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

(Stock Code: 00135.HK)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Year ended 31 December		
	2018	2017	**Change**
	RMB'million	*RMB'million*	*%*
Revenue	**105,470**	88,706	18.90
Profit before income tax expense	**11,985**	11,480	4.40
Core profit before income tax expense *(note 1)*	**13,279**	11,659	13.89
Profit attributable to owners of the Company	**4,634**	4,760	(2.65)
Core profit attributable to owners of the Company *(note 2)*	**5,885**	4,906	19.96
Adjusted EBITDA *(note 3)*	**20,303**	18,244	11.29
	RMB cent	*RMB cent*	
Earnings per share (Basic)	**57.41**	58.97	(2.65)
Core earnings per share (Basic) *(note 4)*	**72.91**	60.78	19.96
Earnings per share (Diluted)	**54.68**	56.21	(2.72)
	RMB cent	*RMB cent*	
Dividend per share – Final	**23.0**	21.0	9.52
	RMB'million	*RMB'million*	
Profit attributable to owners of the Company (by segment)			
– Exploration and Production	**803**	485	65.57
– Natural Gas Sales	**1,620**	1,312	23.48
– LNG Processing and Terminal	**1,274**	241	428.63
– Natural Gas Pipeline	**2,293**	2,905	(21.07)
Core profit attributable to owners of the Company (by segment)			
– Exploration and Production	**839**	485	72.99
– Natural Gas Sales	**2,003**	1,777	12.72
– LNG Processing and Terminal	**1,398**	568	146.13
– Natural Gas Pipeline	**2,293**	2,905	(21.07)

Note:

1 Core profit before income tax expense is defined as profit before income tax expense excluding impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss/gain.

2 Core profit attributable to owners of the Company is defined as profit attributable to owners of the Company excluding impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss/gain attributable to owners of the Company and its related tax effect.

3 Adjusted EBITDA is defined as profit before income tax expense, excluding impairment loss on property, plant and equipment, impairment loss on intangible assets, impairment loss on accounts and other receivables, exchange loss/gain, interest and depreciation, depletion and amortisation.

4 Core earnings per share (Basic) is calculated based on the core profit attributable to owners of the Company and weighted average number of ordinary shares in issue during the year.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** *RMB'million*	2017 *RMB'million*
Revenue	*3*	**105,470**	88,706
Other (losses)/gains, net		**(259)**	1,335
Interest income		**295**	211
Purchases, services and others		**(78,249)**	(64,145)
Employee compensation costs		**(4,845)**	(4,329)
Depreciation, depletion and amortisation		**(6,189)**	(5,651)
Impairment loss on property, plant and equipment		**(420)**	(604)
Selling, general and administrative expenses		**(3,389)**	(3,448)
Taxes other than income taxes		**(468)**	(441)
Interest expenses	*4*	**(1,130)**	(1,145)
Share of profits less losses of:			
– Associates		**858**	767
– Joint ventures		**311**	224
Profit before income tax expense	*5*	**11,985**	11,480
Income tax expense	*6*	**(3,772)**	(3,531)
Profit for the year		**8,213**	7,949
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
– Fair value loss on other financial assets (non-recycling), net of tax		**(127)**	–
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements, net of nil tax, of:			
– Subsidiaries		**120**	9
– Associates		**(68)**	(18)
– Joint ventures		**63**	(66)
– Fair value loss on available-for-sale financial assets (recycling), net of tax		**–**	(139)
Other comprehensive income for the year		**(12)**	(214)
Total comprehensive income for the year		**8,201**	7,735

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

	Note	**2018**	2017
		RMB'million	*RMB'million*
Profit for the year attributable to:			
– Owners of the Company		**4,634**	4,760
– Non-controlling interests		**3,579**	3,189
		8,213	7,949
Total comprehensive income for the year attributable to:			
– Owners of the Company		**4,654**	4,601
– Non-controlling interests		**3,547**	3,134
		8,201	7,735
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (RMB cent)		**57.41**	58.97
– Diluted (RMB cent)		**54.68**	56.21

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'million	2017 RMB'million
Assets			
Non-current assets			
Property, plant and equipment		**95,933**	95,735
Advanced operating lease payments		**3,872**	3,782
Investments in associates		**4,124**	3,515
Investments in joint ventures		**2,870**	1,918
Intangible and other non-current assets		**1,889**	1,525
Deferred tax assets		**1,242**	1,188
		109,930	107,663
Current assets			
Inventories		**1,865**	1,559
Accounts receivable	*9*	**2,459**	2,846
Prepaid expenses and other current assets		**5,859**	6,640
Cash and cash equivalents		**20,474**	21,850
		30,657	32,895
Total assets		**140,587**	140,558

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Note	2018 RMB'million	2017 RMB'million
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**65**	65
Retained earnings		**25,362**	25,280
Other reserves		**17,277**	14,680
		42,704	40,025
Non-controlling interests		**27,390**	25,600
Total equity		**70,094**	65,625
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**27,355**	26,569
Income tax payable		**794**	495
Other tax payable		**464**	424
Short-term borrowings		**7,072**	11,805
Convertible bonds		**3,306**	–
Obligations under finance leases		**150**	158
		39,141	39,451
Non-current liabilities			
Long-term borrowings		**28,163**	29,296
Convertible bonds		**–**	3,230
Deferred tax liabilities		**1,292**	1,075
Obligations under finance leases		**53**	193
Other liabilities		**1,844**	1,688
		31,352	35,482
Total liabilities		**70,493**	74,933
Total equity and liabilities		**140,587**	140,558
Net current liabilities		**(8,484)**	(6,556)
Total assets less current liabilities		**101,446**	101,107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, but is extracted from those consolidated financial statements.

