

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)
昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS
HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Year ended 31 December		Change %
	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>	
Revenue from continuing operations	138,547	109,251	26.82
Profit before income tax expense from continuing operations	10,576	8,107	30.46
Profit attributable to shareholders of the Company from			
– continuing operations	5,141	3,580	43.60
– discontinued operations	17,875	2,483	619.90
	23,016	6,063	279.61
EBITDA (<i>note 1</i>)	15,453	12,887	19.91
	<i>RMB'cent</i>	<i>RMB'cent</i>	
Basic and diluted earnings per share from			
– continuing operations	59.37	41.34	43.61
– discontinued operations	206.43	28.68	619.77
	265.80	70.02	279.61
	<i>RMB'cent</i>	<i>RMB'cent</i>	
Dividend per share			
– Final	20.78	21.01	(1.09)
– Special	–	213.66	(100)
	<i>RMB'million</i>	<i>RMB'million</i>	
Profit attributable to shareholders of the Company (by segment)			
– Natural Gas Sales	2,753	2,410	14.23
– Sales of LPG	557	511	9.00
– LNG Processing and Terminal	1,306	860	51.86
– Exploration and Production	434	(213)	303.76

Notes:

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

FINANCIAL INFORMATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Note</i>	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Continuing operations			
Revenue	3	138,547	109,251
Other gains, net		934	1,141
Interest income		529	330
Purchases, services and others		(115,893)	(90,292)
Employee compensation costs		(5,485)	(4,700)
Depreciation, depletion and amortisation		(4,623)	(4,402)
Impairment loss on property, plant and equipment		(159)	–
Other selling, general and administrative expenses		(3,400)	(2,689)
Taxes other than income taxes		(447)	(347)
Interest expenses	4	(783)	(708)
Share of profits less losses of:			
– Associates		874	340
– Joint ventures		482	183
		<hr/>	<hr/>
Profit before income tax expense from continuing operations	5	10,576	8,107
Income tax expense	6	(2,698)	(2,313)
		<hr/>	<hr/>
Profit for the year from continuing operations		7,878	5,794
Discontinued operations			
Profit for the year from discontinued operations	11	18,459	3,938
		<hr/>	<hr/>
Profit for the year		26,337	9,732
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value gain on financial assets at fair value through other comprehensive income		270	31
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		(184)	(93)
– Associates		(17)	(92)
– Joint ventures		(29)	(85)
		<hr/>	<hr/>
Other comprehensive income for the year		40	(239)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total comprehensive income for the year		26,377	9,493
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2021

	<i>Note</i>	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Profit for the year attributable to shareholders of the Company from			
– continuing operations		5,141	3,580
– discontinued operations		<u>17,875</u>	<u>2,483</u>
		<u>23,016</u>	<u>6,063</u>
Profit for the year attributable to non-controlling interests from			
– continuing operations		2,737	2,214
– discontinued operations		<u>584</u>	<u>1,455</u>
		<u>3,321</u>	<u>3,669</u>
Profit for the year		<u>26,337</u>	<u>9,732</u>
Total comprehensive income for the year attributable to shareholders of the Company from			
– continuing operations		5,136	3,390
– discontinued operations		<u>17,875</u>	<u>2,483</u>
		<u>23,011</u>	<u>5,873</u>
Total comprehensive income for the year attributable to:			
– Shareholders of the Company		23,011	5,873
– Non-controlling interests		<u>3,366</u>	<u>3,620</u>
		<u>26,377</u>	<u>9,493</u>
Basic and diluted earnings per share for profit attributable to shareholders of the Company (<i>RMB cent</i>) from	7		
– continuing operations		59.37	41.34
– discontinued operations		<u>206.43</u>	<u>28.68</u>
		<u>265.80</u>	<u>70.02</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 RMB'million	2020 RMB'million
Assets			
Non-current assets			
Property, plant and equipment		69,714	67,877
Investments in associates		7,248	6,186
Investments in joint ventures		5,777	3,348
Intangible assets		1,956	1,554
Financial assets at fair value through other comprehensive income		564	239
Other non-current assets		981	647
Deferred tax assets		1,204	1,294
		<u>87,444</u>	<u>81,145</u>
Current assets			
Inventories		1,230	925
Accounts receivable	9	2,728	4,085
Prepayments and other current assets		12,686	8,153
Cash and cash equivalents		28,494	16,273
Assets associated with a disposal group classified as held-for-sale	11	—	44,407
		<u>45,138</u>	<u>73,843</u>
Total assets		<u>132,582</u>	<u>154,988</u>
Equity			
Capital and reserves attributable to shareholders of the Company			
Share capital		71	71
Retained earnings		25,236	31,557
Other reserves		30,968	21,956
		<u>56,275</u>	<u>53,584</u>
Non-controlling interests		<u>19,586</u>	<u>30,943</u>
Total equity		<u>75,861</u>	<u>84,527</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

		2021	2020
	<i>Note</i>	<i>RMB'million</i>	<i>RMB'million</i>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	<i>10</i>	27,267	28,093
Income tax payable		648	604
Other taxes payable		273	212
Short-term borrowings		5,854	5,182
Lease liabilities		177	158
Liabilities associated with a disposal group classified as held-for-sale	<i>11</i>	<u>—</u>	<u>10,344</u>
		34,219	44,593
Non-current liabilities			
Long-term borrowings		18,611	22,491
Deferred tax liabilities		1,760	1,438
Lease liabilities		535	506
Other liabilities		1,596	1,433
		<u>22,502</u>	<u>25,868</u>
Total liabilities		<u>56,721</u>	<u>70,461</u>
Total equity and liabilities		<u>132,582</u>	<u>154,988</u>
Net current assets		<u>10,919</u>	<u>29,250</u>
Total assets less current liabilities		<u>98,363</u>	<u>110,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated financial statements of Kunlun Energy Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2021, but is extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which is a collective term including all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. For the amendments that are first effective for the current accounting period of the Group, none of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker which is determined by the Group’s most senior executive management and the Executive Directors of the Company.

