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		
	2012	2011	Change
	HK$'million	*HK$'million*	*%*
		(restated)	
		(Note 11)	
Revenue	**32,953**	25,915	27.16
Profit before income tax expense	**13,306**	10,487	26.88
Profit attributable to the owners of the Company	**6,518**	5,621	15.96
EBITDA (Note)	**18,229**	14,804	23.14
	HK cent	*HK cent*	
Earnings per share (Basic)	**83.54**	78.60	6.28
Earnings per share (Diluted)	**83.13**	77.68	7.02
Dividend per share – Final	**23.00**	22.00	4.55

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	**2012** **HK$'million**	2011 HK$'million (restated) (Note 11)
Revenue	*4*	**32,953**	25,915
Other gains, net		**361**	174
Interest income		**172**	178
Purchases, services and others		**(12,912)**	(9,307)
Employee compensation costs		**(1,684)**	(1,505)
Exploration expenses, including exploratory dry holes		**(42)**	(247)
Depreciation, depletion and amortisation		**(4,434)**	(4,090)
Selling, general and administrative expenses		**(2,165)**	(1,607)
Taxes other than income taxes		**(923)**	(1,195)
Other expense		**–**	(1)
Interest expenses		**(661)**	(405)
Share of profits less losses of:			
– Associates		**2,334**	2,255
– Jointly controlled entities		**307**	322
Profit before income tax expense	*5*	**13,306**	10,487
Income tax expense	*6*	**(3,392)**	(2,291)
Profit for the year		**9,914**	8,196
Other comprehensive income:			
Currency translation differences		**663**	1,851
Fair value gain/(loss) on available-for-sale financial assets		**1**	(8)
Other comprehensive income		**664**	1,843
Total comprehensive income for the year		**10,578**	10,039

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the year ended 31 December 2012

	Note	**2012**	2011
		HK$'million	*HK$'million*
			(restated)
			(Note 11)
Profit for the year attributable to:			
– Owners of the Company		**6,518**	5,621
– Non-controlling interest		**3,396**	2,575
		9,914	8,196
Total comprehensive income for the year attributable to:			
– Owners of the Company		**7,017**	6,809
– Non-controlling interest		**3,561**	3,230
		10,578	10,039
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic *(HK cents)*		**83.54**	78.60
– Diluted *(HK cents)*		**83.13**	77.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	**2012**	2011
		HK$'million	*HK$'million*
			(restated)
			(Note 11)
Assets			
Non-current assets			
Property, plant and equipment		**69,225**	56,677
Advanced operating lease payments		**2,199**	1,218
Investments in associates		**5,606**	6,158
Investments in jointly controlled entities		**1,541**	1,732
Available-for-sale financial assets		**173**	133
Intangibles and other non-current assets		**2,360**	1,553
Deferred tax assets		**187**	125
		81,291	67,596
Current assets			
Inventories		**717**	563
Accounts receivable	*9*	**1,367**	736
Prepaid expenses and other current assets		**5,575**	3,594
Cash and cash equivalents		**19,592**	11,718
		27,251	16,611
Total assets		**108,542**	84,207

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2012

	Note	**2012** **HK$'million**	2011 HK$'million (restated) (Note 11)
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**81**	72
Retained earnings		**20,059**	17,545
Reserves		**24,282**	12,766
		44,422	30,383
Non-controlling interest		**17,756**	15,275
Total equity		**62,178**	45,658
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**12,438**	8,913
Income tax payable		**461**	459
Other tax payable		**353**	589
Short-term borrowings		**5,111**	2,611
		18,363	12,572
Non-current liabilities			
Long-term borrowings		**26,562**	24,964
Deferred tax liabilities		**1,278**	985
Other long-term obligations		**161**	28
		28,001	25,977
Total liabilities		**46,364**	38,549
Total equity and liabilities		**108,542**	84,207
Net current assets		**8,888**	4,039
Total assets less current liabilities		**90,179**	71,635

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The consolidated financial statements of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. NEW ACCOUNTING DEVELOPMENTS

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

HKAS 12 (Amendment) "Income taxes". The amendment introduces an exception to the principles for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. Currently, HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 Investment Property. The amendment did not have any significant impact on the consolidated financial statements, as the Group does not have any investment properties.

HKFRS 7 (Amendment) "Financial instruments: disclosures". The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 1 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters" include two changes to HKFRS 1 "First-time adoption of HKFRS". The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to HKFRSs', thus eliminating the need for companies adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to HKFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation. The amendment did not have any significant impact on the consolidated financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2013 or later periods and have not been early adopted by the Group:

HKAS 1 (Amendment) "Presentations of financial statements" requires entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess HKAS 1 (Amendment)'s full impact and intends to adopt HKAS 1 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

2. NEW ACCOUNTING DEVELOPMENTS (CONTINUED)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKAS 19 (Amendment) "Employee benefits" eliminates the corridor approach and calculates finance costs on a net funding basis. The Group is yet to assess HKAS 19 (Amendment)'s full impact and intends to adopt HKAS 19 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKAS 27 (Revised 2011) "Separate financial statements" includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. The Group is yet to assess HKAS 27 (Revised 2011)'s full impact and intends to adopt HKAS 27 (Revised 2011) no later than the accounting period beginning on or after 1 January 2013.