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

Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact as at 1 January 2018.

	RMB'million
Retained earnings	
Recognition of additional expected credit losses on accounts receivable	(310)
Related tax	76
Net decrease in retained earnings as at 1 January 2018	(234)
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to other financial assets now measured at FVOCI as at 1 January 2018	(167)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to other financial assets now measured at FVOCI as at 1 January 2018	167

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(a) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those impacted by and determined in accordance with HKFRS 9.

	HKAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount as at 1 January 2018
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*
Financial assets carried at amortised cost				
Accounts receivable	2,846	–	(310)	2,536
Financial assets measured at FVOCI (non-recyclable)				
Other financial assets *(note)*	–	352	–	352
Financial assets classified as available-for-sale under HKAS 39 *(note)*	352	(352)	–	–

Note: Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. As at 1 January 2018, the Group designated other financial assets at FVOCI (non-recycling), as the investment is held for strategic purposes. The amounts have been included in the consolidated statement of financial position under "Intangible and other non-current assets".

The measurement categories for all financial liabilities remain the same and the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(b) *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, accounts and other receivables and loans to an associate and joint ventures).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'million
Loss allowance as at 31 December 2017 under HKAS 39	181
Additional credit loss recognised as at 1 January 2018 on accounts receivable	310
Loss allowance as at 1 January 2018 under HKFRS 9	491

(c) *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) ***HKFRS 15, Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(a) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue.

(b) *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. The financing component would not be significant to the contract.

(c) *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances were presented in the consolidated statement of financial position under "other liabilities" or "accounts payable and accrued liabilities".

To reflect these changes in presentation, the Group has made the following adjustments as at 1 January 2018, as a result of the adoption of HKFRS 15:

A. "Advances from customers" and "deferred income" amounting to RMB8,481 million and RMB400 million respectively, which were previously included in accounts payable and accrued liabilities are now included under "contract liabilities" in accounts payable and accrued liabilities; and

B. "Deferred income" amounting to RMB763 million, which was previously included in non-current other liabilities is now included under "non-current contract liabilities" in non-current other liabilities.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2. SEGMENT INFORMATION

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

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

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. The Natural Gas Sales segment is engaged in the wholesales and retail sales of various natural gas and LPG products. LNG Processing and Terminal segment is engaged in the processing, unloading, storing, gasification and entrucking of LNG. Natural Gas Pipeline segment is engaged in the transmission of natural gas through pipeline.

The Executive Directors assess the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and joint ventures ("segment results").

Segment assets exclude deferred and current taxes, other financial assets, investments in associates and joint ventures ("segment assets"), 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 2018 and 2017 are as follows:

	Exploration and Production *RMB'million*	Natural Gas Sales *RMB'million*	LNG Processing and Terminal *RMB'million*	Natural Gas Pipeline *RMB'million*	Corporate *RMB'million*	Inter-company adjustment *RMB'million*	Total *RMB'million*
For the year ended 31 December 2018							
Gross revenue	2,068	87,100	9,456	9,706	–	–	108,330
Less: Inter-company adjustment	–	(1,013)	(1,831)	(16)	–	–	(2,860)
Revenue from external customers	2,068	86,087	7,625	9,690	–	–	105,470
Segment results	466	2,558	4,056	5,021	(1,285)	–	10,816
Share of profits less losses of:							
– Associates	581	276	1	–	–	–	858
– Joint ventures	203	108	–	–	–	–	311
Profit/(loss) before income tax expense	1,250	2,942	4,057	5,021	(1,285)	–	11,985
Income tax expense							(3,772)
Profit for the year							8,213
Segment results included:							
– Interest income	7	307	42	24	423	(508)	295
– Depreciation, depletion and amortisation	(295)	(2,341)	(1,302)	(2,235)	(16)	–	(6,189)
– Impairment loss on property, plant and equipment	–	(294)	(126)	–	–	–	(420)
– Interest expenses	–	(215)	(494)	(260)	(669)	508	(1,130)
As at 31 December 2018							
Non-current assets	1,008	36,990	21,530	41,730	309	–	101,567
Current assets	1,756	20,882	2,707	1,278	4,027	–	30,650
Segment assets	2,764	57,872	24,237	43,008	4,336	–	132,217
Investments in associates	742	3,376	6	–	–	–	4,124
Investments in joint ventures	1,161	1,656	–	–	53	–	2,870
Sub-total	4,667	62,904	24,243	43,008	4,389	–	139,211
Other financial assets							127
Deferred tax assets							1,242
Others							7
Total assets							140,587
Additions to non-current segment assets during the year	301	4,905	1,046	2,851	–	–	9,103

