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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		Change %
	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)	
Revenue from continuing operations	109,251	101,794	7.33
Profit before income tax expense from continuing operations	8,107	7,014	15.58
Profit attributable to owners of the Company from			
– continuing operations	3,580	2,423	47.75
– discontinued operations	2,483	3,128	(20.62)
	6,063	5,551	9.22
EBITDA (note 1)	12,887	11,623	10.87
	<i>RMB cent</i>	<i>RMB cent</i> (Restated)	
Earnings per share (basic) from			
– continuing operations	41.34	29.12	41.96
– discontinued operations	28.68	37.59	(23.70)
	70.02	66.71	4.96
Earnings per share (diluted) from			
– continuing operations	41.34	28.38	45.67
– discontinued operations	28.68	36.26	(20.90)
	70.02	64.64	8.32
	<i>RMB cent</i>	<i>RMB cent</i>	
Dividend per share			
– Final	21.01	26.3	(20.11)
– Special	213.66	–	–
	<i>RMB'million</i>	<i>RMB'million</i> (Restated)	
Profit attributable to owners of the Company (by segment) (note 2)			
– Natural Gas Sales	2,410	1,508	59.81
– Sales of LPG	511	489	4.50
– LNG Processing and Terminal	860	721	19.28
– Exploration and Production	(213)	654	(132.57)

Notes:

- EBITDA is defined as profit before income tax expense, excluding interest and depreciation, depletion and amortisation from continuing operations.
- Due to a change in the reportable segments, the previously reported segment results for the year ended 31 December 2019 have been restated to be comparable with the revised segmentation approach as required by HKFRS 8 *Operating Segments*. For further details, please refer to note 2 to the financial information in this announcement.

FINANCIAL INFORMATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<i>Note</i>	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Continuing operations			
Revenue	3	109,251	101,794
Other gains, net		1,141	44
Interest income		330	265
Purchases, services and others		(90,292)	(82,922)
Employee compensation costs		(4,700)	(4,743)
Depreciation, depletion and amortisation		(4,402)	(3,975)
Impairment loss on property, plant and equipment		–	(404)
Selling, general and administrative expenses		(2,689)	(3,031)
Taxes other than income taxes		(347)	(385)
Interest expenses	4	(708)	(899)
Share of profits less losses of:			
– Associates		340	951
– Joint ventures		183	319
		<hr/>	<hr/>
Profit before income tax expense	5	8,107	7,014
Income tax expense	6	(2,313)	(2,405)
		<hr/>	<hr/>
Profit for the year from continuing operations		5,794	4,609
Discontinued operations			
Profit for the year from discontinued operations	11	3,938	4,962
		<hr/>	<hr/>
Profit for the year		9,732	9,571
		<hr/>	<hr/>
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value gain on other financial assets (non-recycling), net of tax		31	65
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		(93)	168
– Associates		(92)	14
– Joint ventures		(85)	20
		<hr/>	<hr/>
Other comprehensive income for the year		(239)	267
		<hr/>	<hr/>
Total comprehensive income for the year		9,493	9,838
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2020

	<i>Note</i>	2020	2019
		<i>RMB'million</i>	<i>RMB'million</i> (Restated)
Profit for the year attributable to owners of the Company from			
– continuing operations		3,580	2,423
– discontinued operations		2,483	3,128
		6,063	5,551
Profit for the year attributable to non-controlling interests from			
– continuing operations		2,214	2,186
– discontinued operations		1,455	1,834
		3,669	4,020
Profit for the year		9,732	9,571
Total comprehensive income for the year attributable to owners of the Company from			
– continuing operations		3,390	2,651
– discontinued operations		2,483	3,128
		5,873	5,779
Total comprehensive income for the year attributable to:			
– Owners of the Company		5,873	5,779
– Non-controlling interests		3,620	4,059
		9,493	9,838
Basic earnings per share for profit attributable to owners of the Company (<i>RMB cent</i>) from	<i>7(a)</i>		
– continuing operations		41.34	29.12
– discontinued operations		28.68	37.59
		70.02	66.71
Diluted earnings per share for profit attributable to owners of the Company (<i>RMB cent</i>) from	<i>7(b)</i>		
– continuing operations		41.34	28.38
– discontinued operations		28.68	36.26
		70.02	64.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 RMB'million	2019 RMB'million
Assets			
Non-current assets			
Property, plant and equipment		67,877	105,776
Investments in associates		6,186	5,712
Investments in joint ventures		3,348	3,203
Intangible and other non-current assets		2,440	2,190
Deferred tax assets		1,294	1,366
		<u>81,145</u>	<u>118,247</u>
Current assets			
Inventories		925	1,398
Accounts receivable	9	4,085	2,792
Prepaid expenses and other current assets		8,153	6,820
Cash and cash equivalents		16,273	18,640
Assets associated with a disposal group classified as held-for-sale	11	44,407	–
		<u>73,843</u>	<u>29,650</u>
Total assets		<u>154,988</u>	<u>147,897</u>
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		71	71
Retained earnings		31,557	28,484
Other reserves		21,956	21,433
		<u>53,584</u>	<u>49,988</u>
Non-controlling interests		<u>30,943</u>	<u>29,197</u>
Total equity		<u>84,527</u>	<u>79,185</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	<i>Note</i>	2020	2019
		RMB'million	RMB'million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	<i>10</i>	28,093	29,300
Income tax payable		604	728
Other tax payable		212	272
Short-term borrowings		5,182	8,772
Lease liabilities		158	225
Liabilities associated with a disposal group classified as held-for-sale	<i>11</i>	10,344	–
		44,593	39,297
Non-current liabilities			
Long-term borrowings		22,491	25,727
Deferred tax liabilities		1,438	1,697
Lease liabilities		506	393
Other liabilities		1,433	1,598
		25,868	29,415
Total liabilities		70,461	68,712
Total equity and liabilities		154,988	147,897
Net current assets/(liabilities)		29,250	(9,647)
Total assets less current liabilities		110,395	108,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020, 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 number of amendments that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker which is determined as the Executive Directors of the Company.