HKAS 28 (Revised 2011) "Associates and joint ventures" includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. The Group is yet to assess HKAS 28 (Revised 2011)'s full impact and intends to adopt HKAS 28 (Revised 2011) no later than the accounting period beginning on or after 1 January 2013.

HKAS 32 (Amendment) "Financial instruments: presentation - on assets and liabilities offsetting" are to the application guidance in HKAS 32. The amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Group is yet to assess HKAS 32 (Amendment)'s full impact and intends to adopt HKAS 32 (Amendment) no later than the accounting period beginning on or after 1 January 2014.

HKFRS 7 (Amendment) "Financial instruments: disclosures - on assets and liabilities offsetting" requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKFRS 9 "Financial instruments" is the first standard issued as part of a wider project to replace HKAS 39. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.

HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures" delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from HKAS 39 to HKFRS 9 are required. The Group is yet to assess HKFRS 7 and HKFRS 9 (Amendments)'s full impact and intends to adopt HKFRS 7 and HKFRS 9 (Amendments) no later than the accounting period beginning on or after 1 January 2015.

HKFRS 10 "Consolidated financial statements" establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. The standard defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group anticipates that the application of the HKFRS 10 has no material impact on the results and financial position of the Group.

2. NEW ACCOUNTING DEVELOPMENTS (CONTINUED)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKFRS 1 (Amendment) "First time adoption – on government loans" addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to HKFRS. It also adds an exception to the retrospective application of HKFRS, which provides the same relief to first-time adopters granted to existing preparers of HKFRS financial statements when the requirement was incorporated into HKAS 20 in 2008. The Group is yet to assess HKFRS 1 (Amendment)'s full impact and intends to adopt HKFRS 1 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) "Transition guidance" provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. The Group is yet to assess HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)'s full impact and intends to adopt HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) no later than the accounting period beginning on or after 1 January 2013.

HKFRS 11 "Joint arrangements" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

HK(IFRIC) – Int 20 "Stripping costs in the production phase for surface mine" sets out the accounting for overburden waste removal (stripping) costs that are incurred in surface mining activity during the production phase of a mine. The interpretation may require mining entities reporting under HKFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable components of an ore body.

3. 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 two operating segments: Exploration and Production, and Natural Gas Distribution.

The Exploration and Production segment is engaged in the exploration, development, production and sale of crude oil and natural gas. It is further evaluated on a geographic basis (the People's Republic of China (the "PRC") and other territories).

The Natural Gas Distribution segment is engaged in the sale of natural gas and the transmission of natural gas in the PRC. As a result of the continuing expansion of the Group's LNG Processing and Terminal businesses in 2012, this segment is further divided into two segments, namely LNG Processing and LNG Terminal. Currently the Natural Gas Distribution segment includes Natural Gas Sales, LNG Processing, LNG Terminal and Natural Gas Pipeline.

No sales between operating segments are undertaken. The Executive Directors assesses 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 jointly controlled entities ("segment results").

Total assets exclude deferred and current taxes, available-for-sale financial assets, investments in associates and jointly controlled entities, all of which are managed on a central basis ("segment assets").

Corporate income and expenses, net, mainly refers to interest income earned from cash and cash equivalents, and general and administration expenses incurred at corporate level.

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

3. SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2012 and 2011 are as follows:

	Exploration and Production			Natural Gas Distribution					Corporate	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	LNG Terminal	Natural Gas Pipeline	Sub-total		Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
For the year ended 31 December 2012										
Revenue from external customers	4,000	2,076	6,076	12,734	817	1,916	11,410	26,877	–	32,953
Segment results	1,465	720	2,185	1,731	(7)	572	6,088	8,384	96	10,665
Share of profits less losses of:										
– Associates	–	2,096	2,096	238	–	–	–	238	–	2,334
– Jointly controlled entities	–	307	307	(6)	–	–	–	(6)	6	307
Profit before income tax expense	1,465	3,123	4,588	1,963	(7)	572	6,088	8,616	102	13,306
Income tax expenses										(3,392)
Profit for the year										9,914
Segment results included:										
Interest income	38	10	48	62	–	4	27	93	31	172
Depreciation, depletion and amortisation	(587)	(301)	(888)	(625)	(87)	(750)	(2,083)	(3,545)	(1)	(4,434)
Interest expense	–	(54)	(54)	(96)	–	(219)	(450)	(765)	158	(661)
As at 31 December 2012										
Non-current assets	3,203	1,205	4,408	13,492	8,433	11,850	33,824	67,599	1,777	73,784
Current assets	2,446	2,580	5,026	10,000	1,819	722	2,745	15,286	6,939	27,251
Segment assets	5,649	3,785	9,434	23,492	10,252	12,572	36,569	82,885	8,716	101,035
Investments in associates	–	3,687	3,687	1,913	–	6	–	1,919	–	5,606
Investments in jointly controlled entities	–	900	900	211	–	–	–	211	430	1,541
Sub-total	5,649	8,372	14,021	25,616	10,252	12,578	36,569	85,015	9,146	108,182
Available-for-sale financial assets										173
Deferred tax assets										187
Total assets										108,542

