company <i>(note 2)</i>	<b>2,625</b>	3,222	(18.53)
Adjusted EBITDA <i>(note 3)</i>	<b>10,249</b>	11,273	(9.08)
	<i>RMB cent</i>	<i>RMB cent</i>	%
Earnings per share (Basic)	<b>27.29</b>	38.90	(29.85)
Core earnings per share (Basic) <i>(note 4)</i>	<b>30.32</b>	39.88	(23.97)
Earnings per share (Diluted)	<b>27.29</b>	36.85	(25.94)
Dividend per share – Interim	<b>NIL</b>	NIL	N/A

Note:

- 1 Core profit before income tax expense is defined as profit before income tax expense excluding impairment loss on accounts receivable and exchange loss.
- 2 Core profit attributable to owners of the Company is defined as profit attributable to owners of the Company excluding impairment loss on accounts receivable 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 accounts receivable, 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 period.

The directors of Kunlun Energy Company Limited (the “Company”) (the “Directors”) announce that the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2020 are as follows:

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RMB million	2019 RMB million
Revenue	3	52,254	53,543
Other gains, net		257	159
Interest income		159	189
Purchases, services and others		(39,275)	(39,363)
Employee compensation costs		(2,230)	(2,295)
Depreciation, depletion and amortisation		(3,472)	(3,134)
Selling, general and administrative expenses		(1,104)	(1,345)
Taxes other than income taxes		(207)	(214)
Interest expenses	4	(525)	(563)
Share of profits less losses of:			
– Associates		205	520
– Joint ventures		69	176
<b>Profit before income tax expense</b>	5	<b>6,131</b>	7,673
Income tax expense	6	(1,939)	(2,404)
<b>Profit for the period</b>		<b>4,192</b>	5,269
<b>Other comprehensive income:</b>			
Item that will not be reclassified to profit or loss:			
– Fair value (loss)/gain on other financial assets (non-recycling), net of tax		(18)	92
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		1	(56)
– Associates		(31)	10
– Joint ventures		19	1
<b>Other comprehensive income for the period</b>		<b>(29)</b>	47
<b>Total comprehensive income for the period</b>		<b>4,163</b>	5,316

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**

*For the six months ended 30 June 2020*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2020</b>	2019
		<b><i>RMB million</i></b>	<i>RMB million</i>
<b>Profit for the period attributable to:</b>			
– Owners of the Company		<b>2,363</b>	3,143
– Non-controlling interests		<b>1,829</b>	2,126
		<u>4,192</u>	<u>5,269</u>
<b>Total comprehensive income for the period attributable to:</b>			
– Owners of the Company		<b>2,343</b>	3,181
– Non-controlling interests		<b>1,820</b>	2,135
		<u>4,163</u>	<u>5,316</u>
<b>Earnings per share for profit attributable to owners of the Company</b>			
	7		
– Basic (RMB cent)		<b>27.29</b>	38.90
– Diluted (RMB cent)		<b>27.29</b>	36.85

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

*As at 30 June 2020*

		30 June 2020	31 December 2019
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		105,946	105,776
Investments in associates		5,802	5,712
Investments in joint ventures		3,255	3,203
Intangible and other non-current assets		2,653	2,190
Deferred tax assets		1,358	1,366
		119,014	118,247
		119,014	118,247
<b>Current assets</b>			
Inventories		1,489	1,398
Accounts receivable	9	2,718	2,792
Prepaid expenses and other current assets		7,561	6,820
Cash and cash equivalents		20,698	18,640
		32,466	29,650
		32,466	29,650
<b>Total assets</b>		151,480	147,897
<b>Equity</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		71	71
Retained earnings		28,481	28,484
Other reserves		21,502	21,433
		50,054	49,988
<b>Non-controlling interests</b>		29,388	29,197
<b>Total equity</b>		79,442	79,185

