年度报告 Annual Report 2012

依托集团 · 服务集团

中国石油财务 (香港) 有限公司
CNPC Finance (HK) Limited

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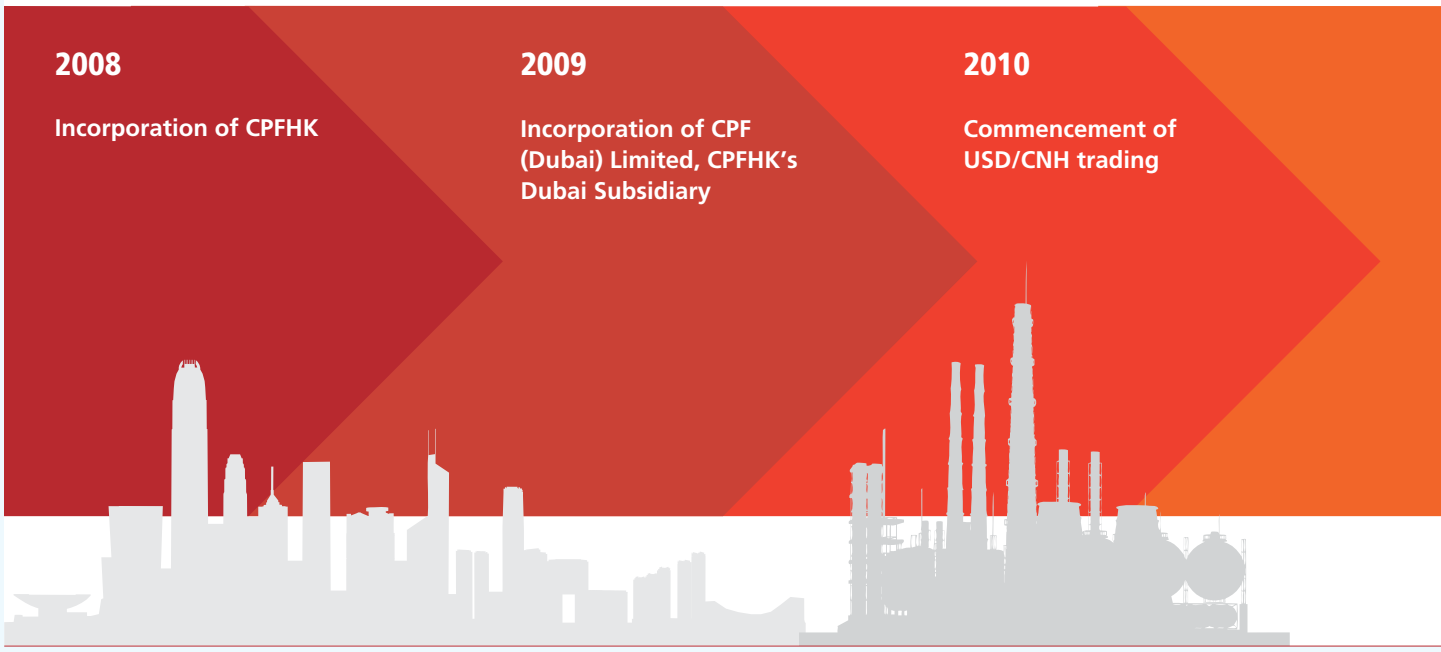


Incorporated in March 2008 in Hong Kong as a wholly-owned subsidiary under the auspices of China Petroleum Finance Co., Ltd. ("CPF"), **CNPC Finance (HK) Limited** ("CPFHK" or the "Company") is the first and only offshore subsidiary of a PRC finance company approved by the China Banking Regulatory Commission ("CBRC"). As the sole offshore treasury centre of China National Petroleum Corporation ("CNPC" or the "Group"), the Company is positioned to integrate the Group's offshore fund management and provide comprehensive financial services for its overseas operations to facilitate the "going global" development policy of CNPC.

As the Company's parent company, CPF is a non-bank financial institution established in December 1995, incorporated with the approval of the People's Bank of China, which serves as the in-house banking and sole treasury centre of CNPC. CPF is currently the largest finance company in the PRC in terms of size and strength, ranking first by asset, revenue and profit among over 140 finance companies nationwide. As a fully-integrated, strategic component of CNPC that provides the platform on which a centralised treasury management system for the Group is being developed, CPF enjoys strong backing from CNPC.

2011

Offshore corporate bond debut with successful issuances of USD1.85 billion bonds and RMB3 billion bonds, both of which were assigned respectable credit rating

Incorporation of CNPC Treasury (Singapore) Pte Ltd, CPFHK's Singapore Subsidiary

2012

US Commercial Paper debut with program size of USD2 billion

Issuance of USD1.15 billion offshore corporate bonds

As an integral component of CPF, the Company is committed to fully capitalising its functions as an offshore settlement, fund raising/financing and treasury management platform for CNPC in the active pursuit of the Group's strategy of internationalisation and loyal fulfilment of our objective of "of the Group, for the Group". CPFHK is engaged in the centralised management of global transfers of funds, treasury settlement, provision of financing for offshore oil and gas projects and centralised FX risk management for member companies of the Group. The Company is fully committed towards enhancing the efficiency and effectiveness of CNPC's treasury functions by providing all-round financial services and support for the Group's overseas operations.

As the offshore fund raising platform of CNPC, the Company's past success in issuing USD and RMB bonds and US commercial papers, has explored flexible funding sources for the Group's offshore business development and demonstrated our increasingly important role in CNPC's quest for international development. As of the end of 2012, the Company's total assets, operating income and pre-tax profit were US$23.31 billion, US$486 million and US$205 million, respectively, accounting for 24.7%, 20.9% and 21.1%, respectively, of CPF's total assets, income and profit. The Company has endeavoured to achieve added value and healthy and sustainable development while we have continued to provide financial services for CNPC.

Company Profile

Under the leadership of the Board of Directors (the "Board"), the general manager is responsible for the management of the five departments of CPFHK, comprising Finance, Operations, Credit, Financial Markets and General Administration. In order to provide all-round financial services to facilitate CNPC's overseas development strategy, the Company has further extended its service platform by establishing two wholly-owned subsidiaries, CPF (Dubai) Limited in 2009 in Dubai and CNPC Treasury (Singapore) Pte. Ltd. in 2011 in Singapore, respectively.

The long-term and short-term credit ratings of the Company assigned by Moody's and Standard & Poor's are A1/P1 and A+/A-1, respectively.

The Company is principally engaged in the following financial businesses:

Providing global cash management services to member companies and conducting centralised management of CNPC's offshore funds; taking deposits from, handling settlements amongst and designing clearance solutions for member companies; engaging in bank borrowings and issuing bonds and short-term papers; providing loans, project financing and other credit services to member companies; designing and implementing FX hedging solutions for member companies; investing in securities; providing guaranty services to, and handling entrusted loan and investment services amongst member companies.

For the Group
Of the Group

Chairman's Statement

The Company reported steady growth in operating results in 2012, as it proactively responded to uncertainties in the international financial markets as well as complicated economic situations in China and elsewhere in persistent adherence to the principle of "of the Group, for the Group", diligently performing its functions as the sole offshore treasury centre of CNPC to provide financial services for CNPC's overseas business development. As of the end of December 2012, total assets of the Company increased by 10.24% over the previous year to US$23.31 billion, while profit for the year increased by 17.60% over the previous year to US$204.93 million. The Company has made significant progress in terms of business innovation, system improvement, risk control and team building, etc. These developments and results have been accomplished with the benefit of the ongoing drive of the Group's "going global" strategy, the benefit of the strong backing from CNPC and CPF, our parent company, and also the benefit of the support of all member companies of the Group.

Since recent years, CNPC has been implementing strategies in resources, markets and global development as an ongoing drive. Calling for "highlighted efforts in Central Asia, development in Africa, expansion in South America, increased investments in the Middle East and advancement in the Asia Pacific," its overseas strategic deployment seeks to expedite the building of five major zones for oil and gas joint ventures, four major strategic passages for oil and gas operations and three major offshore oil and gas operation centres, giving rise to a profile of unified and concerted development of oil and gas investment and services such as engineering technologies, etc and signifying a new cycle of large-scale development of our international business. In 2012, CNPC was ranked 4th in the "World's Top 50 Oil Companies" by Petroleum Intelligence Weekly, while heading the list of "Top 100 Multinational Corporations in China and Multinational Index 2012" by China Entrepreneur Confederation.

As the in-house bank and sole treasury centre of CNPC, our parent company CPF plays an important role as the platform for settlement, fund raising/financing and treasury management that provides solid financial services for the Group as it seeks to build an integrated international energy corporation. As of the end of 2012, the assets and profit of CPF amounted to RMB593.8 billion and RMB6.10 billion, representing year-on-year growth of 17.94% and 33.43%, respectively. CPF is currently the largest finance company in the PRC in terms of size and strength, ranking first by asset, revenue and profit among over 140 finance companies nationwide.