3. SEGMENT INFORMATION (CONTINUED)

	Exploration and Production			Natural Gas Distribution					Corporate	
	PRC	Others	Sub-total	Natural Gas Sales	LNG Processing	LNG Terminal	Natural Gas Pipeline	Sub-total		Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million* (restated) *(Note 11)*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million* (restated) *(Note 11)*	*HK$'million*	*HK$'million* (restated) *(Note 11)*
For the year ended 31 December 2011										
Revenue from external customers	4,267	1,922	6,189	8,633	554	602	9,937	19,726	–	25,915
Segment results	1,799	266	2,065	1,182	24	234	4,335	5,775	70	7,910
Share of profits less losses of:										
– Associates	–	2,067	2,067	188	–	–	–	188	–	2,255
– Jointly controlled entities	–	346	346	(2)	–	–	–	(2)	(22)	322
Profit before income tax expense	1,799	2,679	4,478	1,368	24	234	4,335	5,961	48	10,487
Income tax expense										(2,291)
Profit for the year										8,196
Segment results included:										
Interest income	33	5	38	112	–	5	20	137	3	178
Depreciation, depletion and amortisation	(423)	(464)	(887)	(439)	(43)	(197)	(2,523)	(3,202)	(1)	(4,090)
Interest expense	–	–	–	(2)	–	–	(403)	(405)	–	(405)
As at 31 December 2011										
Non-current assets	3,106	1,258	4,364	6,248	6,689	12,552	28,762	54,251	833	59,448
Current assets	3,006	1,612	4,618	7,005	1,680	678	1,251	10,614	1,379	16,611
Segment assets	6,112	2,870	8,982	13,253	8,369	13,230	30,013	64,865	2,212	76,059
Investments in associates	–	4,732	4,732	1,420	–	6	–	1,426	–	6,158
Investments in jointly controlled entities	–	1,078	1,078	236	–	–	–	236	418	1,732
Sub-total	6,112	8,680	14,792	14,909	8,369	13,236	30,013	66,527	2,630	83,949
Available-for-sale financial assets										133
Deferred tax assets										125
Total assets										84,207

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 2012, revenue of approximately HK$14,052 million (2011 restated: HK$12,929 million) are derived from two (2011: two) single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

4. REVENUE AND TURNOVER

Turnover mainly represents revenue from the sale of crude oil, the sales of natural gas, LNG processing, LNG terminal and transmission of natural gas. Analysis of revenue by segment is shown in Note 3.

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Amortisation on intangibles and other assets	**40**	27
Cost of inventories recognised as expense	**14,656**	10,994
Depreciation of property, plant and equipment	**4,394**	4,063
Operating lease expenses	**145**	49

6. INCOME TAX EXPENSE

	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Current tax		
– PRC	**2,257**	1,762
– Overseas	**906**	674
	3,163	2,436
Deferred tax	**229**	(145)
	3,392	2,291

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (2011: 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 Mainland China is principally 25% (2011: 25%). The operations of the Group's certain regions in China have qualified for certain tax incentives in the form of a preferential income tax rates ranging from 15% to 20% (2011: 10% to 20%).

Income tax on overseas (other than the PRC) 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.

Included in overseas income tax expenses is withholding tax of approximately HK$602 million (2011: HK$396 million) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company which is charged at 20% (2011: 20%).

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2012 (2011: Nil).

7. BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$6,518 million (2011 restated: HK$5,621 million) and weighted average number of ordinary shares in issue during the year of approximately 7,802 million shares (2011: 7,151 million shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$6,518 million (2011 restated: HK$5,621 million), and the weighted average number of ordinary shares of approximately 7,841 million shares (2011: 7,236 million shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 39 million shares (2011: 85 million shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

8. DIVIDEND ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2012 ***HK$'million***	2011 *HK$'million*
Proposed final dividend attributable to owners of the Company for 2012 *(Note (a))*	**1,852**	–
Final dividend attributable to owners of the Company for 2011 *(Notes (b) and (c))*	**–**	1,590

Notes:

(a) At the meeting on 21 March 2013, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2012 of HK23 cents per share amounting to a total of approximately HK$1,852 million. The amount is based on approximately 8,051 million shares in issue as at 21 March 2013. These consolidated financial statements do not reflect this dividend payable as the final dividends were 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 2013 when approved at the forthcoming Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2011 of HK22 cents per share amounting to a total of approximately HK$1,590 million were approved by the shareholders in the Annual General Meeting on 16 May 2012 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2012. The amount is based on approximately 7,228 million shares in issue as at 29 March 2012.