	Exploration and Production *RMB'million*	Natural Gas Sales *RMB'million*	LNG Processing and Terminal *RMB'million*	Natural Gas Pipeline *RMB'million*	Corporate *RMB'million*	Inter-company adjustment *RMB'million*	Total *RMB'million*
For the year ended 31 December 2017							
Gross revenue	1,505	72,109	6,869	10,755	–	–	91,238
Less: Inter-company adjustment	–	(906)	(1,617)	(9)	–	–	(2,532)
Revenue from external customers	1,505	71,203	5,252	10,746	–	–	88,706
Segment results	114	1,826	1,945	6,733	(129)	–	10,489
Share of profits less losses of:							
– Associates	490	276	1	–	–	–	767
– Joint ventures	216	8	–	–	–	–	224
Profit/(loss) before income tax expense	820	2,110	1,946	6,733	(129)	–	11,480
Income tax expense							(3,531)
Profit for the year							7,949
Segment results included:							
– Interest income	6	225	25	10	358	(413)	211
– Depreciation, depletion and amortisation	(225)	(2,315)	(1,277)	(1,818)	(16)	–	(5,651)
– Impairment loss on property, plant and equipment	–	(275)	(329)	–	–	–	(604)
– Interest expenses	(1)	(263)	(405)	(37)	(852)	413	(1,145)
As at 31 December 2017							
Non-current assets	999	37,023	21,473	41,176	19	–	100,690
Current assets	1,422	18,551	3,661	3,472	5,786	–	32,892
Segment assets	2,421	55,574	25,134	44,648	5,805	–	133,582
Investments in associates	533	2,976	6	–	–	–	3,515
Investments in joint ventures	1,109	756	–	–	53	–	1,918
Sub-total	4,063	59,306	25,140	44,648	5,858	–	139,015
Available-for-sale financial assets							352
Deferred tax assets							1,188
Others							3
Total assets							140,558
Additions to non-current segment assets during the year	223	3,483	918	9,978	–	–	14,602

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

For the year ended 31 December 2018, revenue of approximately RMB20,535 million (2017: RMB16,041 million) is derived from one (2017: one) customer with whom transactions have exceeded 10% of the Group's revenues. The revenue is attributable to the Exploration and Production, Natural Gas Sales, LNG Processing and Terminal and Natural Gas Pipeline segments.

3. REVENUE

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

	2018	2017
	RMB'million	*RMB'million*
Disaggregated by major products or service lines		
– Sales of natural gas products	**86,087**	71,203
– Sales of crude oil	**2,068**	1,505
– Revenue from pipeline transmission service	**9,690**	10,746
– Revenue from LNG processing, gasification and entrucking service	**7,625**	5,252
	105,470	88,706

The Group's revenue are mainly derived from the sales of goods to customers in the People's Republic of China (the "PRC") and recognised point in time.

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

4. INTEREST EXPENSES

	2018	2017
	RMB'million	*RMB'million*
Interest expenses on:		
Bank loans	**298**	400
Senior notes	**228**	234
Convertible bonds	**131**	128
Other loans, from:		
– An intermediate holding company	**30**	17
– An immediate holding company	**177**	107
– China Petroleum Finance Company Limited	**748**	678
– Fellow subsidiaries	**59**	143
Finance charges on obligations under finance leases, from:		
– A fellow subsidiary	**7**	13
– A third party	**6**	8
Less: Amounts capitalised	**(554)**	(583)
	1,130	1,145

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 4.19% (2017: 4.08%) per annum for the year ended 31 December 2018.

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	2018	2017
	RMB'million	*RMB'million*
Auditors' remuneration		
– audit services	**25**	30
– non-audit services	**4**	4
Cost of inventories recognised as expense	**78,487**	64,322
Operating lease expenses	**454**	450
Depreciation and depletion of property, plant and equipment	**6,025**	5,487
Amortisation of advanced operating lease payments and intangible assets	**164**	164
Depreciation, depletion and amortisation	**6,189**	5,651

6. INCOME TAX EXPENSE

	2018	2017
	RMB'million	*RMB'million*
Current tax		
– PRC	**3,455**	3,470
– Overseas	**110**	61
	3,565	3,531
Deferred tax	**207**	–
	3,772	3,531

Hong Kong Profits Tax has not been provided for as the Group has no assessable profit for the year (2017: 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% (2017: 25%). The operations of the Group's certain regions in the PRC have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2017: 15% to 20%).

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

7. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately RMB4,634 million (2017: RMB4,760 million) and weighted average number of ordinary shares in issue during the year of approximately 8,072 million shares (2017: 8,072 million shares).