During the past year, the Company continued to enhance its fund raising and financing capabilities with the support of CNPC and CPF. Following the successful issuance of overseas US dollar bonds with an aggregate principal amount of US$1.15 billion, we set up US$2 billion US commercial paper program, which provides CNPC with a flexible and convenient access to short-term liquidity. The opening of our Singaporean subsidiary is set to provide more convenient financial services for the development of CNPC's oil and gas operation centres in Asia. Meanwhile, the Company continued to maintain strong credit ratings by Moody's, Fitch and Standard & Poor's, which assign positive ratings equivalent or next to Chinese sovereign rating. The Company's position as CNPC's only offshore treasury centre has also been increasingly recognised in the international market, providing a solid foundation for its future development. The accomplishment of these results would not have been possible without the trust in CNPC shown by international investors. For this may I express sincere appreciation.

Looking to 2013, our Company will continue to adhere to CNPC's strategic goal, namely increasing the weighting of overseas business to 50% by the end of the "12th Five-Year Plan" period. With a strong focus on CNPC's significant overseas investment projects, we will enhance the funding functions of offshore capital pools through a wide range of financing channels in order to provide CNPC with quality and efficient treasury management services, while seeking to offset financial risks associated with interest rates and

exchange rates, etc through various types of financial transactions. We will endeavour to broaden our business scopes and introduce novel products. We will seek to gain customers' support with premium services, add value to the Company by managing business risks. With dedicated efforts, we intend to build ourselves into a world-class financial services company, providing sound and solid support for CNPC's strategy of global development.

In the new year, I look forward to the Company's continued close cooperation with the investors and our business partners, so that all will benefit from the positive results of CNPC's stable development. Last but not the least, I would like to express sincere gratitude to the general public, CNPC member companies as well as all employees for their support and dedication.

Business Review

In 2012, we diligently fulfilled the requirements of the Board and CPF and proactively responded to uncertainty in the international financial markets as well as complicated economic situations in China and elsewhere, in adherence to our functional role and to CNPC's "going global" strategy. Capitalising on our position as CNPC's sole offshore treasury platform, we further expanded financing channels in international markets and improved our service standards to provided credit and treasury management support for CNPC's overseas operations. Rapid development and steady growth was reported in various businesses, as the functions of CPFHK's "settlement, financing and cash management" platforms were brought into full play.

I. HEALTHY GROWTH IN ASSETS AND PROFIT

As of the end of 2012, CPFHK scored total assets of US$23.31 billion, increased by US$2.17 billion (10.24%) from 2011, an annual operating revenue of US$485.64 million, increased by US$68.84 million (16.52%) from 2011, and a pre-tax profit of US$204.93 million, increased by US$30.67 million (17.60%) from 2011.

II. SOUND DEVELOPMENT OF MAIN BUSINESSES

(I) Loan and Credit

CPFHK's comprehensive involvement in CNPC's overseas project financing was highlighted by supportive efforts in the acquisition of unconventional oil and gas assets in Canada and coal-bed gas assets in Australia, as well as the establishment and operation of oil and gas companies in Central Asia with controlling stakes. Financing arrangements were made for around ten new projects in Central Asia and South America, relating to upstream blocks, pipeline construction and oil refinery conversion/expansion. Meanwhile, we continued to expand the regional scope of our credit services, as its Singaporean subsidiary performed the functions of a regional finance and treasury centre to provide financial services to local enterprises in the region, while tapping the offshore RMB financing market with its first transaction in cross-border RMB loan. During the year, CPFHK provided loans of various types with a total amount of US$19.79 billion, of which US$13.88 billion was outstanding as of the end of the period, a year-on-year increase of US$1.29 billion or 10.20%.

(II) Settlement and Cash management

CPFHK facilitated centralised offshore treasury management on behalf of CNPC through three cash pools in Hong Kong, Singapore and Dubai, as it made ongoing efforts to improve the quality of its settlement services and increase settlement efficiency. The averaged balance of deposits taken from group companies for the year amounted to US$5.40 billion (year-on-year increase of 28.85%). A total of 32,905 settlement transactions with an aggregate amount of US$177.48 billion (year-on-year increase of 16.66%) were processed. Offshore capital concentration ratio was 90% as of the end of the year.

(III) Funding and Financing

As the offshore financing platform of CNPC, CPFHK actively raised funds for the Group's overseas businesses. We continued to broaden our financing channels and a new source was explored by tapping the international money market in the form of US commercial papers program with the size of US$2 billion, subsequent to the successful issuance of US$1.15 billion bonds. On the other hand, we continued to expand bank credit lines by entering into credit facilities with a total amount of US$12.1 billion with 23 banks. The Company's international profile has been further boosted as a result and its financial servicing capacity has also been significantly enhanced.

(IV) Foreign Exchange and Derivatives Transactions

As the sole offshore foreign exchange trading platform of CNPC, CPFHK made full use of its professional strength to provide FX transaction and hedging services for the members of the Group. With financial derivatives, CPFHK effectively hedged foreign exchange risks of and reduced acquisition costs for members of the Group by formulating hedging solutions for overseas acquisition and financing. In 2012, its foreign exchange transactions volume hit US$15.52 billion, including US$9.57 billion in spot transactions and US$5.95 billion in derivatives transactions.

(V) Securities Investments

The Company's securities investments adhere to the principle of prudence, strictly control investment risks and actively optimise the investment portfolio, to achieve stable increase in return on investment. Investment balance as of the end of the year amounted to US$371 million and return on investment for the year amounted to US$12.84 million.

(VI) Establishment of subsidiaries

The subsidiary in Singapore commenced operation upon completion of preparatory work. Capitalising on its advantage of localisation and the preferential tax status as a "Finance and Treasury Centre" (FTC), it has provided cash management, loans, foreign exchange transaction and settlement services to CNPC's oil & gas operation centres in Asia. As CPFHK's service extension platforms, the Dubai and Singaporean subsidiaries brought their respective advantages into full play under CPFHK's overall development strategy to expand the coverage of the Company's services and further enhanced its financial servicing capabilities.

As the sole offshore treasury centre of CNPC enjoying strong credit backing from CNPC and CPF, CPFHK is playing an increasingly important role in CNPC's "going global" strategy. CPFHK will persist in the provision of all-round financial services to CNPC as the latter seeks to establish a global presence, and will seek to achieve added value and healthy and sustainable development by operating prudently.

Board of Directors and Senior Executives

WANG Guoliang

Chairman
Chief Accountant of China National Petroleum Corporation
Non-executive Director of PetroChina Company Limited
Chairman of China Petroleum Finance Co., Ltd.

WANG Guoliang is the Chairman of CPFHK, the Chief Accountant of CNPC, a Non-executive Director of PetroChina and the Chairman of CPF. Mr. Wang is a professor-level senior accountant. He has nearly 30 years of working experience in China's oil and gas industry. Mr. Wang worked as a Vice President of CPF from October 1995, as a Deputy General Manager and the Chief Accountant of China National Oil & Gas Exploration and Development Corporation from November 1997, and as the Chief Financial Officer of PetroChina from November 1999 to June 2007. Mr. Wang worked as a Director of CPF from June 1999 to August 2003 and as a Vice Chairman of CPF from August 2003 to September 2009. Since February 2007, Mr. Wang has worked as the Chief Accountant of CNPC. Since May 2008, Mr. Wang has worked as a Non-executive Director of PetroChina. Since September 2009, Mr. Wang has worked as the Chairman of CPF. In February 2011, Mr. Wang was appointed Chairman of CPFHK.

LAN Yunsheng

General Manager of China Petroleum Finance Co., Ltd.

LAN Yunsheng is a Director of CPFHK and the General Manager of CPF. Mr. Lan is a professor-level senior accountant. He has over 30 years of working experience in China's oil and gas industry. From May 1999, Mr. Lan worked successively as the Chief Accountant of Fushun Petrochemical Company, the Chief Accountant of PetroChina Fushun Petrochemical Branch, the Deputy General Manager and concurrently the Chief Accountant of Jilin Petrochemical Company and the Deputy General Manager and concurrently the Chief Financial Officer of Jilin Chemical Industrial Co., Ltd. Mr. Lan worked as a Deputy General Manager of CPF from February 2004 to March 2008. Mr. Lan was appointed General Manager of CPF in April 2008. Mr. Lan has also been a member of the National Committee of the People's Consultative Conference and a member of the standing committee of the Central Committee of the Revolutionary Committee of the Chinese Kuomindang. In April 2011, Mr. Lan was appointed a Director of CPFHK.

LIANG Ping

Deputy General Manager of China Petroleum Finance Co., Ltd.