(c) The actual final dividend for 2011 was approximately HK$1,766 million due to additional shares issued during the period from 30 March 2012 to 21 May 2012, the date of closure of the register of members, and were paid on 6 June 2012.

9. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable at 31 December 2012 and 2011 is as follows:

	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within 3 months	**1,104**	623
Between 3 to 6 months	**176**	29
Over 6 months	**87**	84
	1,367	736

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2012, accounts receivable of approximately HK$263 million (2011 restated: HK$113 million) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to companies for whom there is no recent history of default. For 2012 and 2011, there are no provision of impairment of accounts receivable. Accordingly, the ageing analysis of the accounts receivable which are past due but not impaired is disclosed in the above ageing analysis.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at 31 December 2012, included in the balance is accounts payable of HK$1,935 million (2011 restated: HK$1,720 million).

The ageing analysis of accounts payable is as follows:

	2012	2011
	HK$'million	*HK$'million*
		(restated)
		(Note 11)
Within 3 months	**1,469**	1,238
Between 3 to 6 months	**200**	289
Over 6 months	**266**	193
	1,935	1,720

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 are within one year.

11. COMPARATIVES

It represented the acquisition agreement entered into by the Group to acquire 51% equity interests in Binhai New Energy Co., Ltd. ("2012 Natural Gas Project") for a cash consideration of RMB200 million (approximately HK$263 million). The acquisition of 2012 Natural Gas Project was by means of capital injection and completed on 15 February 2012.

The acquisition is business combination under common control since the Company and 2012 Natural Gas Project is under the common control of China National Petroleum Corporation ("CNPC"). As a result, the Company has accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at carryover predecessor values to CNPC.

The consolidated financial statements have been restated to give effect to the acquisition with all periods presented as if the operations of the Group and 2012 Natural Gas Project have always been combined.

The summarised results of operations for the year ended 31 December 2011 and the financial position as at 31 December 2011 for the separate entity and on a consolidation basis are set out below.

	The Group	**2012 Natural Gas Project**	**The Group**
	HK$'million	*HK$'million*	*HK$'million*
	(as previously reported)		*(as restated)*
Results of operations for the year ended 31 December 2011			
Revenue	25,398	517	25,915
Profit for the year	8,169	27	8,196
Financial position as at 31 December 2011			
Non-current assets	67,521	75	67,596
Current assets	16,548	63	16,611
Total assets	84,069	138	84,207
Current liabilities	12,509	63	12,572
Non-current liabilities	25,973	4	25,977
Total liabilities	38,482	67	38,549
Net assets	45,587	71	45,658

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

I am pleased to report the full year results of Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") to the shareholders on behalf of the Board. For the year ended 31 December 2012 (the "Year"), the revenue of the Group amounted to HK$32,953 million and profit attributable to owners of the Company for the Year was HK$6,518 million, representing an increase of HK$7,038 million and HK$897 million or 27.16% and 15.96% respectively compared with the restated revenue and profit attributable to owners of the Company for the corresponding period last year. International crude oil prices showed an upward trend after initial decline, and remained high in general during the Year. In addition, the natural gas business had a substantial growth, which contributed to the Group's revenue and profit.

I. Exploration and Production

For the Year, revenue of HK$6,076 million was derived from the exploration and production business, a decrease of HK$113 million or 1.83% compared with the corresponding period last year, accounting for 18.44 % of the Group's total revenue. The production of the Group's eight oil fields remained stable with sales volume of crude oil reaching 17.57 million barrels, representing an increase of 0.51 million barrels or 2.97% compared with the corresponding period last year. The Group's average realised crude oil selling price was US$98.75 per barrel for the Year, representing a decrease of US$1.41 or 1.41% compared with the corresponding period last year.

II. Natural Gas Pipeline

For the Year, natural gas pipeline business has further expanded. The volume of natural gas transmission was 23,833 million cubic metres, representing an increase of 3,047 million cubic metres or 14.66% compared with the corresponding period last year. The volume transmitted by PetroChina Beijing Gas Pipeline Co., Ltd was 23,295 million cubic metres and the volume of other natural gas pipelines was 538 million cubic metres. Phase 1 of the coke oven gas integrated utilisation project in Wuhai, the pipeline construction project for the natural gas transmission invested by the Group, was completed. Wuyin line, the longest hydrogen-rich coke oven gas transmission pipelines in the world, was in operation; and the commencement of Wuyin line not only makes an important contribution to energy saving and emission reduction, it also brings good investment return to the Group.

III. LNG Terminal

During the Year, Jiangsu LNG terminal and Dalian LNG terminal of the Group unloaded 39 barges of LNG, amounting to an aggregate of 3.85 million tonnes. The two LNG terminals are the important supporting facilities for receiving stable source of gas supply by the parent company and will contribute stable income to the Group and secure the source of gas supply.