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

*As at 30 June 2020*

		<b>30 June 2020</b>	31 December 2019
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	<i>10</i>	<b>31,883</b>	29,300
Income tax payable		<b>477</b>	728
Other tax payable		<b>143</b>	272
Short-term borrowings		<b>8,333</b>	8,772
Lease liabilities		<b>135</b>	225
		<hr/>	<hr/>
		<b>40,971</b>	39,297
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<b>Non-current liabilities</b>			
Long-term borrowings		<b>26,965</b>	25,727
Deferred tax liabilities		<b>1,772</b>	1,697
Lease liabilities		<b>473</b>	393
Other liabilities		<b>1,857</b>	1,598
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		<b>31,067</b>	29,415
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<b>Total liabilities</b>		<b>72,038</b>	68,712
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<b>Total equity and liabilities</b>		<b>151,480</b>	147,897
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<b>Net current liabilities</b>		<b>8,505</b>	9,647
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<b>Total assets less current liabilities</b>		<b>110,509</b>	108,600
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# NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated interim financial information set out in this announcement does not constitute the unaudited interim financial report of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) for the six months ended 30 June 2020 but is extracted from that unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 25 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out below.

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

### **Change in accounting policies**

The HKICPA has issued following amendments to HKFRSs that are first effective for the current accounting period of the Group.

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 37 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of the developments have a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the interim financial report. 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: 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 six months ended 30 June 2020 and 2019 are as follows:

	Natural Gas Sales <i>RMB million</i>	LNG Processing and Terminal <i>RMB million</i>	Natural Gas Pipeline <i>RMB million</i>	Exploration and Production <i>RMB million</i>	Corporate <i>RMB million</i>	Inter- company adjustment <i>RMB million</i>	Total <i>RMB million</i>
<b>For the six months ended</b>							
<b>30 June 2020</b>							
Gross revenue	43,338	4,344	5,330	600	—	—	53,612
Less: Inter-company adjustment	(500)	(843)	(15)	—	—	—	(1,358)
Revenue from external customers	42,838	3,501	5,315	600	—	—	52,254
Segment results	2,133	1,370	3,004	(217)	(433)	—	5,857
Share of profits less losses of:							
– Associates	204	1	—	—	—	—	205
– Joint ventures	27	—	—	42	—	—	69
Profit/(loss) before income tax expense	2,364	1,371	3,004	(175)	(433)	—	6,131
Income tax expense							(1,939)
Profit for the period							4,192
Segment results included:							
– Interest income	281	31	11	3	192	(359)	159
– Depreciation, depletion and amortisation	(1,413)	(634)	(1,181)	(231)	(13)	—	(3,472)
– Interest expenses	(308)	(233)	(49)	(4)	(290)	359	(525)
Additions to non-current segment assets during the period	3,624	260	598	34	—	—	4,516
<b>As at 30 June 2020</b>							
Segment assets	65,052	23,407	43,510	2,730	6,168	—	140,867
Investments in associates	4,752	383	—	667	—	—	5,802
Investments in joint ventures	1,697	—	—	1,503	55	—	3,255



	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
<b>For the six months ended</b>							
<b>30 June 2019</b>							
Gross revenue	44,069	4,765	5,199	1,007	—	—	55,040
Less: Inter-company adjustment	(649)	(839)	(9)	—	—	—	(1,497)
Revenue from external customers	43,420	3,926	5,190	1,007	—	—	53,543
Segment results	2,187	1,822	3,186	153	(371)	—	6,977
Share of profits less losses of:							
– Associates	150	—	—	370	—	—	520
– Joint ventures	42	—	—	133	1	—	176
Profit/(loss) before income tax expense	2,379	1,822	3,186	656	(370)	—	7,673
Income tax expense							(2,404)
Profit for the period							5,269
Segment results included:							
– Interest income	292	17	13	4	267	(404)	189
– Depreciation, depletion and amortisation	(1,260)	(643)	(1,067)	(152)	(12)	—	(3,134)
– Interest expenses	(260)	(214)	(57)	—	(436)	404	(563)
Additions to non-current segment assets during the period	2,327	538	962	86	11	—	3,924
<b>As at 31 December 2019</b>							
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

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

For the six months ended 30 June 2020, revenue of approximately RMB9,736 million (six months ended 30 June 2019: RMB10,172 million) is derived from one (six months ended 30 June 2019: one) customer with whom transactions have exceeded 10% of the Group's revenues. 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 sales of natural gas, LNG processing and terminal business, pipeline transmission of natural gas and sales of crude oil.

