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

年度报告 Annual Report 2011

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Information about CPFHK

Company Profile

Established in March 2008 in Hong Kong as a wholly owned subsidiary of China Petroleum Finance Co., Ltd. ("CPF"), CNPC Finance (HK) Limited ("CPFHK") is the first and only overseas subsidiary of a PRC finance company approved by China Banking Regulatory Commission ("CBRC"). As the sole overseas treasury center of China National Petroleum Corporation ("CNPC" or the "Group"), CPFHK manages CNPC's overseas funds and provides comprehensive financial services for its overseas businesses in line with CNPC's "going global" strategy.

Approved by People's Bank of China as a non-bank financial institution, CPFHK's parent company CPF is the in-house bank and sole treasury center of CNPC. CPF, the largest and most competitive enterprise finance company, is ranked No.1 among all 140-plus enterprise finance companies in China in terms of total assets, gross revenue and net profit. CNPC established the centralized cash management system through CPF, which, as an inseparable strategic part of CNPC, always enjoys powerful support from CNPC.

As an important component of CPF, CPFHK follows the internationalized strategy of CNPC, commits to the doctrine "of the Group, for the Group", and functions as CNPC's platform for overseas settlement, financing and cash management, whereby CPFHK helps the Group centralize management of global funds, settlements and financing as well as foreign exchange risk hedging, for overseas oil and gas projects. CPFHK also strives to improve the efficiency of CNPC's fund operation and provides all-round financial services to support CNPC's overseas businesses.

In 2011, CPFHK issued USD denominated and RMB denominated bonds in the global market and was assigned a credit rating of "A+" by Standard & Poor's and Fitch, next only to China's sovereign credit rating, reaching a new milestone in its internationalization progress. CPFHK is playing a more significant role in CNPC's "going global" strategy. As at the end of 2011, CPFHK's total assets, operating income and pre-tax profit reached US$21.14 billion, US$416.8 million and US$174.26 million respectively, accounting for 26.46%, 18.72% and 24.03% respectively of the total assets, income and profit of CPF. While providing financial service for CNPC, CPFHK creates value and endeavours to achieve healthy and sustainable development.

The general manager, who reports to the Board of Directors (the "Board"), is responsible for the operations of CPFHK. CPFHK has five departments, which are Finance Department, Operations Department, Credit Department, Financial Markets Department and General Administration Department. Further extended its service platforms, CPFHK has successively established two wholly-owned subsidiaries of CPF (Dubai) Limited in Dubai in 2009, and CNPC Treasury (Singapore) PTE. LTD. in Singapore in 2011 to better facilitate its all-round financial supports for CNPC's overseas businesses.

CPFHK's main financial businesses include:

Providing member enterprises with global cash management service and conducting centralized management and allocation of CNPC's overseas funds; taking deposits from member enterprises, and handling accounts settlements and designing settlement solutions for member enterprises; obtaining funding from banks and issuing bonds; providing loans, project financing and other credit services to member enterprises; designing and implementing foreign currency exchange and financial derivatives hedging solutions for member enterprises; investing in securities; providing guaranty services, entrusted investment services as well as entrusted loans between member enterprises.

Chairman's Statement

2011 is the beginning year of the "12th Five-Year Plan". Against the grim economic and financial backdrop around the world, we held on to our commitment to the doctrine "of the Group, for the Group" as CNPC's overseas financial services platform, while keeping improving our service capacity and efficiency with strict risk control and therefore ensured the compliance and sound operation of various businesses.

BUSINESS REVIEW 2011:

By virtue of the concerted efforts of the management and all employees, CPFHK scored surging operating results and completed all the goals assigned by the Board. As at the end of 2011, CPFHK recorded total assets of US$21.14 billion, increased by US$7.86 billion (59.22%) from 2010, shareholders' equity of US$699 million, increased by US$354 million (102.82%) from 2010, and a total profit of US$174.26 million, increased by US$86.95 million (99.59%) from 2010.

In 2011, CPFHK made great breakthroughs in the internationalized operation of our business. The Board member is increased to 7 currently through a general election, strengthening its governance power. Under the Keepwell Agreement of CNPC, CPFHK issued USD denominated and RMB denominated bonds in the international market for the first time. CPFHK received respectable ratings by Standard & Poor's and Fitch, and gained investors' recognition worldwide. Meanwhile, with our fruitful efforts, CPFHK established a subsidiary in Singapore, which was granted preferential tax status as the "Finance and Treasury Center". Seizing the opportunity in our bond issuance, our persistent innovation laid a solid foundation for our internationalized operations and sustainable development in the years to come.

KEY ISSUES AND OUTLOOK FOR 2012:

In 2012, we will still have to face a severe domestic and overseas financial and policy environment, with the spreading sovereign debt crisis in the euro zone, lukewarm recovery of main developed economies, economic slowdown in emerging markets and the sluggish global economy. In response, we will take the strategic opportunity for CNPC's evolvement into an integrated international energy company. We will strengthen risk management, speed up the transformation of our development mode, and improve service capacity and quality in order to promote quality and efficiency of our development.

THE BOARD WILL EMPHASIZE ON THE FOLLOWING ASPECTS IN 2012:

In business operation, CPFHK should aim to build itself into a top internationalized financial service provider, be orientated at CNPC's overseas development plan and strategy, continue to deepen centralized cash management, expand the service coverage, constantly explore new financing channels, improve management and fund efficiency in an all-round way and promote international financial services capacity and quality, so as to make CPFHK a larger, stronger and better performing company.