LIANG Ping is a Director of CPFHK and a Deputy General Manager of CPF. Ms. Liang is a senior accountant. She has over 40 years of working experience in China's oil and gas industry. From December 1999, Ms. Liang worked as the Deputy Chief Accountant of the Finance Department and concurrently as the Section Chief of the Cash Management Division of the Finance Department of CNPC. Ms. Liang worked as a Deputy General Manager of CPF from March 2001 to November 2003, and the General Manager of CPF from November 2003 to March 2008. Ms. Liang has been a Deputy General Manager of CPF since April 2008. In March 2008, Ms. Liang was appointed a Director of CPFHK.

LIU Jian

Deputy General Manager of the Finance and Asset Department of China National Petroleum Corporation

LIU Jian is a Director of CPFHK and Deputy General Manager of the Finance and Asset Department of CNPC. Mr. Liu is a senior accountant. He has nearly 30 years of working experience in China's oil and gas industry. From October 2000 to April 2008, Mr. Liu worked as Deputy General Manager and the Chief Accountant of CNPC Service and Engineering Company Ltd. From April 2008 to August 2009, Mr. Liu worked as of China National Petroleum Engineering Construction Corp. Since August 2009, Mr. Liu has worked as the Deputy General Manager of the Finance and Asset Department of CNPC. In April 2011, Mr. Liu was appointed a Director of CPFHK.

Board of Directors and Senior Executives

MA Xiaofeng

Deputy General Manager of the Finance Department of PetroChina Company Limited

MA Xiaofeng is a Director of CPFHK and a Deputy General Manager of the Finance Department of PetroChina. Mr. Ma is a senior accountant. He has over 20 years of working experience in China's oil and gas industry. From 1999 to 2007, Mr. Ma worked as the General Manager of the Daqing Branch of CPF, Section Chief of the Fund Settlement Section of the Finance Department of PetroChina and Deputy Chief Accountant of PetroChina. Since 2007, Mr. Ma has worked as a Deputy General Manager of the Finance Department of PetroChina. In August 2009, Mr. Ma was appointed a Director of CPFHK.

CHAI Shouping

Chief Accountant of China National Oil & Gas Exploration and Development Corporation

CHAI Shouping is a Director of CPFHK and Chief Accountant of China National Oil & Gas Exploration and Development Corporation. Mr. Chai is a professional accountant. He has over 20 years of working experience in China's oil and gas industry. From 1999 to 2012, Mr. Chai worked as the Section Chief of the IT Management Section of the Finance Department of PetroChina, Deputy Chief Accountant of PetroChina and Deputy General Manager of the Finance Department of PetroChina. Since September 2012, Mr. Chai has worked as Chief Accountant of China National Oil & Gas Exploration and Development Corporation, Deputy General Manager and CFO of CNPC Exploration and Development Company, and CFO of PetroChina Investment. In November 2012, Mr. Chai was appointed a Director of CPFHK.

WANG Yongfa

Deputy General Manager of China Petroleum Finance Co., Ltd.

WANG Yongfa is a Director of CPFHK and a Deputy General Manager of CPF. Mr. Wang is a senior accountant. He has over 30 years of working experience in China's oil and gas industry. From March 2001, Mr. Wang worked as the Office Manager of CPF. From August 2005 to March 2008, Mr. Wang served as the Deputy Commissioner of the Administrative Office of Xinjiang Autonomous Region Altay Prefecture. Mr. Wang has worked as a Deputy General Manager of CPF since March 2008. In April 2011, Mr. Wang was appointed a Director of CPFHK.

LIAO Xiaoyan

Deputy General Manager of China Petroleum Finance Co., Ltd.

LIAO Xiaoyan is the Director and President of CPFHK and a Deputy General Manager of CPF. Ms. Liao is a senior accountant. She has over 20 years of working experience in China's oil and gas industry. From 1999 to 2008, Ms. Liao worked as a Deputy Manager of the Management and Auditing Department, Deputy Manager of the Finance Department, Manager of the International Business Department and Assistant General Manager of CPF. Ms. Liao has worked as a Deputy General Manager of CPF since July 2010. Ms. Liao has been a Director and President of CPFHK since March 2008.

SENIOR EXECUTIVES

Liao Xiaoyan	**General Manager of CNPC Finance (HK) Limited**
Zhang Yun	**Deputy General Manager of CNPC Finance (HK) Limited**
Zhao Huabing	**Deputy General Manager of CNPC Finance (HK) Limited**
Guo Hongde	**Deputy General Manager of CNPC Finance (HK) Limited**
Wang Jinsong	**Chief Financial Officer of CNPC Finance (HK) Limited**

Corporate Governance, Internal Control and Risk Management

In 2012, CPFHK further improved its corporate governance and internal control system by implementing various risk management policies and deployments set by the Board and CPF. In addition, CPFHK enhanced its internal control and risk management by continuously enhancing management, perfecting rules and regulation, optimising workflow management and strengthening internal control and risk management. CPFHK has maintained a momentum of healthy development.

CORPORATE GOVERNANCE

As the core of corporate governance, the Board of CPFHK mainly aims to formulate mid-to-long-term development and risk management strategies and to monitor the implementation thereof; to review and approve annual business plans and financial budgets; to be responsible for corporate governance and compliance, among others.

Directly under the leadership and supervision of CPF, CPFHK's significant credit and investment businesses as well as significant expenditures should be reported to CPF for approval.

The Board of CPFHK comprises eight directors, of whom, four are senior executives of CPF, and the Board of CPFHK is chaired by the CFO of CNPC. In 2012, the Board convened three meetings, reviewed and approved 11 motions including the annual work reports, financial budgets and final accounts, addition of one director, recruitment of additional senior management of CPFHK, formulation of commercial paper issuance plan, consideration of debt issuance, material project loan and amendments to business management regulations.

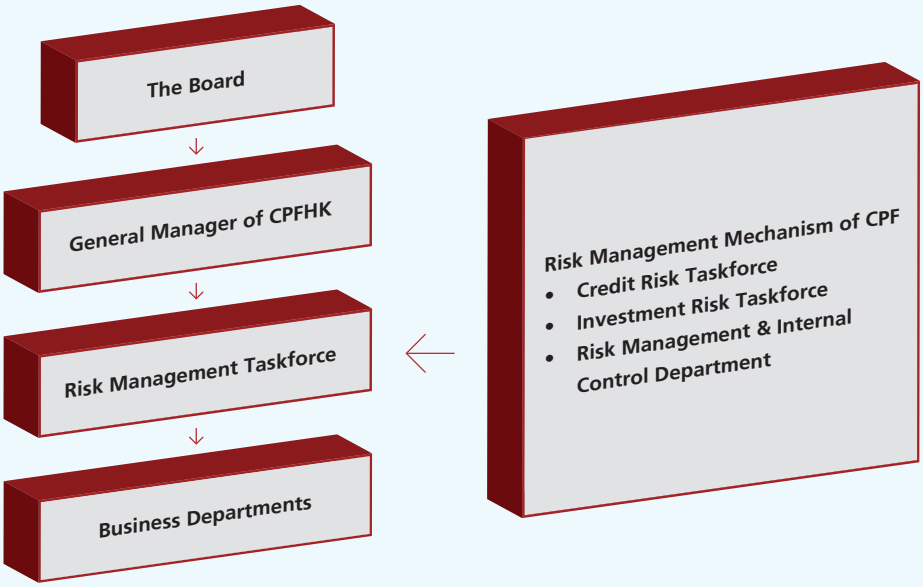
INTERNAL CONTROL AND RISK MANAGEMENT

The Board and CPF are responsible for CPFHK's internal control, under whose leadership CPFHK formulated internal control manual as a basis for the building of CPFHK's internal control system.

As a wholly owned overseas subsidiary of CPF, CPFHK is subject to on-site and off-site regulatory inspections by CBRC with CPFHK and CPF assessed for regulatory indicators as a whole. CPFHK regularly submits financial statements and reports on material matters to CBRC. In addition, as a wholly owned overseas subsidiary of a state-owned enterprise, CPFHK is also regulated by other PRC government authorities including State-owned Assets Supervision and Administration Commission ("SASAC") and National Audit Office ("NAO"). We are also required to regularly report material business matters and implement their regulations on assets and material risks in our overseas operations. Upon request of internal and external regulatory authorities, we constantly improve internal control system to ensure compliance in our operations.

In addition, CPFHK employs legal consultants to help manage legal risks.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT



– The Board is responsible for examining and approving risk management strategies, policies and procedures based on the risk tolerance of CPFHK, monitoring and evaluating the comprehensiveness as well as the effectiveness of risk management and the performance of senior executives regarding risk management. The Board also deliberates material investment plans, defining investment domain, size and requirements on investment risk control. According to the risk policies and the scope of authorization specified by the Board, CPFHK examines and controls risk businesses including credit and investment.

