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

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Six months ended 30 June		Change
	2022	2021	
	<i>RMB million</i>	<i>RMB million</i>	<i>%</i>
Revenue from continuing operations	83,864	64,739	29.54
Profit before income tax expense from continuing operations	6,275	5,050	24.26
Profit for the period attributable to shareholders of the Company from			
– continuing operations	3,080	2,596	18.64
– discontinued operations	–	17,865	(100.00)
	3,080	20,461	(84.95)
EBITDA (note 1)	8,757	7,320	19.63
	<i>RMB cent</i>	<i>RMB cent</i>	<i>%</i>
Earnings per share (Basic) from			
– continuing operations	35.57	29.98	18.65
– discontinued operations	–	206.32	(100.00)
Dividend per share – Interim	NIL	NIL	–
	<i>RMB million</i>	<i>RMB million</i>	
Profit attributable to shareholders of the Company (by segment)			
– Natural Gas Sales	1,872	1,499	24.88
– Sales of LPG	449	330	36.06
– LNG Processing and Terminal	652	503	29.62
– Exploration and Production	391	148	164.19

Note:

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

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 2022 are as follows:

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Continuing operations			
Revenue	3	83,864	64,739
Other (losses)/gains, net		(76)	354
Interest income		411	277
Purchases, services and others		(70,745)	(54,165)
Employee compensation costs		(2,836)	(2,489)
Depreciation, depletion and amortisation		(2,430)	(2,284)
Other selling, general and administrative expenses		(1,738)	(1,328)
Taxes other than income taxes		(291)	(189)
Interest expenses	4	(463)	(263)
Share of profits less losses of:			
– Associates		362	318
– Joint ventures		217	80
		<u> </u>	<u> </u>
Profit before income tax expense from continuing operations	5	6,275	5,050
Income tax expense	6	(1,774)	(1,253)
		<u> </u>	<u> </u>
Profit for the period from continuing operations		4,501	3,797
Discontinued operations			
Profit for the period from discontinued operations		<u> </u>	<u>18,428</u>
		<u> </u>	<u> </u>
Profit for the period		<u> </u> 4,501	<u> </u> 22,225
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value (loss)/gain on other financial assets (non-recycling), net of tax		(162)	37
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		7	(121)
– Associates		(8)	(5)
– Joint ventures		72	(12)
		<u> </u>	<u> </u>
Other comprehensive income for the period		<u> </u> (91)	<u> </u> (101)
		<u> </u>	<u> </u>
Total comprehensive income for the period		<u> </u> 4,410	<u> </u> 22,124

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

	Six months ended 30 June	
	2022	2021
<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Profit for the period attributable to shareholders of the Company from:		
– continuing operations	3,080	2,596
– discontinued operations	<u>–</u>	<u>17,865</u>
	3,080	20,461
Profit for the period attributable to non-controlling interest from:		
– continuing operations	1,421	1,201
– discontinued operations	<u>–</u>	<u>563</u>
	1,421	1,764
Profit for the period	<u>4,501</u>	<u>22,225</u>
Total comprehensive income for the period attributable to shareholders of the Company from:		
– continuing operations	3,015	2,496
– discontinued operations	<u>–</u>	<u>17,865</u>
	<u>3,015</u>	<u>20,361</u>
Total comprehensive income for the period attributable to:		
– Shareholders of the Company	3,015	20,361
– Non-controlling interests	<u>1,395</u>	<u>1,763</u>
	<u>4,410</u>	<u>22,124</u>
Basic and diluted earnings per share for profit attributable to shareholders of the Company (RMB cent) from:		
	<i>7</i>	
– continuing operations	35.57	29.98
– discontinued operations	<u>–</u>	<u>206.32</u>
	<u>35.57</u>	<u>236.30</u>

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		30 June 2022	31 December 2021
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Assets			
Non-current assets			
Property, plant and equipment		68,828	69,714
Investments in associates		7,495	7,248
Investments in joint ventures		5,945	5,777
Intangible assets		1,858	1,956
Financial assets at fair value through other comprehensive income		407	564
Other non-current assets		868	981
Deferred tax assets		1,250	1,204
		86,651	87,444
		86,651	87,444
Current assets			
Inventories		916	1,230
Accounts receivable	9	3,227	2,728
Prepayments and other current assets		7,800	12,686
Time deposits with maturities over three months		17,023	–
Cash and cash equivalents		18,314	28,494
		47,280	45,138
		47,280	45,138
Total assets		133,931	132,582
Equity			
Capital and reserves attributable to shareholders of the Company			
Share capital		71	71
Retained earnings		26,334	25,236
Other reserves		31,086	30,968
		57,491	56,275
Non-controlling interests		20,097	19,586
Total equity		77,588	75,861

