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		
	2023	2022	*Change %*
Total volume of Natural Gas Sales (million cubic metres)	**23,916**	21,933	9.04
Retail Gas Sales (million cubic metres)	**14,787**	13,504	9.50
Weighted Average Dollar Margin (RMB/cubic metre)	**0.495**	0.494	0.20
	RMB million	*RMB million*	
Revenue	**87,072**	83,864	3.83
Profit before income tax expense	**6,791**	6,275	8.22
Profit for the period attributable to shareholders of the Company	**3,222**	3,080	4.61
EBITDA *(note 1)*	**9,729**	8,757	11.10
	RMB cent	*RMB cent*	
Earnings per share (Basic)	**37.21**	35.57	4.61
Dividend per share – Interim	**NIL**	NIL	NIL
	RMB million	*RMB million*	
Profit attributable to shareholders of the Company (by segment)			
– Natural Gas Sales	**2,342**	1,872	25.11
– Sales of LPG	**409**	449	(8.91)
– LNG Processing and Terminal	**427**	652	(34.51)
– Exploration and Production	**195**	391	(50.13)

Note:

1 EBITDA is defined as profit before income tax expense, excluding interest and depreciation, depletion and amortisation.

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 2023 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2023	2022
	Note	***RMB million***	*RMB million*
Revenue	*3*	**87,072**	83,864
Other gains/(losses), net		**239**	(76)
Interest income		**394**	411
Purchases, services and others		**(73,949)**	(70,745)
Employee compensation costs		**(2,628)**	(2,836)
Depreciation, depletion and amortisation		**(2,896)**	(2,430)
Other selling, general and administrative expenses		**(1,373)**	(1,738)
Taxes other than income taxes		**(222)**	(291)
Interest expenses	*4*	**(436)**	(463)
Share of profits less losses of:			
– Associates		**316**	362
– Joint ventures		**274**	217
Profit before income tax expense	*5*	**6,791**	6,275
Income tax expense	*6*	**(1,750)**	(1,774)
Profit for the period		**5,041**	4,501
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**	(162)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		**(15)**	7
– Associates		**(2)**	(8)
– Joint ventures		**54**	72
Other comprehensive income/(loss) for the period		**74**	(91)
Total comprehensive income for the period		**5,115**	4,410

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Six months ended 30 June	
		2023	2022
	Note	***RMB million***	*RMB million*
Profit for the period attributable to:			
– Shareholders of the Company		**3,222**	3,080
– Non-controlling interests		**1,819**	1,421
		5,041	4,501
Total comprehensive income for the period attributable to:			
– Shareholders of the Company		**3,269**	3,015
– Non-controlling interests		**1,846**	1,395
		5,115	4,410
Basic and diluted earnings per share for profit attributable to shareholders of the Company (RMB cent)	*7*	**37.21**	35.57

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2023** *RMB million*	31 December 2022 *RMB million*
Assets			
Non-current assets			
Property, plant and equipment		**67,710**	69,534
Investments in associates		**7,923**	7,909
Investments in joint ventures		**6,141**	6,056
Intangible assets		**1,800**	1,849
Financial assets at fair value through other comprehensive income		**357**	319
Other non-current assets		**785**	771
Deferred tax assets		**1,185**	1,115
		85,901	87,553
Current assets			
Inventories		**1,156**	1,081
Accounts receivable	*9*	**2,714**	2,887
Prepayments and other current assets		**6,738**	7,890
Time deposits with maturities over three months		**17,323**	19,439
Cash and cash equivalents		**24,705**	20,042
		52,636	51,339
Total assets		**138,537**	138,892
Equity			
Capital and reserves attributable to shareholders of the Company			
Share capital		**71**	71
Retained earnings		**29,035**	28,095
Other reserves		**31,880**	31,742
		60,986	59,908
Non-controlling interests		**21,073**	20,794
Total equity		**82,059**	80,702