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

The Natural Gas Sales segment is engaged in the retail sales, distribution and trading of various natural gas products. The Sales of LPG segment is engaged in the wholesales and retail sales of various LPG products. LNG Processing and Terminal segment is engaged in the processing, unloading, storage, 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 executive management and Executive Directors assess the performance of the operating segments based on each segment’s profit/(loss) before income tax expense, and share of profits less losses of associates and joint ventures (“**segment results**”).

Segment assets exclude deferred and current taxes, financial assets at fair value through other comprehensive income, investments in associates and joint ventures, as all of which are managed on a central basis.

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, net exchange gains/losses, general and administrative expenses and interest expenses incurred at corporate level.

Corporate assets mainly comprise cash and cash equivalents held at corporate level.

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2021 and 2020 are 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 year ended 31 December 2021							
Continuing operations							
Gross revenue	106,528	24,108	10,726	1,732	-	-	143,094
Less: Inter-company adjustment	(1,484)	(70)	(2,993)	-	-	-	(4,547)
Revenue from external customers	105,044	24,038	7,733	1,732	-	-	138,547
Timing of revenue recognition							
- At a point in time	100,122	24,038	7,733	1,732	-	-	133,625
- Over-time	4,922	-	-	-	-	-	4,922
Segment results	105,044	24,038	7,733	1,732	-	-	138,547
Share of profits less losses of:							
- Associates	4,858	470	3,540	242	110	-	9,220
- Joint ventures	595	-	4	275	-	-	874
	301	-	-	179	2	-	482
Profit/(loss) before income tax expense	5,754	470	3,544	696	112	-	10,576
Segment results included:							
- Interest income	565	1	58	9	467	(571)	529
- Depreciation, depletion and amortisation	(3,058)	(82)	(1,108)	(345)	(30)	-	(4,623)
- Interest expenses	(581)	(5)	(549)	(2)	(217)	571	(783)
- Net exchange gains	30	-	-	1	223	-	254
As at 31 December 2021							
Segment assets	71,987	4,242	18,986	2,049	20,508	-	117,772
Investments in associates	6,511	-	387	350	-	-	7,248
Investments in joint ventures	4,424	-	-	1,297	56	-	5,777
Additions to non-current segment assets during the year	5,166	633	528	255	1	-	6,583
Additions to non-current segment assets through acquisition of subsidiaries during the year	2,016	-	-	-	-	-	2,016

	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 year ended 31 December 2020							
Continuing operations							
Gross revenue	87,995	14,775	8,649	1,266	-	-	112,685
Less: Inter-company adjustment	(1,114)	(35)	(2,285)	-	-	-	(3,434)
Revenue from external customers	86,881	14,740	6,364	1,266	-	-	109,251
Timing of revenue recognition							
- At a point in time	81,200	14,740	6,364	1,266	-	-	103,570
- Over-time	5,681	-	-	-	-	-	5,681
Segment results	86,881	14,740	6,364	1,266	-	-	109,251
Share of profits less losses of:	4,502	550	2,593	(249)	188	-	7,584
- Associates	435	-	3	(98)	-	-	340
- Joint ventures	82	-	-	103	(2)	-	183
Profit/(loss) before income tax expense	5,019	550	2,596	(244)	186	-	8,107
Segment results included:							
- Interest income	622	2	46	8	299	(647)	330
- Depreciation, depletion and amortisation	(2,875)	(97)	(1,075)	(321)	(34)	-	(4,402)
- Interest expenses	(399)	(10)	(486)	(1)	(459)	647	(708)
- Net exchange gains/(losses)	(4)	-	-	(13)	638	-	621
As at 31 December 2020							
Segment assets	73,530	3,564	17,672	2,214	2,526	-	99,506
Investments in associates	5,472	-	384	330	-	-	6,186
Investments in joint ventures	2,053	-	-	1,241	54	-	3,348
Additions to non-current segment assets during the year	6,969	-	968	238	-	-	8,175
Additions to non-current segment assets through acquisition of subsidiaries during the year	4,904	-	-	-	-	-	4,904

Reconciliations of reportable segment profit and assets

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Reportable segment profit		
Profit before income tax expense from continuing operations	10,576	8,107
Income tax expense	<u>(2,698)</u>	<u>(2,313)</u>
Profit for the year from continuing operations	7,878	5,794
Profit for the year from discontinued operations	<u>18,459</u>	<u>3,938</u>
Profit for the year	<u><u>26,337</u></u>	<u><u>9,732</u></u>

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Reportable segment assets		
Continuing operations		
Segment assets	117,772	99,506
Investment in associates	7,248	6,186
Investment in joint ventures	5,777	3,348
Deferred tax assets	1,204	1,294
Income tax recoverable	17	8
Financial assets at fair value through other comprehensive income	564	239
Discontinued operations		
Segment assets	<u>–</u>	<u>44,407</u>
Total assets	<u><u>132,582</u></u>	<u><u>154,988</u></u>

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

For the year ended 31 December 2021 and 2020, there was no single customer to whom the revenue exceeded 10% of the Group's revenue.

3. REVENUE

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

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Continuing operations		
Disaggregated by major products or service lines		
– Sales of natural gas products	105,044	86,881
– Sales of LPG	24,038	14,740
– Revenue from LNG processing and terminal service	7,733	6,364
– Sales of crude oil	1,732	1,266
	138,547	109,251

The Group's revenue are substantially derived from the sales of goods to customers in the PRC and recognised at a point in time. The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales and service contracts such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the sales or service contracts that had an original expected duration of one year or less.

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

4. INTEREST EXPENSES

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Continuing operations		
Interest expenses on:		
Bank loans	555	480
Senior notes	147	206
Other loans, from:		
– China Petroleum Finance Co., Ltd (“CP Finance”)	293	273
– Fellow subsidiaries	22	157
Interests on lease liabilities	<u>29</u>	<u>31</u>
	1,046	1,147
Less: Amounts capitalised	<u>(263)</u>	<u>(439)</u>
	<u>783</u>	<u>708</u>

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 3.99% (2020: 4.04%) per annum for the year ended 31 December 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:

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Continuing operations		
Auditors' remuneration*		
– audit services	25	26
– non-audit services	3	5
Cost of inventories recognised as expense	<u>116,020</u>	<u>90,420</u>
Depreciation charge and depletion of property, plant and equipment		
– owned assets	4,102	3,879
– right-of-use assets	445	436
Amortisation cost of		
– intangible assets	<u>76</u>	<u>87</u>
Depreciation, depletion and amortisation	4,623	4,402
Impairment loss on property, plant and equipment	<u>159</u>	<u>–</u>

* The auditors' remuneration for discontinued operations is RMB0.4 million (2020: RMB3 million) during the year ended 31 December 2021.