Diluted earnings per share is calculated based on the Group's profit attributable to owners of the Company of approximately RMB4,722 million (2017: RMB4,845 million) and the weighted average number of ordinary shares of approximately 8,635 million shares (2017: 8,620 million shares) after adjusting for the effect of convertible bonds, calculated as follows:

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

	2018	2017
	RMB'million	*RMB'million*
Profit attributable to owners of the Company	**4,634**	4,760
After tax effect of effective interest on the liability component of convertible bonds	**88**	85
Profit attributable to owners of the Company (diluted)	**4,722**	4,845

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

	2018	2017
	million shares	*million shares*
Weighted average number of ordinary shares at 31 December	**8,072**	8,072
Effect of conversion of convertible bonds	**563**	548
Weighted average number of ordinary shares (diluted) at 31 December	**8,635**	8,620

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2018	2017
	RMB'million	*RMB'million*
Proposed final dividend attributable to owners of the Company for 2018 *(note (a))*	**1,858**	–
Final dividend attributable to owners of the Company for 2017 *(note (b))*	–	1,742

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

	2018	2017
	RMB'million	*RMB'million*
Final dividend in respect of the previous financial year, approved and paid during the year	**1,742**	522

Notes:

(a) At the meeting on 19 March 2019, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2018 of RMB23.0 cents per share amounting to a total of approximately RMB1,858 million. The amount is based on approximately 8,080 million shares in issue as at 19 March 2019. The 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 2019 when it is approved at the 2019 Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2017 of RMB21.0 cents per share amounting to a total of approximately RMB1,742 million were approved by the shareholders in the Annual General Meeting on 24 May 2018. The amount is based on approximately 8,072 million shares in issue as at 20 March 2018 which was paid on 26 June 2018.

9. ACCOUNTS RECEIVABLE

	31 December 2018	1 January 2018	31 December 2017
	RMB'million	*RMB'million*	*RMB'million*
Accounts receivable, net of loss allowance *(note)*	**2,459**	2,536	2,846

Note: Upon the adoption of HKFRS 9, an opening adjustment was made to recognise additional ECLs on accounts receivable (see Note 1(i)).

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:

	2018	2017
	RMB'million	*RMB'million*
Within 3 months	**1,990**	1,957
Between 3 to 6 months	**76**	116
Over 6 months	**393**	773
	2,459	2,846

The Group's revenue from sales of crude oil and rendering of terminal and pipeline services 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

	2018	2017
	RMB'million	*RMB'million*
Accounts payable	**2,791**	2,858
Contract liabilities	**9,383**	–
Advances from customers	**–**	8,481
Salaries and welfare payable	**383**	284
Accrued expenses	**14**	26
Dividend payable	**1,059**	1,069
Interest payable	**139**	376
Construction fee and equipment cost payables	**10,361**	10,279
Amounts due to related parties		
– Non-controlling interests	**1**	1
– Others	**236**	14
Deferred income	**–**	400
Other payables	**2,988**	2,781
	27,355	26,569

Upon the initial adoption of HKFRS 15 using the cumulative effect method, adjustments were made to the opening balances at 1 January 2018 to reclassify advances from customers and deferred income to contract liabilities (see Note 1(ii)). As at 31 December 2018, the Group also had non-current contract liabilities of RMB744 million (1 January 2018: RMB763 million) which were included under non-current "other liabilities" and were expected to be recognised as revenue in over 12 months but less than 5 years.

The Group's contract liabilities represent primarily advances received from customers. In certain regions of the PRC, customers of the Group's city gas business are required to use integrated circuit cards and top up in advance before the balances are deducted upon usage of natural gas. Depending on the market conditions and the customers' credit profile, the Group also require advance for certain customers for sales of other natural gas products. These advance payments from customers are recognised as contract liabilities until the natural gas products are sold to the customers. During the year ended 31 December 2018, the amount of RMB8,881 million recognised in contract liabilities at beginning of the year has substantially been recognised as revenue during the year.

Ageing analysis

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

	2018	2017
	RMB'million	*RMB'million*
Within 3 months	**1,875**	2,290
Between 3 to 6 months	**124**	109
Over 6 months	**792**	459
	2,791	2,858

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables fall within the credit time frame. The contractual maturity date of accounts payable and accrued liabilities is within one year.

11. COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Future details of changes in accounting policies are disclosed in Note 1.

BUSINESS REVIEW

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") seized the opportunities to expand in the natural gas industry, made full use of the advantages in its business structure and continued to increase its corporate values.

ANNUAL RESULTS

In 2018, the macro economy of the People's Republic of China (the "PRC") remained stable and the environmental policies facilitated the rapid development of the natural gas market. The government of the PRC implemented various environmental policies, continuously propelled the air pollution prevention and control work and strengthened the coal-to-gas conversion for residential use, heating and industrial use in key areas, through which national natural gas consumption recorded rapid growth and continually maintaining double-digit growth. The Company focused on quality development, grasped the favourable opportunities arising from the strong demand for natural gas, and continued to push through reforms and innovations, thus achieved remarkable operating results. The Company was awarded China Gas Association 30th Anniversary Outstanding Contribution Award and the Best Listed Company of China Securities Golden Bauhinia Awards.