IV. LNG Processing Plant

During the Year, the Group expedited the development of LNG resources and commenced the construction of 14 LNG processing plants and acquired one LNG processing plant, of which the Guangan LNG processing plant (processing capacity of 1 million cubic metres/day) in Sichuan, and the Ansai LNG processing plant (processing capacity of 2 million cubic metres/day) in Shaanxi, have commenced operation. Currently, there are 7 LNG processing plants in operation with total production capacity of 4.53 million cubic metres/day. The remaining processing plants will commence production successively in the next two years, upon which the Group will become the largest domestic onshore LNG producer and supplier.

V. Sales of Natural Gas

Sales volume of natural gas was 4,818 million cubic metres for the Year, representing an increase of 990 million cubic metres or 25.85% (restated) compared with the corresponding period last year. Revenue derived from natural gas sales was HK$13,551 million, an increase of HK$4,364 million or 47.50% (restated) compared with the corresponding period last year, accounting for 41.12% of the Group's total revenue. Profit before income tax was HK$1,956 million, representing an increase of HK$564 million or 40.52% (restated) compared with the corresponding period last year, and the sales volume of natural gas achieved rapid growth.

During the Year, the Group made further effort in market expansion and continued to develop the LNG business as priority by implementing the "Gas in Substitution of Oil" strategy, accelerating the promotion of the utilisation of LNG as fuel energy for urban public transport, long-distance passenger transportation, heavy duty trucks, vessels and oilfield drilling rigs. Over 28,000 LNG vehicles were developed and supported with the construction of 227 LNG stations during the Year. In particular, the LNG collaborative projects for public transport conducted in Beijing, Chongqing, Haikou and Baoding attained remarkable demonstration effect. The Group collaborated with China Classification Society, China Changjiang National Shipping (Group) Corporation and Jinan Diesel Engine Co., Ltd. to commence the LNG utilisation for vessels in Yangtze River, Beijing-Hangzhou Grand Canal, Ganjiang River, Dongting Lake and Weishan Lake; 21 LNG vessels were developed; and the trial voyage of the first diesel-LNG hybrid bulk carrier of 3,000 tons was carried out in Yangtze River. The vessel named Lu Jining Jun 0099 was modified and became the first diesel-LNG hybrid engineering vessel in the country. The application of LNG as fuel energy in oil and gas field drilling operations such as Xinjiang Oilfield, Tarim Oilfield and Changqing Oilfield was promoted; 48 natural gas rigs were developed, with significant breakthrough achieved.

During the Year, the Group established Kunlun Energy (Gansu) Company Limited ("Gansu Company") and Jilin Jigang Clean Energy Company Limited ("Jigang Company") through cooperation and joint ventures with the Yumen Oilfield and Jilin Oilfield owned by the parent company respectively. The number of joint ventures increased to 6, which not only strengthened the win-win cooperation with the parent company, it also further optimised the strategic plans of the Group's principal business.

BUSINESS PROSPECTS

The Group will grasp the tremendous opportunities arising from the ecological civilisation construction, energy saving and emission reduction in the PRC and continue to adhere to the concept of "Low-carbon Economy and Green Development" by focusing on the "Gas in Substitution of Oil" strategy to accelerate the pace of development in natural gas business.

This year, the Group will expedite the development of LNG processing plants such as the Huanggang LNG processing plant (processing capacity of 5 million cubic metres/day) in Hubei and the Taian LNG processing plant (processing capacity of 2.6 million cubic metres/day) in Shandong, as well as focusing on natural gas pipeline construction projects. The Group will constantly improve the infrastructure construction of distribution facilities of natural gas to safeguard the resources for the rapid growth of the Group's natural gas business.

With a view to realise effective linkage between resources and the market, the Group will increase its marketing efforts by taking Beijing, Shanghai, Chongqing and Guangzhou as exemplary cities in public transportation, long-distance passenger and cargo routes of large transport companies as demonstration to substantially promote the development of LNG vehicles. In addition, the Group will further consolidate the "Gasifying Changjiang" collaboration with China Changjiang National Shipping (Group) Corporation to speed up the application of LNG vessels in inland rivers and lakes and further promote the utilisation of LNG as fuel energy for oilfield drilling rigs. The Group will also accelerate the study on the safety of railway transportation of LNG for Golmud-Lhasa line (Golmud, Qinghai – Lhasa, Tibet) to attain early realisation of rail transportation of LNG in container.

The Group will further optimise the "Gas in Substitution of Oil" strategy by opening up the channels in Hexi Corridor through the newly established Gansu Company and complete the overall setting in the Northeast region through the Jigang Company and KunLun Energy (LiaoNing) Company Limited of the Group to achieve the target of nation-wide network across China and set a solid foundation for the development of LNG vessels.

The Group will further leverage on the overall advantages of the parent company and explore the effect of joint venture and cooperation platform; and continue its in-depth cooperation with the enterprises owned by the parent company such as oilfield enterprises, transportation companies and sales enterprises; continue to seek investment opportunities in the field of domestic natural gas business aligning with the business development direction, enhance business scale and effectiveness sustainably; and make contribution to energy saving and emission reduction as well as green development in China; and provide shareholders with satisfactory returns.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK23 cents per share (2011: HK22 cents per share) to Shareholders whose names appear on the Shareholders Register on 5 June 2013 (Wednesday). The payment will be made in June 2013. The proposed final dividend amounts to a total of approximately HK$1,852 million and 2011 dividend of HK$1,766 million was paid in 2012, which represents a payout ratio (dividend per share divided by basic earnings per share) of approximately 27.53%.