6. INCOME TAX EXPENSE

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Current tax		
– PRC	4,131	3,296
– Overseas	<u>102</u>	<u>71</u>
	4,233	3,367
Under-provision in respect of prior years	15	15
Deferred tax	<u>213</u>	<u>130</u>
	<u>4,461</u>	<u>3,512</u>
Income tax expense attributable to profit from:		
– continuing operations	2,698	2,313
– discontinued operations	<u>1,763</u>	<u>1,199</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 year (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% (2020: 25%). The operations of the Group in certain regions in the PRC are qualified for tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2020: 15% to 20%). Tax rates related to the gain on disposal of PetroChina Beijing Gas Pipeline Co., Ltd. (“**Beijing Pipeline**”) and PetroChina Dalian LNG Co., Ltd. (“**Dalian LNG**”) range from 5% to 10%.

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

7. BASIC AND DILUTED EARNINGS PER SHARE

- (a) The calculation of basic earnings per share from continuing and discontinued operations is based on the Group's profit attributable to shareholders of the Company of approximately RMB5,141 million and RMB17,875 million respectively (2020: RMB3,580 million and RMB2,483 million), and the weighted average number of ordinary shares in issue during the year ended 31 December 2021 of approximately 8,659 million shares (2020: 8,659 million shares).
- (b) Diluted earnings per share from continuing and discontinued operations for the year ended 31 December 2021 and 2020 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

8. DIVIDEND ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(i) Dividends proposed to shareholders of the Company attributable to the year

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Proposed final dividend attributable to shareholders of the Company for 2021 (<i>note (a)</i>)	1,799	–
Final dividend attributable to shareholders of the Company for 2020 (<i>note (b)</i>)	–	1,819
Special dividend attributable to shareholders of the Company for 2020 (<i>note (b)</i>)	<u>–</u>	<u>18,501</u>

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

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Final dividend in respect of the previous financial year, approved and paid during the year	1,819	2,277
Special dividend in respect of the previous financial year, approved and paid during the year	<u>18,501</u>	<u>–</u>

Notes:

- (a) At the meeting on 29 March 2022, the Board of Directors proposed 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. The amount is based on approximately 8,659 million shares in issue as at 29 March 2022. The consolidated financial statements do not reflect this dividend payable as the final dividend was proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2021 when it is approved at the 2022 Annual General Meeting.
- (b) Final dividend and special dividend attributable to shareholders of the Company in respect of 2020 of RMB21.01 cents and RMB213.66 cents per share amounting to a total of approximately RMB1,819 million and RMB18,501 million were approved by the shareholders in the Annual General Meeting on 3 June 2021. The amount is based on approximately 8,659 million shares in issue as at 23 March 2021 which was paid on 9 July 2021.

9. ACCOUNTS RECEIVABLE

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Accounts Receivable	3,451	4,699
Loss allowance	<u>(723)</u>	<u>(614)</u>
	<u>2,728</u>	<u>4,085</u>

Ageing analysis

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

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Within 3 months	1,365	3,407
Between 3 to 6 months	256	189
Between 6 to 12 months	253	158
Over 12 months	<u>854</u>	<u>331</u>
	<u>2,728</u>	<u>4,085</u>

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

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Accounts payable	3,205	3,355
Contract liabilities	11,984	10,911
Salaries and welfare payable	400	312
Accrued expenses	12	14
Dividend payable	405	435
Interest payable	140	72
Construction fee and equipment cost payables	7,567	8,239
Amounts due to related parties		
– Non-controlling interests	1	1
– Others	52	82
Other payables	<u>3,501</u>	<u>4,672</u>
	<u><u>27,267</u></u>	<u><u>28,093</u></u>

The other payables were mainly retention monies for construction and the VAT element of advance receipts from customers.

As at 31 December 2021, the Group also had non-current contract liabilities of RMB232 million (2020: RMB591 million) which were included under non-current other liabilities and were expected to be recognised as revenue in over 12 months but less than 5 years.

The Group's contract liabilities represent primarily advances received from customers. In certain regions of the PRC, customers of the Group's city gas business are required to use integrated circuit cards and top up in advance before the balances are being deducted upon usage of natural gas. Depending on the market conditions and the customers' credit profile, the Group also requires advance from certain customers for sales of other natural gas products. These advance payments from customers are recognised as contract liabilities until the natural gas products are sold to the customers. During the year ended 31 December 2021, the amount of RMB10,911 million (2020: RMB9,800 million) recognised in contract liabilities at beginning of the year has substantially been recognised as revenue during the year.

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

Ageing analysis

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

	2021 <i>RMB'million</i>	2020 <i>RMB'million</i>
Within 3 months	2,372	2,751
Between 3 to 6 months	223	159
Over 6 months	610	445
	3,205	3,355

The typical credit period on purchase of goods is 90 days.

11. DISCONTINUED OPERATIONS

For the year ended 31 December 2021, the Company completed the disposal of the Company's 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG to PipeChina at an adjusted amount of RMB38,462 million, based on the equity transfer agreement (the "**Equity Transfer Agreement**") entered on 22 December 2020 between the Company and PipeChina. Gain on disposal of RMB16,960 million is recorded in the consolidated financial statements.

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 has been presented as discontinued operations in the consolidated financial statements.