The Group organises its business around products and services. From the products and services perspective, the Group is engaged in a broad range of oil and gas related activities and derives its revenue from its four operating segments: Natural Gas Sales, Sales of LPG, LNG Processing and Terminal and Exploration and Production.

The composition of reportable segments of the Group has changed in the year ended 31 December 2020 following the potential disposal of discontinued operations (Note 11). Reportable segments are aligned with financial information provided regularly to the Group’s executive management.

Due to such a change in the reportable segments, the previously reported segment results for the year ended 31 December 2019 have been restated to be comparable with the revised segmentation approach as required by HKFRS 8 *Operating Segments*.

The Natural Gas Sales segment is engaged in the retail sales, distribution and trading of various natural gas products. The Sales of LPG segment is engaged in the wholesales and retail sales of various LPG products. LNG Processing and Terminal segment is engaged in the processing, unloading, storing, gasification and entrucking of LNG. 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 2020 and 2019 are as follows:

	Natural Gas Sales <i>RMB'million</i>	Sales of LPG <i>RMB'million</i>	Processing and Terminal <i>RMB'million</i>	LNG	Exploration and Production <i>RMB'million</i>	Corporate <i>RMB'million</i>	Inter-company adjustment <i>RMB'million</i>	Total <i>RMB'million</i>
For the year ended 31 December 2020								
Continuing operations								
Gross revenue	87,995	14,775	8,649		1,266	-	-	112,685
Less: Inter-company adjustment	(1,114)	(35)	(2,285)		-	-	-	(3,434)
Revenue from external customers	86,881	14,740	6,364		1,266	-	-	109,251
Segment results	4,502	550	2,593		(249)	188	-	7,584
Share of profits less losses of:								
- Associates	435	-	3		(98)	-	-	340
- Joint ventures	82	-	-		103	(2)	-	183
Profit/(loss) before income tax expense	5,019	550	2,596		(244)	186	-	8,107
Segment results included:								
- Interest income	622	2	46		8	299	(647)	330
- Depreciation, depletion and amortisation	(2,875)	(97)	(1,075)		(321)	(34)	-	(4,402)
- Interest expenses	(399)	(10)	(486)		(1)	(459)	647	(708)
- Net exchange gains/(losses)	(4)	-	-		(13)	638	-	621
As at 31 December 2020								
Segment assets	73,530	3,564	17,672		2,214	2,526	-	99,506
Investments in associates	5,472	-	384		330	-	-	6,186
Investments in joint ventures	2,053	-	-		1,241	54	-	3,348
Additions to non-current segment assets during the year	6,969	-	968		238	-	-	8,175
Additions to non-current segment assets through acquisition of subsidiaries during the year	4,904	-	-		-	-	-	4,904

	Natural Gas Sales <i>RMB'million</i> (Restated)	Sales of LPG <i>RMB'million</i> (Restated)	LNG Processing and Terminal <i>RMB'million</i> (Restated)	Exploration and Production <i>RMB'million</i> (Restated)	Corporate <i>RMB'million</i> (Restated)	Inter-company adjustment <i>RMB'million</i> (Restated)	Total <i>RMB'million</i> (Restated)
For the year ended 31 December 2019							
Continuing operations							
Gross revenue	73,128	21,328	7,812	2,004	-	-	104,272
Less: Inter-company adjustment	(626)	(36)	(1,816)	-	-	-	(2,478)
Revenue from external customers	72,502	21,292	5,996	2,004	-	-	101,794
Segment results	3,489	569	2,265	250	(829)	-	5,744
Share of profits less losses of:							
- Associates	329	-	1	621	-	-	951
- Joint ventures	100	-	-	219	-	-	319
Profit/(loss) before income tax expense from continuing operations	3,918	569	2,266	1,090	(829)	-	7,014
Segment results included:							
- Interest income	523	2	25	9	492	(786)	265
- Depreciation, depletion and amortisation	(2,534)	(89)	(1,034)	(297)	(21)	-	(3,975)
- Impairment loss on property, plant and equipment	(377)	-	(27)	-	-	-	(404)
- Interest expenses	(478)	(13)	(442)	-	(752)	786	(899)
- Net exchange gains/(losses)	1	-	-	(37)	(254)	-	(290)
As at 31 December 2019							
Segment assets	61,941	3,381	20,620	2,915	1,439	-	90,296
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	-	1,072	283	-	-	6,995
Additions to non-current segment assets through acquisition of subsidiaries during the year	2,866	-	-	-	-	-	2,866

Reconciliations of reportable segment profit and assets

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Reportable segment profit		
Profit before income tax expense from continuing operations	8,107	7,014
Income tax expense	<u>(2,313)</u>	<u>(2,405)</u>
Profit for the year from continuing operations	5,794	4,609
Profit for the year from discontinued operations	<u>3,938</u>	<u>4,962</u>
Profit for the year	<u><u>9,732</u></u>	<u><u>9,571</u></u>
	2020 <i>RMB'million</i>	2019 <i>RMB'million</i>
Reportable segment assets		
Continuing operations		
Segment assets	99,506	90,296
Investment in associates	6,186	5,712
Investment in joint ventures	3,348	3,203
Deferred tax assets	1,294	1,366
Income tax recoverable	8	8
Other financial assets	239	202
Discontinued operations		
Segment assets*	<u>44,407</u>	<u>47,110</u>
Total assets	<u><u>154,988</u></u>	<u><u>147,897</u></u>

* The segment assets of discontinued operations as at 31 December 2020 is represented as assets associated with a disposal group classified as held-for-sale in the consolidated statement of financial position.

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 2020, revenue of approximately RMB18,620 million (2019: RMB22,139 million) is derived from one (2019: one) customer with whom transactions have exceeded 10% of the Group's revenue. The revenue is attributable to the Natural Gas Sales, Sales of LPG, LNG Processing and Terminal and Exploration and Production segments.

