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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 % |
|---|---------------------------------|--|---------------------|
| | 2021 RMB million | 2020 RMB million (Restated) | |
| Revenue from continuing operations | 64,739 | 46,714 | 38.59 |
| Profit before income tax expense from continuing operations | 5,050 | 2,749 | 83.70 |
| Profit attributable to owners of the Company from | | | |
| – continuing operations | 2,596 | 742 | 249.87 |
| – discontinued operations | 17,865 | 1,621 | 1,002.10 |
| | 20,461 | 2,363 | 765.89 |
| EBITDA <i>(note 1)</i> | 7,320 | 5,266 | 39.00 |
| | RMB cent | RMB cent (Restated) | % |
| Earnings per share (Basic) from | | | |
| – continuing operations | 29.98 | 8.57 | 249.82 |
| – discontinued operations | 206.32 | 18.72 | 1,002.14 |
| Dividend per share – Interim | NIL | NIL | – |
| | RMB million | RMB million (Restated) | |
| Profit attributable to owners of the Company (by segment) <i>(note 2)</i> | | | |
| – Natural Gas Sales | 1,499 | 1,022 | 46.67 |
| – Sales of LPG | 330 | 162 | 103.70 |
| – LNG Processing and Terminal | 503 | 290 | 73.45 |
| – Exploration and Production | 148 | (163) | 190.80 |

Notes:

- 1 EBITDA is defined as profit before income tax expense from continuing operations, excluding interest and depreciation, depletion and amortisation from continuing operations.
- 2 Due to a change in the reportable segments, the previously reported segment results for the six months ended 30 June 2020 have been restated to be comparable with the revised segmentation approach as required by HKFRS 8, Operating Segments. The details are set out in Note 2 of the financial information in this announcement.

The directors (the “Directors”) of Kunlun Energy Company Limited (the “Company”) announce that the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2021 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

| | | Six months ended 30 June | |
|--|-------------|---------------------------------|----------------------------------|
| | | 2021 | 2020 |
| | <i>Note</i> | <i>RMB million</i> | <i>RMB million</i> (Restated) |
| Continuing operations | | | |
| Revenue | 3 | 64,739 | 46,714 |
| Other gains, net | | 354 | 109 |
| Interest income | | 277 | 137 |
| Purchases, services and others | | (54,165) | (38,541) |
| Employee compensation costs | | (2,489) | (2,051) |
| Depreciation, depletion and amortisation | | (2,284) | (2,177) |
| Selling, general and administrative expenses | | (1,328) | (1,084) |
| Taxes other than income taxes | | (189) | (155) |
| Interest expenses | 4 | (263) | (477) |
| Share of profits less losses of: | | | |
| – Associates | | 318 | 205 |
| – Joint ventures | | 80 | 69 |
| | | <hr/> | <hr/> |
| Profit before income tax expense from continuing operations | 5 | 5,050 | 2,749 |
| Income tax expense | 6 | (1,253) | (1,133) |
| | | <hr/> | <hr/> |
| Profit for the period from continuing operations | | 3,797 | 1,616 |
| Discontinued operations | | | |
| Profit for the period from discontinued operations | | 18,428 | 2,576 |
| | | <hr/> | <hr/> |
| Profit for the period | | 22,225 | 4,192 |
| | | <hr/> | <hr/> |
| Other comprehensive income: | | | |
| Item that will not be reclassified to profit or loss: | | | |
| – Fair value gain/(loss) on other financial assets (non-recycling), net of tax | | 37 | (18) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Exchange differences on translation of financial statements, net of nil tax, of: | | | |
| – Subsidiaries | | (121) | 1 |
| – Associates | | (5) | (31) |
| – Joint ventures | | (12) | 19 |
| | | <hr/> | <hr/> |
| Other comprehensive income for the period | | (101) | (29) |
| | | <hr/> | <hr/> |
| Total comprehensive income for the period | | 22,124 | 4,163 |
| | | <hr/> <hr/> | <hr/> <hr/> |

| | Six months ended 30 June | |
|---|---------------------------------|----------------------------------|
| | 2021 | 2020 |
| <i>Note</i> | RMB million | RMB million (Restated) |
| Profit for the period attributable to owners of the Company from: | | |
| – continuing operations | 2,596 | 742 |
| – discontinued operations | <u>17,865</u> | <u>1,621</u> |
| | 20,461 | 2,363 |
| Profit for the period attributable to non-controlling interest from: | | |
| – continuing operations | 1,201 | 874 |
| – discontinued operations | <u>563</u> | <u>955</u> |
| | 1,764 | 1,829 |
| Profit for the period | <u>22,225</u> | <u>4,192</u> |
| Total comprehensive income for the period attributable to owners of the Company from: | | |
| – continuing operations | 2,496 | 722 |
| – discontinued operations | <u>17,865</u> | <u>1,621</u> |
| | <u>20,361</u> | <u>2,343</u> |
| Total comprehensive income for the period attributable to: | | |
| – Owners of the Company | 20,361 | 2,343 |
| – Non-controlling interests | <u>1,763</u> | <u>1,820</u> |
| | <u>22,124</u> | <u>4,163</u> |
| Basic and diluted earnings per share for profit attributable to owners of the Company (RMB cent) from: | | |
| | 7 | |
| – continuing operations | 29.98 | 8.57 |
| – discontinued operations | <u>206.32</u> | <u>18.72</u> |
| | <u>236.30</u> | <u>27.29</u> |