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	30 June 2023 RMB million	31 December 2022 RMB million
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**26,386**	27,720
Income tax payable		**629**	623
Other taxes payable		**621**	546
Short-term borrowings		**5,618**	5,287
Lease liabilities		**226**	208
		33,480	34,384
Non-current liabilities			
Long-term borrowings		**19,052**	19,794
Deferred tax liabilities		**1,791**	1,858
Lease liabilities		**559**	562
Other liabilities		**1,596**	1,592
		22,998	23,806
Total liabilities		**56,478**	58,190
Total equity and liabilities		**138,537**	138,892
Net current assets		**19,156**	16,955
Total assets less current liabilities		**105,057**	104,508

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 2023 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 29 August 2023.

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.

Changes in accounting policies

Amended standards adopted by the Group

The following amended standards became applicable for the current reporting period:

- HKFRS 17: Insurance Contracts
- Amendments to HKAS 1 and HKFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to HKAS 8: Definition of Accounting Estimates
- Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 Income Taxes require the recognition of deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities. The Group therefore changed its accounting policies as a result of adopting this amendment to HKAS 12. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2022. There was no impact on retained earnings on 1 January 2022.

The impact of applying these amendments on the consolidated interim financial information is summarised as follows:

	1 January 2022	31 December 2022
	RMB million	*RMB million*
Deferred tax assets	**150**	162
Deferred tax liabilities	**(150)**	(162)

Other than the above impact, none of these developments have had a material effect on the Group's results and financial information for the current or prior periods which have been prepared or presented in this consolidated interim financial information.

The Group has not applied any new standard or amendments to standards that is not yet effective for the current accounting period.

	Effective for annual periods beginning on or after
• Amendments to HKAS 1: Classification of Liabilities as Current or Non-current	1 January 2024
• Amendments to HKAS 1: Non-current Liabilities with Covenants	1 January 2024
• Amendments to HKAS 7: Statement of Cash Flows	1 January 2024
• Amendments to HKFRS 7: Financial Instruments: Disclosures	1 January 2024
• Amendments to HKFRS 16: Lease Liability in a Sale and Leaseback	1 January 2024
• Amendments to HKFRS 10 and HKAS 28: Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 by the Group's most senior management and 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 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 wholesale 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 Group's most senior management and 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 for the reportable segments for the six months ended 30 June 2023 and 2022 is as follows:

	Natural Gas Sales *RMB million*	Sales of LPG *RMB million*	LNG Processing and Terminal *RMB million*	Exploration and Production *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the six months ended 30 June 2023							
Gross revenue	**69,859**	**13,855**	**5,188**	**608**	**–**	**–**	**89,510**
Less: Inter-company adjustment	**(963)**	**(51)**	**(1,424)**	**–**	**–**	**–**	**(2,438)**
Revenue from external customers	**68,896**	**13,804**	**3,764**	**608**	**–**	**–**	**87,072**
Segment results	**4,407**	**423**	**1,329**	**197**	**(155)**	**–**	**6,201**
Share of profits less losses of:							
– Associates	**266**	**–**	**12**	**38**	**–**	**–**	**316**
– Joint ventures	**214**	**–**	**–**	**54**	**6**	**–**	**274**
Profit/(loss) before income tax expense	**4,887**	**423**	**1,341**	**289**	**(149)**	**–**	**6,791**
Income tax expense							**(1,750)**
Profit for the period							**5,041**
Segment results included:							
– Interest income	**316**	**1**	**49**	**10**	**284**	**(266)**	**394**
– Depreciation, depletion and amortisation	**(1,906)**	**(55)**	**(800)**	**(115)**	**(20)**	**–**	**(2,896)**
– Interest expenses	**(331)**	**(2)**	**(263)**	**–**	**(106)**	**266**	**(436)**
– Net exchange gains/(losses)	**2**	**–**	**–**	**8**	**(164)**	**–**	**(154)**
As at 30 June 2023							
Segment assets	**75,394**	**4,932**	**17,558**	**1,960**	**23,074**	**–**	**122,918**
Investments in associates	**7,166**	**–**	**410**	**347**	**–**	**–**	**7,923**
Investments in joint ventures	**4,572**	**–**	**–**	**1,495**	**74**	**–**	**6,141**
Additions to non-current segment assets during the period	**552**	**34**	**86**	**25**	**1**	**–**	**698**