3. REVENUE

Revenue mainly represents revenue from the sales of natural gas, sales of LPG, LNG processing and terminal business 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:

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Continuing operations		
Disaggregated by major products or service lines		
– Sales of natural gas products	86,881	72,502
– Sales of LPG	14,740	21,292
– Revenue from LNG processing and terminal service	6,364	5,996
– Sales of crude oil	1,266	2,004
	<u>109,251</u>	<u>101,794</u>

The Group's revenue are substantially derived from the sales of goods to customers in the PRC and recognised at a 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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Continuing operations		
Interest expenses on:		
Bank loans	480	487
Senior notes	206	240
Convertible bonds	–	44
Other loans, from:		
– CP Finance	273	238
– Fellow subsidiaries	157	318
Interests on lease liabilities	31	28
Less: Amounts capitalised	<u>(439)</u>	<u>(456)</u>
	<u>708</u>	<u>899</u>

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 4.04% (2019: 4.36%) per annum for the year ended 31 December 2020.

5. PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Continuing operations		
Auditors' remuneration*		
– audit services	26	26
– non-audit services	5	4
Cost of inventories recognised as expense	<u>90,420</u>	<u>83,100</u>
Depreciation charge and depletion of		
– owned property, plant and equipment	3,879	3,592
– right-of-use assets	436	326
Amortisation cost of		
– intangible assets	<u>87</u>	<u>57</u>
Depreciation, depletion and amortisation	<u>4,402</u>	<u>3,975</u>

* The auditors' remuneration for discontinued operations is RMB3 million (2019: RMB3 million) during the year ended 31 December 2020.

6. INCOME TAX EXPENSE

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i>
Current tax		
– PRC	3,296	3,636
– Overseas	71	246
	<u>3,367</u>	<u>3,882</u>
Under-provision in respect of prior years	15	47
Deferred tax	<u>130</u>	<u>145</u>
	<u>3,512</u>	<u>4,074</u>
Income tax expense attributable to profit from:		
– continuing operations	2,313	2,405
– discontinued operations	1,199	1,669
	<u>1,199</u>	<u>1,669</u>

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (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% (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% (2019: 15% to 20%).

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

7. BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share from continuing and discontinued operations is based on:

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Profit attributable to owners of the Company from		
– continuing operations	3,580	2,423
– discontinued operations	2,483	3,128
	<u>6,063</u>	<u>5,551</u>
Profit attributable to owners of the Company (basic)	<u>6,063</u>	<u>5,551</u>

(ii) Weighted average number of ordinary shares in issue during the year of approximately 8,659 million shares (2019: 8,321 million shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share from continuing and discontinued operations is based on:

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i> (Restated)
Continuing operations		
Profit attributable to owners of the Company (basic)	3,580	2,423
After tax effect of effective interest on the liability component of convertible bonds from continuing operations	—	26
Profit attributable to owners of the Company (diluted)	3,580	2,449
Discontinued operations		
Profit attributable to owners of the Company (basic and diluted)	2,483	3,128
Profit attributable to owners of the Company (diluted)	6,063	5,577

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

	2020 <i>million shares</i>	2019 <i>million shares</i>
Weighted average number of ordinary shares at 31 December	8,659	8,321
Effect of conversion of convertible bonds	—	307
Weighted average number of ordinary shares (diluted) at 31 December	8,659	8,628

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i>
Proposed final dividend attributable to owners of the Company for 2020 (<i>note (a)</i>)	1,819	–
Proposed special dividend attributable to owners of the Company for 2020 (<i>note (a)</i>)	18,501	–
Final dividend attributable to owners of the Company for 2019 (<i>note (b)</i>)	–	2,277
	<u> </u>	<u> </u>

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i>
Final dividend in respect of the previous financial year, approved and paid during the year	2,277	1,831
	<u> </u>	<u> </u>

Notes:

- (a) The Board recommends the payment of a final dividend of RMB21.01 cents per share and a special dividend of RMB213.66 cents per share, totalling RMB234.67 cents per share (2019: RMB26.3 cents per share) to shareholders whose names appear on the Company's register of members (the "**Shareholders Register**") on 3 June 2021 (Thursday). The payment of the final dividend is subject to the approval of the Shareholders at the Annual General Meeting of the Company (the "**2021 AGM**") and the payment of the special dividend is subject to (i) the completion of the disposal of 60% equity interest in PetroChina Beijing Gas Pipeline Co., Ltd ("**Beijing Pipeline**") and 75% equity interest in PetroChina Dalian LNG Co., Ltd ("**Dalian LNG**") (the "**Transaction**") in accordance with the terms and conditions under the equity transfer agreement ("**Equity Transfer Agreement**") entered into between the Company and China Oil & Gas Pipeline Network Corporation ("**PipeChina**") on 20 December 2020; (ii) the receipt by the Company of the proceeds from the Transaction; and (iii) the approval of the Shareholders at the 2021 AGM. The payment is expected to be made on or before 30 July 2021 (Friday). The proposed 2020 final dividend and special dividend amounts to a total of approximately RMB20,320 million.

The Transaction is conditional upon the satisfaction of certain conditions as set out under the Equity Transfer Agreement, and thus the Transaction contemplated thereunder may or may not proceed. Further, as the special dividend is subject to the completion of the Transaction, the receipt by the Company of the proceeds from the Transaction and the approval of the Shareholders at the 2021 AGM, the special dividend may or may not be paid. Shareholders and potential investors should exercise caution when dealing in the Shares.

- (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 were approved by the shareholders in the Annual General Meeting of the Company on 27 May 2020. The amount is based on approximately 8,659 million shares in issue as at 24 March 2020 which was paid on 24 July 2020.