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

| | 30 June 2021 | 31 December 2020 |
|---|---------------------------|---------------------|
| <i>Note</i> | <i>RMB million</i> | <i>RMB million</i> |
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 67,874 | 67,877 |
| Investments in associates | 6,605 | 6,186 |
| Investments in joint ventures | 3,371 | 3,348 |
| Intangible and other non-current assets | 2,788 | 2,440 |
| Deferred tax assets | 1,348 | 1,294 |
| | <u>81,986</u> | <u>81,145</u> |
| Current assets | | |
| Inventories | 1,437 | 925 |
| Accounts receivable | 4,017 | 4,085 |
| Prepaid expenses and other current assets | 10,464 | 8,153 |
| Cash and cash equivalents | 48,559 | 16,273 |
| Assets associated with a disposal group classified as held-for-sale | – | 44,407 |
| | <u>64,477</u> | <u>73,843</u> |
| Total assets | <u>146,463</u> | <u>154,988</u> |
| Equity | | |
| Capital and reserves attributable to owners of the Company | | |
| Share capital | 71 | 71 |
| Retained earnings | 23,061 | 31,557 |
| Other reserves | 30,493 | 21,956 |
| | <u>53,625</u> | <u>53,584</u> |
| Non-controlling interests | <u>18,968</u> | <u>30,943</u> |
| Total equity | <u>72,593</u> | <u>84,527</u> |

| | | 30 June | 31 December |
|---|-------------|---------------------------|--------------------|
| | | 2021 | 2020 |
| | <i>Note</i> | <i>RMB million</i> | <i>RMB million</i> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 10 | 43,830 | 28,093 |
| Income tax payable | | 440 | 604 |
| Other tax payable | | 149 | 212 |
| Short-term borrowings | | 5,527 | 5,182 |
| Lease liabilities | | 155 | 158 |
| Liabilities associated with a disposal group classified as held-for-sale | | – | 10,344 |
| | | 50,101 | 44,593 |
| Non-current liabilities | | | |
| Long-term borrowings | | 20,108 | 22,491 |
| Deferred tax liabilities | | 1,598 | 1,438 |
| Lease liabilities | | 538 | 506 |
| Other liabilities | | 1,525 | 1,433 |
| | | 23,769 | 25,868 |
| Total liabilities | | 73,870 | 70,461 |
| Total equity and liabilities | | 146,463 | 154,988 |
| Net current assets | | 14,376 | 29,250 |
| Total assets less current liabilities | | 96,362 | 110,395 |

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 2021 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 24 August 2021.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group’s interim financial report.

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*

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, Sales of LPG, LNG Processing and Terminal, and Exploration and Production.

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 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 composition of reportable segments of the Group has changed in the year ended 31 December 2020 following the potential disposal of discontinued operation. Due to such a change in the reportable segments, the previously reported segment information for the six months ended 30 June 2020 has been restated to be comparable with the revised segmentation approach as required by HKFRS 8, Operating Segments.

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.

Corporate segment result 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 2021 and 2020 are as follows:

| | Natural Gas Sales <i>RMB million</i> | Sales of LPG <i>RMB million</i> | LNG Processing and Terminal <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> |
|---|---|------------------------------------|---|---|---------------------------------|---|-----------------------------|
| For the six months ended 30 June 2021 | | | | | | | |
| Continuing operations | | | | | | | |
| Gross revenue | 50,273 | 10,861 | 4,462 | 869 | - | - | 66,465 |
| Less: Inter-company adjustment | (673) | (27) | (1,026) | - | - | - | (1,726) |
| Revenue from external customers | 49,600 | 10,834 | 3,436 | 869 | - | - | 64,739 |
| Segment results | 2,616 | 340 | 1,478 | 89 | 129 | - | 4,652 |
| Share of profits less losses of: | | | | | | | |
| - Associates | 217 | - | 1 | 100 | - | - | 318 |
| - Joint ventures | 26 | - | - | 54 | - | - | 80 |
| Profit before income tax expense | 2,859 | 340 | 1,479 | 243 | 129 | - | 5,050 |
| Income tax expense | | | | | | | (1,253) |
| Profit for the period from continuing operations | | | | | | | 3,797 |
| Segment results included: | | | | | | | |
| - Interest income | 347 | 1 | 30 | 3 | 240 | (344) | 277 |
| - Depreciation, depletion and amortisation | (1,504) | (45) | (557) | (163) | (15) | - | (2,284) |
| - Interest expenses | (229) | (3) | (257) | - | (118) | 344 | (263) |
| Additions to non-current segment assets during the period | 2,480 | - | 339 | 109 | - | - | 2,928 |
| As at 30 June 2021 | | | | | | | |
| Segment assets | 69,485 | 3,940 | 19,579 | 2,404 | 39,441 | - | 134,849 |
| Investments in associates | 6,038 | - | 384 | 183 | - | - | 6,605 |
| Investments in joint ventures | 2,033 | - | - | 1,283 | 55 | - | 3,371 |

| | Natural Gas Sales | Sales of LPG | LNG Processing and Terminal | Exploration and Production | Corporate | Inter-company adjustment | Total |
|---|--------------------|--------------------|-----------------------------------|-------------------------------|--------------------|-----------------------------|--------------------|
| | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) |
| For the six months ended 30 June 2020 | | | | | | | |
| Continuing operations | | | | | | | |
| Gross revenue | 36,721 | 6,970 | 3,781 | 600 | – | – | 48,072 |
| Less: Inter-company adjustment | (500) | (15) | (843) | – | – | – | (1,358) |
| Revenue from external customers | 36,221 | 6,955 | 2,938 | 600 | – | – | 46,714 |
| Segment results | 1,970 | 185 | 970 | (217) | (433) | – | 2,475 |
| Share of profits less losses of: | | | | | | | |
| – Associates | 204 | – | 1 | – | – | – | 205 |
| – Joint ventures | 27 | – | – | 42 | – | – | 69 |
| Profit/(loss) before income tax expense | 2,201 | 185 | 971 | (175) | (433) | – | 2,749 |
| Income tax expense | | | | | | | (1,133) |
| Profit for the period from continuing operations | | | | | | | <u>1,616</u> |
| Segment results included: | | | | | | | |
| – Interest income | 279 | 2 | 20 | 3 | 192 | (359) | 137 |
| – Depreciation, depletion and amortisation | (1,374) | (45) | (514) | (231) | (13) | – | (2,177) |
| – Interest expenses | (303) | (6) | (233) | (4) | (290) | 359 | (477) |
| Additions to non-current segment assets during the period | 3,624 | – | 251 | 34 | – | – | 3,909 |
| 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 |

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 2021 revenue of approximately RMB3,952 million from continuing operations (six months ended 30 June 2020: RMB4,202 million) is derived from one (six months ended 30 June 2020: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Natural Gas Sales, Sales of LPG, LNG Processing and Terminal, and Exploration and Production segments.

3 REVENUE

Revenue from continuing operations mainly represents revenue from sales of natural gas, sales of LPG, LNG processing and terminal business and sales of crude oil.

4 INTEREST EXPENSES

| | Six months ended 30 June | |
|------------------------------|--------------------------|----------------------------------|
| | 2021 | 2020 |
| | <i>RMB million</i> | <i>RMB million</i> (Restated) |
| Continuing operations | | |
| Interest expenses | 534 | 702 |
| Less: amounts capitalised | <u>(271)</u> | <u>(225)</u> |
| Total interest expenses | <u>263</u> | <u>477</u> |

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 4.12% (six months ended 30 June 2020: 4.70%) per annum for the six months ended 30 June 2021.

5 PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

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

| | Six months ended 30 June | |
|---|--------------------------|----------------------------------|
| | 2021 | 2020 |
| | <i>RMB million</i> | <i>RMB million</i> (Restated) |
| Continuing operations | | |
| Amortisation of intangible assets | 40 | 37 |
| Depreciation and depletion of | | |
| – owned property, plant and equipment | 2,038 | 1,942 |
| – right-of-use assets | 206 | 198 |
| Cost of inventories recognised as expense | 54,282 | 38,137 |
| Impairment loss on accounts receivable | <u>80</u> | <u>69</u> |

6 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2021 | 2020 |
| | <i>RMB million</i> | <i>RMB million</i> |
| Current tax | | |
| – PRC | 2,823 | 1,842 |
| – Overseas | 74 | 14 |
| | <u>2,897</u> | <u>1,856</u> |
| Deferred tax | 81 | 83 |
| | <u>2,978</u> | <u>1,939</u> |
| Income tax expense attributable to profit from: | | |
| – continuing operations | 1,253 | 1,133 |
| – discontinued operations | 1,725 | 806 |
| | <u>1,725</u> | <u>806</u> |

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2020: 25%). The operations of the Group in 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 2020: 15% to 20%).