### 4 INTEREST EXPENSES

	Six months ended 30 June	
	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
Interest expenses	821	877
Less: amounts capitalised	(296)	(314)
	<hr/>	<hr/>
Total interest expenses	525	563
	<hr/> <hr/>	<hr/> <hr/>

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 4.70% (six months ended 30 June 2019: 4.66%) per annum for the six months ended 30 June 2020.

### 5 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
Amortisation of intangible assets	39	29
Depreciation and depletion of		
– owned property, plant and equipment	3,225	2,941
– right-of-use assets	208	164
Cost of inventories recognised as expense	38,137	39,541
Impairment loss on accounts receivable	69	43
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## 6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
<b>Current tax</b>		
– PRC	1,842	1,977
– Overseas	14	185
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	1,856	2,162
<b>Deferred tax</b>	83	242
	<hr/>	<hr/>
	1,939	2,404
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Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group's subsidiaries in the PRC is principally 25% (six months ended 30 June 2019: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (six months ended 30 June 2019: 15% to 20%).

Income tax on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2020 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 RMB2,363 million (six months ended 30 June 2019: RMB3,143 million) and weighted average number of ordinary shares in issue during the six months ended 30 June 2020 of approximately 8,659 million shares (six months ended 30 June 2019: 8,080 million shares).

- (b) Diluted earnings per share for the six months ended 30 June 2020 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

Diluted earnings per share for the six months ended 30 June 2019 was calculated based on the Group's profit attributable to owners of the Company of approximately RMB3,186 million and the weighted average number of ordinary shares of approximately 8,645 million shares after adjusting for the effect of convertible bonds.

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i><b>RMB million</b></i>	<i>RMB million</i>
Profit attributable to owners of the Company	<b>2,363</b>	3,143
After tax effect of effective interest on the liability component of convertible bonds	–	43
	<hr/>	<hr/>
Profit attributable to owners of the Company (diluted)	<b>2,363</b>	3,186
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i><b>million shares</b></i>	<i>million shares</i>
Weighted average number of ordinary shares at 30 June	<b>8,659</b>	8,080
Effect of conversion of convertible bonds	–	565
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 30 June	<b>8,659</b>	8,645
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## **8 DIVIDENDS**

- (a) 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 was 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.

- (b) 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 was approved by the shareholders in the Annual General Meeting on 27 May 2020. The amount is based on approximately 8,659 million shares in issue as at 24 March 2020, which was paid subsequently on 24 July 2020.
- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## 9 ACCOUNTS RECEIVABLE

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:

	<b>30 June 2020</b>	31 December 2019
	<i>RMB million</i>	<i>RMB million</i>
Within 3 months	<b>1,856</b>	2,284
Between 3 to 6 months	<b>287</b>	78
Over 6 months	<b>575</b>	430
	<u><b>2,718</b></u>	<u>2,792</u>

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

	<b>30 June 2020 RMB million</b>	31 December 2019 RMB million
Accounts payable	3,101	2,214
Contract liabilities	8,687	9,800
Salaries and welfare payable	563	342
Accrued expenses	243	16
Dividends payable	4,903	1,116
Interest payable	124	144
Construction fee and equipment cost payables	8,670	10,079
Amounts due to related parties		
– Non-controlling interests	1	1
– Others	158	380
Other payables	5,433	5,208
	<u>31,883</u>	<u>29,300</u>

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

	<b>30 June 2020 RMB million</b>	31 December 2019 RMB million
Within 3 months	2,206	1,620
Between 3 to 6 months	188	81
Over 6 months	707	513
	<u>3,101</u>	<u>2,214</u>

## 11 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. The Group will keep the contingency measures under review as the situation evolves.

## **CHAIRMAN STATEMENT**

I am pleased to report the results of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (the “Period”) to the shareholders on behalf of the board of directors.

## **BUSINESS REVIEW**

During the Period, the sudden outbreak of the coronavirus pandemic had a huge impact on the economy and the society of the People’s Republic of China (the “PRC”). Thankfully, the PRC government gave a strong response by taking decisive actions and implementing scientific measures to prevent and control the pandemic, thereby effectively containing the spread of the virus. Also, the resumption of work and production have been promoted in an orderly manner and the economy has been recovering at a steady pace. In the second quarter of 2020, PRC’s GDP achieved a year-on-year growth of 3.2%, returning to positive territory from a decline of 6.8% in the first quarter. The national production volume and the net imported volume of natural gas in the first half of the year increased by 4.0% year-on-year, with the growth rate picking up month by month. Affected by both the drop in international oil prices and the coronavirus pandemic, the performance of some of the Company’s business segments in the first half of the year did not turn as good as expected, but has begun to pick up momentum as the business environment improves.