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

		30 June 2022	31 December 2021
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	<i>10</i>	26,809	27,267
Income tax payable		691	648
Other taxes payable		298	273
Short-term borrowings		6,109	5,854
Lease liabilities		153	177
		<u>34,060</u>	<u>34,219</u>
Non-current liabilities			
Long-term borrowings		18,310	18,611
Deferred tax liabilities		1,843	1,760
Lease liabilities		527	535
Other liabilities		1,603	1,596
		<u>22,283</u>	<u>22,502</u>
Total liabilities		<u>56,343</u>	<u>56,721</u>
Total equity and liabilities		<u>133,931</u>	<u>132,582</u>
Net current assets		<u>13,220</u>	<u>10,919</u>
Total assets less current liabilities		<u>99,871</u>	<u>98,363</u>

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2022

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 2022 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 23 August 2022.

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

Change in accounting policies

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

- Amendments to HKFRS 3, HKAS 16, HKAS 37, and annual improvements to HKFRS Standards 2018-2020

None of the developments have a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the interim financial report.

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

2 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker which is determined 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 2022 and 2021 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 2022							
Continuing operations							
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 from continuing operations							<u>4,501</u>
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)
Additions to non-current segment assets during the period	<u>1,011</u>	<u>657</u>	<u>18</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>1,692</u>
As at 30 June 2022							
Segment assets	72,050	4,166	18,859	2,588	21,169	-	118,832
Investments in associates	6,844	-	391	260	-	-	7,495
Investments in joint ventures	<u>4,410</u>	<u>-</u>	<u>-</u>	<u>1,477</u>	<u>58</u>	<u>-</u>	<u>5,945</u>

	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 2021							
Continuing operations							
Gross revenue	50,273	10,861	4,462	869	-	-	66,465
Less: Inter-company adjustment	(673)	(27)	(1,026)	-	-	-	(1,726)
Revenue from external customers	49,600	10,834	3,436	869	-	-	64,739
Segment results	2,616	340	1,478	89	129	-	4,652
Share of profits less losses of:							
– Associates	217	-	1	100	-	-	318
– Joint ventures	26	-	-	54	-	-	80
Profit before income tax expense	2,859	340	1,479	243	129	-	5,050
Income tax expense							(1,253)
Profit for the period from continuing operations							<u>3,797</u>
Segment results included:							
– Interest income	347	1	30	3	240	(344)	277
– Depreciation, depletion and amortisation	(1,504)	(45)	(557)	(163)	(15)	-	(2,284)
– Interest expenses	(229)	(3)	(257)	-	(118)	344	(263)
Additions to non-current segment assets during the period	<u>2,480</u>	<u>-</u>	<u>339</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>2,928</u>
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	<u>4,424</u>	<u>-</u>	<u>-</u>	<u>1,297</u>	<u>56</u>	<u>-</u>	<u>5,777</u>

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 2022 and 2021, there was no single customer to whom the revenue exceeded 10% of the Group's revenue.

3 REVENUE

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

4 INTEREST EXPENSES

	Six months ended 30 June	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Continuing operations		
Interest expenses	506	534
Less: amounts capitalised	<u>(43)</u>	<u>(271)</u>
Total interest expenses	<u>463</u>	<u>263</u>

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing costs was 4.04% per annum for the six months ended 30 June 2022 (six months ended 30 June 2021: 4.12%).

5 PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

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

	Six months ended 30 June	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Continuing operations		
Amortisation of intangible assets	40	40
Depreciation and depletion of		
– owned property, plant and equipment	2,167	2,038
– right-of-use assets	223	206
Cost of inventories recognised as expense	70,926	54,282
Impairment loss on accounts receivable	<u>41</u>	<u>80</u>

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB million	RMB million
Current tax		
– PRC	1,573	2,823
– Overseas	<u>127</u>	<u>74</u>
	1,700	2,897
Deferred tax	<u>74</u>	<u>81</u>
	<u><u>1,774</u></u>	<u><u>2,978</u></u>
Income tax expense attributable to profit from:		
– continuing operations	1,774	1,253
– discontinued operations	<u>–</u>	<u>1,725</u>

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 2021: 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 2021: 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 2022 (six months ended 30 June 2021: Nil).