Income tax on overseas profits has been calculated on the relevant estimated assessable profit for the six months ended 30 June 2021 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 from continuing and discontinued operations are based on the Group's profit attributable to owners of the Company of approximately RMB2,596 million and RMB17,865 million respectively (six months ended 30 June 2020: RMB742 million and RMB1,621 million), and weighted average number of ordinary shares in issue during the six months ended 30 June 2021 of approximately 8,659 million shares (six months ended 30 June 2020: 8,659 million shares).
- (b) Diluted earnings per share from continuing and discontinued operations for the six months ended 30 June 2021 and 2020 are the same as the basic earning per share as there were no potentially dilutive ordinary shares issued.

8 DIVIDENDS

- (a) 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 on 24 July 2020.
- (b) Final dividend and special dividend attributable to owners of the Company in respect of 2020 of RMB21.01 cents and RMB213.66 cents per share respectively, amounting to a total of approximately RMB1,819 million and RMB18,501 million respectively, was approved by the shareholders in the Annual General Meeting on 26 May 2021. The amount is based on approximately 8,659 million shares in issue as at 23 March 2021, which was paid subsequently on 9 July 2021.
- (c) With reference to the Company's announcement dated 25 May 2021, shareholders were given an option to receive the dividend either in RMB or in HKD. The Directors do not consider the derivative embedded in such arrangement to have material impact to these interim financial statements.
- (d) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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:

| | 30 June 2021 | 31 December 2020 |
|-----------------------|---------------------------|---------------------|
| | <i>RMB million</i> | <i>RMB million</i> |
| Within 3 months | 2,424 | 3,407 |
| Between 3 to 6 months | 888 | 189 |
| Over 6 months | 705 | 489 |
| | 4,017 | 4,085 |

The Group's revenue from rendering of terminal 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

| | 30 June 2021 | 31 December 2020 |
|---|-------------------------|---------------------|
| | <i>RMB million</i> | <i>RMB million</i> |
| Accounts payable | 3,166 | 3,355 |
| Contract liabilities | 9,416 | 10,911 |
| Salaries and welfare payable | 566 | 312 |
| Accrued expenses | 278 | 14 |
| Dividends payable | 20,504 | 435 |
| Interest payable | 153 | 72 |
| Construction fee and equipment cost payables | 6,578 | 8,239 |
| Amounts due to related parties | | |
| – Non-controlling interests | 1 | 1 |
| – Others | 101 | 82 |
| Other payables | 3,067 | 4,672 |
| | 43,830 | 28,093 |

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

| | 30 June 2021 | 31 December 2020 |
|-----------------------|-------------------------|---------------------|
| | <i>RMB million</i> | <i>RMB million</i> |
| Within 3 months | 1,922 | 2,751 |
| Between 3 to 6 months | 405 | 159 |
| Over 6 months | 839 | 445 |
| | 3,166 | 3,355 |

11 DISCONTINUED OPERATIONS

On 22 December 2020, the Company and China Oil & Gas Pipeline Network Corporation (“PipeChina”) entered into an equity transfer agreement (the “Equity Transfer Agreement”) pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Company’s 60% equity interest in PetroChina Beijing Gas Pipeline Co., Ltd. (“Beijing Pipeline”) and 75% equity interest in PetroChina Dalian LNG Co., Ltd. (“Dalian LNG”) (together, the “Target Companies”) at a base consideration of approximately RMB40,886 million (subject to adjustments according to the price adjustment mechanism as set out in the Equity Transfer Agreement).

All the condition precedents stipulated in the agreement have been fulfilled during the period ended 30 June 2021. Gain on disposal of RMB16,981 million is estimated and recorded in the interim financial report.

As at 31 December 2020, 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 in these financial statements.

Gain on disposal of the discontinued operations

| | Six months ended 30 June 2021 <i>RMB million</i> |
|--|---|
| Cash consideration received or receivable | 39,070 |
| Carrying amount of net assets sold | <u>(20,796)</u> |
| Gain on disposal of discontinued operation before income tax and reclassification of translation reserve | 18,274 |
| Reclassification of translation reserve | 64 |
| Income tax expense and other expenses | <u>(1,357)</u> |
| Gain on disposal of discontinued operations after income tax | <u><u>16,981</u></u> |

Due to the disposal of discontinued operations, withholding income tax has been provided at a tax rate of 10% based on the excess of the consideration of the disposal of discontinued operations over the consideration paid when the Group acquired Beijing Pipeline and Dalian LNG.

CHAIRMAN'S 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 2021 (the “Period”) to the shareholders on behalf of the board of directors.