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

(a) Result of the discontinued operations

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

Three months ended 31 March 2021	Beijing Pipeline RMB'million	Dalian LNG RMB'million	Disposal gain RMB'million	Total RMB'million
Revenue	2,758	251	–	3,009
Other gains, net	30	–	18,320	18,350
Interest income	5	6	–	11
Purchases, services and others	(804)	(102)	–	(906)
Employee compensation costs	(108)	(14)	–	(122)
Other selling, general and administrative expenses	(22)	(1)	–	(23)
Taxes other than income taxes	(25)	(4)	–	(29)
Interest expenses	(68)	–	–	(68)
Profit before taxation	1,766	136	18,320	20,222
Income tax expense	(369)	(34)	(1,360)	(1,763)
Profit for the year	1,397	102	16,960	18,459
Attributable to:				
Shareholders of the Company	839	76	16,960	17,875
Non-controlling interests	558	26	–	584
Profit for the year	1,397	102	16,960	18,459

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

(b) **Assets and liabilities associated with the discontinued operations**

The carrying amounts of assets and liabilities associated with the discontinued operations as at 31 March 2021, the date of disposal were:

	Beijing Pipeline <i>RMB'million</i>	Dalian LNG <i>RMB'million</i>	Total <i>RMB'million</i>
Property, plant and equipment	40,861	2,482	43,343
Intangible assets	25	15	40
Other non-current assets	13	–	13
Inventories	149	23	172
Accounts receivable	101	27	128
Prepayments and other current assets	573	961	1,534
Cash and cash equivalents	1,544	–	1,544
Total assets	<u>43,266</u>	<u>3,508</u>	<u>46,774</u>
Accounts payable and accrued liabilities	5,340	310	5,650
Income tax payable	39	–	39
Other taxes payable	64	32	96
Borrowings	8,000	–	8,000
Lease liabilities	33	3	36
Deferred tax liabilities	403	66	469
Total liabilities	<u>13,879</u>	<u>411</u>	<u>14,290</u>
Net assets	29,387	3,097	32,484
Less: NCI	<u>(11,540)</u>	<u>(755)</u>	<u>(12,295)</u>
Net assets sold	<u>17,847</u>	<u>2,342</u>	<u>20,189</u>

The carrying amounts of assets and liabilities associated with the discontinued operations and presented as at 31 December 2020, are as follows:

	Beijing Pipeline <i>RMB'million</i>	Dalian LNG <i>RMB'million</i>	Total <i>RMB'million</i>
Property, plant and equipment	41,058	2,536	43,594
Intangible assets	26	15	41
Other non-current assets	57	5	62
Inventories	159	1	160
Accounts receivable	25	–	25
Prepayments and other current assets	107	1	108
Cash and cash equivalents	<u>417</u>	<u>–</u>	<u>417</u>
Total assets	<u>41,849</u>	<u>2,558</u>	<u>44,407</u>
Accounts payable and accrued liabilities	3,147	63	3,210
Income tax payable	49	–	49
Other taxes payable	46	33	79
Borrowings	6,500	–	6,500
Lease liabilities	33	4	37
Deferred tax liabilities	<u>403</u>	<u>66</u>	<u>469</u>
Total liabilities	<u>10,178</u>	<u>166</u>	<u>10,344</u>

(c) **Cash flows from the discontinued operations**

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

2021	Beijing Pipeline <i>RMB'million</i>	Dalian LNG <i>RMB'million</i>	Total <i>RMB'million</i>
Net cash generated from operating activities	1,232	146	1,378
Net cash (used in)/generated from investing activities	(15)	182	167
Net cash used in financing activities	<u>(90)</u>	<u>(328)</u>	<u>(418)</u>
Net cash inflows	<u>1,127</u>	<u>–</u>	<u>1,127</u>
2020	Beijing Pipeline <i>RMB'million</i>	Dalian LNG <i>RMB'million</i>	Total <i>RMB'million</i>
Net cash generated from operating activities	5,954	668	6,622
Net cash used in investing activities	(1,028)	(30)	(1,058)
Net cash used in financing activities	<u>(5,531)</u>	<u>(638)</u>	<u>(6,169)</u>
Net cash outflows	<u>(605)</u>	<u>–</u>	<u>(605)</u>

(d) **Gain on disposal of the discontinued operations**

	2021 <i>RMB'million</i>
Cash consideration received or receivable	38,462
Carrying amount of net assets sold	<u>(20,189)</u>
Gain on disposal of discontinued operations before income tax and reclassification of translation reserve	18,273
Reclassification of translation reserve	64
Income tax expense and other expenses	<u>(1,377)</u>
Gain on disposal of discontinued operations after income tax	<u><u>16,960</u></u>

CHAIRMAN'S STATEMENT

Dear shareholders,

During the year ended 31 December 2021 (the “Year”), the revenue of Kunlun Energy Company Limited (the “Company”) and its subsidiaries (together, the “Group”) reached RMB138,547 million, representing a year-on-year increase of RMB29,296 million or 26.82%; the profit before income tax was RMB10,576 million, representing a year-on-year increase of RMB2,469 million or 30.46%; the profit attributable to shareholders of the Company was RMB23,016 million, representing a year-on-year increase of RMB16,953 million or 279.61%; and the basic earnings per share was RMB265.80 cents. The Natural Gas Sales segment, being the main business of the Group, achieved an increase in both sales and efficiency, of which the sales volume reached 41,999 million cubic metres, representing a year-on-year increase of 4,235 million cubic metres or 11.21%, and the profit before income tax was RMB5,754 million, representing a year-on-year increase of RMB735 million or 14.64%.

BUSINESS REVIEW

In 2021, the recurring COVID-19 pandemic and geopolitical games caused new impacts on the recovery of the world economy, resulting in a significant increase in commodity prices. Under the strong and effective leadership of the central government in a coordinated manner, the macroeconomic fundamentals improved steadily, and the low-carbon transformation of energy sector was robustly accelerated, driving the continuous and rapid development of clean energy such as natural gas. The national production volume and the net imported volume of natural gas during the Year was 372.6 billion cubic metres, representing a year-on-year increase of 12.7%, and the proportion of natural gas in primary energy consumption increased to 9%, further consolidating its position as a principal energy.

Facing the new opportunities under the new situation, the Group, holding a highly responsible attitude towards its shareholders, employees, customers and the society, adhered to the market-oriented and benefit-focused approach to firmly implement the five strategies of “innovation, green operation, market, capital and low cost”, actively built a stable and reliable resource pool, continued to optimize the market reach and user structure, enhanced the cooperation in the integrally installed urban gas projects, and continuously expanded the derived value and transformation space of the industrial chain, thereby realizing better-than-expected overall performance, and laying a solid foundation for high-quality development during the “14th Five-Year Plan” period.