The Group was on a dual mission of preventing and controlling the COVID-19 pandemic and ensuring operational development. With its strong sense of responsibility for its shareholders, employees and society, the Group made extra efforts and fulfilled its responsibilities to facilitate the collective prevention and control of the pandemic in its regions, thus ensuring zero cases of infection in the production and office sites. Aided by a stable workforce, the Group’s production and operation were smooth and steady in an orderly manner. It also helped other gas-consuming companies to resume work and production. It drew up a special plan for ensuring the natural gas supply during the pandemic, and set up an accelerated route for resource guarantee to ensure a stable supply of gas for customers, including many designated medical institutions, manufacturers of protective supplies and other different entities across the country. In Hubei Province, the Group coordinated the deployment of resources, strengthened safety management and control, and provided 24-hour uninterrupted service at its gas refilling stations to ensure the normal operation of public transportation. It gave priority to the gas demand of designated hospitals and key pharmaceutical companies in the region, and completed efficiently the emergency pipe laying and gas transmission works for Wuhan Huoshenshan, Shiyan, Xiantao and other designated hospitals. It also managed

to meet the gas demand of 76 manufacturers of protective supplies, which exceeded 240,000 cubic metres everyday. When the pandemic was at its most severe stage, the Group went into communities to provide users with top-up service to reduce the risk of infection that could have been caused by payment in person at business halls. A total of 114 communities were served, with 10,388 times of service provided and 100,851 households covered.

The Group proactively adapted to the macro trend of the oil and gas system reform in the country and seized opportunities that is vital to the development of the industry during this strategic period. It sought to exchange complementary advantages with entities within the industry in both upstream and downstream and strengthen cooperation with them. The Group adhered to high-quality development, actively carried out special projects to improve the quality and efficiency of its operation, to minimize the impact caused by the pandemic and the sharp drop in international oil price with dozens of strong initiatives, including enhancement through optimization, cost reduction and enhancement of operational efficiency. The Group vigorously developed end-user projects, such as urban gas, and users. It's natural gas sales scale continued to expand, the LPG sales structure continued to be optimised, and the expansion projects of the LNG terminals and other projects progressed as scheduled. The Group adhered to green and low-carbon development, strengthened the establishment of its ESG system, and won the “Asia Power Sector for 2020 – Best ESG” award issued by the Institutional Investor.

During the Period, the Group recorded revenue of RMB52,254 million, representing a decrease of RMB1,289 million or 2.41% compared with the revenue for the same period of last year; profit before income tax expense was RMB6,131 million, representing a decrease of RMB1,542 million or 20.10% compared with the profit before income tax expense for the same period of last year; the profit attributable to owners of the Company was RMB2,363 million, representing a decrease of RMB780 million or 24.82% compared with the profit attributable to owners of the Company for the same period of last year. Earnings per share (basic) was RMB27.29 cents. Excluding the impairment loss on accounts receivable and exchange loss, the core profit attributable to owners of the Company and core earnings per share (basic) was RMB2,625 million and RMB30.32 cents respectively, representing a decrease of 18.53% and 23.97% respectively when compared with the same period of last year.



## NATURAL GAS SALES

The Group took full advantage of integrated operation brought by the optimization and adjustment of the natural gas sales management system of its parent company, adopted the strengthening and expansion of its end-user business as its core strategy, and increased its efforts to develop the end-user market, with breakthroughs achieved in some key projects. It promoted the construction of joint oil and gas stations in cooperation with refined oil selling companies under PetroChina Company Limited (“PetroChina”), and 13 out of 100 oil and gas stations in Sichuan was put into operation with sales exceeding 40 million cubic meters during the Period. During the Period, the Company developed a total of 31 new projects in 20 provinces, autonomous regions and municipalities, including 26 projects which were acquired through mergers and acquisitions or newly developed and are mainly located in Hubei, Shandong, Jiangsu, Anhui and Jiangxi provinces, and 5 projects which the Company has equity interest in. During the Period, the Group had 373 city gas projects, located in 31 provinces, municipalities and autonomous regions across the country.