– The General Manager is responsible for managing risks of CPFHK, examining and approving business activities, and ensuring the implementation of risk management policies set at the meetings of the Board;

– The Risk Management Taskforce of CPFHK, consisting of the senior executives and department heads, examines businesses involving significant risks including those of credit and investment and reports to the General Manager;

– The business departments manage risks involved in daily businesses;

– The Credit Risk Taskforce and the Investment Risk Taskforce are set up by CPF to review respectively the credit and investment business reports submitted by CPFHK;

– The Risk Management & Internal Control Department of CPF aims to direct, supervise and test the operation of the internal control system of CPFHK.

Main risks facing CPFHK are: credit risk, market risk, operational risk and liquidity risk.

Corporate Governance, Internal Control and Risk Management

CREDIT RISK MANAGEMENT

Credit risk refers to the risk arising from clients' or counterparties' inability or unwillingness to perform the contractual obligations. Credit risk mainly comes from loan and other businesses such as inter-bank depositing, foreign exchange and derivative transactions, and bond investment. The oversea-project proprietary loans of CPFHK should strictly follow the three-level-approval policy and the financing arrangement led by the CNPC Finance Department taskforce in charge of CNPC's overseas financing arrangement. Loans of CPFHK are merely offered to CNPC's member companies. The business partners for inter-bank depositing, foreign exchange transactions and investments are highly rated banks and institutions with large asset size and sound financial positions.

MARKET RISK MANAGEMENT

Market risk means possible losses due to changes in prices in the financial market, such as bond price, stock price, interest rate and exchange rate. CPFHK applies a methodology that seeks to balance risk and gains with professional prudence. Investments on bond, fund and stock within the limit and scope of products ratified by the Board are conducted in a prudent manner, and all investment plans have to be reported to CPF for approval. The separation of front desk, middle office and back office is exercised on investment to strictly control risks on investment products.

OPERATIONAL RISK MANAGEMENT

Operational risk refers to losses induced by incomplete or faulty internal procedures, staff and systems or external events.

According to the "Guidelines for the Operational Risk Management of Commercial Banks" by CBRC and the requirements of the Board and CPF, CPFHK manages its operational risks and implements the "three-defensive-line" strategy in operational risk management. Under this strategy, the business departments serve as the first defensive line, which monitors and controls risks in its own department according to its functions, duties and operational process. The management of CPFHK and the Risk Management Committee serve as the second defensive line, which makes an overall plan for the build-up of internal control system, guides, inspects and assesses operational risk management in the business departments and the implementation, and also considers and reviews material matters relating to operational risks. CPF serves as the third defensive line, which supervises and tests CPFHK's operational risk management on a regular basis.

In 2012, CPFHK vigorously promoted refined management in key areas so as to further improve its operational risk mechanism. It reviewed and amended relevant rules and regulations, streamlined business workflow with a particular emphasis on management over the safety of capital and clarified job responsibilities to ensure checks and balances between positions. CPFHK strictly defined operational and approval authorization and strengthened the enforcement of rules. It also carried out an annual inspection on risks related to major businesses and weak links. Through the incorporation of its business development and risk control points, CPFHK effected comprehensive information system advancement to strengthen the level of operational risk control. CPFHK improved the disaster recovery plan for its information system, protection procedures and emergency response plans for system failure, to ensure the stability and safety of the IT system. It organized training programs on professional skills and ethics to enhance abilities to identify and deal with risks and fostered a culture of risk awareness across the board.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to losses that CPFHK may suffer from failures in funding assets or repaying loans. CNPC requires member companies to exercise cash flow planning and in accordance CPFHK prepares enough cash positions. In line with balanced liquidity risk appetite, CPFHK has been provided with short-term credit facilities by more than 20 banks in addition to the $2 billion US commercial paper program. CPFHK ensures sufficient cash sources under all circumstances to meet liquidity demand.

CPFHK enjoyed sound credibility and liquidity support as agreed upon by CNPC and the parent company for its various business activities.

CPFHK will continue to improve internal control and risk management systems by enhancing risk identification, measurement, evaluation and control, and to refine rules and regulations and operational procedures to enhance compliance and effectively prevent and control risks.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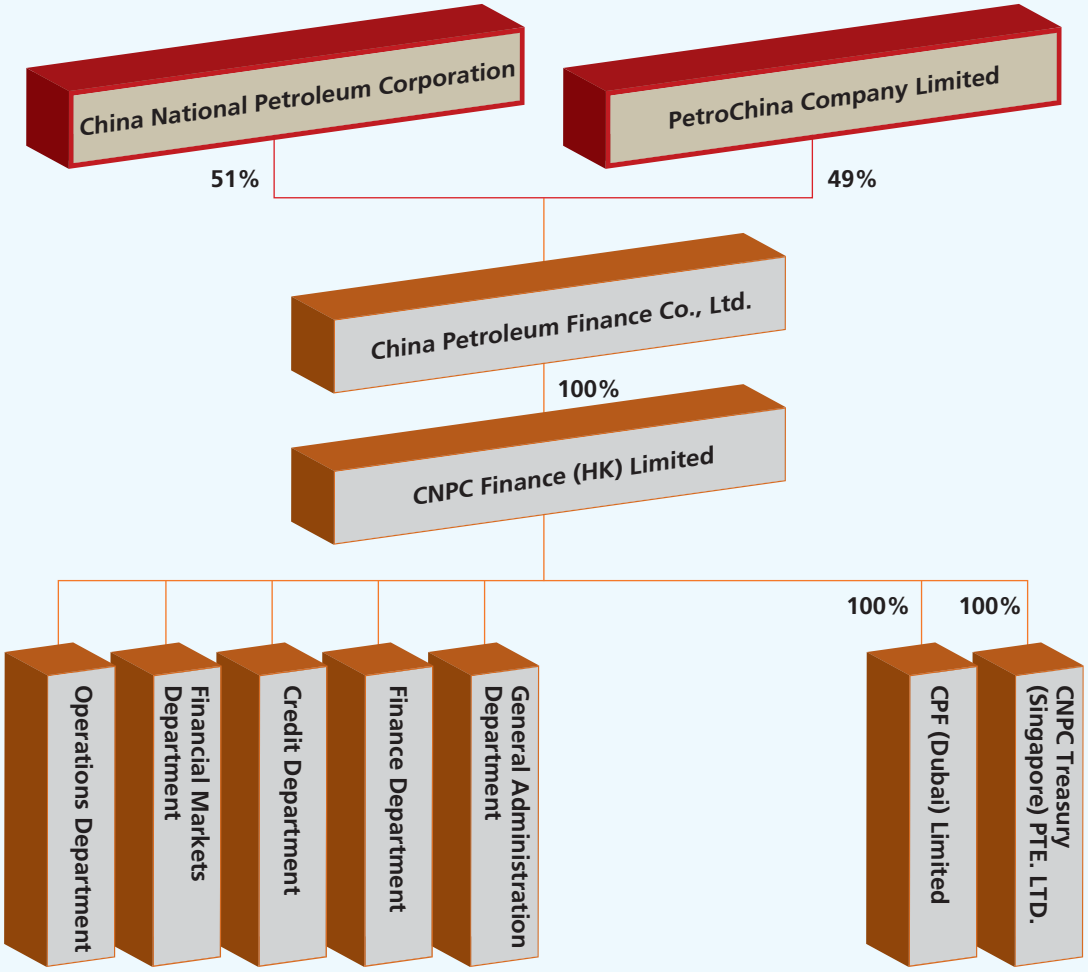
Organizational Structure



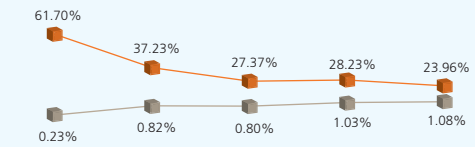
FINANCIAL POSITION AND OPERATING RESULTS OF 2012

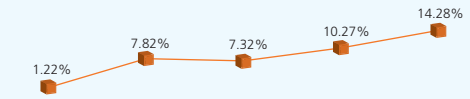
Financial Position and Operating Results of 2012

1 KEY INDEX (SINCE THE FOUNDING OF CPFHK)

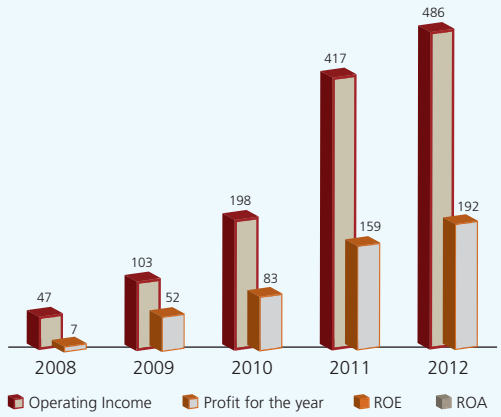
US$ (in millions)

Year	**2012**	2011	2010	2009	2008
Operating Summary					
Income before Tax	**205**	174	87	58	8
Profit for the year	**192**	159	83	52	7
Interest Income	**455**	406	187	85	41
Investment Income	**22**	*	3	18	5
Interest Expenses	**275**	239	109	45	39
Administrative Expenses	**6**	4	1	*	*
Assets and Liabilities					
Total Assets	**23,310**	21,145	13,280	8,173	4,528
Loans	**13,884**	12,599	8,820	5,791	2,222
Total Liabilities	**22,403**	20,446	12,936	7,908	4,511
Owner's Equity	**907**	699	344	265	17