During the year, with the joint efforts of all employees, the revenue of the Group reached RMB105,470 million, representing a year-on-year increase of 18.90%; the profit attributable to owners of the Company was RMB4,634 million, representing a year-on-year decrease of 2.65%; earnings per share (basic) were RMB57.41 cents. Excluding the impairment losses on property, plant and equipment, intangible assets, accounts and other receivables and exchange loss and gain, core profit attributable to owners of the Company and core earnings per share (basic) were RMB5,885 million and RMB72.91 cents respectively, representing an increase of 19.96% and 19.96% respectively when compared with last year. In order to reward our shareholders, a final dividend of RMB23.00 cents per share and RMB1,858 million in total was proposed. The dividend payment ratio was 40.06%.

EXPLORATION AND PRODUCTION

During the year, the sales volume of crude oil in the exploration and production business reached 13.27 million barrels, representing a year-on-year increase of 1.61%. During the year, there was an increase in the international oil price when compared with last year, and the average realised crude oil selling price of the Group increased by US$13.67/barrel to US$60.30/barrel as compared with last year. Sales of crude oil for the year was RMB2,068 million, representing a year-on-year increase of 37.41%; and profit before income tax expense was RMB1,250 million, representing a year-on-year increase of 52.44%.

NATURAL GAS SALES

During the year, total sales volume of natural gas was 21,994 million cubic metres, representing a year-on-year increase of 17.16%, among which the city gas sales volume reached 14,712 million cubic metres, representing a year-on-year increase of 24.41%, and 890,000 residential users and 5,680 industrial and commercial users were newly developed, among which, the natural gas sales volume of Hebei, Gansu, Shandong and Jiangsu exceeded 2,000 million cubic metres. During the year, the sales of natural gas products was RMB87,100 million, representing a year-on-year increase of 20.79%; the profit before income tax expense was RMB2,942 million, representing a year-on-year increase of 39.43%.

The Group adhered to the strategy of stimulating retail sales with the construction of branch pipelines, and hence during the year, the Group constructed branch pipelines with length of 528 kilometres. The Group commenced the operations of 5 branch pipelines, including Chuxiong-Panzhihua and Wafangdian-Changxingdao, and completed major construction for 11 branch pipelines. The Group has entered into 89 project cooperation framework agreements, and commenced operations of projects including Beijing Shunyi and Ningxia Wuzhong Taiyang Mountain Development Zone Projects and Shandong Anqiu Gas Project. Zhoukou Power Plant was equipped with the capability for commercial operations, and the Group pushed forward Zengcheng Power Plant Project and Chengdu Tianfu International BioTown Distributed Energy Resources Project as planned.

The pace of LPG sales transformation accelerated and the sales volume during the year reached a record high of 7.00 million tonnes, among which, the Group purchased 453,000 tonnes of imported resources, representing a year-on-year increase of 41%, and the retail sales volume had a year-on-year increase of 21.7%. The Group commissioned 19 end-users projects, and the sales capacity increased by 118,000 tonnes.

LNG PROCESSING AND TERMINAL

The Group maximised its overall benefits of the industrial chain, pushed forward the implementation of the integrated development of LNG terminals, processing plants and CNG/LNG refilling stations. During the year, the sales volume of LNG processing and terminal of the Group was 22,779 million cubic metres, representing a year-on-year increase of 42.41%. Revenue was RMB9,456 million, representing a year-on-year increase of 37.66%. Profit before income tax expense was RMB4,057 million, representing a year-on-year increase of 108.48%.

1. LNG Terminal

During the year, the annual unloading volume of the LNG terminals of the Group reached 15.13 million tonnes, representing a year-on-year increase of 45.2%; and the volume for gasification and entrucking reached 21,234 million cubic metres, representing a year-on-year increase of 42.49%, in which both achieved record highs. The terminal utilisation rate reached 79.6%, representing a year-on-year increase of 24.7 percentage point, and the turnover of storage tanks increased by 5.6 times when compared with last year, with each of the control indices higher than the average national level. The unloading volume of Jiangsu LNG exceeded 6.50 million tonnes for the first time, thus achieving full operating capacity, and succeeded in unloading the first vessel of the Yamal project supplying LNG to the PRC. The Group commenced roof lifting work for two storage tanks of Tangshan LNG and the expansion work of Jiangsu LNG.

2. LNG Processing

During the year, the Group operated 15 LNG processing plants for the full year, reaching an average workload capacity of 35.9%, which represented a year-on-year increase of 6.4 percentage point, while the fluid production was 1.06 million tonnes, representing a year-on-year increase of 16.9%, which exceeded 1 million tonnes for the first time in recent years. Relying on the plant layout and the capacity of gas storage peak-regulating in each region, the Group completed the feasibility review of the construction projects of LNG gas storage peak-regulating facilities in 6 regions. The Group accelerated the progress of the "Gasification of Yangtze River" and completed the development plans of the "Gasification of Yangtze River" project of Hubei province and Jiangsu province. The Group organised the world's first China-Europe international transport corridors natural gas engine fuel vehicles event with high quality, which promoted the application of LNG in the transportation field under the "The Belt and Road Initiative".