The competitiveness of core business has steadily improved. The Group firmly grasped the favorable opportunity of strong market demand, unswervingly persisted in strengthening, optimizing and expanding the end-user business, and paid equal attention to tapping potential from the existing business and expanding new business. The retail sales of natural gas increased by 18.51% year-on-year to 25.71 billion cubic metres, demonstrating a growth rate higher than the industry average, and the total number of customers increased by 12% year-on-year to 13.846 million households, representing the best growth in customer scale in recent years. Aiming at prefecture-level cities and large industrial zones, and adhering to the principle of capital leveraging, gas-electricity interconnection, and branch line driving, the Group completed the acquisition of entire equity interests in 10 urban gas projects of Xinjiang Xintai Company, and maintained a relatively high growth in new sales capacity.

The upgraded quality and efficiency improvement took effect. The Group scientifically coordinated reasonable quantitative growth and steady qualitative improvement, and constantly optimized market segments and user structure, leading to a continued increase in industrial and commercial projects with high gross margins, and overall stable gross margins per cubic metre. The Group continued to optimize the dynamic matching of shipping schedule, inventory and external transportation of LNG terminals, of which the operating capacity exceeded 90%, further improving the gas storage and external transportation capacity. Regarding the LNG plants, the Group, through optimizing the business model, realized an increase in the operating capacity while reducing costs under the circumstance of resource shortage, and the processing volume increased by more than 2 percentage points year-on-year. Through aggressive resource expansion and structure optimization, the Group achieved the goals of increasing sales volume and stabilizing profits in the LPG business.

Emerging businesses took solid steps. The Group actively established a deep integrated partnership between natural gas and new energy, pushed forward a number of distributed energy projects in Chengdu, Sichuan, Feixian, Shandong, etc. in an orderly manner, and achieved full coverage of gas, electricity, heating and cooling scenarios for the integrated energy business. In respect of the value-added business, the Group has built five self-owned brands by six categories including resource utilization, technical services, gas extension, and financial insurance. Along with the official launch of “Kunlun Huixiang”, an online and offline integrated service platform, an “Internet + energy + lifestyle” business ecosystem was initially built.

Empowerment by innovative reform delivered remarkable results. In order to solidly promote the “Three-year Action Plan for State-owned Enterprise Reform (國企改革三年行動)”, the Group expanded the promotion of the pilot term-of-service system for senior management and professional manager system, implemented the action of strengthening enterprise with talents, and smoothed the career development channel of employees, for which the Group was awarded the title of “Model Enterprise in Corporate Governance ” by the State-owned Assets Supervision and Administration Commission. The Group also promoted the digital and intelligent transformation of the marketing model by building a full-service digital sales platform and an all-channel intelligent customer service system, and promoting the application of smart gas meters, with the system covering tens of thousands of end users. As such, the service efficiency of “smart internet of things, smart homes” was substantially improved.

The foundation for sustainable development became more solid. Strictly maintaining the two bottom lines of safety and legal compliance, the Group made efforts to strengthen safety through science and technology, with an aim to pursue intrinsic safety, and create digital maps for urban gas pipeline networks. The Group has comprehensively set up a management risk prevention and control matrix, whereby the management reform and standard promotion in controlled enterprises were carried out by level and category. For the purposes of practicing corporate citizenship and actively giving back to the society, the Group endeavored to ensure the people’s livelihood in the event of the sporadic outbreak of the pandemic, extreme weather and natural disasters, and facilitated rural revitalization in Yunnan, Guizhou, Hunan and other places through consumer assistance and industrial support. According to MSCI, the Group’s ESG rating was improved to BB, and was selected into the “Central Enterprise ESG·Pioneer 50 Index”.

BUSINESS PROSPECTS

At present, in the context of the rising international tensions, energy prices fluctuate at high levels, causing a impact on short-term energy supply, whilst China’s economic development is prominently featured by high potential and resilience. The government work report has proposed an expected GDP growth target of approximately 5.5% for this year, while the stable economic development will drive the rigid growth of clean energy demand. As the cleanest fossil energy, natural gas is not only a “ballast stone” to ensure energy security, but also a “stabilizer” to ensure the safety of new power systems, and still enjoys a broad development space in the fields of industry, electricity, construction, transportation, etc. According to the forecast of relevant institutions, China’s natural gas demand will reach about 400 billion cubic metres in 2022, which will still maintain rapid growth on a high base.

Severe challenges and valuable opportunities co-exist currently. The Group will proactively move towards the “dual carbon” goals and follow the general trend of oil and gas system reform, leverage on upstream resource advantages, tap the potential of infrastructure, and take effective measures against cost pressures and market changes. In this regard, the Group will take the “Year of Lean Management” activity as an opportunity to solidify foundation, strengthen management, strive for efficiency and expedite transformation, so as to constantly improve the efficiency of modern corporate governance, promote the high-quality development of various businesses to achieve new results, and push forward its transformation into an internationally renowned and China’s first-class integrated green energy provider.

Fully Focus on efficient market development – continue to expand the fundamentals of core business. The Group will seize the opportunities arising from terminal market-oriented reform and industry standardization and remediation to properly operate the investment projects funded with the proceeds from pipeline asset transactions and actively promote the overall cooperation, investment and mergers and acquisitions in relation to large-scale urban gas projects. In addition, the Group will strongly expand the LNG transportation business, further strengthen the synergy with the parent company’s refined oil sales system to create benefits, and proactively develop onshore and offshore LNG refilling systems by promoting the fulfillment of the offshore LNG refilling project in Shenzhen. Furthermore, the Group will take certain measures to enrich the supply of LPG resources and optimize the resource allocation, in a bid to comprehensively promote the efficient development of civilian terminal market.

Explore the approach to low-carbon transformation – pursue a balance between corporate sustainability and environmental friendliness. The Group will fully implement the “Action Plan for Peak Carbon Dioxide Emissions and Carbon Neutrality” by constructing pilot “net zero emission” stations, and actively participating in negative carbon projects such as CCUS and carbon sinks, with an aim to build a green corporate brand. Meanwhile, the Group will explore and formulate technical routes, operation models and one-stop solutions for integrated energy business with a focus on creating carbon neutral demonstration projects in emerging towns, new industrial zones and new buildings with a pragmatic attitude and innovative spirit, in pursuit of becoming a “pioneer model” and “industry leader” for the purpose of the “dual carbon” goals in the urban gas industry.