Income tax on overseas profits has been calculated on the relevant estimated assessable profits for the six months ended 30 June 2022 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 RMB3,080 million and nil (six months ended 30 June 2021: RMB2,596 million and RMB17,865 million), and weighted average number of ordinary shares in issue during the six months ended 30 June 2022 of approximately 8,659 million shares (six months ended 30 June 2021: 8,659 million shares).
- (b) Diluted earnings per share from continuing and discontinued operations for the six months ended 30 June 2022 and 2021 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

8 DIVIDENDS

- (a) 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 respectively, amounting to a total of approximately RMB1,819 million and RMB18,501 million respectively, were approved by the shareholders in the Annual General Meeting on 26 May 2021. The amount is based on approximately 8,659 million shares in issue as at 23 March 2021, which was paid on 9 July 2021.
- (b) 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 statements.

- (c) The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 2022	31 December 2021
	<i>RMB million</i>	<i>RMB million</i>
Within 3 months	1,881	1,365
Between 3 to 6 months	310	256
Between 6 to 12 months	251	253
Over 12 months	785	854
	3,227	2,728

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 2022 <i>RMB million</i>	31 December 2021 <i>RMB million</i>
Accounts payable	3,254	3,205
Contract liabilities	9,911	11,984
Salaries and welfare payable	926	400
Accrued expenses	178	12
Dividends payable	1,914	405
Interest payable	149	140
Construction fee and equipment cost payables	6,806	7,567
Amounts due to related parties		
– Non-controlling interests	1	1
– Others	2	52
Other payables	<u>3,668</u>	<u>3,501</u>
	<u>26,809</u>	<u>27,267</u>

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

	30 June 2022 <i>RMB million</i>	31 December 2021 <i>RMB million</i>
Within 3 months	1,890	2,372
Between 3 to 6 months	479	223
Over 6 months	<u>885</u>	<u>610</u>
	<u>3,254</u>	<u>3,205</u>

CHAIRMAN'S STATEMENT

In the first half of the year, the Group continued to forge ahead, actively coped with a series of risks and challenges, and insisted on integrated promotion and synergistic development in terms of market development and sales expansion, quality and efficiency enhancement, and reform and transformation, resulting in natural gas sales volume of 21,933 million cubic metres, representing a year-on-year increase of 887 million cubic metres or 4.21%. The Group's revenue reached RMB83,864 million, representing a year-on-year increase of RMB19,125 million or 29.54%; the profit before income tax was RMB6,275 million, representing a year-on-year increase of RMB1,225 million or 24.26%; and the profit attributable to shareholders of the Company was RMB3,080 million, representing a year-on-year increase of RMB484 million or 18.64%. Earnings per share (basic) was in RMB35.57 cents.

BUSINESS REVIEW

In the first half of this year, the international macro environment fluctuated violently, the contradiction between energy supply and demand became prominent, oil and gas prices rose sharply, and the trade pattern, market order and operating rules faced new challenges. Coordinating low-carbon energy transition and supply security has become a common issue for countries around the world. The central government vigorously implemented a package of policies and measures for stabilising the economy, effectively overcoming the impact of unexpected factors, and achieving positive GDP growth. The hidden safety hazards of the gas industry in China attracted much attention, and affected by international prices and the spread of the pandemic, there were high uncertainties on consumption performance, and great pressures on the cost of upstream resources, showing a situation of tight supply and weak demand.