	Natural Gas Sales *RMB million*	Sales of LPG *RMB million*	LNG Processing and Terminal *RMB million*	Exploration and Production *RMB million*	Corporate *RMB million*	Inter-company adjustment *RMB million*	Total *RMB million*
For the six months ended 30 June 2022							
Gross revenue	64,157	15,058	6,062	1,183	–	–	86,460
Less: Inter-company adjustment	(636)	(48)	(1,912)	–	–	–	(2,596)
Revenue from external customers	63,521	15,010	4,150	1,183	–	–	83,864
Segment results	3,516	458	1,671	332	(281)	–	5,696
Share of profits less losses of:							
– Associates	251	–	4	107	–	–	362
– Joint ventures	109	–	–	108	–	–	217
Profit/(loss) before income tax expense	3,876	458	1,675	547	(281)	–	6,275
Income tax expense							(1,774)
Profit for the period							4,501
Segment results included:							
– Interest income	333	1	41	5	294	(263)	411
– Depreciation, depletion and amortisation	(1,592)	(38)	(591)	(189)	(20)	–	(2,430)
– Interest expenses	(341)	(2)	(284)	–	(99)	263	(463)
– Net exchange gains/(losses)	6	–	–	(3)	(324)	–	(321)
As at 31 December 2022							
Segment assets	77,939	4,586	18,643	2,270	20,038	–	123,476
Investments in associates	7,198	–	399	312	–	–	7,909
Investments in joint ventures	4,610	–	–	1,387	59	–	6,056
Additions to non-current segment assets during the period	1,011	657	18	6	–	–	1,692

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 2023 and 2022, there was no single customer to whom the revenue exceeded 10% of the Group's revenue.

3 REVENUE

Revenue 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	
	2023	2022
	RMB million	*RMB million*
Interest expenses	**448**	506
Less: amounts capitalised	**(12)**	(43)
Total interest expenses	**436**	463

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 3.52% per annum for the six months ended 30 June 2023 (six months ended 30 June 2022: 4.04%).

5 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023	2022
	RMB million	*RMB million*
Amortisation of intangible assets	**42**	40
Depreciation and depletion of		
– owned property, plant and equipment	**2,603**	2,167
– right-of-use assets	**251**	223
Cost of inventories recognised as expense	**73,984**	70,926
(Reversal of)/impairment loss on accounts receivable	**(62)**	41

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB million	*RMB million*
Current tax		
– PRC	**1,822**	1,573
– Overseas	**65**	127
	1,887	1,700
Deferred tax	**(137)**	74
	1,750	1,774

In accordance with the relevant Mainland China income tax rules and regulations, the Mainland China corporate income tax rate applicable to the Group's subsidiaries in the Mainland China is principally 25% (six months ended 30 June 2022: 25%). The operations of the Group in certain regions in the Mainland China are qualified for certain tax incentives in the form of preferential income tax rates ranging from 15% to 20% (six months ended 30 June 2022: 15% to 20%).

Hong Kong Profits Tax has not been provided for as the Group has no assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

Income tax on overseas profits has been calculated on the relevant estimated assessable profits for the six months ended 30 June 2023 at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of the Company of approximately RMB3,222 million (six months ended 30 June 2022: RMB3,080 million), and weighted average number of ordinary shares in issue during the six months ended 30 June 2023 of approximately 8,659 million shares (six months ended 30 June 2022: 8,659 million shares).