NATURAL GAS PIPELINE

During the year, the natural gas pipeline transmission volume was 52,945 million cubic metres, representing a year-on-year increase of 27.00%. Revenue was RMB9,706 million, representing a year-on-year decrease of 9.75%. Profit before income tax expense was RMB5,021 million, representing a year-on-year decrease of 25.43%.

BUSINESS PROSPECTS

According to the energy development plan in the PRC, the percentage of natural gas consumption to primary energy consumption structure in China is expected to reach 10% by 2020. It will reach approximately 440.0 billion cubic metres by 2025. The government of the PRC persists in promoting green development, constructing ecological civilisation, frequently implementing a series of policies, facilitating the transformation and upgrading of industries and actively and gradually fostering natural gas as one of the major energies in the contemporary clean energy system. With increasing efforts in the implementation of environmental policies, the demand of natural gas will maintain a robust growth momentum, and the demand will continue to exceed supply in the short run. In 2018, the government of the PRC issued the "Several Opinions on Promoting Coordinated and Stable Development of Natural Gas", speeded up the construction of a system for the production, supply, storage and sales of natural gas, and facilitated the coordination and stable development of natural gas. The relevant authorities successively released documents such as the "Circular on Straightening the Gas Station Price of Natural Gas Used for Residential Purpose" and "Opinions on Accelerating the Construction of Gas Storage Facilities and Improving the Market Mechanism of Gas Storage and Peaking Auxiliary Services", further promoted the reform of natural gas market, and at the same time, implemented the "Three-Year Action Plan for Defending the Blue Sky", hence further facilitated the expansion of the natural gas market. The Ministry of Transport issued the "Administrative Regulations on the Safety Supervision of Hazardous Goods Shipment" and published the "Opinions on Further Advancing the Application of LNG in the Waterborne Transportation Industry (Draft for Comment)", which specified the policy for the use of natural gas in the waterborne traffic, thus greatly promoting the Group's "Gasification of Yangtze River" and LNG utilisation of offshore vessels. The aforementioned favourable policies and the broad prospects for development of the above industry lay a solid foundation for relevant policies and development opportunities for the Group to continually and rapidly expand its natural gas business.

In 2019, the Group will endeavour to seize opportunities in developing China's natural gas market, focus on retail sales development, continue to enhance its corporate values in order to get more returns to its shareholders.

Fully enhance the natural gas retail sales scale. The Group will continue to adopt the combined strategy of developing new markets and exploring the existing market, and it will also continue to expand the scale of retail market. It will also actively discover and expand into new markets, high-end market, profitable markets and emerging markets, and put more efforts in acquiring high-quality users including residential, industrial and public service sectors. It will promote the merger and acquisition of city gas projects and push forward the plan of developing high-potential quality natural gas generator projects and distributed energy projects.

Actively promote the branch pipeline constructions to drive the development of retail sales markets. The Group will continue to promote the branch pipeline constructions to drive the development of retail sales, and it will construct 7 branch pipelines including Guizhou Duyun-Kaili, Yunnan Honghe, Hunan Xinhua during 2019, and strive to simultaneously carry out the construction of branch pipelines and the development of retail markets.

Continue to enhance the LNG industry chain value. The Group will make full use of its advantages in the integration of "terminals + processing plants", coordinate the allocation of resources, continue to optimise the operation efficiency of LNG terminals and to enhance the operation capacity of LNG processing plants. The Group will increase its efforts in promoting the application of natural gas in the transportation field and optimizing the distribution of gas refilling stations.

Facilitate the transformation and upgrade of LPG sales in a stable manner. The Group will expand the scale of imported resources as well as explore and optimize the resource channels. It will intensify the marketing management and retail markets development, refine the logistics system, continuously extend the industry chain, accelerate the pace of sales transformation and upgrade, and strive to attain quality development.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB23.0 cents per share (2017: RMB21.0 cents per share) to shareholders whose names appear on the Company's register of members (the "Shareholders Register") on 20 June 2019 (Thursday) subject to the approval at the Annual General Meeting of the Company (the "2019 AGM"). The payment will be made on or before 30 June 2019. The proposed 2018 final dividend amounts to a total of approximately RMB1,858 million and 2017 dividend of RMB1,742 million was paid in 2018. The payout ratio for 2018 (dividend per share divided by basic earnings per share) was approximately 40.06% (2017: 35.61%).