CLOSURE OF SHAREHOLDERS REGISTER

For the purposes of determining Shareholders' eligibility to attend and vote at the 2013 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 2013 AGM:

Latest time to lodge transfer documents for registration	4:00 pm on 20 May 2013 (Monday)
Closure of shareholders register	from 21 May 2013 (Tuesday) to 23 May 2013 (Thursday) (both dates inclusive)
Record date	23 May 2013 (Thursday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:00pm on 30 May 2013 (Thursday)
Closure of shareholders register	from 31 May 2013 (Friday) to 5 June 2013 (Wednesday) (both dates inclusive)
Record date	5 June 2013 (Wednesday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2013 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 26 Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2013 AGM will be held on 23 May 2013 (Thursday). The Notice of the 2013 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2012 Annual Report. The Notice of the 2013 AGM and the proxy form will also be available on the Company's website.

MANAGEMENT DISCUSSION AND ANALYSIS

Kunlun Energy Company Limited (the "Company") and its subsidiaries (together, the "Group") continued to develop its natural gas business segment through business development and acquisitions for the year ended 31 December 2012 (the "Year"). During the Year, the capital increase in Binhai New Energy Co., Ltd. ("Binhai New Energy") was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. The Company also established Kunlun Energy (Gansu) Company Limited ("Gansu Company") and Jilin Jigang Clean Energy Company Limited ("Jigang Company") with Yumen Oilfield and Jinlin Oilfield respectively. Comparative financial information in this announcement has been restated to reflect the effect of merging Binhai New Energy with the Group. Details of which are set out in Note 11 to the financial information.

OPERATING RESULTS

The financial results of the Group for the Year were benefited from the expansion of natural gas business. Profit before income tax expense of the Group for the Year was approximately HK$13,306 million, representing an increase of 26.88% as compared with restated amount of HK$10,487 million for the last year. Profit attributable to owners of the Company for the Year was approximately HK$6,518 million representing an increase of 15.96% as compared with restated amount of HK$5,621 million for the last year.

Revenue

Revenue for the Year was approximately HK$32,953 million, representing an increase of 27.16% as compared with restated amount of HK$25,915 million for the last year. The increase was mainly due to the expansion of natural gas business.

Revenue from the Exploration and Production segment accounted for 18.44% of the Group's total revenue amounting to approximately HK$6,076 million while revenue from the Natural Gas Distribution business segment accounted for 81.56% of the Group's total revenue amounting to approximately HK$26,877 million.

The table below sets out the sales volume and revenue for major segments of the Group for the Year 2012 and 2011, and percentages of change during these two years.

	Sales volume For the year ended 31 December			**Revenue For the year ended 31 December**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
	('000 barrel)	*('000 barrel)*	*%*	*HK$'million*	*HK$'million*	*%*
Exploration and Production business						
The People's Republic of China (the "PRC")	**5,621**	5,781	(2.77)	**4,000**	4,267	(6.26)
South America (note)	**606**	555	9.19	**1,048**	947	10.67
Central Asia	**681**	738	(7.72)	**541**	587	(7.84)
South East Asia	**597**	494	20.85	**487**	388	25.52
	7,505	7,568	(0.83)	**6,076**	6,189	(1.83)
Share of associates in Central Asia	**6,773**	6,696	1.15	**–**	–	N/A
Share of a jointly controlled entity in Middle East	**3,288**	2,796	17.60	**–**	–	N/A
Total of Exploration and Production	**17,566**	17,060	2.97	**6,076**	6,189	(1.83)

	Sales/processing volume			Revenue		
	For the year ended 31 December			For the year ended 31 December		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
	('000 cubic metre)	*('000 cubic metre)*	*%*	*HK$'million*	*HK$'million*	*%*
Natural Gas Distribution business						
Natural Gas Sales, as previously reported	**4,582,631**	3,627,821	26.32	**12,734**	8,116	56.90
Effect of business combination under common controls	**N/A**	101,135	N/A	**N/A**	517	N/A
Natural Gas Sales, as restated	**4,582,631**	3,728,956	22.89	**12,734**	8,633	47.50
LNG Processing	**235,530**	99,630	136.40	**817**	554	47.47
Sub-total	**4,818,161**	3,828,586	25.85	**13,551**	9,187	47.50
LNG Terminal	**5,078,257**	1,638,391	209.95	**1,916**	602	218.27
Natural Gas Pipeline	**23,833,181**	20,786,050	14.66	**11,410**	9,937	14.82
Total of Natural Gas Distribution	**33,729,599**	26,253,027	28.48	**26,877**	19,726	36.25
				32,953	25,915	27.16

Note: Only the Group 50% share of sale volume from South America is stated while its revenue is shown as 100% per consolidation requirement.