9. ACCOUNTS RECEIVABLE

	31 December 2020	31 December 2019
	<i>RMB'million</i>	<i>RMB'million</i>
Accounts receivable, net of loss allowance	<u>4,085</u>	<u>2,792</u>

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:

	2020	2019
	<i>RMB'million</i>	<i>RMB'million</i>
Within 3 months	3,407	2,284
Between 3 to 6 months	189	78
Over 6 months	<u>489</u>	<u>430</u>
	<u>4,085</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

	2020	2019
	<i>RMB'million</i>	<i>RMB'million</i>
Accounts payable	3,355	2,214
Contract liabilities	10,911	9,800
Salaries and welfare payable	312	342
Accrued expenses	14	16
Dividend payable	435	1,116
Interest payable	72	144
Construction fee and equipment cost payables	8,239	10,079
Amounts due to related parties		
– Non-controlling interests	1	1
– Others	82	380
Other payables	<u>4,672</u>	<u>5,208</u>
	<u>28,093</u>	<u>29,300</u>

As at 31 December 2020, the Group also had non-current contract liabilities of RMB591 million (2019: RMB776 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 requires 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 2020, the amount of RMB9,800 million (2019: RMB9,383 million) recognised in contract liabilities at beginning of the year has substantially been recognised as revenue during the year.

The Group is a defendant in certain lawsuits as well as the named party in other proceeding. While the outcomes of such contingencies, lawsuits or other proceeding cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or financial performance of the Group.

Ageing analysis

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

	2020 <i>RMB'million</i>	2019 <i>RMB'million</i>
Within 3 months	2,751	1,620
Between 3 to 6 months	159	81
Over 6 months	445	513
	<u>3,355</u>	<u>2,214</u>

The typical 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. DISCONTINUED OPERATIONS

On 22 December 2020, the Group entered into an agreement with PipeChina, pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Company's equity interests in Beijing Pipeline and Dalian LNG at a base consideration of approximately RMB40,886 million (subject to the adjustments according to the price adjustment mechanism as set out in the agreement). Each of Beijing Pipeline, which used to be reported under the Group's "Natural Gas Pipeline" segment, and Dalian LNG, which used to be reported under the Group's "LNG Processing and Terminal" segment, represented a separate major line of the Group's business. Consequently, Beijing Pipeline and Dalian LNG were presented as discontinued operations with the associated assets and liabilities presented as a disposal group classified as held-for-sale in these financial statements.

Financial information relating to the discontinued operations is set out below.

(a) Result of the discontinued operations

Profit for the year from the discontinued operations is analysed as follows:

2020	Beijing Pipeline RMB'million	Dalian LNG RMB'million	Total RMB'million
Revenue	9,022	1,054	10,076
Other gains, net	238	4	242
Interest income	15	24	39
Purchases, services and others	(1,861)	(137)	(1,998)
Employees compensation costs	(370)	(44)	(414)
Depreciation, depletion and amortisation	(2,320)	(241)	(2,561)
Selling, general and administrative expenses	(36)	(2)	(38)
Taxes other than income taxes	(74)	(18)	(92)
Interest expenses	(117)	–	(117)
	<hr/>	<hr/>	<hr/>
Profit before taxation	4,497	640	5,137
Income tax expense	(1,046)	(153)	(1,199)
	<hr/>	<hr/>	<hr/>
Profit for the year	3,451	487	3,938
	<hr/>	<hr/>	<hr/>
Attributable to:			
Owners of the Company	2,117	366	2,483
Non-controlling interests	1,334	121	1,455
	<hr/>	<hr/>	<hr/>
Profit for the year	3,451	487	3,938
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

2019	Beijing Pipeline RMB'million	Dalian LNG RMB'million	Total RMB'million
Revenue	10,144	1,375	11,519
Other gains, net	307	13	320
Interest income	9	–	9
Purchases, services and others	(2,075)	(119)	(2,194)
Employees compensation costs	(348)	(43)	(391)
Depreciation, depletion and amortisation	(2,129)	(246)	(2,375)
Selling, general and administrative expenses	(69)	(12)	(81)
Taxes other than income taxes	(63)	(24)	(87)
Interest expenses	(89)	–	(89)
Profit before taxation	5,687	944	6,631
Income tax expense	(1,431)	(238)	(1,669)
Profit for the year	4,256	706	4,962
Attributable to:			
Owners of the Company	2,600	528	3,128
Non-controlling interests	1,656	178	1,834
Profit for the year	4,256	706	4,962

(b) Cash flows from the discontinued operations

Cash flows for the year from the discontinued operations are analysed as follows:

2020	Beijing Pipeline RMB'million	Dalian LNG RMB'million	Total RMB'million
Net cash generated from operating activities	5,954	668	6,622
Net cash used in investing activities	(1,028)	(30)	(1,058)
Net cash used in financing activities	(5,531)	(638)	(6,169)
Net cash outflows	(605)	–	(605)
2019	Beijing Pipeline RMB'million	Dalian LNG RMB'million	Total RMB'million
Net cash generated from operating activities	6,329	986	7,315
Net cash used in investing activities	(3,378)	(388)	(3,766)
Net cash used in financing activities	(2,765)	(598)	(3,363)
Net cash inflows	186	–	186

(c) **Assets and liabilities associated with the disposal group classified as held-for-sale**

The assets and liabilities associated with discontinued operations and presented as the disposal group classified as held-for-sale as at 31 December 2020 are as follows:

	Beijing Pipeline <i>RMB'million</i>	Dalian LNG <i>RMB'million</i>	Total <i>RMB'million</i>
Property, plant and equipment	41,058	2,536	43,594
Intangible and other non-current assets	83	20	103
Inventories	159	1	160
Accounts receivable	25	–	25
Prepaid expenses and other current assets	107	1	108
Cash and cash equivalents	417	–	417
	<hr/>	<hr/>	<hr/>
Assets associated with the disposal group classified as held-for-sale	41,849	2,558	44,407
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accounts payable and accrued liabilities	3,147	63	3,210
Income tax payable	49	–	49
Other tax payable	46	33	79
Borrowings	6,500	–	6,500
Lease liabilities	33	4	37
Deferred tax liabilities	403	66	469
	<hr/>	<hr/>	<hr/>
Liabilities associated with the disposal group classified as held-for-sale	10,178	166	10,344
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

12. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Pursuant to the potential disposal of discontinued operations (Note 11), the agreement entered into with PipeChina for the disposal of 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG was approved by shareholders at the special general meeting held on 12 March 2021.

13. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the changes in segment reporting and discontinued operations set out in Note 2 and Note 11, respectively, to the consolidated financial statements.

CHAIRMAN'S STATEMENT

During the year ended 31 December 2020 (the “Year”), the revenue of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) reached RMB109,251 million, representing a year-on-year increase of RMB7,457 million or 7.33%; the profit before income tax was RMB8,107 million, representing a year-on-year increase of RMB1,093 million or 15.58%; the profit attributable to owners of the Company was RMB6,063 million, representing a year-on-year increase of RMB512 million or 9.22%. Earnings per share (basic) was RMB70.02 cents. Under the challenging environment of the outbreak of the COVID-19 epidemic and the sharp decline in international oil prices, the Group made great efforts to explore the natural gas end-user market. The sales volume of natural gas for the Year reached 37,763 million cubic metres, representing a year-on-year increase of 9,734 million cubic metres or 34.73%, recording a profit before income tax of RMB5,019 million, which represented a year-on-year increase of RMB1,101 million or 28.10%. The Natural Gas Sales segment achieved increase in sales and efficiency, further highlighting the role as the Company’s main growth driver.

BUSINESS REVIEW

In 2020, faced with the severe impact on the economy and the society brought by the COVID-19 epidemic, the PRC government exercised overall leadership and took decisive measures to effectively curb the spread of the epidemic, and made proactive efforts to establish a new development pattern of “dual circulation”, enabling the economy to stabilize and recover within a short period of time. China registered a year-on-year GDP growth rate of 2.3% in 2020, becoming the main driver for the recovery of the global economy. Meanwhile, with the further implementation of the new national energy security strategy and the establishment of “peak carbon dioxide emissions and carbon neutrality goals”, efforts have been made to accelerate low-carbon transformation of the energy structure, ushering in a new round of great opportunities for the development of the clean energy sector. The national production volume and the net imported volume of natural gas during the Year was 324 billion cubic metres, representing a year-on-year increase of 5.6%, continuing to maintain a growth momentum.

Faced with the market downward pressure and the impact of the epidemic, the Group coordinated its efforts to fight against the epidemic while promoting production and operation, maintaining a stable and smooth operation during the Year and achieving better-than-expected operating results. We achieved substantial growth in the sales of natural gas, made great progress in the development of new projects, further enhanced the gasification and transmission capacity of LNG terminals, and extended the LPG business into the end-user market of several provincial capital cities. Furthermore, we have built up a brand reputation for the non-gas business, and further enhanced environment, social and corporate governance (“ESG”) information disclosure and governance. In addition, the Group entered into the equity transfer agreement with China Oil & Gas Pipeline Network Corporation (“PipeChina”) to sell the equity interests in PetroChina Beijing Gas Pipeline Co., Ltd (“Beijing Pipeline”) and PetroChina Dalian LNG Co., Ltd (“Dalian LNG”), allowing the Company to further focus on the development of its natural gas end-user

business and seize the golden development opportunity for the clean energy sector, so as to continuously improve market scale and operational efficiency of its natural gas end-user business.

BUSINESS PROSPECTS

Currently, the China economy has shifted from rapid growth to high-quality development. In light of the significant strategic progress made in the epidemic containment, and with the economy returning to the growth track, the GDP growth forecast was set at above 6% in the Report on the Work of the Government for the year. The high-quality development of the macro-economy is expected to drive rigid demands for clean energies, including natural gas. Following the establishment of the “dual carbon goals”, the industry has witnessed accelerated low-carbon transformation of the energy structure, while natural gas is expected to play a greater bridging and supporting role during this historical process. Under the carbon reduction and carbon trading policy, there will be ample room for development in the industrial, transportation and power generation sectors in the short term. As the development of the natural gas industry fits well with the “six stabilities, six guarantees” requirement and national policies of new urbanization and rural revitalization, this sector is expected to have robust market demands in the medium to long term. According to relevant forecast, the consumption of natural gas in China by the end of the “14th Five-Year” plan period will reach 420 billion to 440 billion cubic metres, with an average annual growth rate of about 5.7%.

During the “14th Five-Year” plan period, energy transformation and oil and gas system reform will present the Company with more opportunities than challenges. With an aim to facilitate high-quality development, the Group will vigorously push forward the implementation of the five strategies of “innovation, green operation, market, capital and low cost”. Taking innovations as the primary driver, the Group will put effort in system, commercial model and corporate culture. The Group will facilitate innovations by focusing on the natural gas business and strive to improve the value of business chain through the process of innovation. By adopting a market-oriented strategy, the Group will promote the overall development of all business lines while tailor solutions for different business segments, so as to consolidate its advantages in resources for precise resource allocation. The Group will push forward the cooperation in joint ventures, and will put proactive efforts to build a win-win industry ecosystem, with an aim to facilitate transformation and upgrading of the local economy and energy structure. Quality and efficiency enhancement is the fundamental policy in development, and thus efforts have been made to promote cost reduction and efficiency enhancement in all aspects, so as to strengthen our core competitiveness in low-cost operation. To promote green development, the Group will smooth the different business strategies, and expedite its transformation from a natural gas distributor into an internationally renowned and China’s first-class integrated green energy provider.

2021 marks the first year of the “14th Five-Year” plan. Focusing on the new stage of development, the Group will implement new development strategy to fulfill its new development vision. Through consolidation of the advantage in resources, the Group will make full effort to expand market shares, optimize structure, reduce costs, improve service quality and enhance cooperation, with an aim to promote the high-quality development of the natural gas business. The Group will focus on the following aspects:

Expand the end-user retail sales business scale. The Group will continue to focus on the city gas projects in order to explore new markets and maintain stable profit. The Group will step up efforts to explore new markets, and explore potential opportunities in and facilitate profit enhancement of its existing customers, with an aim to achieve sales improvement and profit enhancement in terms of the end-user retail market and ensure sustainable and steady growth of the core businesses. The Group will give full play to the capital platform and speed up the development of the market share of the end-user in certain provinces. The Group will explore the end-user integrated and comprehensive energy service business, and satisfy comprehensive energy demand through distributive energy projects and intelligent micro pipe network gas supply services. Through the establishment of the digital city gas pipeline network platform, the Group will facilitate the intelligent management and digital transformation of its production and operation. The Group will continue to push forward the “quality and efficiency enhancement” program, and explore the “Amoeba” management model, so as to continuously improve the profitability of the end-user business.