During the Period, sticking to the strategy of high-quality development and focusing on the natural gas end-user core business, the sales volume of natural gas reached 21,046 million cubic metres, representing a year-on-year increase of 4,974 million cubic metres or 30.95%. The revenue of the Group reached RMB64,739 million, representing a year-on-year increase of RMB18,025 million or 38.59%; the profit before income tax expense was RMB5,050 million, representing a year-on-year increase of RMB2,301 million or 83.70%; the profit attributable to owners of the Company was RMB20,461 million, representing a year-on-year increase of RMB18,098 million or 765.89%. In particular, the profit attributable to owners of the Company from continuing operations was RMB2,596 million, representing a year-on-year increase of RMB1,854 million or 249.87%. Earnings per share (basic) was RMB236.30 cents.

BUSINESS REVIEW

During the Period, the central government coordinated its efforts to fight against the epidemic while promoting economic and social development, and effectively launched the macro policy. Due to the implementation of refined and effective macro policy, the People's Republic of China (the “PRC”) economy showed stable and positive performance. Coupled with the favourable policies brought by energy transformation under the “dual carbon” goals, market demands for clean energy surged significantly. Amidst such backdrop, the natural gas market showed a trend of robust supply and demands. During the first six months of the year, natural gas output in the PRC reached 104.5 billion cubic metres which represented a year-on-year increase of 10.90%, imported natural gas amounted to 59.82 million tonnes which represented a year-on-year increase of 23.80%, and the apparent consumption of natural gas was 182.7 billion cubic metres which represented a year-on-year increase of 17.40%, continuing the positive growth trend from the 13th Five-Year Plan period.

Seizing the new round of development opportunities, the Group vigorously pushed forward the implementation of the five development strategies of “innovation, green operation, market, capital and low cost”, and focused on promoting the sales and efficiency of the natural gas end-user core business. Leveraging on its advantages in integrated operation and its strong brand name, the Group proactively explored quality projects and efficient markets, leading to robust growth in user base and operation profitability. Capturing the opportunities arising from the “Three-year Action Plan for State-owned Enterprise Reform (國企改革三年行動)”, the Group prudently pushed forward the optimisation and adjustment of its management mechanism, implemented accountability system with well-defined responsibility and authority at all levels, and successfully promoted the pilot term-of-service system for senior management and professional manager system, effectively

motivating the enthusiasm and initiatives of all employees. In addition, the Group upgraded its efforts in achieving quality improvement and efficiency enhancement, and continued to optimise its regional and user base structure, continuously improving the profitability of each single project and achieving growth in the profitability and scale of both the LPG and value-added businesses. The Group made prompt and proactive response to the concerns raised by the stakeholders, carried out investigation and rectification of hidden safety hazards in a responsible, diligent and careful manner, and strived to establish an integrated operation risk control and supervision accountability system, so as to safeguard the bottom line of safety and compliance, leading to continuous improvement in its ESG performance. Following the successful completion of the equity and personnel transfer of PetroChina Beijing Gas Pipeline Co., Ltd. (“Beijing Pipeline”) and PetroChina Dalian LNG Co., Ltd. (“Dalian LNG”), the Group was able to allocate more resources to the development of the natural gas end-user business, accelerating its transformation from a traditional distributor to an integrated supplier of green energy. During the Period, the operating results of the Company beat expectation, achieving a good kick off for the high-quality development of the “14th Five-Year” Plan period.

BUSINESS PROSPECTS

Currently, with the increasing favourable factors driving the continuous recovery of domestic demands, continuous benefits unleashed from favourable financial policies supporting the real economy, expedited energy transformation under the “dual carbon” goals and more stringent requirements in respect of environmental protection during the Winter Olympics cycle, we are expected to witness strong growth in market demands for the natural gas and other clean energies. In particular, the tightening policy of “total and unit energy consumption reduction” and expansion of export volume will drive rapid growth in demands for natural gas and electricity as well as demands for industrial production. The clean heating requirement rate implemented in Northern China and the new round of overall accelerated urbanisation will further boost city gas market demands.

Focusing on the new development phase and consistently implementing new development concept, the Group will make proactive efforts to serve and adapt to the new development pattern. To achieve its strategic positioning as an internationally renowned and the PRC’s first-class integrated green energy provider, the Group will proactively explore new markets and continue to expand its end-user core business. While pursuing for economies of scale, the Group will make coordinated efforts to facilitate quality improvement and efficiency enhancement, reform and innovation, risk prevention and control as well as green transformation, so as to further promote the high quality and sustainable development of the Company.