(b) Diluted earnings per share for the six months ended 30 June 2023 and 2022 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 shareholders of the Company in respect of 2021 of RMB20.78 cents per share, amounting to a total of approximately RMB1,799 million, was approved by the shareholders in the Annual General Meeting on 25 May 2022. The amount is based on approximately 8,659 million shares in issue as at 29 March 2022 which was paid on 14 July 2022.

With reference to the Company's announcement dated 25 May 2022, 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 information.

(b) Final dividend attributable to shareholders of the Company in respect of 2022 of RMB25.39 cents per share, amounting to a total of approximately RMB2,198 million, were approved by the shareholders in the Annual General Meeting on 31 May 2023. The amount is based on approximately 8,659 million shares in issue as at 28 March 2023, which was paid on 20 July 2023.

With reference to the Company's announcement dated 31 May 2023, 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 information.

(c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 2023 *RMB million*	31 December 2022 *RMB million*
Within 3 months	**1,676**	2,080
Between 3 to 6 months	**271**	96
Between 6 to 12 months	**145**	108
Over 12 months	**622**	603
	2,714	2,887

The Group's revenue from rendering of terminal services and sales of crude oil is 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 2023 *RMB million*	31 December 2022 *RMB million*
Accounts payable	**2,568**	3,112
Contract liabilities	**11,108**	12,621
Salaries and welfare payable	**698**	428
Accrued expenses	**177**	12
Dividends payable	**2,525**	133
Interest payable	**156**	170
Construction fee and equipment cost payables	**6,398**	7,551
Amounts due to related parties		
– Non-controlling interests	**1**	1
– Others	**1**	83
Other payables	**2,754**	3,609
	26,386	27,720

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

	30 June 2023 *RMB million*	31 December 2022 *RMB million*
Within 3 months	**1,115**	1,874
Between 3 to 6 months	**522**	164
Over 6 months	**931**	1,074
	2,568	3,112

CHAIRMAN'S STATEMENT

Respected shareholders:

In the first half of the year, the Group recorded the natural gas sales volume of 23,916 million cubic metres, representing a year-on-year increase of 1,983 million cubic metres or 9.04%. The Group recorded a revenue of RMB87,072 million, representing a year-on-year increase of RMB3,208 million or 3.83%; the profit before income tax was RMB6,791 million, representing a year-on-year increase of RMB516 million or 8.22%; and the profit attributable to shareholders of the Company was RMB3,222 million, representing a year-on-year increase of RMB142 million or 4.61%. Earnings per share (basic) was in RMB37.21 cents.

BUSINESS REVIEW

In the first half of the year, the economy and society of China returned to normal operation, the macro policies continued to take effect, and the national economy maintained its recovery momentum. The tension between supply and demand in the global natural gas market eased, and the international gas price declined from its earlier peaks. Many regions in China introduced new policies for the linkage of natural gas prices to promote the steady development of the urban gas industry, and the national natural gas consumption increased by 5.6% year-on-year to 194.1 billion cubic metres, returning to the reasonable growth range. The Group seized the favorable opportunity of the market recovery, overcame multiple challenges of huge market fluctuations and high resource costs, further promoted the construction of diversified business system, marketing system, intelligent support system and modernised corporate governance system, and achieved sustained growth of urban gas scale, continuous optimization of customer structure and rapid growth of emerging businesses, such that the Group historically achieved the highest level of operating results.

The operating results of the main business was comprehensively improved, and its core competitiveness and shareholder return ability were significantly enhanced. The Group continued to focus on the development of the core business of urban gas, and maintained a steady growth trend in the size of the terminal market, thus the total number of users exceeded 15 million, and the sales volume of natural gas increased by 9.04% to 23,916 million cubic metres. With continuous optimisation of the sales structure, the retail sales volume increased to 14,787 million square metres, representing a year-on-year increase of 9.50 percentage points, and it achieved a steady rise in gross margin per cubic metre of natural gas. The profit of Natural Gas Sales business increased by 26.08% year-on-year, contributing to nearly three-quarters of the profits, which continued to maintain a rapid growth momentum. The Group's total revenue increased by 3.83% year-on-year to RMB87,072 million, and net profit increased by 12.00% year-on-year to RMB5,041 million, thus significantly improving the level of operational efficiency.