Promote the synergetic development of LNG industrial chain. The Group will make effort to improve 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”. Through the combination of commissioned processing and self-operations, the Group will optimize the business mode of LNG plants, so as to strengthen stable resource supply and increase capacity utilization rate of LNG plants. In addition, the Group will further optimize the functional positioning of the plants, and seize the opportunity arising from the development of inland waterway transportation to proactively develop the end-user refilling business.

Optimize the development of full industrial chain for LPG business. Efforts will be made to speed up the construction of terminal storage tanks, further expand its LPG resource channels and increase foreign procurement quantity, so as to ensure resource supply. The Group will proactively participate in the government-led market consolidation, so as to facilitate the construction of LPG network of the end-user and increase its market shares in the end-user market. By keeping a close watch on the development of the “rural gas program”, the Group will speed up the planning and pilot construction of the storage tanks in stations and micromanagement network gas supply business, and tailor solutions for various cities and organize timely promotion activities to nurture new business lines. Effort will be made to enhance the establishment of information system and optimize logistics and distribution, so as to ensure steady development of the LPG business.

Explore new energy and non-gas businesses. The Group will step up efforts in energy conservation and emission reduction, and facilitate the green and low-carbon transformation of its existing stations, with an aim to develop integrated green energy supply stations featured with new energy power generation, power charging and gas supply. Leveraging on the unique advantages of gas-powered generators such as short construction period, rapid peak-buffering response and environmentally-friendly operation, the Group will speed up the development of peak-buffering natural gas generator projects as well as quality photovoltaic, wind power and hydrogen energy projects. The Group will strengthen top-level instruction, and promote the integrated construction and development of its core businesses and non-gas business. Upholding the business philosophy of “enhancing competitiveness with best services”, the Group will strive to improve customer experiences, enhance customer royalty and explore value-added service business. Effort will be made to implement the three-step strategy of “promoting synergetic effects, mutual interaction and paralleled development between natural gas and non-gas businesses” by establishing online and offline services system, exploring extended value of customer base and building an “Internet + energy + lifestyle” business ecosystem.

In the coming year, the Group will actively follow the development trend of nationwide low-carbon transformation in energy structure and oil and gas system reform, and will always take its responsibility to its Shareholders, employees and society seriously. The Group will take proactive measures to capture development opportunities of the industry, focus on high-quality development of its businesses, enhance energy conservation and efficiency improvement of its business operation, continue to push forward the establishment of its ESG system, and make continuous effort to improve company value, striving to create greater return to the Shareholders.

CHIEF EXECUTIVE OFFICER’S STATEMENT

In 2020, faced with the challenging environment amidst the outbreak of the COVID-19 epidemic and the sharp decline in international oil price, increasing pressure of economic downturn and profound change in the supply and demand of natural gas, all staff members of the Company remained committed to our corporate vision and forged ahead with persistent determination. By focusing on high-quality development of the natural gas business and continuing to promote integrated and synergetic operation, we pushed forward the implementation of reform and innovation, and set the first priority to ensure secure and stable operation of the industrial chain and create lucrative return for the shareholders, achieving stellar results in production and operation.

OPERATING RESULTS

During the Year, the Group recorded revenue of RMB109,251 million, representing a year-on-year increase of RMB7,457 million or 7.33%; profit before income tax was RMB8,107 million, representing a year-on-year increase of RMB1,093 million or 15.58%; profit attributable to owners of the Company was RMB6,063 million, representing a year-on-year increase of RMB512 million or 9.22%. Earnings per share (basic) was RMB70.02 cents.

NATURAL GAS SALES

The Group adhered to the market-oriented approach and leveraged its resource advantages. Targeted policies have been implemented in the existing market to expand sales, which was complemented by multi-pronged measures intended for development of and expansion into potential markets, leading to increases in sales and efficiency of the natural gas end-user business, whose core role as the Company's main growth driver stands out further. Through strengthened capital operation and innovative cooperation modes such as heating and power cogeneration and energy management contract, our companies in Shandong, Hubei and other provinces achieved breakthroughs in the hybrid reform of city gas projects while the companies in Sichuan province developed a new pattern of joint oil and gas stations, creating the effect of economies of scale in the development of end-user projects. Through effective resources consolidation, natural gas value-added business started to show economies of scale, and the end-user business was transformed from the traditional natural gas sales to the "natural gas+" marketing. During the Year, the Group operated 44 projects which were acquired through acquisitions and mergers, newly established and invested by way of capital increase, and had equity interests in 7 projects. The Group had 414 gas projects, located in 31 provinces, autonomous regions and municipalities across the country.

During the Year, natural gas sales volume was 37,763 million cubic metres, representing a year-on-year increase of 34.73%, among which, retail gas sales volume was 21,694 million cubic metres, representing a year-on-year increase of 20.45%. The number of new users amounted to 1,081,100, including 1,076,700 new residential users and 4,400 new industrial and commercial users, and the cumulative number of users has reached 12,358,100, representing a year-on-year increase of 9.59%. The Natural Gas Sales business recorded a revenue of RMB87,995 million, representing a year-on-year increase of 20.33%. Profit before income tax was RMB5,019 million, representing a year-on-year increase of 28.10%.

LPG SALES

The sustainable enhancement of development capacity was the focus of the Group, to achieve which, the Group continued to expand resources channels, expedite construction of LPG sales channels and networks, constantly strengthen its safety management capability and marketing capability, continuously optimize resources and customer structure, and steadily increase the proportion and profit of end-user retail sales. The Group proactively developed the direct sales industrial customers, and carried out direct sales and distribution

business for residential end-users. The Group has developed a total of 410,000 customers and extended its business into the markets of many provincial capital cities. The Group also optimized resource allocation and enhanced the operation efficiency of self-owned railways, automobiles and storage stations, so as to reduce logistics operation costs.