Overall improvement in the development quality of end-user business. The Group will proactively assist government authorities at all levels in the transformation of energy structure, and continue to enhance resource supply and pipeline distribution, optimise investment projects and strengthen cooperation with local governments, so as to realise

overall development with differentiated policies for various sectors and the combination of all the advantages and targeted implementation. The Group will vigorously facilitate the acquisition and merger of group projects and focus on the emerging industrial parks in the large and medium cities, in an effort to further expand and upgrade its end-user business. The Group will make continuous efforts to achieve quality improvement and efficiency enhancement, vigorously promote sales expansion and efficiency enhancement of existing markets, and continuously improve the profitability of each single project.

Continue to promote the synergetic development of LNG industrial chain. By fully leveraging on its geographical and network advantages, the Group will step up the improvement of the entire industrial chain sales system of liquefied product with “Terminals and processing plants as foundation, self-operated stations and end-users as support, logistic optimization as security, and tank distribution as an auxiliary”. In addition, the Group will expedite the development of vessel refilling business and optimise the operation management of LNG plants, so as to further improve the operation efficiency and profitability of the industrial chain.

Continuously optimise LPG resource channels and network layout. Benefitting from the rural revitalisation policy, the Group will vigorously push forward the implementation of the rural gas program, and support the construction of safe and reliable storage tanks in stations and micromanagement network gas supply system in rural areas. The Group will consolidate domestic and imported resources, expedite the construction of terminal storage tanks, constantly optimise sales portfolio and logistics allocation, diversify operation models, and continuously increase the proportion of retail business.

Accelerate the integration and development of natural gas and new energy. By making proactive efforts to catch up with the trend of energy transformation amidst the “dual carbon” goals, and fully leveraging on its advantage in the peak-buffering natural gas generator projects, the Group will promote the implementation of the pilot program on the integrated development of natural gas power and photovoltaic power generation projects in an orderly manner, proactively explore the cooperation models in the new energy bases, and speed up the integrated development of natural gas and new energy.

Proactively create new profit growth drivers. Following the development trend of integrated energy services, the Group will take the lead to usher in the city gas 2.0 era, and proactively develop the distributed integrated energy supply business based on the city gas distribution network. The Group will make persistent efforts to implement the three-step strategy of “promoting synergetic effects, mutual interaction and paralleled development between natural gas and non-gas businesses”, and explore extended value of one-stop services provided by the value-added business, so as to further improve brand recognition and customer royalty.

The Group will firmly stick to the established development strategy, vigorously facilitate the modernisation of corporate governance system and governance capability, and continuously strengthen its core competitiveness, so as to maximise its corporate value

and create return for the Shareholders with better operating results, and achieve harmony between the sustainable development of the Company and the economic recovery, social stability and environmental protection.

CHIEF EXECUTIVE OFFICER’S STATEMENT

For the six months ended 30 June 2021 (the “Period”), the PRC economy maintained steady recovery, with stable improvement in quality and efficiency and robust growth in demands for clean energy. While focusing on its annual targets, the Group made coordinated efforts to advance its key tasks in production and operation, quality improvement and efficiency enhancement, system reform, safety and environmental protection as well as risk prevention and control. Seizing the great opportunities arising from strong domestic demand for natural gas as a result of the “dual carbon” goals, the Group continued to expand its principal business, achieve steady improvement in operation efficiency and promote high-quality development.

OPERATING RESULTS

During the Period, the Group recorded a revenue of RMB64,739 million, representing a year-on-year increase of RMB18,025 million or 38.59%; profit before income tax expense of RMB5,050 million, representing a year-on-year increase of RMB2,301 million or 83.70%; and profit attributable to owners of the Company of RMB20,461 million, representing a year-on-year increase of RMB18,098 million or 765.89%. In particular, profit attributable to owners of the Company from continuing operations was RMB2,596 million, representing a year-on-year increase of RMB1,854 million or 249.87%. Earnings per share (basic) was RMB236.30 cents.

Natural gas sales

Upholding the win-win development concept and leveraging the advantage in integrated operation of the industrial chain and strong brand effect, the Group made great efforts in market exploration as well as sales expansion and efficiency enhancement, cultivated existing markets and explored new projects, leading to increases in sales and efficiency of the natural gas end-user business. The sales volume of natural gas was 21,046 million cubic metres, representing a year-on-year increase of 30.95%, among which, retail gas sales volume was 12,042 million cubic metres, representing a year-on-year increase of 20.20%. The number of new users amounted to 397,000, representing a year-on-year increase of 37.47%, which included 389,200 resident users and 7,800 industrial and commercial users. The cumulative number of users reached 12,755,000. The Group brought in 15 new projects which were either acquired, newly established or invested by way of capital increase, and had equity interest in 1 project, with the natural gas projects operated by the Group amounting to 232. The regional end-user sales in Hebei, Jiangsu and Shandong exceeded 2,000 million cubic meters, and the retail gas sales volume in 9 regions such as Hubei, Zhejiang and Tianjin recorded a year-on-year increase of more than 50%.