The Group adhered to leveraging the advantages of an integrated industrial chain, adopted scientific countermeasures and actively made changes, devoted all efforts to preventing risks, took various and simultaneous measures to stabilise resources, proactively tapped potentials to improve benefits, and promoted transformation through reforms, thereby maintaining strategic initiative and achieving growth against the trend under the overall pressure of the industry. The profitability of the main business has been steadily improved. The Group firmly grasped the advantages of resource pools, continuously optimised the operating structure, and effectively exerted the potential of infrastructure, to cope with cost pressures and market changes with all our strength. The retail gas sales volume and the gross margins per cubic metre rose against the trend. The retail gas sales volume increased by 12.13% year-on-year, and the gross margins per cubic metre increased as compared with the end of last year. The LNG plants reduced losses of RMB190 million year-on-year through efficiently using the plant resources and strengthening the refilling network by applying a new operating model of an integrated LNG industry chain. Through stabilising resources, expanding the market, and optimising the structure, the profit of the LPG business increased by 34.71% year-on-year. The foundation of production safety was further consolidated. The fifteen powerful measures for production safety were thoroughly implemented, and special rectifications were carried out in key areas such as the renovation of the old urban gas pipeline networks, the storage and transportation of hazardous chemicals, and the management of scattered LPG cylinders. The Group also completed the drawing of digital maps for 120,000 kilometers of pipelines, and established and improved the "checklist" management mechanism on hidden dangers, thereby comprehensively enhancing the level of intrinsic safety, and maintaining

“zero accident” in production and operation in the first half of the year. The internal driving force for enterprise development has been continuously enhanced. The Group promoted the campaign of “Year of Strengthening Compliance Management” in accordance with high standards, completed all tasks of the three-year reform of state-owned enterprises with high quality, and achieved positive results in the pilot term-of-service system and contractual management system for senior management and professional manager system, as well as the construction of promotion system for technical and skilled talents, and therefore the modernisation level of the Group’s corporate governance system and capability has been improved simultaneously. The Group was rated as “excellent” in the assessment of “Double Hundred Enterprises” by the State-owned Assets Supervision and Administration Commission of the State Council, and was on the shortlist for “Model Enterprises for Corporate Governance” by the State-owned Assets Supervision and Administration Commission, achieving remarkable results in the industrial chain upgrading and value chain restructuring. The Group actively followed the guidance of “dual carbon” target by releasing and implementing the action plans for peak carbon dioxide emissions and carbon neutrality, advanced the deployment of integrated energy projects, steadily promoted the pilot projects of digital and intelligent transformation, promoted the customer manager system and customer rating management, and continuously improved the online and offline service system, so that the room for value-added service was constantly expanded.

BUSINESS PROSPECTS

At present, the world economic situation and political environment are still complicated, the adjustment of the energy structure is accelerating, the market volatility has significantly increased, and traditional and non-traditional risks are intertwined, which caused more urgent requirements for stabilising the industry chain and unblocking the supply chain. With the gradual implementation of a series of policies for stabilising growth in China in the second half of the year, coupled with the “dual carbon” emission reduction policy for promoting energy transformation, the function of natural gas in base-load power supply, peak-buffering power supply and multi-energy integration in the new power system with new energy as the mainstay will be further highlighted. In addition, under the background of speeding up the creation of a national unified large market, the market rules and industry standards in the city gas field are gradually improving, and the regional integration of “one enterprise for one city” is being deployed and promoted in many places, which will trigger a new round of mergers and acquisitions.

Severe and pressing challenges accompany with unprecedented opportunities. The authoritative institutions predict that the annual apparent consumption of natural gas in China will exceed 380 billion cubic metres, which is expected to grow at a rate of more than 5% in the second half of the year. The Group will continue to be highly responsible for shareholders, employees, customers and the society, and actively integrate into the new pattern of national energy structure transformation and development, to identify certainty from uncertainty, and seek new opportunities in the stabilising and recovering economic market. Through fully releasing the management efficiency of integrated wholesale and retail of the parent company, the Group will constantly expand the derived value and transformation space of the industrial chain, so as to promote high-quality development to achieve new results.

Expand and strengthen the fundamentals of core business, and continue to optimise resource channels, market layout and user structure. The Group will fully leverage on the synergistic advantages to further improve the adaptability between supply and demand and earnings stability. The Group will deeply tap the strategic cooperation opportunities with large and medium-sized urban gas enterprises to complement each other through opening up, and seek win-win results in competition. Through deeply exploring the user potential of existing projects, the Group will stabilise the market, maintain increments, and improve efficiency. The Group will focus on turning losses into profits for the LNG plants, to further open up the liquid industry chain and value chain from “workshops to wheels”. The Group will strengthen synergies among various gas products, and improve the layout of the entire LPG industry chain by broadening resource channels and optimising logistics and distribution, so as to increase the proportion of end-user retail sales. The Group will also strengthen the synergies with the refined oil sales business of the parent company to create benefits, and proactively develop offshore LNG refilling market by accelerating the promotion of the model refilling project at Shenzhen Yantian Port.