During the Year, LPG sales volume was 5.2117 million tonnes, representing a year-on-year decrease of 14.20%. This business recorded a revenue of RMB14,775 million, representing a year-on-year decrease of 30.72%. Profit before income tax was RMB550 million, representing a year-on-year decrease of 3.34%.

LNG PROCESSING AND TERMINAL

During the Year, the Group maintained the secure and smooth production and operation of the LNG terminals, achieving the target in general. The expansion work of Jingtang LNG terminal was overall completed, while the expansion work of Jiangsu LNG terminal proceeded as scheduled, leading to significant improvement in the gasification and transmission capacity of the terminals. By giving full play to the advantages of the integrated LNG industrial chain, the Group proactively pushed forward the planning and development of the transportation sector, achieving substantial increase in the sales of liquefied products and effective consolidation of the business chain and value chain of LNG.

During the Year, LNG gasification and entrucking volume of Jingtang and Jiangsu LNG terminals amounted to 14,249 million cubic metres in total, representing a year-on-year increase of 1.89%. The average capacity of these two LNG terminals recorded a year-on-year increase of 1.5 percentage points as compared with last year. 15 LNG processing plants were put into operation during the Year, and sales volume of self-operation reached 1,369 million cubic metres while sales volume of commissioned processing amounted to 1,041 million cubic metres, totaling 2,410 million cubic metres. Sales volume of commissioned processing and self-operation increased by 192 million cubic metres and 164 million cubic metres year-on-year, respectively. The average production capacity of 14 plants under continuous operation was 43.76%, similar to last year.

During the Year, LNG Processing and Terminal business recorded revenue of RMB8,649 million, representing a year-on-year increase of 10.71%. Profit before income tax was RMB2,596 million, representing a year-on-year increase of 14.56%.

EXPLORATION AND PRODUCTION

During the Year, as international crude oil price declined significantly as compared with last year, the average realized crude oil selling price of the Group decreased to US\$38.71/barrel from US\$54.54/barrel of last year. During the Year, the sales volume of crude oil of the Group was 12.19 million barrels, representing a decrease of 1.35 million barrels or

9.97% compared with 13.54 million barrels of last year. Sales revenue of crude oil was RMB1,266 million, representing a year-on-year decrease of 36.83%. Loss before income tax was RMB244 million, representing a year-on-year decrease of 122.39% in profit.

DISCONTINUED OPERATIONS

On 22 December 2020, the Group entered into the equity transfer agreement with PipeChina to sell 60% equity interests in Beijing Pipeline and 75% equity interests in Dalian LNG to PipeChina at the basic transaction consideration of approximately RMB40,886 million. The transaction has been approved by shareholders at the special general meeting held on 12 March 2021 with a high number of votes for and will be completed on 31 March 2021.

During the Year, the pipeline transmission volume and LNG gasification and entrucking volume of the discontinued operations was 49,329 million cubic metres and 3,513 million cubic metres respectively. Revenue amounted to RMB10,076 million, representing a year-on-year decrease of 12.53%. Profit before income tax was RMB5,137 million, representing a year-on-year decrease of 22.53%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to develop its Natural Gas Sales segment during the Year. Profit before income tax expense from continuing operations of the Group for the Year was approximately RMB8,107 million, representing an increase of 15.58% as compared with RMB7,014 million (restated) for the last year. Profit attributable to owners of the Company for the Year was approximately RMB6,063 million, representing an increase of 9.22% as compared with RMB5,551 million (restated) for the last year.

Revenue

Revenue from continuing operations for the Year was approximately RMB109,251 million, representing an increase of 7.33% as compared with the amount of RMB101,794 million (restated) for the last year. Due to the decrease of international crude oil price and weakened market demands as a result of the COVID-19 epidemic, the prices of the Group's natural gas products decreased in different degrees. However, as the epidemic situation in China has been brought under control, and driven by the increasing demands for natural gas, sales volume of natural gas recorded rapid growth, leading to an increase in the revenue of the Natural Gas Sales segment.

Other gains, net

Other gains, net from continuing operations for the Year was approximately RMB1,141 million (2019: RMB44 million (restated)). The increase was mainly due to increase in exchange gains resulted from appreciation of RMB against US\$ during the Year.

Purchases, services and others

Purchases, services and others from continuing operations for the Year were approximately RMB90,292 million, representing an increase of 8.89% as compared with amount of RMB82,922 million (restated) for the last year. The increase was mainly due to the increase in purchase volume which was generally in line with the increase in sales of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs from continuing operations for the Year was approximately RMB4,700 million, representing a decrease of 0.91% as compared with amount of RMB4,743 million (restated) for the last year. Employee compensation costs for the year remained stable, which was mainly because the increase in total remuneration was set off by the reduction or waiver of employer's contribution for certain social insurance schemes.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation from continuing operations for the Year was approximately RMB4,402 million, representing an increase of 10.74% as compared with amount of RMB3,975 million (restated) for the last year. The increase was mainly due to the depreciation charge attributable to the newly acquired subsidiaries during the Year and 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 from continuing operations for the Year were approximately RMB2,689 million, representing a decrease of 11.28% as compared with amount of RMB3,031 million (restated) for the last year. The decrease was mainly due to the decrease in royalty expenses as a result of lower revenue from Exploration and Production segments. The decrease was also due to the decrease in transportation expenses and travelling expenses as a result of COVID-19 and the Company's effort in cost control.

Interest expenses

Interest expenses from continuing operations for the Year was approximately RMB708 million, representing a decrease of 21.25% as compared with amount of RMB899 million (restated) for the last year. The decrease was mainly due to a lower interest rate for the super short-term commercial papers of RMB1,000 million and medium-term notes of RMB1,000 million issued during the Year and the lower average borrowing balance as compared to the last year.