During the Period, total natural gas sales volume was 16,072 million cubic metres, representing a year-on-year increase of 27.61%, of which the retail gas sales volume was 10,018 million cubic metres, representing a year-on-year increase of 20.30%. During the Period, the number of new users amounted to 288,800, including 287,400 new residential users and 1,431 new industrial and commercial users; the cumulative number of users reached 11,565,700.

During the Period, the Natural Gas Sales business recorded revenue of RMB43,338 million, representing a year-on-year decrease of 1.66%; profit before income tax was RMB2,364 million, representing a year-on-year decrease of 0.63%.

## **LNG PROCESSING AND TERMINAL**

The Group ensured the safe and smooth production and operation of the three LNG terminals in Jingtang, Jiangsu and Dalian. As the Group overcame the impact of the pandemic and resumed operation expeditiously, the expansion projects of Jingtang LNG Terminal and Jiangsu LNG Terminal progressed as scheduled. Utilising the value of the LNG business chain to its full advantage, the Group actively promoted the integrated development of its LNG business and greatly increased the sales of its liquefied products in the transportation sector.

During the Period, affected by the pandemic and the domestic economic downturn, LNG gasification and entrucking volume of Jiangsu LNG Terminal, Jingtang LNG Terminal and Dalian LNG Terminal under the Group amounted to 7,743 million cubic metres in total, representing a year-on-year decrease of 18.02%; the average terminal utilisation rate decreased 11.46 percentage points. 14 LNG processing plants were put into operation and the processing volume of LNG processing plants was 1,166 million cubic metres, representing a year-on-year increase of 17.42%; the production capacity was 44.15%, representing a year-on-year increase of 0.25 percentage points.

During the Period, the LNG Processing and Terminal business recorded revenue of RMB4,344 million, representing a year-on-year decrease of 8.84%; profit before income tax was RMB1,371 million, representing a year-on-year decrease of 24.75%.

## **NATURAL GAS PIPELINE**

During the Period, PetroChina Beijing Gas Pipeline Co., Ltd. continued to improve its safety management level, accelerated the construction of interconnection projects and maintained the safe and stable operation of its pipelines. As the Group adhered to its strategy of driving end-user sales with the construction of branch pipelines, the key branch projects during the Period were carried out in an orderly manner. Projects including the Shidian branch in Yunnan Province and the Yuelin branch in Hunan Province were completed, and the branch projects in Chaozhou and Heihe were progressing normally. The Hengyan branch in Hunan Province and the Jinnan branch in Tianjin Province have already commenced construction.

During the Period, the transmission volume amounted to 27,866 million cubic metres, representing a year-on-year decrease of 1.42%. The revenue of the Natural Gas Pipeline business reached RMB5,330 million, representing a year-on-year increase of 2.52%; profit before income tax was RMB3,004 million, representing a year-on-year decrease of 5.71%.

## **EXPLORATION AND PRODUCTION**

During the Period, as international crude oil price declined significantly compared with the same period of last year, the average realised crude oil selling price of the Group decreased to US\$40.31/barrel from US\$56.01/barrel of the same period of last year. During the Period, the sales volume of crude oil of the Group was 6.13 million barrels, representing a decrease of 0.67 million barrels or 9.85% compared with the same period of last year. Sales revenue of crude oil was RMB600 million, representing a year-on-year decrease of 40.42%. Loss before income tax was RMB175 million.

## **BUSINESS PROSPECTS**

The PRC government continues to uphold the “six stabilities” and “six guarantees” as its core measures to coordinate the prevention and control of the pandemic as well as economic and social development. Sporadic outbreaks of COVID-19 have been efficiently contained and the economic recovery measures have achieved outstanding results. Organisations around the world are optimistic about China’s economic development prospects. Many of the domestic and overseas analytical institutions believe that China’s economic resilience is strong, and the fundamentals of its economy, showing an economic stability and long-term development, remain unchanged. In the second half of the year, the PRC government will continue to implement strategies to expand its domestic demand, promote a higher level of opening to the overseas market, accelerate the establishment of a “dual circulation” development pattern in which domestic economic cycle plays a leading role, continue to introduce tax and fee reductions, release liquidity, and optimize the business environment, which will be beneficial for the Group’s further optimization of its business layout, market development, and quality and efficiency improvement.