Accelerate the deployment of integrated energy business, and firmly grasp the initiative in the transformation and development of the industry. Sticking to the integrated promotion of natural gas and new energy, and the synchronous development of main business and value-added business, the Group aims to build two business chains and value chains incorporating natural gas and new energy. Relying on the existing city gas users, the Group will create model integrated energy projects for carbon neutrality in emerging towns, new industrial zones, and new buildings. The Group will comprehensively promote the construction of “zero carbon emission stations”, and actively participate in carbon negative projects such as CCUS and carbon sinks. The Group will deeply exploit the derived value of the industrial chain, efficiently push forward the six major businesses including “gas extension, customer value-added service, e-commerce, finance and insurance, technical service, and resource utilisation”, and simultaneously develop internal and external value-added business markets.

Fully accomplish the three major special actions for production safety to promote the healthy, safe and sustainable development of enterprises. The Group will carefully learn from the lessons of frequent accidents in the first half of the year, and systematically eliminate the risks in the urban gas field with its focus on the transformation of the old pipeline network. The Group will deepen the supporting function of digital maps in the production management system, with an aim to enhance the informatisation, automation and intelligence of operation and management. The Group will promote real-time collection and comprehensive integration of the data across the entire business chain, to support the dynamic forecast and early warning for production and operation and the optimal allocation of resources, and accelerate the upgrading of smart city gas. The Group will comprehensively set up a management risk prevention and control matrix, so as to implement the management transformation and standard promotion in controlled enterprises by level and classification. The Group will continue to prudently carry out regular pandemic prevention and control to protect the safety and health of employees.

Gathering strength enables a prosperous industry, while a prosperous enterprise benefits the society. The Group will precisely grasp the new development trend of the industry, anchor the goal of becoming an internationally renowned and China's first-class integrated green energy provider, with its focus on risk elimination, foundation solidifying and management enhancement, implement refined management and benchmark lean management to continuously improve governance capabilities and governance standards, continue to move forward together with all sectors of the society to achieve win-win cooperation, and constantly reward shareholders and the society with excellent operating results.

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

Hong Kong, 23 August 2022

CHIEF EXECUTIVE OFFICER'S STATEMENT

In the first half of the year, the Group intently aimed at fulfilling the annual work plan and production and operation goals, for which the Group took quality and efficiency enhancement, risk control and reform of state-owned enterprises as opportunities and effective means, focused on lean management, overall planned resource costs, optimised market layout and user structure, and constantly enhanced marketing capabilities, leading to increases in both sales volume and efficiency, and achieving good operating results.

OPERATING RESULTS

In the first half of the year, the Group recorded a revenue of RMB83,864 million, representing a year-on-year increase of RMB19,125 million or 29.54%; profit before income tax was RMB6,275 million, representing a year-on-year increase of RMB1,225 million or 24.26%; profit attributable to shareholders of the Company was RMB3,080 million, representing a year-on-year increase of RMB484 million or 18.64%. Earnings per share (basic) were RMB35.57 cents.

Natural gas sales business

Leveraging the advantages of integrated industrial chain and brand effect, and taking operational optimisation as the main tone, the Group improved the gas customer service management system, steadily promoted the improvement of marketing quality, and made phased progress in the development of key projects. The sales volume of natural gas was 21,933 million cubic metres, representing a year-on-year increase of 4.21%, among which retail gas sales volume was 13,504 million cubic metres, representing a year-on-year increase of 12.13%. The number of new users amounted to 408,600, representing a year-on-year increase of 11.76%, which included 403,300 residential users and 5,300 industrial and commercial users. The cumulative number of users reached 14.2545 million. The high-pressure pipe network projects in Jieyang and Chaozhou and the equity project in Chaoyang, Liaoning have been launched successively. In the first half of the year, the Group brought in 8 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 RMB64,157 million, representing a year-on-year increase of 27.62%. Profit before income tax was RMB3,876 million, representing a year-on-year increase of 35.57%.