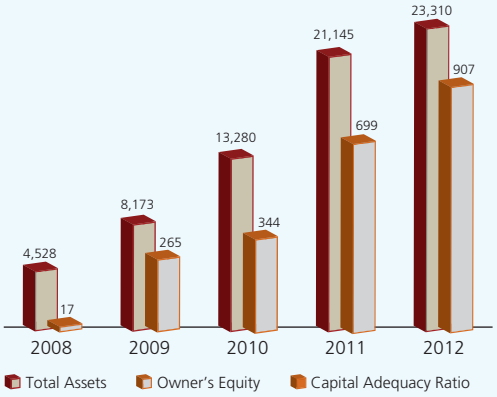




US$ (million)



US$ (million)



2 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR 2012

The operating profit for the year 2012 was US$205 million, increased by US$31 million, or 17.6%. The total assets at the year end of 2012 were US$23,310 million (among which US$5,768 million were entrusted assets), increased by US$2,165 million, or 10.24%. Return on assets (ROA) was 1.08%, return on equity (ROE) was 23.96%, and capital adequacy ratio was 14.28%. Non-performing asset ratio and non-performing loan ratio were both zero. CPFHK had risen both of its total assets and operating result under rapid growth, and the asset quality and risk resistance capacity continued to be outstanding.

Assets

By the end of 2012, the total assets of CPFHK amounted to US$23,310 million, increased by US$2,165 million, or 10.24%. Meanwhile:

Deposit by the end of 2012 was US$8,920 million, increased by US$926 million, or 11.59%.

Bank balances and cash

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Deposit in banks	**7,877**	2,948
Deposit in CPF	**1,043**	5,046
Total	**8,920**	7,994

By the end of 2012, the total loans of CPFHK were US$13,884 million, increased by US$1,285 million, or 10.20%.

Loans

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Proprietary loans	**8,116**	9,428
Entrusted loans	**5,768**	3,171
Total	**13,884**	12,599

By the end of 2012 the securities investments was US$371 million, decreased by US$7 million, or 1.85%. During the year, part of the securities investments had been reclassified according to related accounting standards requirements.

Financial Position and Operating Results of 2012

Securities investments

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Available-for-sales financial assets	**349**	10
Held-for-trading financial assets	**22**	22
Held-to-maturity investments	**0**	346
Total	**371**	378

Liabilities

By the end of year 2012, the total liabilities of the Company amounted to US$22,403 million, increased by US$1,957 million, or 9.57%. Meanwhile: liabilities excluding entrusted liabilities were US$16,635 million, decreased by US$640 million, or 3.70%.

Deposits from fellow subsidiaries were US$5,096 million by the end of 2012, decreased by US$1,028 million, or 16.79%.

Deposits from fellow subsidiaries

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Demand deposit	**1,952**	2,516
Time deposit	**3,144**	3,608
Total	**5,095**	6,124

By the end of 2012 other interest-bearing liabilities were US$17,261 million, increased by US$3,032 million, or 21.31%. In 2012, the company issued US$ bond 1,150 million and US Corporate Commercial Paper with credit limit of US$2,000 million. The balance of the commercial paper for the year end was US$1,830 million.

Other interest-bearing liabilities

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Bank borrowings	**5,952**	7,896
Held-for-trading financial liabilities	**200**	802
Bonds payable	**3,513**	2,361
Corporate commercial paper	**1,829**	0
Entrusted deposit	**5,768**	3,171
Total	**17,261**	14,229

Owner's Equity

By the end of 2012, the owner's equity was US$907 million, increased by US$208 million, or 29.78%. The increase was primarily due to the retained earnings contributed by net profit.

Operating income

The operating income of 2012 was US$485.6 million, increased by US$68.8 million, or 16.52%. Meanwhile: The interest income was US$455.2 million, increased by US$48.8 million comparing to the last year, or 11.99%. The increase was primarily due to the expansion of business scale.

Interest income

		US$ (in millions)
Details	**2012**	2011
Loan interest	**298**	251
Bank interest	**144**	126
Securities interest	**12**	14
Other	**0**	16
Total	**455**	406

Fees and commission income was US$2.7 million, increased by US$1.1 million, or 71.86%. The increase was primarily due to the increase of entrusted loans and services of financial guarantees.

Financial Position and Operating Results of 2012

Fees and Commission Income

		US$ (in millions)
Details	**2012**	2011
Entrusted loans	**2.5**	1.6
Services of financial guarantees	**0.2**	0
Total	**2.7**	1.6

Investment income was US$22.3 million, increased by US$22.1 million. The increase was primarily due to the gain of US$22.2 million on disposal of part of Interest Rate Swap contracts in 2012.

Investment Income

		US$ (in millions)
Details	**2012**	2011
Investment income from Stocks	**0.1**	0.2
Disposal of Interest Rate Swap	**22.2**	0
Total	**22.3**	0.2

The exchange gain was US$6.6 million in 2012, increased by US$1.1 million, or 19.13%.

Exchange gain or loss

		US$ (in millions)
Details	**2012**	2011
Exchange gain or loss	**6.6**	5.5
Total	**6.6**	5.5

Operating expense

The operating expense of 2012 was US$280.7 million, increased by US$38.1 million, or 15.68%. Meanwhile: Interest expense was US$274.9 million, increased by US$36.1 million, or 15.14%. The increase was primarily due to the bond issuances in recent two years.

Interest Expense

		US$ (in millions)
Details	**2012**	2011
Deposits from fellow subsidiaries	**18.2**	13.2
Bank borrowings	**131.6**	147.0
Other loans	**11.1**	14.4
Bond payables	**108.0**	60.5
Commercial papers	**6.0**	0
Other	**0**	3.6
Total	**274.9**	238.7

Administrative expense was US$5.7 million, increased by US$1.9 million, or 48.06%. The increase of operating expenses was primarily due to the relocation of the Company to Hong Kong by the end of 2011 and operations of CNPC Treasury (SG) PTE LTD started in 2012.

Financial Position and Operating Results of 2012

Administrative Expense

		US$ (in millions)
Details	**2012**	2011
Administrative expense	**5.7**	3.9
Total	**5.7**	3.9

Capital adequacy ratio

The capital adequacy ratio of the Company had been increased by 4.02% in 2012.

Capital adequacy ratio

		US$ (in millions)
Details	**2012.12.31**	2011.12.31
Net assets	**907**	699
Capital adequacy ratio(%)	**14.28%**	10.27%

3

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Directors' Report

For the Year Ended 31 December 2012

The directors present their report and the audited consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Company are holding of financial and investment products and the provision of treasury services to group companies of its holding companies.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the year are set out in Note 11 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Wang Guoliang	
Lan Yunsheng	
Liang Ping	
Liu Jian	
Ma Xiaofeng	
Chai Shouping	(Appointed on 31 December 2012)
Wang Yongfa	
Liao Xiaoyan	
Zhao Dong	(Appointed on 24 August 2012 and resigned on 31 December 2012)

There being no provision in the Company's Articles of Association for retirement by rotation, all the directors continue in office.

DIRECTORS' INTERESTS IN CONTRACTS

Other than disclosed in Note 29 to the consolidated financial statements, no other contract of significance to which the Company, any of its holdings companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

AUDITOR

A resolution will be proposed at the forthcoming general meeting of the Company to re-appoint BDO Limited as the auditor of the Company.