ANNUAL GENERAL MEETING

The 2019 AGM will be held on 6 June 2019 (Thursday). The Notice of the 2019 AGM, which constitutes part of the circular to shareholders, will be sent together with the 2018 Annual Report. The Notice of the 2019 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining shareholders' eligibility to attend and vote at the 2019 AGM, and entitlement to the 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 2019 AGM:

Latest time to lodge transfer documents for registration	4:00 p.m. on 31 May 2019 (Friday)
Closure of Shareholders Register	from 3 June 2019 (Monday) to 6 June 2019 (Thursday) (both dates inclusive)
Record date	6 June 2019 (Thursday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00 p.m. on 14 June 2019 (Friday)
Closure of Shareholders Register	from 17 June 2019 (Monday) to 20 June 2019 (Thursday) (both dates inclusive)
Record date	20 June 2019 (Thursday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2019 AGM, and to qualify for the 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

MANAGEMENT DISCUSSION AND ANALYSIS

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment during the year ended 31 December 2018 (the "Year"). Profit before income tax expense of the Group for the Year was approximately RMB11,985 million, representing an increase of 4.40% as compared with RMB11,480 million for the last year. Profit attributable to owners of the Company for the Year was approximately RMB4,634 million, representing a decrease of 2.65% as compared with RMB4,760 million for the last year.

Revenue

Revenue for the Year was approximately RMB105,470 million, representing an increase of 18.90% as compared with amount of RMB88,706 million for the last year. The increase was mainly due to the expansion of natural gas business.

The Group's revenue was mainly derived from the Natural Gas Sales segment, LNG Processing and Terminal segment and Natural Gas Pipeline segment, which in aggregate accounted for 98.04% (2017: 98.30%) of the Group's total revenue amounting to approximately RMB103,402 million (2017: RMB87,201 million).

Other losses/gains, net

Other losses, net for the Year was approximately RMB259 million (2017: gains of RMB1,335 million). The losses were mainly due to the exchange loss of RMB758 million (2017: exchange gain of RMB609 million) recognised as a result of depreciation of RMB against US$ during the Year.

Interest income

Interest income for the Year was approximately RMB295 million, representing an increase of 39.81% as compared with amount of RMB211 million for the last year. The increase was mainly due to the increase in average balance of interest-bearing assets such as loans to an associate and joint ventures.

Purchases, services and others

Purchases, services and others were approximately RMB78,249 million for the Year, representing an increase of 21.99% as compared with amount of RMB64,145 million for the last year. The increase was mainly due to the increase in purchase volume and price of natural gas which was generally in line with the increase in sales of Natural Gas Sales segment.

Employee compensation costs

Employee compensation costs of the Group was approximately RMB4,845 million for the Year, representing an increase of 11.92% as compared with amount of RMB4,329 million for the last year. This increase was mainly due to the increase in average salary resulting from improved business performance as well as economic inflation during the Year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation for the Year was approximately RMB6,189 million, representing an increase of 9.52% as compared with amount of RMB5,651 million for the last year. The increase was mainly attributable to No.4 Shaanxi-Beijing Pipeline which was put into operation at the end of 2017.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment amounted to RMB420 million for the Year, representing a decrease of 30.46% as compared with that of RMB604 million for the last year. Impairment loss recognised during the Year was mainly attributable to a LNG processing plant and certain CNG/LNG stations whose carrying amounts exceeded the recoverable amounts.

Selling, general and administrative expenses

Selling, general and administrative expenses for the Year were approximately RMB3,389 million, representing a decrease of 1.71% as compared with amount of RMB3,448 million for the last year. Selling, general and administrative expenses remained fairly stable during the Year.

Taxes other than income taxes

Taxes other than income taxes for the Year was approximately RMB468 million, representing an increase of 6.12% as compared with amount of RMB441 million for the last year. Taxes other than income taxes remained fairly stable during the Year.

Interest expenses

Interest expenses for the Year was approximately RMB1,130 million, representing a decrease of 1.31% as compared with amount of RMB1,145 million for the last year. The decrease was mainly due to the decrease in average balance of interest-bearing borrowings in 2018.

Total interest incurred for the Year was approximately RMB1,684 million of which RMB554 million was capitalised as construction-in-progress.

Share of profits less losses of associates

Share of profits less losses of associates for the Year was approximately RMB858 million, representing an increase of 11.86%, as compared with amount of RMB767 million for the last year. The increase was mainly due to the increase in realised crude oil selling price during the Year that in turn led to the increase in the shared operating result from CNPC-Aktobemunaigas Joint Stock Company ("Aktobe").

Share of profits less losses of joint ventures

Share of profits less losses of joint ventures for the Year was increased by 38.84% to approximately RMB311 million (2017: RMB224 million). The increase was mainly due to the share of profits from the joint ventures acquired at the end of 2017.

Profit before income tax expense

Profit before income tax expense for the Year was approximately RMB11,985 million, representing an increase of 4.40% as compared with amount of RMB11,480 million for the last year.

Income tax expense

Income tax expense for the Year was approximately RMB3,772 million, representing an increase of 6.83% as compared with amount of RMB3,531 million for the last year. The effective tax rate for the Year was 31.47%, which remained fairly stable as compared to that of 30.76% for the last year.

Profit for the Year and profit attributable to owners of the Company

The profit for the Year of the Group was approximately RMB8,213 million, representing an increase of 3.32% as compared with amount of RMB7,949 million for the last year. The profit attributable to owners of the Company for the Year was approximately RMB4,634 million, representing a decrease of 2.65% as compared with amount of RMB4,760 million for the last year.