The Group made positive progress in strategic and forward-looking projects and further consolidated the foundation for high-quality development. The Group highly valued the strategic infrastructure layout with key supporting roles. Fujian LNG terminal completed the registration of joint venture, Phase III expansion of Jiangsu LNG terminal entered the acceptance stage, the construction of Qingdao LPG terminal exceeded expectations, and the scope of offshore LNG refueling-at-sea services expanded from Shenzhen to Zhoushan and other surrounding markets. The digital and intelligent construction focused on the integration of logistics, capital flow, information flow and value flow, actively built the ERP construction with the integration of business and finance as the core, coordinated the terminal-to-terminal process, established standardised data system and high-quality indicator system, and realised the implementation of multiple digitals transformation sub-scenarios.

The Group basically formed its framework of the emerging business structure and furthered strengthened its sustainable development momentum. The Group deeply practiced the concept of green development, focused on the acquisition of new energy indicators, laid out the wind-scenery gas-electricity integration business ahead of schedule, acquired 3 million kilowatts of new energy indicators, and put eight new energy projects into operation. The Group accelerated the promotion of its integrated energy business, and in view of the diversified energy consumption needs of users for natural gas, electricity, heating and cooling, the Group continued to enrich the energy consumption scenarios, and promoted the operation of 12 projects and the orderly implementation of 24 projects. The scale of value-added business was further improved, the first customised insurance product was launched, and the sales on the platforms increased by 17.8 times year-on-year.

The Group's ESG philosophy and management were deeply integrated, and its responsibility was recognised by the community. By adhering to the corporate mission of "empowering the construction of a beautiful China and contributing to a brighter life of our people", the Group continued to improve the corporate governance responsibility system, gradually enhanced the market-oriented management mechanism and incentive mechanism, and achieved remarkable results in reform practice. The Group continued to strengthen risk management and control, highlighted the investigation and management of hidden dangers, deepened the application of pipeline digital maps and production management systems, and promoted the intelligent and intensive upgrading of production safety management. The Group further carried out the construction of green enterprise, and started to prepare version 2.0 of the carbon peak and carbon neutral action plan. The Group won the "benchmark" rating in the "Double Hundred Enterprises" assessment of the central enterprises, and was selected as the first batch of "Hang Seng SCHK Central State-owned Enterprises Index" and "Hang Seng SCHK Central Enterprises ESG Leading Index".

OPERATING RESULTS

Natural gas sales business

The Company continued to optimise the gas distribution structure and market layout, continuously increased the proportion of retail gas sales, and actively promoted key projects and high-quality projects to tap potentials and increase sales. The sales volume of natural gas was 23,916 million cubic metres, representing a year-on-year increase of 9.04%, among which retail gas sales volume was 14,787 million cubic metres, representing a year-on-year increase of 9.50%. The number of new users amounted to 506,900, which included 492,600 residential users and 14,300 industrial and commercial users. The cumulative number of users reached 15.2202 million. The Group continues to expand its operational footprint. In the first half of the year, the Group brought in 5 new projects which were either acquired, newly established or invested by way of capital increase or had equity interest.

In the first half of the year, the Natural Gas Sales business recorded a revenue of RMB69,859 million, representing a year-on-year increase of 8.89%. Profit before income tax was RMB4,887 million, representing a year-on-year increase of 26.08%.

Sales of LPG business

The Group seized the favorable opportunities brought by economic recovery and increased demand, further optimised the resource structure, expanded resource channels, and newly included Guangdong Petrochemical and Dagang Oilfield into LPG resources purchase and sales. The Group also optimised its marketing strategy, actively responded to changes in demand, strengthened operational projects to improve quality and efficiency, and reduced the operating expenses of the terminal industrial chain.