Sales of LPG business

The Group took active steps to cope with the reduction of domestic resources and steadily expanded its resource channels. Accordingly, the purchase and sales volume of domestic resources exceeded the planned. The Group newly developed the business of import of isobutane products, and opened up land routes to introduce resources from Kazakhstan, resulting in new progress in the import business. The Group continued to optimise resource allocation and sales network layout, and steadily promoted the construction of import terminal storage tanks, so as to build a diversified LPG resource pipeline. The Group also pushed ahead the establishment of its own end-user management platform, and integrated and regulated the end-user market, thereby maintaining a stable scale of end-user sales for residential purposes.

In the first half of the year, LPG sales volume was 2.7924 million tonnes, representing a year-on-year decrease of 7.41%. This business recorded a revenue of RMB15,058 million, representing a year-on-year increase of 38.64%. Profit before income tax was RMB458 million, representing a year-on-year increase of 34.71%.

LNG processing and terminal business

In adherence to specialised development, market-oriented operation, lean management and integrated planning, the LNG terminals of the Group maintained safe and smooth production and operation, and the operation capacity and efficiency met the expectation. Strictly upholding the market-oriented and benefit-centered approach, the LNG plants optimised operation and management, harmonised resource coordination, unblocked sales channels, strengthened market development, and strictly controlled costs, realising significant loss reduction.

In the first half of the year, LNG gasification and entrucking volume of Jingtang and Jiangsu LNG terminals amounted to 7,865 million cubic metres in total, representing a year-on-year increase of 4.55%. The average capacity of these two terminals recorded a year-on-year increase of 4 percentage points. The average production capacity of 15 processing plants under continuous operation was 44.9%; sales volume of self-operation reached 615 million cubic metres, and the commissioned processing volume amounted to 696 million cubic metres, representing a year-on-year increase of 9.43% and 14.47%, respectively.

In the first half of the year, the LNG Processing and Terminal business recorded a revenue of RMB6,062 million, representing a year-on-year increase of 35.86%. Profit before income tax was RMB1,675 million, representing a year-on-year increase of 13.25%.

Exploration and production business

In the first half of the year, sales volume of crude oil of the Group was 5.61 million barrels, representing a decrease of 0.48 million barrels or 7.88% as compared with last year. Driven by the rising international crude oil price, the average crude oil selling price of the Group increased to US\$77.84/barrel from US\$51.65/barrel of last year. Sales revenue of crude oil was RMB1,183 million, representing a year-on-year increase of 36.13%. Profit before income tax was RMB547 million, representing a year-on-year increase of 125.10%.

ACKNOWLEDGEMENT

In the first half of the year, with the caring and support from all parties, the Company made concerted efforts to effectively overcome the multiple pressures brought by the international environment, the pandemic and the market, made every effort to ensure the supply of natural gas for key projects and people's livelihood, proactively fulfilled its social responsibilities, and achieved better-than-expected operating results. I would like to extend my sincere gratitude to all our employees as well as all friends and business partners for their caring and support for the development of the Company!

Qian Zhijia

Chief Executive Officer and Executive Director

Hong Kong, 23 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

During the period ended 30 June 2022 (the “Period”), despite various difficulties, the Group still adhered to seeking progress while maintaining stability, and achieved good results in each business segment. Profit before income tax expenses was approximately RMB6,275 million, representing an increase of 24.26% as compared with RMB5,050 million for the same period of last year. Profit attributable to shareholders of the Company for the Period was approximately RMB3,080 million, representing an increase of 18.64% as compared with RMB2,596 million for the same period of last year.

Revenue

Revenue for the Period was approximately RMB83,864 million, representing an increase of 29.54% as compared with RMB64,739 million for the same period of last year. 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 losses/gains, net

Other losses, net, for the Period was approximately RMB76 million (2021 same period: gains of RMB354 million). The losses were mainly due to the 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 RMB70,745 million for the Period, representing an increase of 30.61% as compared with amount of RMB54,165 million for the same period of last year. The increase was mainly due to the increase in purchase cost which was generally in line with the increase in revenue of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs was approximately RMB2,836 million for the Period, representing an increase of 13.94% as compared with amount of RMB2,489 million for the same period of last year. The increase was mainly due to business growth and economic inflation.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Period was approximately RMB2,430 million, representing an increase of 6.39% as compared with amount of RMB2,284 million for the same period of last year. Depreciation, depletion and amortisation remained fairly stable during the Period.