Total interest expenses from continuing operations for the Year was approximately RMB1,147 million of which RMB439 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year was approximately RMB340 million, representing a decrease of 64.25%, as compared with amount of RMB951 million (restated) for the last year. The decrease was mainly due to the decrease in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company as a result of lower international crude oil price during the Year.

Liquidity and capital resources

As at 31 December 2020, the carrying value of total assets of the Group was approximately RMB154,988 million, representing an increase of RMB7,091 million or 4.79% as compared with RMB147,897 million as at 31 December 2019.

The gearing ratio of the Group was 25.11% as at 31 December 2020 compared with 30.72% as at 31 December 2019, representing a decrease of 5.61%. It is computed by dividing the sum of interest-bearing borrowings and lease liabilities of RMB28,337 million (2019: RMB35,117 million) by the sum of total equity, interest-bearing borrowings and lease liabilities of RMB112,864 million (2019: RMB114,302 million).

As at 31 December 2020, the Group has total borrowings of RMB27,673 million which will be repayable as follows:

	2020	2019
	<i>RMB'million</i>	<i>RMB'million</i>
Within one year	5,182	8,772
Between one to two years	4,244	2,314
Between two to five years	12,039	17,076
After five years	6,208	6,337
	27,673	34,499

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 (2019: none) has been exercised by the senior executives of the Company as all share options were lapsed.

Pledge of Assets

As at 31 December 2020, certain property, plant and equipment of the Group amounting to RMB756 million (2019: RMB21 million) were pledged to banks for loan facilities granted to the Group.

New Investment in Major Projects

During the year ended 31 December 2020, PetroChina Kunlun Gas Co., Ltd. (“Kunlun Gas”), a wholly-owned subsidiary of the Company, entered into equity transfer agreement to acquire equity interests in 22 entities at a consideration of approximately RMB1,486 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. Upon the completion of the Acquisition, 22 entities have become the subsidiaries of Kunlun Gas.

Material disposal

On 22 December 2020, the Group entered into an agreement with PipeChina, pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Company’s equity interests in Beijing Pipeline and Dalian LNG at a base consideration of approximately RMB40,886 million (subject to the adjustments according to the price adjustment mechanism as set out in the agreement). Each of Beijing Pipeline, which used to be reported under the Group’s “Natural Gas Pipeline” segment, and Dalian LNG, which used to be reported under the Group’s “LNG Processing and Terminal” segment, represented a separate major line of the Group’s business. Consequently, Beijing Pipeline and Dalian LNG were presented as discontinued operations with the associated assets and liabilities presented as a disposal group classified as held-for-sale in these financial statements.

Reference is made to the announcement of the Company dated 22 December 2020 in relation to the disposal of 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG.

Material Investments

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

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

Non-adjusting Event after the Reporting Period

Pursuant to the material disposal, the agreement entered into with PipeChina for the disposal of 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG was approved by shareholders at the special general meeting held on 12 March 2021.

Employee

As at 31 December 2020, the Group had approximately 36,396 employees globally, excluding the employees under entrustment contracts (2019: 37,085 employees (restated)). 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.

Contingent Liability

The Group is a defendant in certain lawsuits as well as the named party in other proceeding. While the outcomes of such contingencies, lawsuits or other proceeding cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or financial performance of the Group.

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 2020.

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 2020. The Audit Committee of the Company has also reviewed the annual results in conjunction with the Company's external auditor.

AUDIT COMMITTEE

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

Two 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 2020.

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 2020 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.

FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board recommends the payment of a final dividend of RMB21.01 cents per share and a special dividend of RMB213.66 cents per share, totalling RMB234.67 cents per share (2019: RMB26.3 cents per share) to shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 3 June 2021 (Thursday). The payment of the final dividend is subject to the approval of the Shareholders at the Annual General Meeting of the Company (the "2021 AGM") and the payment of the special dividend is subject to (i) the completion of the disposal of 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG (the "Transaction") in accordance with the terms and conditions under the equity transfer agreement ("Equity Transfer Agreement") entered into between the Company and PipeChina on 20 December 2020; (ii) the receipt by the Company of the proceeds from the Transaction; and (iii) the approval of the Shareholders

at the 2021 AGM. The payment is expected to be made on or before 30 July 2021 (Friday). The proposed 2020 final dividend and special dividend amounts to a total of approximately RMB20,320 million and 2019 dividend of RMB2,277 million was paid in 2020. The payout ratio for 2020 (final dividend per share divided by basic earnings per share) was approximately 30.01% (2019: 39.42%).

The Transaction is conditional upon the satisfaction of certain conditions as set out under the Equity Transfer Agreement, and thus the Transaction contemplated thereunder may or may not proceed. Further, as the special dividend is subject to the completion of the Transaction, the receipt by the Company of the proceeds from the Transaction and the approval of the Shareholders at the 2021 AGM, the special dividend may or may not be paid. Shareholders and potential investors should exercise caution when dealing in the Shares.

ANNUAL GENERAL MEETING

The 2021 AGM will be held on 26 May 2021 (Wednesday). The Notice of the 2021 AGM, which constitutes part of the circular to shareholders, will be sent to the Shareholders together with the 2020 Annual Report. The Notice of the 2021 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited.

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2021 AGM, and entitlement to the final dividend and special 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 2021 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 20 May 2021 (Thursday)
Closure of Shareholders Register	from 21 May 2021 (Friday) to 26 May 2021 (Wednesday) (both dates inclusive)
Record date	26 May 2021 (Wednesday)

(ii) For determining entitlement to the final dividend and special dividend:

Latest time to lodge transfer documents for registration 4:00 p.m. on
1 June 2021
(Tuesday)

Closure of Shareholders Register from 2 June 2021
(Wednesday) to
3 June 2021
(Thursday)
(both dates inclusive)

Record date 3 June 2021 (Thursday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2021 AGM, and to qualify for the final dividend and special 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.

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
Fu Bin
Chairman and Executive Director

Hong Kong, 23 March 2021

As at the date of this announcement, the Board of Directors comprises Mr. Fu Bin as the Chairman and Executive Director, Mr. Qian Zhijia as Chief Executive Officer and the 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.