Other Gains, Net

Other gains, net for the Year was approximately HK$361 million, representing an increase of 107.47% as compared with restated amount of HK$174 million for last year. The increase was mainly due to the increase of the subsidy from the government.

Interest Income

Interest income for the Year was approximately HK$172 million, representing a decrease of 3.37% as compared with restated amount of HK$178 million for the last year. The decrease was mainly due to a decrease in bank deposit of some projects during the Year.

Purchases, Services and Others

Purchases, services and others were approximately HK$12,912 million for the Year, representing an increase of 38.73% as compared with restated amount of HK$9,307 million for the last year. This was mainly due to the increase in purchase volume of natural gas which is in line with the market condition.

Employee Compensation Costs

Employee compensation costs of the Group was approximately HK$1,684 million for the Year, representing an increase of 11.89% as compared with amount of HK$1,505 million for the last year. This increase was mainly due to the expansion of the Group's natural gas business.

Exploration Costs

Exploration costs for the Year was approximately HK$42 million, representing a decrease of 83.00% as compared with amount of HK$247 million for the last year. This was mainly due to the termination of the project Continental Geopetro (Bengara II) Ltd (the "CGB2").

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation for the Year was approximately HK$4,434 million, representing an increase of 8.41% as compared with restated amount of HK$4,090 million for last year. This was mainly due to the combined effect of addition of property, plant and equipment during the Year following the business expansion and revision of the estimate useful lives of the Group's certain pipelines with effect from 1 July 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Year was approximately HK$2,165 million, representing an increase of 34.72% as compared with restated amount of HK$1,607 million for the last year. This was mainly due to a robust expansion of the Group's natural gas business.

Taxes other than Income Taxes

Taxes other than income taxes for the Year was approximately HK$923 million, representing a decrease of 22.76% as compared with restated amount of HK$1,195 million for the last year. It was mainly due to less payment of the special levy on the sales of domestic crude oil in China by the Group as the decrease both in sales volume and the average crude oil price throughout the Year.

Interest Expenses

Interest expenses for the Year was approximately HK$661 million, representing an increase of 63.21% as compared with restated amount of HK$405 million for the last year. The increase was mainly due to the increase in borrowing during the Year.

Share of Profits less Losses of Associates

Share of profits less losses of associates for the Year was approximately HK$2,334 million, representing an increase of 3.50% as compared with amount of HK$2,255 million for the last year, it was mainly attributable to CNPC – Aktobemunaigas Joint Stock Company.

Share of Profits less Losses of jointly controlled entities

Share of profits less losses of jointly controlled entities for the Year was approximately HK$307 million representing a decrease of 4.66% as compared with amount of HK$322 million for the last year, it was mainly due to the decrease of crude oil sales price in Oman project.

Profit before Income Tax Expense

Profit before income tax expense for the Year was approximately HK$13,306 million, representing an increase of 26.88% as compared with restated amount of HK$10,487 million for the last year.

The table below sets out the profit before income tax expense for major segments of the Group for the Year 2012 and 2011, and percentages of change during these two years.

	Profit before income tax expense For the year ended 31 December		
	2012	**2011**	**Change**
	HK$'million	*HK$'million*	*%*
Exploration and Production			
PRC	**1,465**	1,799	(18.57)
South America	**528**	498	6.02
Central Asia	**(124)**	(103)	(20.39)
South East Asia	**316**	(129)	344.96
	2,185	2,065	5.81
Share of associates in Central Asia	**2,096**	2,067	1.40
Share of a jointly controlled entity in Middle East	**307**	346	(11.27)
Total of Exploration and Production	**4,588**	4,478	2.46
Natural Gas Distribution			
Natural Gas Sales, as previously reported	**1,963**	1,331	47.48
Effect of business combination under common controls	**N/A**	37	N/A
Natural Gas Sales, as restated	**1,963**	1,368	43.49
LNG Processing	**(7)**	24	(129.17)
Sub-total	**1,956**	1,392	40.52
LNG Terminal	**572**	234	144.44
Natural Gas Pipeline	**6,088**	4,335	40.44
Total of Natural Gas Distribution	**8,616**	5,961	44.54
	13,204	10,439	26.49

Income Tax Expense

Income tax expense for the Year was approximately HK$3,392 million, representing an increase of 48.06% as compared with restated amount of HK$2,291 million for the last year.

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

The profit of the Group for the Year were approximately HK$9,914 million, representing an increase of 20.96% as compared with restated amount of HK$8,196 million for the last year. The profit attributable to owners of the Company for the Year 2012 was approximately HK$6,518 million, representing an increase of 15.96% as compared with restated amount of HK$5,621 million for the last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the carrying value of total assets of the Group is approximately HK$108,542 million, representing an increase of HK$24,335 million or 28.90% as compared with 31 December 2011 restated amount of HK$84,207 million.

The gearing ratio of the Group was 33.75% as at 31 December 2012 compared with 37.65% (restated) as at 31 December 2011. It is computed by dividing the total borrowings of HK$31,673 million (2011: HK$27,575 million (restated)) by the total equity plus borrowings of HK$93,851 million (2011: HK$73,233 million (restated)).