Other selling, general and administrative expenses

Other selling, general and administrative expenses for the Period were approximately RMB1,738 million, representing an increase of 30.87% as compared with amount of RMB1,328 million for the same period of last year. The increase was mainly due to the increase in royalty expenses and the rest of the increase was in line with the expansion of natural gas business.

Interest expenses

Interest expenses for the Period were approximately RMB463 million, representing an increase of 76.05% as compared with amount of RMB263 million for the same period of last year. The increase was mainly due to the decrease in interest capitalisation as compared to the same period of last year.

Total interest expenses for the Period were approximately RMB506 million of which RMB43 million was capitalised under construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Period was approximately RMB362 million, representing an increase of 13.84%, as compared with amount of RMB318 million for the same period of last year. The increase was mainly due to the increase in share of operating result from CNPC-Aktobemunaigas Joint Stock Company as a result of higher international crude oil price during the Period.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2022, the carrying value of total assets of the Group was approximately RMB133,931 million, representing an increase of RMB1,349 million or 1.02% as compared with RMB132,582 million as at 31 December 2021.

The gearing ratio of the Group was 24.44% as at 30 June 2022 compared with 24.92% as at 31 December 2021, representing a decrease of 0.48 percentage points. It is computed by dividing the sum of interest-bearing borrowings and lease liabilities of RMB25,099 million (31 December 2021: RMB25,177 million) by the sum of total equity, interest-bearing borrowings and lease liabilities of RMB102,687 million (31 December 2021: RMB101,038 million).

As at 30 June 2022, the Group has total borrowings of RMB24,419 million which will be repayable as follows:

	30 June 2022	31 December 2021
	<i>RMB million</i>	<i>RMB million</i>
Within one year	6,109	5,854
Between one to two years	2,346	3,917
Between two to five years	8,885	7,586
After five years	7,079	7,108
	24,419	24,465

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 2022, certain property, plant and equipment of the Group amounting to RMB1,211 million (31 December 2021: RMB1,025 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.

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 into on 22 December 2020 between the Company and PipeChina.

As at 30 June 2021, each of Beijing Pipeline, which used to be reported under the Group's "Natural Gas Pipeline" segment, and Dalian LNG, which used to be reported under the Group's "LNG Processing and Terminal" segment, represented a separate major line of the Group's business. Consequently, Beijing Pipeline and Dalian LNG were presented as discontinued operations.

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.

EMPLOYEES

As at 30 June 2022, the Group had approximately 30,655 employees globally (excluding the employees under entrustment contracts) (same period of 2021: 35,424 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 reporting period.

INTERIM DIVIDEND

The Board of Directors has resolved not to recommend the payment of any interim dividend for the period ended 30 June 2022.

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 2021 annual report of the Company are set out below:

- Mr. Miao Yong has resigned as Chief Financial Officer and Executive Director of the Company due to his other work engagements with effect from 22 April 2022. Upon his resignation, Mr. Miao Yong has ceased to be a member of the Sustainability Committee of the Company.
- Mr. Gao Xiangzhong has been appointed as Chief Financial Officer of the Company with effect from 22 April 2022 and has been appointed as Executive Director and a member of the Sustainability Committee of the Company with effect from 8 July 2022.
- Mr. Sun Patrick has been appointed as independent non-executive director of Ferretti S.p.A., a company whose shares are listed on the Stock Exchange on 31 March 2022 (Stock Code: 9638), with effect from 21 December 2021.

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 ("Code") as set out in Appendix 14 to the Listing Rules during the Period, except the following deviation.

Code provision C.1.6

Pursuant to code provision C.1.6 of the Code, the independent non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Sun Patrick, Independent Non-executive Director of the Company, was unable to attend the annual general meeting of the Company held on 25 May 2022 due to other engagements.

REVIEW OF INTERIM FINANCIAL REPORT

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

The unaudited consolidated interim financial report of the Group for the Period has been reviewed by the Audit Committee of the Company and has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity* issued by the Hong Kong Institute of Certified Public Accountants, whose 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 16 September 2022 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, 23 August 2022

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.