This year is the final year for the implementation of the “Three-Year Action Plan for Defending the Blue Sky” (打贏藍天保衛戰三年行動計劃). All regions will strengthen the prevention and control of air pollution in key regions while environmental protection policies will continue to promote natural gas demand. New urbanization will drive the growth of investment and consumption. According to the “Notice on Accelerating the Work on Enhancing the Strengths and Rectifying the Weaknesses of the County Urbanization” (《關於加快開展縣城城鎮化補短板強弱項工作的通知》) promulgated by The National Development and Reform Commission, it proposed to improve gas storage facilities and gas pipeline networks, accelerate the construction of local gas supply network and develop Combined Heat and Power and clean energy to push forward centralised heating. As China Oil & Gas Pipeline Network Corporation (the “PipeChina”) has begun to operate, the process of the natural gas market reform will be further accelerated. With the expeditious interconnection of pipeline networks and the further standardization of market order, the Group will enjoy better opportunities for development and ampler market space.

The Group is confident of seizing development opportunities brought by the natural gas market reform. It will give full play to its own advantages and commence practical cooperation with different partners and different types of funds. It will also continue to increase the scale of the end-user market, promote the continual, rapid and healthy development of the natural gas industry in the PRC, thereby providing cleaner and more efficient energy for economic and social development as well as the development of ecological civilization construction.

**Fully expand the retail sales market scale.** The Group will perform cooperating targets optimization, adopt innovative business model, integrate its in-depth market development into local development planning and provincial network layout, make full use of brand and peak-shaving advantages, pay close attention to opportunities arising from the mixed reform of local state-owned enterprises and actively promote cooperation with different types of gas enterprises. Taking full advantage of its competitive edge in integrated operation, the Group will strengthen the existing market in order to expand sales, increase sales volume and enhance efficiency. It will also strive to attract customers with high quality for city gas and vehicle refilling, and focus on enhancing sales performance in business areas including industry and public utilities. The Group will continue to push ahead the development of power generation and distributed energy projects, and increase cooperation with various domestic power companies based on the development trend of integrating gas and electricity.

**Enhance the planning and preparation and promote key project constructions.** The Group will review the advantages and challenges it may face in the new market structure, new trends and new changes and prepare the “14th Five-year” development plan, so as to ensure the stable and high-quality development of all businesses, with natural gas retail sales business as the core. The Group will speed up the key project constructions so as to ensure that the expansion work of Jingtang LNG terminal and Jiangsu LNG terminal will be completed on schedule, and it will also accelerate the construction of branch pipelines including those in Chaozhou, Guandong and Hengyan, Hunan to drive the growth of terminal sales.

**Accelerate the integrated development of LNG industrial chain.** The Group will implement regional business planning, emphasize on the value creation process in terminal refilling, conduct the unified resource procurement, unified logistics distribution, and unified management standards, as well as integrate and ensure smooth flows of the production, delivery, sales, storage and trading segments, thus promoting its integrated development. The Group will accelerate the business development of LNG application in vehicles and ships, fully implement the market development of LNG transportation segment in pilot provinces, strengthen cooperation with major LNG vehicle manufacturers, logistic companies and financial corporates in the PRC, optimize business models, promote industry-finance integration, as well as facilitate the promotion and application of LNG vehicles and ships.

**Promote the quality and efficiency enhancement of LPG sales business.** The Group will speed up the development of retail sales business, expand the market and benefits of LPG sales business, promote the pilot programs for industrial customers’ dual gas sources, small storage tanks and LPG distributed energy, continue promoting direct sales and distribution model, create growth in end-user sales business, thereby achieving the increase of sales and efficiency in retail sales. The Group will consolidate LPG resource support, enhance the resource replacement and coordination within the system, expand the import channels of Kazakhstan LPG resources and increase the import scale of Manzhouli, Russia.

**Actively promote the development of new energy business and non-gas layout.** The Group actively developed new energy business, participated in new business researches and project implementation on areas such as “wind-gas complementation; light-gas complementation; water-gas complementation”, and facilitated in setting up the pilot demonstration project on the integrated development of natural gas generator and new energy, and the pilot demonstration project for hydrogen energy utilization. The Group will also broaden the scale of non natural gas business, explore customer demands, expand service connotation and values, establish its own brand and standards to manifest specific characteristics and strengths, form the synergetic development layout of both natural gas and non-natural gas.