By Order of the Board

Director

Independent Auditor's Report for the Year Ended 31 December 2012

TO THE SHAREHOLDERS OF CNPC FINANCE (HK) LIMITED
(中国石油财务(香港)有限公司)
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group"), which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

BDO Limited

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number P05309

Hong Kong

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2012

	Notes	**2012 US$'000**	2011 US$'000
Turnover	6	**480,042**	408,094
Interest income	6	**455,167**	406,420
Interest expenses	7	**(274,852)**	(238,722)
Net interest income		**180,315**	167,698
Other operating income	6	**24,875**	1,674
(Decrease)/increase in fair values of derivative financial instruments and held-for-trading investments		**(1,155)**	3,067
Other gains	8	**6,623**	5,690
Administrative expenses		**(5,728)**	(3,868)
Profit before income tax	9	**204,930**	174,261
Income tax expense	10(a)	**(12,572)**	(14,990)
Profit for the year		**192,358**	159,271
Other comprehensive income (net of tax):			
Fair value gain/(loss) on available-for-sale financial assets, net of tax		**15,742**	(5,059)
Total comprehensive income for the year		**208,100**	154,212

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	11	**140**	132
Held-to-maturity investments	12	**–**	319,848
Available-for-sale financial assets	13	**297,618**	9,985
Loan and other receivables	14	**4,560,301**	5,918,691
		4,858,059	6,248,656
Current assets			
Held-to-maturity investments	12	**–**	26,400
Available-for-sale financial assets	13	**51,376**	–
Loan and other receivables	14	**9,179,684**	6,144,651
Held-for-trading investments	15	**22,409**	22,153
Derivative financial assets	16	**78,475**	109,019
Deposits in non-bank financial institutions	17	**1,043,226**	5,057,507
Bank balances and cash	18	**8,076,594**	3,536,127
		18,451,764	14,895,857
Current liabilities			
Account and other payables	19	**10,882,436**	9,339,137
Short term bond payables	20	**1,829,010**	–
Derivative financial liabilities	21	**19,862**	45,131
Other loans – due within one year	22	**–**	220,000
Borrowings – due within one year	23	**4,240,000**	4,034,766
Bond payables – due within one year	24	**396,632**	–
Tax payable		**4,705**	3,584
		17,372,645	13,642,618
Net current assets		**1,079,119**	1,253,239
Total assets less current liabilities		**5,937,178**	7,501,895

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	**2012** **US$'000**	2011 US$'000
Non-current liabilities			
Other loans – due after one year	22	**200,000**	581,667
Borrowings – due after one year	23	**1,711,521**	3,860,923
Bond payables – due after one year	24	**3,116,023**	2,360,610
Deferred taxation	25	**2,839**	–
		5,030,383	6,803,200
NET ASSETS		**906,795**	698,695
CAPITAL AND RESERVES			
Share capital	26	**400,000**	400,000
Reserves		**506,795**	298,695
TOTAL EQUITY		**906,795**	698,695

On behalf of the board

Director

Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

	Share capital US$'000	Investment revaluation reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1 January 2011	200,000	3,533	40,032	100,918	344,483
Total comprehensive income for the year	–	(5,059)	–	159,271	154,212
Issue of shares	200,000	–	–	–	200,000
Transfer to other reserves	–	–	49,374	(49,374)	–
At 31 December 2011	**400,000**	**(1,526)**	**89,406**	**210,815**	**698,695**
Total comprehensive income for the year	**–**	**15,742**	**–**	**192,358**	**208,100**
Transfer to other reserves	**–**	**–**	**59,631**	**(59,631)**	**–**
At 31 December 2012	**400,000**	**14,216**	**149,037**	**343,542**	**906,795**

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2012

	2012	2011
	US$'000	US$'000
Operating activities		
Profit before income tax	**204,930**	174,261
Adjustment for:		
Depreciation of plant and equipment	**26**	2
Dividend income from available-for-sale financial assets	**(121)**	(171)
Gain on disposal of derivative financial instruments	**(22,160)**	–
Decrease in fair value of derivative financial instruments and held-for-trading investments	**1,156**	8,600
Bond interest expenses	**113,985**	60,457
Operating cash flows before changes in working capital	**297,816**	243,149
Increase in loan and other receivables	**(1,677,051)**	(3,816,773)
Increase in held-for-trading investment	**–**	(1,652)
Increase in account and other payable	**1,537,118**	4,945,677
Cash generated from operation	**157,883**	1,370,401
Bond interest paid	**(97,458)**	(40,437)
Income tax paid	**(11,451)**	(8,572)
Net cash generated from operating activities	**48,974**	1,321,392
Investing activities		
Decrease/(increase) in deposits in non-bank financial institutions	**4,014,281**	(2,615,782)
Proceeds from disposal of derivative financial instruments	**22,160**	–
Dividend received from available-for-sale financial assets	**121**	171
Receipt upon maturity of held-to-maturity investment	**26,400**	9,158
Purchase of held-to-maturity investments	**–**	(172,885)
Purchase of plant and equipment	**(34)**	(128)
Net cash generated from/(used in) investing activities	**4,062,928**	(2,779,466)

	2012 US$'000	2011 US$'000
Financing activities		
New borrowings raised	**6,921,609**	8,774,552
Proceeds from issuance of bond payables	**1,144,400**	2,281,467
Proceeds from issuance of short term bonds	**2,000,000**	–
Proceeds from issuance of shares	**–**	200,000
Repayment of short term bonds	**(170,000)**	–
Repayment of borrowings	**(8,865,777)**	(8,481,523)
Repayment of other loans	**(601,667)**	(146,666)
Net cash generated from financing activities	**428,565**	2,627,830
Net increase in cash and cash equivalents	**4,540,467**	1,169,756
Cash and cash equivalents at beginning of year	**3,536,127**	2,366,371
Cash and cash equivalents at end of year		
Bank balances and cash	**8,076,594**	3,536,127

1. GENERAL

CNPC Finance (HK) Limited (the "Company") is incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance and is engaged in investments in financial and investment products and the provision of treasury services to group companies of its holding companies. The principal activities of its subsidiaries are set out in Note 25. The address of its registered office and principal place of business are located at Room 4301–4306, 43/F, Office Tower of Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The directors consider China Petroleum Finance Co. Ltd. and China National Petroleum Corporation, both companies were established in the People's Republic of China (the "PRC"), to be Company's immediate holding and ultimate holding company respectively as at the end of reporting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs – effective 1 January 2012

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2012.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of the new/revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosure set out in these consolidated financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's operations, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS27 (2011)	Investment entities[3]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to four standards that are potentially relevant to the Group's operations.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income
The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities
The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities
HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities
The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organizations, venture capital organizations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

HKFRS 9 – Financial Instruments
Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognised the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in United State dollars ("US$"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Office equipment	20%
Computer equipment	20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss arising on disposal of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtors' financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reogranisation.

For loans and receivables or held-to-maturity investments

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

An impairment loss is reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held-for-trading are recognised in profit or loss.

There a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accounts and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Hedge accounting*

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

– For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

– The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).

– The effectiveness of the hedge can be reliably measured.

– The hedge is assessed on a quarterly basis and remains highly effective.

Cash flow hedges: where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised in other comprehensive income.

Fair value hedge: A fair value hedge seeks to offset risks of changes in the fair value of an existing asset, liability or unrecognised firm commitment that is attributable to a particular risk and could affect profit or loss. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit and loss.

Hedges of a net investment in a foreign operation: Where the Group enters into derivative currency contracts to hedge changes in the net investment of foreign operations arising from movements in the forward exchange rate, to the extent that the hedge is effective, gains and losses arising on the derivative are recognised in other comprehensive income. The ineffective portion of such hedges is recognised in profit or loss.

(v) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(viii) *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(ix) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and related taxes.

Commission income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(f) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. United State dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

(g) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(h) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– plant and equipment under cost model; and

– investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(k) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

(i) Impairment of available-for-sale investments

The directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale equity when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgment is required to determine the currency that mainly influences service fee for services and of the country whose competitive forces and regulations mainly determines the service fee of its services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining service fees.

(iii) *Fair value of derivatives and other financial instruments*

The directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices and rates.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year is as follow:

Impairment on loan and other receivables

The policy for impairment on loan and other receivables of the Company is based on the evaluation of collectability and ageing analysis of the trade receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate provision if these receivables, including the current credit worthiness and the past collection history of each debtor. If the financial conditions of debtors of the Company were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required.

6. TURNOVER AND OTHER OPERATING INCOME

	2012 **US$'000**	2011 US$'000
Interest income from		
– group companies of its holding companies	**375,828**	363,321
– banks and other enterprises	**79,339**	43,099
	455,167	406,420
Gain on disposal of derivative financial instruments	**22,160**	–
Commission incomes	**2,594**	1,503
Dividend income from investment funds	**121**	171
	24,875	1,674
Turnover	**480,042**	408,094

7. INTEREST EXPENSES

	2012 US$'000	2011 US$'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	**70,260**	74,964
Bank borrowings not wholly repayable within five years	**19,269**	–
Borrowings from non-financial institutions wholly repayable within five years	**42,051**	72,077
Bond payables	**107,955**	60,457
Short term bond payables	**6,030**	–
Other loans	**11,100**	18,005
Deposits from fellow subsidiaries	**18,187**	13,219
	274,852	238,722

8. OTHER GAINS

	2012 US$'000	2011 US$'000
Exchange gains, net	**6,602**	5,540
Others	**21**	150
	6,623	5,690

9. PROFIT BEFORE INCOME TAX

	2012 US$'000	2011 US$'000
Profit before income tax is arrived at after charging/(crediting):		
Directors' remuneration	**–**	–
Auditor's remuneration	**27**	–
Depreciation of plant and equipment	**26**	2
Staff cost excluding directors' remuneration (Note):		
– Salaries and allowances	**1,095**	181
– Mandatory provident fund contributions	**2**	1
Fair value gain on derivative financial instruments on fair value hedges	**(18,930)**	(75,527)
Fair value adjustment of bond payables attributable to interest rate risk	**18,930**	75,527