Adhere to the concept of innovation-energizing – develop innovation chain along industrial chain, and rely on innovation chain to enhance value chain. The Group will speed up the pilot digital transformation projects, as well as the promotion and application of results, continue to improve the production management system, realize the transformation and upgrading into intensive, professional and intelligent management, and continuously improve intrinsic safety. The favourable policy of the “Double Hundred SOE Reform Campaign” will be fully capitalized on by improving the market-based compensation mechanism, and promoting the implementation of medium and long-term incentive policies such as excess profit sharing, to fully stimulate and energize all employees to expand the market and improve efficiency.

Practice the philosophy of “enhancing competitiveness with best services” – actively build a win-win ecosystem of competition and cooperation. Refined, differentiated, and one-stop services can help to improve customer loyalty and tap customer value. The Group will uncompromisingly push forward the integrated planning and development of main business and value-added business, to form a new situation of value-added business development with customer experience as the center and online and offline as the two wings, and promote the transformation and upgrading of city gas 2.0. The Group will improve the ESG working mechanism by actively responding to the concerns in capital market to maintain healthy and interactive investor relations, and will also strengthen management capabilities in respect of carbon emissions, business ethics and corporate governance to further improve information disclosure.

Consistently implement lean management – strive for low-cost advantages of enterprise operation. In adhere to intensive cultivation in production, continuous enhancement in management, careful calculation in operation, and persistent improvement in technology, the Group will implement the “Amoeba” management model in its project companies, to strengthen internal potential exploitation, and achieve quality and efficiency enhancement covering all staff, whole process and entire industrial chain. The Group will improve the sales system of liquefied products covering the whole industrial chain from terminals, processing plants, stations, users to logistics and distribution, strengthen the flexible allocation of resources and markets, and promote LNG plants to reduce losses through adapting “special policy for special factory”, so as to comprehensively improve the overall profitability of the industrial chain.

Gathering strengthen enables a prosperous industry, while a prosperous enterprise benefits the society. In the coming year, we will strive for the best with faith and perseverance. By anchoring the goal of becoming an internationally renowned and China’s first-class integrated green energy provider, we will continue to work hand in hand with all stakeholders to provide cleaner and more efficient energy supply for national energy security, social and economic development and the construction of ecological civilization, and create return for the shareholders with better operating results.

ACKNOWLEDGEMENT

The Group's success was attributable to the steadfast support of all its customers, business partners and shareholders and the dedicated efforts of all employees. On behalf of the Board, I would like to extend sincere thanks to them.

By order of the Board
Fu Bin
Chairman and Executive Director

Hong Kong, 29 March 2022

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

In 2021, faced with various challenges such as global energy shortages, recurring outbreak of COVID-19, and high natural gas prices, the Group firmly fulfilled the annual work arrangement and production and operation objectives by upholding the value pursuit of “empowering people to enjoy a better life”, and seized the favorable opportunities arising from the strong domestic demand for natural gas to comprehensively promote market development, quality and efficiency enhancement, reform and innovation, risk prevention and control, transformation and upgrading and other tasks, thereby achieving stellar performance in production and operation throughout the Year.

OPERATING RESULTS

During the Year, the Group recorded revenue of RMB138,547 million, representing a year-on-year increase of RMB29,296 million or 26.82%; profit before income tax was RMB10,576 million, representing a year-on-year increase of RMB2,469 million or 30.46%; profit attributable to shareholders of the Company was RMB23,016 million, representing a year-on-year increase of RMB16,953 million or 279.61%. Earnings per share (basic) was RMB265.80 cents.

Natural gas sales

Leveraging its integrated advantages and brand effect, the Group strictly adhered to the strategic direction of expanding, strengthening and optimizing end-user business, whose core role as the Company's main growth driver continued to improve. The Group deeply cultivated the existing gas market, leading to a continuously increased regional gasification rate, and acquired 1,488,000 new users. Through strengthening win-win cooperation, the Group achieved positive results in market development, as reflected in the addition of 39 projects controlled by the Group and 7 projects in which the Group had equity interests, as well as the increase of 4,800 million cubic metres in the end-user sales capacity.

During the Year, natural gas sales volume was 41,999 million cubic metres, representing a year-on-year increase of 11.21%, among which, retail gas sales volume was 25,710 million cubic metres, representing a year-on-year increase of 18.51%. The cumulative number of users reached 13,846,000, representing a year-on-year increase of 12%. The Natural Gas Sales business recorded a revenue of RMB106,528 million, representing a year-on-year increase of 21.06%.

LPG sales

The Group vigorously expanded resource channels, and intensified the development of end-user markets, resulting in steadily improved profitability. The market network has been continuously improved, as evidenced by the new progress in the project development in large and medium-sized cities such as Jinan, Nanning and Changchun. The sales structure has been constantly optimized, as evidenced by the fact that 20,000 new customers were acquired for direct supply for industrial purpose and direct distribution for resident purpose, with the cumulative number of customers reaching 420,000.

During the Year, LPG sales volume was 5.9856 million tonnes, representing a year-on-year increase of 14.85%. This business recorded a revenue of RMB24,108 million, representing a year-on-year increase of 63.17%.

LNG processing and terminal

The LNG terminals maintained secure and smooth production and operation, and achieved better-than-expected operation capacity and efficiency. The Tangshan LNG emergency peak-buffering assurance project and the Jiangsu LNG expansion project (Phase III) were successfully completed and put into operation, leading to significant improvement in the gasification and transmission capacity. Giving full play to the advantages of the integrated LNG industrial chain, the operating efficiency of LNG plants has been continuously improved, resulting in that 9 LNG plants made profits, and 6 LNG plants achieved loss reduction during the Year.