In the first half of the year, LPG sales volume was 2.9369 million tonnes, representing a year-on-year increase of 5.17%. This business recorded a revenue of RMB13,855 million, representing a year-on-year decrease of 7.99%. Profit before income tax was RMB423 million, representing a year-on-year decrease of 7.64%.

LNG processing and terminal business

The Company continued to strive for professional development, market-oriented operation, and refined management as well as integrated planning, continuously improved the overall efficiency of LNG processing and terminal business, and achieved safe and stable operation of terminals business. Affected by the warm winter at the beginning of the year, the tank capacity of the LNG terminals was higher than that of the same period last year, and the LNG processing capacity decreased slightly. The Company vigorously implemented special actions to control losses in LNG plants and achieved continuous improvement in operating results.

In the first half of the year, LNG gasification and entrucking volume of Jingtang and Jiangsu LNG terminals amounted to 7,336 million cubic metres in total, representing a year-on-year decrease of 6.73%. The average capacity of these two terminals recorded a year-on-year decrease of 6 percentage points. The average production capacity of 15 processing plants under continuous operation was 38.9%; sales volume of self-operation reached 418 million cubic metres, and the commissioned processing volume amounted to 678 million cubic metres, representing a year-on-year decrease of 32.03% and 2.59%, respectively.

In the first half of the year, the LNG Processing and Terminal business recorded a revenue of RMB5,188 million, representing a year-on-year decrease of 14.42%. Profit before income tax was RMB1,341 million, representing a year-on-year decrease of 19.94%.

Exploration and production business

In the first half of the year, sales volume of crude oil of the Group was 4.84 million barrels, representing a decrease of 0.77 million barrels or 13.73% as compared with last year. Driven by the drop of international crude oil price, the average crude oil selling price of the Group decreased to US$65.62/barrel from US$77.84/barrel of last year. In addition, due to the withdrawal of the Liaohe Leng Jiapu project at the end of February this year after contract expired, the sales revenue of crude oil was RMB608 million, representing a year-on-year decrease of 48.61%. Profit before income tax was RMB289 million, representing a year-on-year decrease of 47.17%.

BUSINESS OUTLOOK

In the second half of the year, the business environment at home and abroad will remain complex and changeable, the economic operation will face new difficulties and challenges, and the uncertainty of supply and demand in the international natural gas market will remain high. China's economy is experiencing wavy and tortuous development, and its fundamentals for long-term sound development remain unchanged. With the continuous efforts of macro policies, and under the joint promotion of industry policies such as special management of urban gas safety, the integration of "One City, One Gas Supplier", and the linkage mechanism of natural gas prices, growth potentials in the industry will be further explored, and the domestic natural gas consumption is expected to increase by approximately 7% year-on-year in the second half of the year. The Group is full of confidence in achieving the full-year performance target and the future development, and will firmly grasp the new opportunities, fully leverage its advantages in resources, management and scale, and continue to consolidate and expand the sound momentum of development. The Group believes that:

– Safety is the foundation for the survival and development of an enterprise. By adopting higher standards, more stringent requirements and more pragmatic measures, **we will** focus on the management of safety risks in the field of urban gas, continuously deepen the upgrade and application of pipeline digital maps and production management systems, lay a solid foundation for the enterprise and improve its own safety level.

- As a clean and low-carbon fossil energy, the market demand for natural gas will continue to maintain steady growth at present and even in the future for a long period of time. **We will** continue to unswervingly strengthen and optimise the fundamentals of the urban gas business, and focus on the high-end market, the expansion of efficient projects, and the construction of key infrastructure projects such as Fujian LNG terminal. We will also continuously optimise the market structure, sales structure and profitability structure, and constantly enhance its market competitiveness.