10. INCOME TAX EXPENSE

(a) Income tax expense comprises:

	2012 **US$'000**	2011 US$'000
Current tax – Hong Kong profits tax		
– provision for current year	**12,511**	10,946
– (over)/under provision in prior years	**(569)**	4,044
	11,942	14,990
Current tax – PRC withholding tax	**630**	–
Income tax expense	**12,572**	14,990

(b) Income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2012 **US$'000**	2011 US$'000
Profit before income tax	**204,930**	174,261
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	**33,813**	28,753
Tax effect of expense not deductible for tax purpose	**4,826**	4,663
Tax effect of income not chargable for tax purpose	**(26,128)**	(22,361)
Tax effect of temporary difference not recognised	**–**	(109)
(Over)/under provision in prior years	**(569)**	4,044
PRC withholding tax	**630**	–
Income tax expense	**12,572**	14,990

11. PLANT AND EQUIPMENT

	Office equipment US$'000	Computer equipment US$'000	Total US$'000
Cost			
At 1 January 2011	1	8	9
Additions	75	53	128
At 31 December 2011	76	61	137
Additions	20	14	34
At 31 December 2012	96	75	171
Accumulated depreciation			
At 1 January 2011	–	3	3
Charge for the year	1	1	2
At 31 December 2011	1	4	5
Charge for the year	14	12	26
At 31 December 2012	15	16	31
Net carrying value			
At 31 December 2012	81	59	140
At 31 December 2011	75	57	132

12. HELD-TO-MATURITY INVESTMENTS

	2012	2011
	US$'000	US$'000
Corporate bonds	–	221,851
Convertible notes receivable	–	48,078
BNP bonds	–	26,400
RBS bond	–	49,919
	–	346,248
Less: BNP bonds – current	–	(26,400)
	–	319,848

During the year, management changed its intention of more than insignificant amounts of held-to-maturity investments from held until maturity to short term profit seeking and all investments were reclassified as available-for-sales financial assets accordingly.

As at 31 December 2011, around 30% of the held-to-maturity investments were rated with a grading of A1 based on the credit rating of an external credit agency, Moody's. There was no credit rating information available in the market for the remaining 70% of the held-to-maturity investments.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
	US$'000	US$'000
Available-for-sale financial assets comprise:		
Equity securities listed in Hong Kong at fair value (note a)	**12,818**	9,985
Unlisted debt securities investments at fair value		
Corporate bonds (note b)	**284,800**	–
Convertible notes receivable (note b)	**51,376**	–
	336,176	–
	348,994	9,985
Less: convertible notes receivable within one year shown under current assets	**(51,376)**	–
Amounts to be realised after one year	**297,618**	9,985

(a) There is no addition or disposal in equity securities during the year.

(b) Pursuant to a resolution passed by the directors of the Company on 29 October 2012, in view of maximizing the shareholder's return from the investments, the Company changed its intention of more than insignificant amounts of held-to-maturity investments from held until maturity to short term profit seeking. Therefore, all held-to-maturity debt investments with carrying amount at cost of approximately US$320,256,000 were reclassified as available-for-sale investments. Upon reclassification, the fair value gain before tax of US$15,920,000 between the carrying amount and fair value was recognised directly in equity in accordance with the Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement".

14. LOAN AND OTHER RECEIVABLES

	2012	2011
	US$'000	US$'000
Loan receivables from group companies of its holding companies	**7,916,239**	8,828,068
Other receivables	**5,823,746**	3,235,274
	13,739,985	12,063,342
Less: loan and other receivables – non-current	**(4,560,301)**	(5,918,691)
Loan and other receivables – current	**9,179,684**	6,144,651

All loan and other receivables were neither past due nor impaired. The directors estimated that no impairment is necessary as there is no deterioration in the credit quality of debtors and the balances are considered fully recoverable.

15. HELD-FOR-TRADING INVESTMENTS

	2012	2011
	US$'000	US$'000
Held-for-trading investments include:		
Unlisted investments at fair value:		
– hedge funds	**22,409**	22,153

16. DERIVATIVE FINANCIAL ASSETS

	2012	2011
	US$'000	US$'000
Floating-to-fixed cross interest rate swap contracts	**–**	14,506
Fixed-to-floating cross interest rate swap contracts – fair value hedges	**75,866**	75,527
Foreign currency forward and swap contracts	**2,609**	18,986
	78,475	109,019

17. DEPOSITS IN NON-BANK FINANCIAL INSTITUTIONS

Deposits in non-bank financial institution in comprises of some short-term deposits which carry interest at market rates ranging from 0.01% to 2.236% (2011: 0.01% to 0.16%) per annum.

18. BANK BALANCES AND CASH

Included in the bank balances and cash of amounted to approximately US$4,427,112,000 (2011: US$1,606,779,000) are time deposits. The deposits carry interest at the market rates ranging from 1.188% to 2.7195% (2011: 0.15% to 3.325%) per annum.

19. ACCOUNT AND OTHER PAYABLES

	2012 **US$'000**	2011 US$'000
Deposits from group companies of its holding companies	**5,095,803**	6,123,854
Other payables	**5,786,633**	3,215,283
	10,882,436	9,339,137

Deposits from group companies of its holding companies bear interest at 0.03% to 0.55% (2011: 0.02% to 0.3%) per annum, are unsecured and repayable on demand.

Other payables are denominated in US$ and included an amount of approximately US$5,767,726,000 (2011: US$3,170,918,000) which are linked with equivalent amount of other receivables where manage the borrowings between the subsidiaries of China National Petroleum Corporation.

20. SHORT TERM BOND PAYABLES

At 31 December 2012, the outstanding balance of short term bond payables with an aggregate principal amount of US$1,830,000,000 is unsecured, interest bearing at a range from 0.3% to 0.45% per annum and repayable within three months.

21. DERIVATIVE FINANCIAL LIABILITIES

	2012 **US$'000**	2011 US$'000
Foreign currency forward and swaps contracts	**604**	30,625
Floating-to-fixed cross interest rate swap contract	**17,855**	14,506
Fixed-to-floating cross interest rate swap contract	**1,403**	–
	19,862	45,131

22. OTHER LOANS

	2012 **US$'000**	2011 US$'000
Other loans	**200,000**	801,667
Carrying amounts repayable:		
On demand or within one year	**–**	220,000
More than one year but not exceeding two years	**200,000**	220,000
More than two years but not exceeding five years	**–**	361,667
Amounts due after one year	**200,000**	581,667
	200,000	801,667

All other loans are denominated in US$ and are unsecured (2011: all other loans were secured with an equivalent amount of loan receivables from group companies of its holding companies (note 14). They bear variable interest rate at 6 month LIBOR plus 0.62% (2011: from 6 month LIBOR plus 0.62% to 1 year LIBOR plus 2.3%) per annum during the year.

23. BORROWINGS

	2012	2011
	US$'000	US$'000
Bank borrowings	**5,184,661**	6,233,888
Non-financial institutions borrowings (note 29(b))	**766,860**	1,661,801
	5,951,521	7,895,689
Carrying amounts repayable:		
On demand or within one year	**4,240,000**	4,034,766
More than one year but not exceeding two years	**600,000**	2,500,000
More than two years but not exceeding five years	**644,661**	903,888
Over 5 years	**466,860**	457,035
Amounts due after one year	**1,711,521**	3,860,923
	5,951,521	7,895,689

The above borrowings bear variable interest rate by reference to LIBOR and are mainly denominated in US$ and EUR for both years. Interests are mainly charged ranging from LIBOR to LIBOR plus 3% (2011: LIBOR plus 0.6% to LIBOR plus 3%) per annum.

At 31 December 2012, all the bank borrowings are unsecured and not guaranteed.

At 31 December 2011, all the bank borrowings were unsecured of which US$500,000,000 was guaranteed by the holding company, China National Petroleum Corporation.