Liquidity and capital resources

As at 31 December 2018, the carrying value of total assets of the Group was approximately RMB140,587 million, representing an increase of RMB29 million or 0.02% as compared with RMB140,558 million as at 31 December 2017.

The gearing ratio of the Group was 35.60% as at 31 December 2018 compared with 40.51% as at 31 December 2017, representing a decrease of 4.91%. It is computed by dividing the sum of interest-bearing borrowings, convertible bonds and obligations under finance leases of RMB38,744 million (2017: RMB44,682 million) by the total equity, interest-bearing borrowings, convertible bonds and obligations under finance leases of RMB108,838 million (2017: RMB110,307 million).

As at 31 December 2018, the Group has total borrowings of RMB35,235 million which will be repayable as follows:

	2018	2017
	RMB'million	*RMB'million*
Within one year	**7,072**	11,805
Between one to two years	**9,176**	4,431
Between two to five years	**13,559**	20,410
After five years	**5,428**	4,455
	35,235	41,101

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

During the Year, no share option (2017: none) has been exercised by the senior executives of the Company as all share options were lapsed.

As at 31 December 2018, the Group had net current liabilities of RMB8,484 million. Notwithstanding the net current liabilities of the Group at 31 December 2018, the Group's consolidated financial statements have been prepared on a going concern basis because the directors of the Company (the "Directors") are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) the Group expects to obtain credit facility from China Petroleum Finance Company Limited ("CP Finance"). On 7 March 2019, the Group obtained a credit facility of RMB20 billion from CP Finance covering a period ending 31 March 2020;

(ii) the Group expects to generate operating cash inflows in the future; and

(iii) the Directors consider that the Group could obtain financing from various sources of funding.

Consequently, the consolidated financial statements have been prepared on a going concern basis.

Use of Proceeds

Interest Paid

The Group paid interest of RMB1,821 million (2017: RMB1,438 million) during the Year.

Dividend Paid

2017 final dividend of RMB21.0 cents per share amounting to RMB1,742 million (2017: 2016 final dividend of RMB6.5 cents per share amounting to RMB522 million) was distributed to owners of the Company during the Year.

Pledge of Assets

As at 31 December 2018 and 31 December 2017, no short-term or long-term borrowings were secured by property, plant and equipment or advance operating lease payment.

New Investment in Major Projects

PetroChina Kunlun Gas Co., Ltd ("Kunlun Gas"), a wholly-owned subsidiary of the Company, entered into acquisition agreement dated 28 September 2017 with PetroChina Company Limited ("PetroChina"), pursuant to which PetroChina has conditionally agreed to sell and Kunlun Gas has conditionally agreed to purchase 51% equity interest in PetroChina Jingtang LNG Co., Ltd ("Jingtang Co.") at a consideration of approximately RMB1,547 million subject to adjustment on gain or loss of Jingtang Co. during the transition period, as defined in the acquisition agreement. This acquisition will help the Group avoid the horizontal competition between the Group and PetroChina, which will generate synergies among the Group's businesses, enhance operational efficiency and increase market competitiveness. In the fourth quarter of 2017, Kunlun Gas obtained all the necessary approvals of the government authorities of the acquisition and Jingtang Co. has become a non-wholly-owned subsidiary of the Company upon the completion of acquisition. The final consideration was RMB1,906 million, including the gains during the transition period amounting to approximately RMB359 million.

Material Investments

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

The Group's major investment in associates are mainly in its Exploration and Production segment. The Group has invested in an associate, Aktobe, located in the Republic of Kazakhstan with an effective equity interest of 15.072%.

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

Employee

As at 31 December 2018, the Group had approximately 42,278 employees globally (excluding the employees under entrustment contracts) (2017: 41,835 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.

Final Dividend

The Board recommended the payment of a final dividend of RMB23.0 cents (2017: RMB21.0 cents) per share. The proposed dividend will be paid on or before 30 June 2019 to the shareholders whose names appear on the Company's register of the members on 20 June 2019 (Thursday), subject to the approval at the annual general meeting of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted written guidelines on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code of conduct regarding Directors' securities transaction.

Specific enquiry has been made of all the Directors, and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

CORPORATE GOVERNANCE

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

Pursuant to paragraph 45(6) of Appendix 16 to the Listing Rules, the Board wishes to confirm that the Audit Committee of the Company has reviewed with the management the accounting policies and standards adopted by the Company and its subsidiaries and discussed the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2018. 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 of three Independent Non-executive Directors, was established in December 1998.

Three 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 2018.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

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
Ling Xiao
Chairman and Executive Director

Hong Kong, 19 March 2019

As at the date of this announcement, the Board comprises Mr. Ling Xiao as the Chairman and Executive Director, Mr. Zhao Yongqi as the Chief Executive Officer and Executive Director, Mr. Zhao Zhongxun as Executive Director, Mr. Zhou Yuanhong as Executive Director, Mr. Miao Yong as Executive Director, and Mr. Li Kwok Sing Aubrey, Dr. Liu Xiao Feng and Mr. Sun Patrick as Independent Non-Executive Directors.