During the Year, LNG gasification and entrucking volume of Tangshan and Jiangsu LNG terminals amounted to 16,494 million cubic metres in total, representing a year-on-year increase of 15.76%. The average operation capacity of these two LNG terminals was 91.5%, representing a year-on-year increase of 12.5 percentage points. 16 LNG processing plants were put into operation during the Year, and the processing volume was 2,460 million cubic metres, representing a year-on-year increase of 50 million cubic metres. The average production capacity of 16 plants under continuous operation was 37.52%.

During the Year, LNG Processing and Terminal business recorded a revenue of RMB10,726 million, representing a year-on-year increase of 24.01%.

Exploration and production

Driven by the rebound of international crude oil prices, the exploration and production projects realized stable operation and improved benefits. According to the work plan, the Group completed the disposal of equity interests in Azerbaijan K&K Oilfield in September 2021.

During the Year, the equity sales volume of crude oil was 11.72 million barrels, representing a year-on-year decrease of 0.47 million barrels or 3.86%. The average crude oil selling price increased to US\$56.6/barrel from US\$38.7/barrel of last year. Sales revenue of crude oil was RMB1,732 million, representing a year-on-year increase of 36.81%.

Discontinued operations

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

During the Year, the pipeline transmission volume and LNG gasification and entrucking volume of the discontinued operations was 17,123 million cubic metres and 834 million cubic metres, respectively. Revenue amounted to RMB3,009 million, representing a year-on-year decrease of 70.14%. Profit before income tax was RMB1,902 million, representing a year-on-year decrease of 62.97%. The discontinued operations realized a net gain of RMB16,960 million from disposal.

Strengthening safety management

During the Year, the Group further strengthened its QHSE management, achieved all safety and environmental protection indicators, and continually improved its safety risk management and control capabilities. The Group further promoted the three-year special rectification action for safety production, comprehensively carried out gas safety risks identification and governance in cities and towns, and made every effort to promote the application of production management system. The digitization rate of urban gas pipelines has reached over 80%, and thus the foundation of safety management has been further consolidated. The Group also enhanced staff health management by actively carrying out the construction of healthy enterprises, and the occupational health examination rate has achieved 100%, preliminarily realizing the general health management. Though thorough detection of hidden dangers in ecological protection and environmentally sensitive areas, the Group eliminated 122 hidden dangers regarding ecological environment, fully completed the task of air security and treatment for Beijing Winter Olympics, and the risk management and control capabilities for ecological and environmental protection have been further improved accordingly.

ACKNOWLEDGEMENT

Over the past year, the Group successfully overcame various difficulties such as the “recurring” pandemic, “volatile” prices and resource “shortages”, identified opportunities from challenges, completely achieved production and operation goals, and brought better returns to shareholders and the society. I would like to express my sincere gratitude to all employees of the Company, local governments, partners, and friends in the capital market for their support and care about the Company’s development. Under the leadership of the Board, the Company will fully implement the strategies of “innovation, green operation, market, capital and low cost”, will be committed to providing safe and stable gas supply and high-quality and efficient customer service for various users, creating more excellent value for shareholders, and make positive contributions to the social and economic development.

Qian Zhijia

Executive Director and Chief Executive Officer

Hong Kong, 29 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group seized favorable opportunities such as strong domestic demand for natural gas and robust rebound in crude oil prices, and achieved good results in each business segment. Profit before income tax expense from continuing operations was approximately RMB10,576 million, representing an increase of 30.46% as compared with RMB8,107 million for the last year. Profit attributable to shareholders of the Company for the Year was approximately RMB23,016 million, representing an increase of 279.61% as compared with RMB6,063 million for the last year.

Revenue

Revenue for the Year was approximately RMB138,547 million, representing an increase of 26.82% as compared with the amount of RMB109,251 million for the 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 Year was approximately RMB934 million, representing a decrease of 18.14% as compared with the amount of RMB1,141 million for the last year. The decrease in exchange gains resulted from the slowing growth of appreciation of RMB against US\$ during the Year.

Purchases, services and others

Purchases, services and others from continuing operations for the Year were approximately RMB115,893 million, representing an increase of 28.35% as compared with amount of RMB90,292 million for the last year. The increase was mainly due to the increase in purchase volume of natural gas which was generally in line with the increase in sales of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs from continuing operations for the Year was approximately RMB5,485 million, representing an increase of 16.70% as compared with amount of RMB4,700 million for the 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 Year was approximately RMB4,623 million, representing an increase of 5.02% as compared with amount of RMB4,402 million for the last year. Depreciation, depletion and amortization remained fairly stable throughout the Year.

Other selling, general and administrative expenses

Other selling, general and administrative expenses from continuing operations for the Year were approximately RMB3,400 million, representing an increase of 26.44% as compared with amount of RMB2,689 million for the 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 operations for the Year was approximately RMB783 million, representing an increase of 10.59% as compared with amount of RMB708 million for the last year. The increase was mainly due to a decrease in capitalised amount of RMB176 million during the Year.

Total interest expenses for the Year was approximately RMB1,046 million of which RMB263 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year was approximately RMB874 million, representing an increase of 157.06%, as compared with amount of RMB340 million for the last year. The increase was mainly due to the increase in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company as a result of higher international crude oil price during the Year.

Liquidity and capital resources

As at 31 December 2021, the carrying value of total assets of the Group was approximately RMB132,582 million, representing a decrease of RMB22,406 million or 14.46% as compared with RMB154,988 million as at 31 December 2020.

The gearing ratio of the Group was 24.92% as at 31 December 2021 compared with 25.11% as at 31 December 2020, representing a decrease of 0.19%. It is computed by dividing the sum of interest-bearing borrowings and lease liabilities of RMB25,177 million (2020: RMB28,337 million) by the sum of total equity, interest-bearing borrowings and lease liabilities of RMB101,037 million (2020: RMB112,864 million).

As at 31 December 2021, the Group has total borrowings of RMB24,465 million which will be repayable as follows:

	2021	2020
	<i>RMB'million</i>	<i>RMB'million</i>
Within one year	5,854	5,182
Between one to two years	3,917	4,244
Between two to five years	7,586	12,039
After five years	7,108	6,208
	<u>24,465</u>	<u>27,673</u>

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

Pledge of Assets

As at 31 December 2021, certain property, plant and equipment of the Group amounting to RMB1,025 million (2020: RMB756 million) were pledged to banks for loan facilities granted to the Group.