24. BOND PAYABLES

Guaranteed Bonds	Principal US$'000	Interest rate (per annum)	31.12.2012 US$'000	31.12.2011 US$'000
US$700 million 3.125% Guaranteed Bonds ("2016 US$ Bonds")	700,000	3.125%	**707,217**	705,026
US$650 million 2.75% Guaranteed Bonds ("2017 US$ Bonds")	650,000	2.75%	**647,423**	–
US$650 million 4.5% Guaranteed Bonds ("2021 US$ Bonds")	650,000	4.5%	**697,527**	694,663
US$500 million 3.95% Guaranteed Bonds ("2022 US$ Bonds")	500,000	3.95%	**497,449**	–
US$500 million 5.95% Guaranteed Bonds ("2041 US$ Bonds")	500,000	5.95%	**487,127**	486,743
RMB2,500 million 2.55% Guaranteed Bonds ("2013 RMB Bonds")	396,769	2.55%	**396,632**	395,179
RMB500 million 2.95% Guaranteed Bonds ("2014 RMB Bonds")	79,354	2.95%	**79,280**	78,999
			3,512,655	2,360,610

	2012 US$'000	2011 US$'000
Carrying amounts repayable:		
Within one year	**396,632**	–
More than one year but not exceeding two years	**79,280**	395,179
More than two year but not exceeding five years	**1,354,640**	784,025
More than five years	**1,682,103**	1,181,406
Amounts due after one year	**3,116,023**	2,360,610
	3,512,655	2,360,610

25. DEFERRED TAXATION

The following are the deferred tax liabilities recognised and movements thereon during the current year:

	Revaluation of available-for-sale financial assets US$'000
At 1 January 2011 and 31 December 2011	–
Deferred tax charged to equity during the year	2,839
At 31 December 2012	**2,839**

26. SHARE CAPITAL

	The Company	
	Number of shares	**US$'000**
Authorised, issued and fully paid:		
Ordinary shares of US$10,000 each		
At 1 January 2011	20,000	200,000
Issue of shares	20,000	200,000
At 31 December 2011 and 31 December 2012	40,000	400,000

On 23 February 2011, the Company increased its authorised and fully paid capital by US$200,000,000 through the subscription of 20,000 shares of US$10,000 each at par for cash by the sole shareholder of the Company, China Petroleum Finance Co. Ltd.. The new shares rank pari passu in all respects to the existing shares of the Company.

27. INVESTMENTS IN SUBSIDIARIES

	2012 **US$'000**	2011 US$'000
Unlisted shares, at cost	**5,800**	5,800

Particulars of the subsidiaries are as follows:

Name of company	**Country of incorporation**	**Registered capital** (US$)	**Percentage of ordinary shares directly held**	**Place of operation and principal activity**
CPF (Dubai) Limited	Dubai	800,000	100%	Hong Kong, Provision of financial services to group companies of its holding companies in Middle East and Africa
CNPC Treasury (Singapore) Pte Ltd	Singapore	5,000,000	100%	Hong Kong, Provision of financial services to group companies
CNPC (HK) Overseas Capital Ltd	British Virgin Islands	50,000	100%	Hong Kong, Debt offering
CNPC Golden Autumn Limited	British Virgin Islands	50,000	100%	Hong Kong, Debt offering
CNPC (BVI) Limited	British Virgin Islands	50,000	100%	Hong Kong, Debt offering
CNPC General Capital Limited	British Virgin Islands	50,000	100%	Hong Kong, Debt offering

28. RESERVES OF THE COMPANY

	Investment revaluation reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1 January 2011	3,533	40,032	100,865	144,430
Total comprehensive income for the year	(5,059)	–	158,863	153,804
Transfer to other reserves	–	49,374	(49,374)	–
At 31 December 2011	(1,526)	89,406	210,354	298,234
Total comprehensive income for the year	15,761	–	192,034	207,795
Transfer to other reserves	–	59,631	(59,631)	–
At 31 December 2012	14,235	149,037	342,757	506,029

(a) Investment revaluation reserve represents gains/losses arising on recognising financial assets classified as available for sale at fair value.

(b) In accordance with the group policy of the ultimate holding company, the Company is required to appropriate annually (i) 10% of its profit after tax to each of statutory surplus reserve, discretionary surplus reserve and exchange rate risk reserve and (ii) 1% of its profit after tax to general risk reserve.

Appropriation of net profits to the statutory surplus reserve may be ceased when the reserve aggregates to 50% of the share capital. It may be utilised by the Company for restricted purposes including offsetting against prior years' losses or increase the capital of the Company.

The discretionary surplus reserves may be converted to offset prior years' losses or to increase the capital of the Company.

Exchange rate risk reserve is not restricted from offsetting prior years' losses, distribution of dividend or increase in share capitals.

General risk reserve may be utlised to offset prior years' losses but restricted from distribution of dividends and increase in shares capital.

29. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following transactions with related parties:

Nature of transaction	2012 US$'000	2011 US$'000
China National Petroleum Corporation and its subsidiaries		
Interest income earned	**375,828**	363,321
Interest expenses paid	**(71,338)**	(103,301)
	304,490	260,020

Note: These transactions were at terms determined and agreed by the Group and the relevant parties.

(b) Balances with related parties at the end of reporting period:

Nature of balances	2012 US$'000	2011 US$'000
China National Petroleum Corporation and its subsidiaries		
Loan receivables	**7,916,239**	8,828,068
Other receivables	**5,812,820**	3,222,517
Account payables	**(5,095,803)**	(6,123,854)
Other payables	**(5,770,464)**	(3,178,506)
Other loans	**(200,000)**	(801,667)
	2,662,792	1,946,558
China Petroleum Finance Co. Ltd.		
Deposits in non-banking financial institution	**1,043,217**	5,045,554
Borrowings	**(766,860)**	(1,661,801)
Other payables	**(6,028)**	(11,860)
	270,329	3,371,893

(c) Amounts due to subsidiaries are unsecured, interest bearing and repayable in accordance with the terms of interests and maturity dates of the underlying bond payables (note 24).

(d) Compensation to key management personnel

The directors of the Company consider that they are the only key management personnel of the Group. No remuneration was paid or payable to the key management personnel during the year.

30. LEASES

Operating leases – lessee

The lease payments recognised as an expense during the year are as follows:

	2012 **US$'000**	2011 US$'000
Minimum lease payments	**1,576**	727

The total future minimum lease payments are due at the end of reporting period as follows:

	2012 **US$'000**	2011 US$'000
Not later than one year	**766**	764
Later than one year and not later than five years	**383**	1,146
	1,149	1,910

The operating lease payments represent rentals payable by the Group for its office premises in Hong Kong. Lease term is three years with fixed rental.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012	2011
	US$'000	US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**22,859,805**	20,656,976
Fair value through profit or loss ("FVTPL"):		
– held-for-trading	**22,409**	22,153
Derivative financial assets		
– not used for hedging	**2,609**	33,492
– used for hedging	**75,866**	75,527
Available-for-sale financial assets	**348,994**	9,985
Held-to-maturity investments	**–**	346,248
	23,309,683	21,144,381

	2012	2011
	US$'000	US$'000
Financial liabilities		
Derivative financial liabilities not use for hedging	**19,862**	45,131
At amortised cost	**22,375,622**	20,397,103
	22,395,484	20,442,234

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, held-to-maturity investments, loan and other receivables, derivative financial instruments, held-for-trading investments, deposits in non-bank financial institutions, bank balances and cash, accounts and other payables, other loans, borrowings, bond payables and short term bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measurements are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group has transactional currency exposure, certain investments and bank balances of the Company are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest rate risk

The Group's interest rate risk relates primarily to its floating-rate loan receivables from group companies, bank balances, borrowings, loans from group companies of its holding companies and loan from a related company. During the year, the Group has entered into fixed-to-floating cross interest rate swap contracts to hedge the fair value interest rate risk arising from its fixed-rate bond payables. For the remaining floating-rate liabilities, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the overseas stock exchange and the Hong Kong Stock Exchange. Management monitors the price risks and will consider hedging the risk exposure should the need arises.

Credit risk

With respect to the Group's loan receivables from group companies of its holding companies, the Group's exposure to credit risk arising from the default of counterparty is limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from his entity.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of the financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

– the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

– the fair value of derivative financial instruments is calculated using quoted prices.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short term maturities.

(i) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

32. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, cash and cash equivalents and equity of the Company, comprising share capital, reserves and retained profits. The Group's risk management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

Based on the management's recommendations, the Group will balance its overall capital structure through the issue of new debts and the payment of dividends.

The gearing ratio at the end of reporting period was as follows:

	2012 **US$'000**	2011 US$'000
Debts	**11,493,186**	11,057,966
Cash and cash equivalents	**(8,076,594)**	(3,536,127)
Net debts	**3,416,592**	7,521,839
Equity	**906,795**	698,695
Net debts to equity ratio	**377%**	1,077%

33. CONTINGENT LIABILITIES

At 31 December 2012, the Company had provided unconditionally and irrevocably guarantees to all the bond holders as disclosed in note 24 with aggregate principal amount of US$3,476,123,000 (2011: US$2,326,123,000).

34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 27 February 2013.

Contact Information

GENERAL ADMINISTRATION DEPARTMENT
(+852) 3509 6700
(+8 6) 10 8376 9209
(+852) 3509 6788 (Fax)

FINANCE DEPARTMENT
(+852) 3509 6715
(+8 6) 10 8376 9210

OPERATIONS DEPARTMENT
(+852) 3509 6721
(+8 6) 10 8376 9212

CREDIT DEPARTMENT
(+852) 3509 6728
(+8 6) 10 8376 9214

FINANCIAL MARKETS DEPARTMENT
(+852) 3509 6730
(+8 6) 10 8376 9216

Address: Rooms 4301-06, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong
Email: cpfhk@cnpc.com.cn

中国石油财务 (香港) 有限公司
CNPC Finance (HK) Limited