The Group will continue to take its responsibility for its shareholders, employees and society seriously, actively follow the general trend of national oil and gas system reforms, seize opportunities for high-quality development of the energy industry. While providing safe and reliable gas supply as well as quality and efficient customer services to different types of users, the Group will help the government to achieve the targets of energy saving and emission reduction and contribute to the construction of a better PRC and strive to create more returns to shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its business in LNG Processing and Terminal and Natural Gas Sales segments during the period ended 30 June 2020 (the “Period”). Profit before income tax expense of the Group for the Period was approximately RMB6,131 million, representing a decrease of 20.10% as compared with RMB7,673 million for the same period of last year. Profit attributable to owners of the Company for the Period was approximately RMB2,363 million, representing a decrease of 24.82% as compared with RMB3,143 million for the same period of last year.

### **Revenue**

Revenue for the Period was approximately RMB52,254 million, representing a decrease of 2.41% as compared with amount of RMB53,543 million for the same period of last year. The decrease was mainly due to the effect of COVID-19 and the decrease of international crude oil price which lowered the revenue from certain segments of the Company in various extent.

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 98.85% (same period of 2019: 98.12%) of the Group’s total revenue amounting to approximately RMB51,654 million (same period of 2019: RMB52,536 million).

### **Other gains, net**

Other gains, net for the Period was approximately RMB257 million, representing an increase of 61.64% as compared with amount of RMB159 million for the same period of last year. The increase was mainly due to the increase in government grants compared with the same period of last year.

### **Interest income**

Interest income for the Period was approximately RMB159 million, representing a decrease of 15.87% as compared with amount of RMB189 million for the same period of last year. The decrease was mainly due to the decrease in average balance of interest-bearing amounts due from related parties.

### **Purchases, services and others**

Purchases, services and others were approximately RMB39,275 million for the Period, representing a decrease of 0.22% as compared with amount of RMB39,363 million for the same period of last year. Purchases, services and others remained fairly stable during the Period.

### **Employee compensation costs**

Employee compensation costs of the Group was approximately RMB2,230 million for the Period, representing a decrease of 2.83% as compared with amount of RMB2,295 million for the same period of last year. Employee compensation costs remained fairly stable during the Period.

### **Depreciation, depletion and amortisation**

Depreciation, depletion and amortisation for the Period was approximately RMB3,472 million, representing an increase of 10.78% as compared with amount of RMB3,134 million for the same period of last year. This was mainly due to the increase in property, plant and equipment transferred from construction in progress at the end of last year.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the Period were approximately RMB1,104 million, representing a decrease of 17.92% as compared with amount of RMB1,345 million for the same period of last year. The decrease was mainly due to the decrease in transportation expenses and royalty expenses.

### **Taxes other than income taxes**

Taxes other than income taxes for the Period was approximately RMB207 million, representing a decrease of 3.27% as compared with amount of RMB214 million for the same period of last year. Taxes other than income taxes remained fairly stable during the Period.

## **Interest expenses**

Interest expenses for the Period was approximately RMB525 million, representing a decrease of 6.75% as compared with amount of RMB563 million for the same period of last year. The decrease was mainly due to a lower average borrowing balance during the Period.

Total interest expenses for the Period was approximately RMB821 million of which RMB296 million was capitalised under construction-in-progress.

## **Share of profits less losses of associates**

Share of profits less losses of associates for the Period was approximately RMB205 million, representing a decrease of 60.58%, as compared with amount of RMB520 million for the same period of last year. The decrease was mainly due to the decrease in share of operating result from CNPC-Aktobemunaigas Joint Stock Company (“Aktobe”) as a result of lower international crude oil price during the Period.

## **Share of profits less losses of joint ventures**

Share of profits less losses of joint ventures for the Period decreased by 60.80% to approximately RMB69 million (same period of 2019: RMB176 million). The decrease was mainly due to the decrease in share of operating result from the Oman project as a result of lower international crude oil price during the Period.