Material disposal

For the year ended 31 December 2021, the Company completed the disposal of the Company's 60% equity interest in Beijing Pipeline and 75% equity interest in Dalian LNG to PipeChina at an adjusted amount of RMB38,462 million, based on the Equity Transfer Agreement entered on 22 December 2020 between the Company and PipeChina. Gain on disposal of RMB16,960 million is recorded in the consolidated financial statements.

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 has been presented as discontinued operations in the consolidated financial statements.

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 31 December 2021, the Group had approximately 32,136 employees globally, excluding the employees under entrustment contracts (2020: 36,396 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 Liability

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

Purchase, Sale or Redemption of Shares

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

Model Code for Securities Transactions by Directors

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

Specific enquiry has been made of all the Directors, and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

CORPORATE GOVERNANCE

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. The Board is of the view that the Company has complied with all the code provisions in the Corporate Governance Code set out in the Appendix 14 to the Listing Rules during the Year.

Pursuant to paragraph 45(6) of Appendix 16 to the Listing Rules, the Board wishes to confirm that the Audit Committee of the Company has reviewed with the management the accounting policies and standards adopted by the Company and its subsidiaries and discussed the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2021. The Audit Committee of the Company has also reviewed the annual results in conjunction with the Company's external auditor.

AUDIT COMMITTEE

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

Two meetings were held during the Year.

Written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee of the Company has reviewed and confirmed the annual results for the year ended 31 December 2021.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement of results have been agreed by the Group's auditor, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

FINAL DIVIDEND

The Board recommends the payment of a final dividend ("**2021 Final Dividend**") of RMB20.78 cents per share (2020: RMB21.01 cents per share) or HK25.22 cents per share calculated at the exchange rate of RMB1.00:HKD1.2135 (2020: HK25.11 cents per share calculated at the exchange rate of RMB1.00:HKD1.1949) to shareholders whose names appear on the Company's register of members (the "**Shareholders Register**") on 2 June 2022 (Thursday). The payment of the 2021 Final Dividend is subject to the approval of the Shareholders at the Annual General Meeting of the Company (the "**2022 AGM**"). The payment is expected to be made on 14 July 2022 (Thursday). The proposed 2021 Final Dividend amount to a total of approximately RMB1,799 million and 2020 Final Dividend of RMB1,819 million and special dividend of RMB18,501 million was paid in 2021. The payout ratio for 2021 (final dividend per share divided by basic earnings per share) was approximately 35.00% (2020: 30.01%).

The proposed 2021 Final Dividend will be payable in cash to each shareholder in Hong Kong dollars ("**HKD**") unless an election is made to receive the same in Renminbi ("**RMB**").

Shareholders will be given the option to elect to receive all (but not part, save in the case of HKSCC Nominees Limited, which may elect to receive part of its entitlement in RMB) of the 2021 Final Dividend in RMB at the average of the mean exchange rate for the conversion of RMB against HKD as announced by the Hong Kong Association of Banks for the five business days immediately preceding 29 March 2022. If shareholders elect to receive all (but not part) of the 2021 Final Dividend in RMB, shareholders should complete a dividend currency election form, which is expected to be despatched to shareholders in early June 2022 as soon as practicable after the record date of 2 June 2022 (Thursday) to determine shareholders' entitlement to the proposed 2021 Final Dividend.

If an election is made by a Shareholder to receive the 2021 Final Dividend in RMB in respect of all (but not part) of that shareholder's entitlement, the RMB dividend will be paid by cheques which are expected to be posted to the relevant shareholders by ordinary post on 14 July 2022 (Thursday) at the shareholders' own risk.

Shareholders who are minded to elect to receive the 2021 Final Dividend in RMB should note that (i) they should ensure that they have an appropriate bank account to which the RMB cheques for the 2021 Final Dividend can be presented for payment; and (ii) there is no assurance that the RMB cheques can be cleared without handling charges or delay in Hong Kong or that the RMB cheques will be honoured for payment upon presentation outside Hong Kong.

If any beneficial owners of Shares which are registered in the name of a nominee (e.g. HKSCC Nominees Limited), trustee or registered holder in any other capacity elect to receive all (but not part) of the 2021 Final Dividend in RMB, they should make appropriate arrangements with such nominees, trustees or registered holders in order to effect the receipt of the 2021 Final Dividend in RMB. The Company shall not be responsible for any costs, taxes or duties associated therewith or arising therefrom and such costs will be borne solely by the beneficial owners of such Shares. If no such arrangements are in place, such beneficial owners of Shares (despite having elected to receive the 2021 Final Dividend in RMB) shall receive the 2021 Final Dividend in HKD.

If shareholders wish to receive the 2021 Final Dividend in HKD in the usual way, no additional action is required.

Shareholders should seek professional advice with their own tax advisors regarding any possible tax implications of the proposed dividend payment.

ANNUAL GENERAL MEETING

The 2022 AGM will be held on 25 May 2022 (Wednesday). The Notice of the 2022 AGM, which constitutes part of the circular to shareholders, will be sent to the Shareholders together with the 2021 Annual Report. The Notice of the 2022 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited.

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2022 AGM, and entitlement to the 2021 Final Dividend, the Shareholders Register will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2022 AGM:

Latest time to lodge transfer documents for registration 4:00 p.m. on
19 May 2022
(Thursday)

Closure of Shareholders Register from 20 May 2022
(Friday) to
25 May 2022
(Wednesday)
(both dates inclusive)

Record date 25 May 2022
(Wednesday)

(ii) For determining entitlement to the 2021 Final Dividend:

Latest time to lodge transfer documents for registration 4:00 p.m. on
31 May 2022
(Tuesday)

Closure of Shareholders Register from 1 June 2022
(Wednesday) to
2 June 2022
(Thursday)
(both dates inclusive)

Record date 2 June 2022 (Thursday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2022 AGM, and to qualify for the 2021 Final Dividend all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company's annual report containing all the information required by Appendix 16 to the Listing Rules and other applicable requirements will be published on the Company's and the Stock Exchange's websites in due course.

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

Hong Kong, 29 March 2022

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