- With the transition from dual-control of energy consumption to dual-control of carbon emission, the development of new energy will be accelerated in an all-round way, and natural gas will play an indispensable and important part in the construction of new energy system. Relying on the resources of the parent company and the scale advantages of our own urban gas business, **we will** focus on the planning and construction of major wind and solar projects in Xinjiang, Shandong and other regions, strive to promote the layout of gas and electricity business, and increase the expansion of comprehensive energy business, so as to speed up the pace of building an integrated supplier of green energy.

- As the digital intelligence has become an important driving force for future development, and the transformation of the traditional energy industry from digital to intelligent development is making robust progress, **we will** collaborate with leading enterprises in the industry to deepen cooperation and broaden cooperation areas in digital and intelligent development, focus on the organic integration of digital transformation and refined management, strive to promote intelligent management, intelligent sales, intelligent operation, intelligent terminals and intelligent customer services, and comprehensively improve operational efficiency.

The Group will fully adhere to the service concept of "devoted to meeting customers' demand with better-than-expected services to drive higher customer satisfaction", firmly implement the five major strategies of "innovation, green, market, capital, and low cost", and tightly grasp the growth opportunities brought by macro policies and market environment, make every effort to expand the market, enhance efficiency, strengthen management and promote transformation, and strive to provide customers with more secure, stable, clean and efficient green energy supply as well as high-quality and differentiated services, so as to create greater value for shareholders, and make more positive contributions to the economic and social development.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to all the staff for their perseverance and efforts, customers for their understanding and support, and shareholders for their commitments and trust.

By order of the Board
Fu Bin
Chairman and Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

During the period ended 30 June 2023 (the "Period"), facing the challenges of the complex external environment and the adjustment of the supply and demand pattern of natural gas, the Group focused on enhancing its core competitiveness, continued to seek progress while maintaining stability, and achieved remarkable operating results. Profit before income tax expenses was approximately RMB6,791 million, representing an increase of 8.22% as compared with RMB6,275 million for the same period of last year. Profit attributable to shareholders of the Company for the period was approximately RMB3,222 million, representing an increase of 4.61% as compared with RMB3,080 million for the same period of last year.

Revenue

Revenue for the Period was approximately RMB87,072 million, representing an increase of 3.83% as compared with RMB83,864 million for the same period of last year. The increase was mainly due to the increase in sales volume and selling price of the natural gas, leading to an increase in the revenue of the Natural Gas Sales segment.

Other gains/losses, net

Other net gains for the Period was approximately RMB239 million (the same period of 2022: losses, net of RMB76 million). The gains were mainly due to the increase in government subsidy and decrease in exchange loss recognised as a result of depreciation of RMB against USD and HKD during the Period.

Purchases, services and others

Purchases, services and others were approximately RMB73,949 million for the Period, representing an increase of 4.53% as compared with RMB70,745 million for the same period of last year. The increase was mainly due to the increase in procurement costs for natural gas which was generally in line with the increase in revenue of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs were approximately RMB2,628 million for the Period, representing a decrease of 7.33% as compared with RMB2,836 million for the same period of last year. The decrease was mainly due to the decrease in the number of headcount during the Period (mainly due to the contract expiry and withdrawal of the Liaohe Leng Jiapu project).

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Period was approximately RMB2,896 million, representing an increase of 19.18% as compared with RMB2,430 million for the same period of last year. The increase was mainly due to the increase in property, plant and equipment transferred from construction in progress during 2022.

Other selling, general and administrative expenses

Other selling, general and administrative expenses for the Period were approximately RMB1,373 million, representing a decrease of 21.00% as compared with RMB1,738 million for the same period of last year. The decrease was due to the Company's strict implementation of cost control.

Interest expenses

Interest expenses for the Period were approximately RMB436 million, representing a decrease of 5.83% as compared with RMB463 million for the same period of last year.

Total interest expenses for the Period were approximately RMB448 million, representing a decrease of 11.46% as compared with RMB506 million for the same period of last year. The interest expenses that was capitalised under construction-in-progress was RMB12 million, representing a decrease of 72.09% as compared with RMB43 million for the same period of last year.