During the Period, the Natural Gas Sales business recorded a revenue of RMB50,273 million, representing a year-on-year increase of 36.91%. Profit before income tax expense was RMB2,859 million, representing a year-on-year increase of 29.90%.

Sales of LPG

The Group vigorously expanded resource channels, constantly optimised the structure of market regions and users and expedited the establishment of market network. The Group made significant progress in the development of complete projects in Jinan, Nanning and Shenyang, and achieved steady growth in the proportion and profitability of end-user retail sales, leading to increases in sales and efficiency of the LPG business.

During the Period, LPG sales volume was 3.0159 million tonnes, representing a year-on-year increase of 28.17%. This business recorded a revenue of RMB10,861 million, representing a year-on-year increase of 55.82%. Profit before income tax expense was RMB340 million, representing a year-on-year increase of 83.78%.

LNG processing and terminal

During the Period, the LNG terminals of the Group maintained safe and smooth production and operation, and the operation capacity and efficiency met the expectation. The extension section of Jingtang LNG terminal was completed and put into operation, while the expansion construction of Jiangsu LNG terminal was overall completed, leading to significant improvement in the storage, gasification and transmission and supply capacity of the terminals. By optimising the operational model of LNG processing plants and proactively facilitating the development of the vessel refilling business, the Group continued to optimise the LNG industrial chain and improve the overall value chain.

During the Period, LNG gasification and entrucking volume of Jingtang and Jiangsu LNG terminals amounted to 7,523 million cubic metres in total, representing a year-on-year increase of 28.23%. The average capacity of these two LNG terminals recorded a year-on-year increase of 18.6 percentage points. The average production capacity of 15 processing plants under continuous operation was 44.0%, similar to last year. During the Period, sales volume of self-operation reached 562 million cubic metres while sales volume of commissioned processing amounted to 608 million cubic metres, totaling 1,170 million cubic metres. Sales volume of commissioned processing increased by 100 million cubic metres year-on-year and sales volume of self-operation decreased by 96 million cubic metres year-on-year.

During the Period, the LNG Processing and Terminal segment recorded a revenue of RMB4,462 million, representing a year-on-year increase of 18.01%. Profit before income tax expense was RMB1,479 million, representing a year-on-year increase of 52.32%.

Exploration and production

During the Period, as international crude oil price fluctuated upwards, the average realized crude oil selling price of the Group increased to US\$51.65/barrel from US\$40.31/barrel of last year. The sales volume of crude oil of the Group was 6.09 million barrels, representing a decrease of 0.65% as compared with the same period last year. Sales revenue of crude oil was RMB869 million, representing a year-on-year increase of 44.83%. Profits before income tax expense was RMB243 million, representing a year-on-year increase of 238.86%.

MANAGEMENT DISCUSSION AND ANALYSIS

Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to develop its business in Natural Gas Sales segments during the period ended 30 June 2021 (the “Period”). Profit before income tax expense from continuing operations of the Group for the Period was approximately RMB5,050 million, representing an increase of 83.70% as compared with RMB2,749 million (restated) for the same period of last year. Profit attributable to owners of the Company for the Period was approximately RMB2,461 million, representing an increase of 765.89% as compared with RMB2,363 million (restated) for the same period of last year. In particular, the profit attributable to owners of the Company from continuing operations was approximately RMB2,596 million, representing an increase of 249.87% as compared with RMB742 million (restated) for the same period of last year.

Revenue

Revenue from continuing operations for the Period was approximately RMB64,739 million, representing an increase of 38.59% as compared with amount of RMB46,714 million (restated) for the same period of last year. As the epidemic situation in China has been brought under control, the economy has fully recovered, 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 Period was approximately RMB354 million, representing an increase of 224.77% as compared with amount of RMB109 million (restated) for the same period of last year. The increase was mainly due to increase in exchange gains resulted from appreciation of RMB against USD and HKD during the Period.

Purchases, services and others

Purchases, services and others from continuing operations were approximately RMB54,165 million for the Period, representing an increase of 40.54% as compared with amount of RMB38,541 million (restated) for the same period of 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 was approximately RMB2,489 million for the Period, representing an increase of 21.36% as compared with amount of RMB2,051 million (restated) for the same period of last year. The increase was mainly due to the cancellation by the local government in 2021 of reduction or waiver of employer's contribution for certain social insurance schemes which was launched in 2020, as well as business growth and economic inflation.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation from continuing operations for the Period was approximately RMB2,284 million, representing an increase of 4.92% as compared with amount of RMB2,177 million (restated) for the same period of last year. Depreciation, depletion and amortisation remained fairly stable during the Period.