## **Profit before income tax expense**

Profit before income tax expense for the Period was approximately RMB6,131 million, representing a decrease of 20.10% as compared with amount of RMB7,673 million for the same period of last year.

## **Income tax expense**

Income tax expense for the Period was approximately RMB1,939 million, representing a decrease of 19.34% as compared with amount of RMB2,404 million for the same period of last year. The effective tax rate (excluding joint ventures and associates) for the Period decreased slightly to 33.11% (same period of 2019: 34.46%).



## Profit for the Period and profit attributable to owners of the Company

The profit for the Period of the Group was approximately RMB4,192 million, representing a decrease of 20.44% as compared with amount of RMB5,269 million for the same period of last year. The profit attributable to owners of the Company for the Period was approximately RMB2,363 million, representing a decrease of 24.82% as compared with amount of RMB3,143 million for the same period of last year.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2020, the carrying value of total assets of the Group was approximately RMB151,480 million, representing an increase of RMB3,583 million or 2.42% as compared with RMB147,897 million as at 31 December 2019.

The gearing ratio of the Group was 31.13% as at 30 June 2020 compared with 30.72% as at 31 December 2019, representing an increase of 0.41 percentage points. It is computed by dividing the sum of interest-bearing borrowings (including convertible bonds, if any) and lease liabilities of RMB35,906 million (31 December 2019: RMB35,117 million) by the sum of total equity, interest-bearing borrowings (including convertible bonds, if any) and lease liabilities of RMB115,348 million (31 December 2019: RMB114,302 million).

As at 30 June 2020, the Group has total borrowings of RMB35,298 million which will be repayable as follows:

	2020	31 December 2019
	<i>RMB million</i>	<i>RMB million</i>
Within one year	8,333	8,772
Between one to two years	3,809	2,314
Between two to five years	16,203	17,076
After five years	6,953	6,337
	<hr/>	<hr/>
	<b>35,298</b>	34,499
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of the borrowings are denominated in RMB, US\$, Hong Kong dollars, Japanese yen and Euro.

The cash and cash equivalents are held in RMB, US\$, Hong Kong dollars, Thai Bahts and Nuevos Soles.

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 Period, no share option (same period of 2019: none) has been exercised by the senior executives of the Company as all share options were lapsed.

As at 30 June 2020, the Group had net current liabilities of RMB8,505 million. Notwithstanding the net current liabilities of the Group at 30 June 2020, the Group's consolidated interim financial statements have been prepared on a going concern basis because the directors of the Company (the "Directors") are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the Group has committed credit from China Petroleum Finance Company Limited amounting to RMB26.0 billion, of which RMB12.7 billion is undrawn as at 30 June 2020;
- (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 interim financial statements have been prepared on a going concern basis.

## **USE OF PROCEEDS**

### ***Interest Paid***

The Group paid interest of RMB819 million (same period of 2019: RMB805 million) during the Period.

### ***Dividend Paid***

2019 final dividend of RMB26.3 cents per share amounting to RMB2,277 million was distributed to owners subsequently on 24 July 2020. 2018 final dividend of RMB23.0 cents per share amounting to RMB1,831 million was distributed to owners of the Company on 28 June 2019.

## **PLEDGE OF ASSETS**

As at 30 June 2020, certain property, plant and equipment of the Group amounting to RMB880 million (31 December 2019: RMB21 million) were pledged to banks for loan facilities granted to the Group.

## **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 30 June 2020, the Group had approximately 37,575 employees globally (excluding the employees under entrustment contracts) (same period of 2019: 37,946 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.

## **INTERIM DIVIDEND**

The Board of Directors has resolved not to recommend the payment of any interim dividend for the period ended 30 June 2020.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **CORPORATE GOVERNANCE**

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

## **REVIEW OF INTERIM FINANCIAL INFORMATION**

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

The unaudited consolidated interim financial information of the Group for the Period has been reviewed by the Audit Committee of the Company and has also been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity* issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period ended 30 June 2020.

## **DETAILED INFORMATION OF INTERIM RESULTS**

Detailed interim results containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be released on or before 18 September 2020 on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.kunlun.com.hk](http://www.kunlun.com.hk)).

By the Order of the Board  
**KUNLUN ENERGY COMPANY LIMITED**  
**Ling Xiao**  
*Chairman*

Hong Kong, 25 August 2020

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