Profit before income tax expense, excluding interest income and expense, depreciation, depletion and amortisation ("EBITDA") for the Year was approximately HK$18,229 million, representing an increase of 23.14% as compared with restated amount of HK$14,804 million for the last year.

The Group paid interest of HK$1,418 million (2011: HK$1,463 million (restated)) during the Year.

The Group received dividends of HK$3,113 million (2011: HK$2,128 million (restated)) from associates during the Year.

During the Year, the Company issued 80 million new shares (2011: 23 million new shares) for exercise of share options and received subscription amount of HK$346 million (2011: HK$96 million). In April 2012, the Company issued 800 million shares at HK$13.10 per share to the public and received subscription amount of HK$10,259 million, net of direct transaction costs of HK$221 million.

USE OF PROCEEDS

2011 final dividend of HK$0.22 per share amounting HK$1,766 million (2010: HK$0.138 per share amounting HK$684 million) was distributed to owners of the Company during the Year.

During the Year, the Group raised new borrowings of HK$8,213 million (2011: HK$17,565 million (restated)) and repaid HK$4,512 million (2011: HK$7,895 million (restated)) to financial institutions and related parties resulting a net increase in borrowings of HK$3,701 million (2011: HK$9,670 million (restated)) as at 31 December 2012.

PLEDGED OF ASSETS

As at 31 December 2012 and 2011, no short-term and long-term borrowings were secured by property, plant and equipment and advanced operating lease payment.

NEW INVESTMENT IN MAJOR PROJECTS

During the Year, the capital increase in Binhai New Energy was completed in February 2012 and Binhai New Energy becomes the subsidiary of the Company. The Company also established Gansu Company and Jigang Company with Yumen Oilfield and Jinlin Oilfield respectively.

TERMINATION OF PROJECT

The Company owns 70% issued share capital of CGB2 which owns an undivided 100% participating interest in the contract rights and interests in the Bengara-II Production Sharing Contract ("Bengara-II PSC") which has a term of thirty years in Indonesia.

Under the Bengara-II PSC, the exploration phase expired on 30 November 2011. The Company and CGB2 had since April 2011 been actively negotiating with BPMIGAS (a state oil and gas regulatory body established under the Directorate General of Oil and Natural Gas of The Ministry of Mines and Energy of the Republic of Indonesia) for a further extension of the exploration phase for two years.

Despite the continuous efforts of the Company and CGB2 in negotiating with BPMIGAS for further extension, on 24 August 2012, BPMIGAS issued a letter to CGB2 stating that the Bengara-II PSC was expired as from 30 November 2011. No reason was specified in the said letter.

The Company has sought the opinion of its Indonesian counsel regarding the expiry of the Bengara-II PSC and was advised that under the applicable Indonesia laws and the Bengara-II PSC, BPMIGAS has no obligation to grant another extension other than the four-year extension period immediately after the initial six years of the exploration phase. In view of the opinion of the Indonesian counsel, the Company has decided not to pursue further application/request for extension of the term of the Bengara-II PSC.

A total expenses of HK$55 million for the Year was absorbed for the project.

EMPLOYEE

On 31 December 2012, the Group had approximately 17,475 staff globally (excluding the staff under entrustment contracts) (2011: 14,239 staff (restated)). Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

FINAL DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK23 cents (2011: HK22 cents) per share. The proposed dividend will be paid in June 2013 to the shareholders whose names appear on the Register on 5 June 2013 (Wednesday), subject to the approval at the Annual General Meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, the Company has not repurchased any of its shares.

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

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 Code on Corporate Governance Practices (the "Former CG Code") (formerly set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules")). The Former CG Code was amended and renamed as the Corporate Governance Code ("Revised CG Code"). The Revised CG Code is applicable to financial reports covering a period after 1 April 2012. The Company has also complied with all the code provisions in the Revised CG Code during the period from 1 April 2012 to 31 December 2012.

Pursuant to paragraph 45(6) of Appendix 16 to the Listing Rules Governing the Listing of Securities on the Stock Exchange, 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 consolidated financial statements for the year ended 31 December 2012. The Audit Committee has also reviewed the said financial statements in conjunction with the Company's external auditor.

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 year ended 31 December 2012.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising three Independent Non-Executive Directors was established in December 1998.

Two meetings were held during the current financial year.

Written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the directors of the Company. The principal activities of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Company's auditor, PricewaterhouseCoopers Hong Kong, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2012. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE WEBSITE

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Company's and the Stock Exchange's website in due course.

BOARD OF DIRECTORS

The board of Directors as at the date of this announcement comprises of Mr Li Hualin as the Chairman and Executive Director, Mr Zhang Bowen as the President and Executive Director and Mr Cheng Cheng as the Senior Vice President and Executive Director, and Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng as Independent Non-Executive Directors.

By the Order of the Board
KUNLUN ENERGY COMPANY LIMITED
Li Hualin
Chairman

Hong Kong, 21 March 2013