Selling, general and administrative expenses

Selling, general and administrative expenses from continuing operations for the Period were approximately RMB1,328 million, representing an increase of 22.51% as compared with amount of RMB1,084 million (restated) for the same period of last year. The increase was mainly due to the increase in royalty expenses and the rest of the increase was in line with the expansion of natural gas business.

Interest expenses

Interest expenses from continuing operation for the Period was approximately RMB263 million, representing a decrease of 44.86% as compared with amount of RMB477 million (restated) for the same period of 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 in April 2020 and the lower average borrowing balance as compared to the same period of last year as a result of repayment of a substantial part of the borrowings during the Period.

Total interest expenses for the Period was approximately RMB534 million of which RMB271 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 RMB318 million, representing an increase of 55.12%, as compared with amount of RMB205 million (restated) for the same period of last year. The increase was mainly due to the increase in share of operating result from CNPC-Aktobemunaigas Joint Stock Company, which incurred less exchange losses during the Period.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2021, the carrying value of total assets of the Group was approximately RMB146,463 million, representing a decrease of RMB8,525 million or 5.50% as compared with RMB154,988 million as at 31 December 2020.

The gearing ratio of the Group was 26.62% as at 30 June 2021 compared with 25.11% as at 31 December 2020, representing an increase of 1.51 percentage points. It is computed by dividing the sum of interest-bearing borrowings and lease liabilities of RMB26,328 million (31 December 2020: RMB28,337 million) by the sum of total equity, interest-bearing borrowings and lease liabilities of RMB98,921 million (31 December 2020: RMB112,864 million).

As at 30 June 2021, the Group has total borrowings of RMB25,635 million which will be repayable as follows:

| | 30 June 2021 | 31 December 2020 |
|---------------------------|---------------------------|---------------------|
| | <i>RMB million</i> | <i>RMB million</i> |
| Within one year | 5,527 | 5,182 |
| Between one to two years | 2,277 | 4,244 |
| Between two to five years | 11,052 | 12,039 |
| After five years | 6,779 | 6,208 |
| | <u>25,635</u> | <u>27,673</u> |

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.

PLEDGE OF ASSETS

As at 30 June 2021, certain property, plant and equipment of the Group amounting to RMB759 million (31 December 2020: RMB756 million) were pledged to banks for loan facilities granted to the Group.

MATERIAL DISPOSAL

On 22 December 2020, the Company and China Oil & Gas Pipeline Network Corporation (“PipeChina”) entered into an equity transfer agreement (the “Equity Transfer Agreement”) pursuant to which the Company has conditionally agreed to sell and PipeChina has conditionally agreed to purchase the Company’s 60% equity interest in Beijing Pipeline

and 75% equity interest in Dalian LNG (together, the “Target Companies”) at a base consideration of approximately RMB40,886 million (subject to the adjustments according to the price adjustment mechanism as set out in the Equity Transfer Agreement).

All the condition precedents stipulated in the agreement have been fulfilled during the period ended 30 June 2021. Gain on disposal of RMB16,981 million is estimated and recorded in this interim financial report.

As at 31 December 2020, 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.

Use of Proceeds

As discussed in “Material Disposal” above, proceed from disposal of subsidiaries had been mainly used for dividend payment and loan repayment.

2020 final dividend of RMB21.01 cents per share and a special dividend of RMB213.66 cents per share, totalling RMB234.67 cents per share, amounting to RMB20,272 million was distributed to owners of the Company as at 9 July 2021. During the Period, RMB2,617 million has repaid the existing debts of the Group in order to improve its assets-liabilities structure and replenish the general working capital of the Group. The Company will continue to use such proceeds as intended and previously disclosed.

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.

EMPLOYEE

As at 30 June 2021, the Group had approximately 35,424 employees globally (excluding the employees under entrustment contracts) (same period of 2020: 36,130 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.

INTERIM DIVIDEND

The Board of Directors has resolved not to recommend the payment of any interim dividend for the period ended 30 June 2021.

CHANGES IN DIRECTORS' INFORMATION

There are no changes in the information of the directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") since the publication of the 2020 annual report of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

Pursuant to paragraph 46(6) of Appendix 16 to 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 report 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, PricewaterhouseCoopers, 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 2021.

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 17 September 2021 on the Stock Exchange’s website (www.hkex.com.hk) and the Company’s website (www.kunlun.com.hk).

By the Order of the Board
KUNLUN ENERGY COMPANY LIMITED
Fu Bin
Chairman and Executive Director

Hong Kong, 24 August 2021

As at the date of this announcement, the Board of the Company comprises Mr. Fu Bin as the Chairman and executive Director, Mr. Qian Zhijia as 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.