Share of profits less losses of associates

Share of profits less losses of associates for the Period was approximately RMB316 million, representing a decrease of 12.71%, as compared with RMB362 million for the same period of last year. The decrease was mainly due to the decrease in operating profits from CNPC-Aktobemunaigas Joint Stock Company as a result of lower international crude oil price during the Period.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2023, the carrying value of total assets of the Group was approximately RMB138,537 million, representing a decrease of RMB355 million or 0.26% as compared with RMB138,892 million as at 31 December 2022.

The gearing ratio of the Group was 23.68% as at 30 June 2023 as compared with 24.26% as at 31 December 2022, representing a decrease of 0.58 percentage points. It is computed by dividing the sum of interest-bearing borrowings and lease liabilities of RMB25,455 million (31 December 2022: RMB25,851 million) by the sum of total equity, interest-bearing borrowings and lease liabilities of RMB107,514 million (31 December 2022: RMB106,553 million).

As at 30 June 2023, the Group has total borrowings of RMB24,670 million which will be repayable as follows:

	30 June 2023 *RMB million*	31 December 2022 *RMB million*
Within one year	**5,618**	5,287
Between one to two years	**1,636**	2,906
Between two to five years	**9,914**	9,591
After five years	**7,502**	7,297
	24,670	25,081

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 2023, certain property, plant and equipment of the Group amounting to RMB755 million (31 December 2022: RMB958 million) were pledged to banks for loan facilities granted to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals during the Period.

MATERIAL INVESTMENTS

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

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

EMPLOYEES

As at 30 June 2023, the Group had 28,139 employees globally (excluding the employees under entrustment contracts) (the same date of 2022: 30,655 employees). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the employees.

CONTINGENT LIABILITIES

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, the management believes that any resulting liabilities will not have a material adverse effect on the financial position or financial performance of the Group.

EVENTS AFTER THE PERIOD

As at the date of this announcement, the Group did not have material subsequent events after the Period.

INTERIM DIVIDEND

The Board of Directors has resolved not to recommend the payment of any interim dividend for the period ended 30 June 2023.

CHANGES IN DIRECTORS' INFORMATION

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"), the changes in information of the directors of the Company since the date of the 2022 annual report of the Company are set out below:

Mr. Fu Bin was elected as employee representative supervisor of PetroChina Company Limited, a company whose A shares are listed on the Shanghai Stock Exchange (Stock Code: 601857) and H shares are listed on the Stock Exchange (Stock Code: 857), with effect from 8 June 2023.

Mr. Zhou Yuanhong resigned as director of CNPC Capital Company Limited, a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 617), with effect from 31 December 2022.

Mr. Sun Patrick resigned as independent non-executive director of Sihuan Pharmaceutical Holdings Group Ltd, a company whose shares are listed on the Stock Exchange (Stock Code: 460), with effect from 1 April 2023.

Dr. Liu Xiao Feng was appointed as independent non-executive director of Logory Logistics Technology Co., Ltd., a company whose shares are listed on the Stock Exchange (Stock Code: 2482), with effect from 8 March 2023.

Dr. Liu Xiao Feng resigned as independent non-executive director of AAG Energy Holdings Limited on 11 August 2023 following its privatisation.

ADOPTION OF THE NEW BYE-LAWS

To comply with the Core Shareholder Protection Standards as set out in Appendix 3 of the Listing Rules, and to incorporate housekeeping amendments, the Company adopted the new bye-laws on 31 May 2023. For details, please refer to the announcements of the Company dated 28 March 2023, 20 April 2023 and 31 May 2023, and the circular of the Company dated 20 April 2023.

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 Corporate Governance Code as set out in Appendix 14 to the Listing Rules 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. The 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.

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 15 September 2023 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, 29 August 2023

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. Gao Xiangzhong 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.