As to the internal control and risk management systems, we will enhance system construction, perfect procedure management, establish a sound internal control and risk management system and strive to improve CPFHK's soft power as well as its risk control and management capacity.

In information system construction, CPFHK should, based on actual needs for its business operation and management, further improve informationization and provide system support to achieve professional, standardized and international management.

In team and culture build-up, CPFHK is determined to improve employees' professional ethics and skills in a bid to build a cohesive, creative, competent, highly-efficient & effective and world-class finance team.

In the face of new situations, new opportunities and new tasks, as the sole overseas treasury center of CNPC, CPFHK should commit to the doctrine "of the Group, for the Group", ensure "safety, liquidity and efficiency" in its operation, and constantly enhance risk management, improve service quality and increase investment returns, so as to provide powerful financial support for CNPC's overseas business development.

To conclude, please allow me to express my sincere thanks for the close cooperation of all social sectors, full support from member enterprises and joint efforts of all our fellow staff!

Business Review 2011

In 2011, notwithstanding the complicated macro environment worldwide, we lived up to the requirements of the Board and CPF, duly performed our defined role in line with the "going global" strategy of CNPC. Capitalizing on our position as CNPC's sole overseas treasury platform, we provided credit and cash management services supporting CNPC's overseas operations through a broader service network and higher service standards. CPFHK's "settlement, financing and cash management" platforms were brought into full play and various businesses posted new progress and breakthrough.

I. SURGING ASSETS AND PROFIT

As at the end of 2011, CPFHK scored total assets of US$21.14 billion, increased by US$7.86 billion (59.22%) from 2010, an annual operating revenue of US$416.80 million, increased by US$219.07 million (110.79%) from 2010, and a pre-tax profit of US$174.26 million, increased by US$86.95 million (99.59%) from 2010.

II. HEALTHY AND RAPID DEVELOPMENT OF MAIN BUSINESSES

(I) Loan and Credit

CPFHK gets deeply involved in CNPC's arrangements for overseas financing, with its loan service supporting various business sectors including overseas M&A, exploration and development, oilfield services and engineering, natural gas and pipeline, oil trading etc. During the whole year, CPFHK provided a total of US$13.21 billion loans for more than ten projects including oil trading in Ecuador and Venezuela, acquisition of British refineries, LNG project by Kunlun Energy Company Limited, and refinery project in Chad, with its ending balance reaching US$12.60 billion, increased by US$3.78 billion (42.85%) from 2010.

(II) Settlement and Cash management

CPFHK kept improving its settlement services and increasing settlement efficiency and reinforced its centralized cash management function of CNPC group. In 2011, CPFHK's deposits taken from member enterprises of US$6.12 billion (increased by 121.72% from 2010) and processed 17,901 settlements amounting to US$149.05 billion (increased by 57.39% from 2010).

(III) Funding and Financing

As the overseas financing platform of CNPC, CPFHK actively raised funds for the Group's overseas businesses. On the one hand, CPFHK continued enlarging bank credit limit for short-term financing and signed contracts of totally US$9.72 billion with 16 banks. On the other hand, it searched for new financing channels and issued US$1.85 billion and RMB3 billion of bonds in the international bond market for the first time. CPFHK was assigned a rating of "A+" by Standard & Poor's and Fitch, next only to China's sovereign credit rating, established worldwide recognition in the capital market and stepped up in its financial service capacity.

(IV) Foreign Exchange and Derivatives Transactions

As the sole overseas foreign exchange trading platform of CNPC, CPFHK made full use of its professional strength to provide currency exchange and currency hedging services for the Group and its member enterprises. With financial derivatives, CPFHK effectively hedged foreign exchange risks of member enterprises and itself by formulating hedging schemes for overseas acquisition and financing. In 2011, its foreign exchange transactions volume hit US$28.02 billion, increased by 48.34% from 2010, which included US$21.28 billion spot transactions, US$1.70 billion forward transactions, US$2.93 billion FX swaps and US$2.12 billion interest rate swaps.

(V) Securities Investments

In response to a volatile global financial market, CPFHK followed the principle of prudence and stability, focused on fixed income products, actively adjusted investment portfolio, and therefore achieved a stable increase in return on investment. Its investment balance by the end of 2011 was US$378 million and its return on investment in 2011 was US$15.7 million.

(VI) Subsidiaries Build-up

In May 2011, CPFHK established a subsidiary in Singapore, which was granted preferential tax status as "Finance and Treasury Center" (FTC), creating favourable conditions for CPFHK to develop financial businesses in Singapore and serve CNPC's oil & gas operation center in Asia. Following CPFHK's overall development scheme, CPFHK's service extension centers in Dubai and Singapore have fully taken their respective advantages and further improved CPFHK's financial service coverage and capability.

As the sole overseas treasury center of CNPC, CPFHK is playing an increasingly important role in CNPC's "going global" strategy. CPFHK will always provide all-round financial services to help CNPC "go global", create value through sound operations, and achieve healthy and sustainable development.

Board of Directors

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 March 2008. Mr. Lan has also been a member of the National Committee of the People's Consultative Conference and a member 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 30 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 and a Director of CPFHK since March 2008.

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. Since November 2001, Mr. Liu worked as the Chief Accountant of CNPC Service and Engineering Company Ltd. From April 2004 to February 2008, he worked as the Deputy General Manager of CNPC Service and Engineering Company Ltd. Mr. Liu worked as the Deputy General Manager and Chief Accountant of China Petroleum Engineering and Construction Corp from February 2008 to August 2009. 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

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. Mr. Ma has been a Director of CPFHK since August 2009.

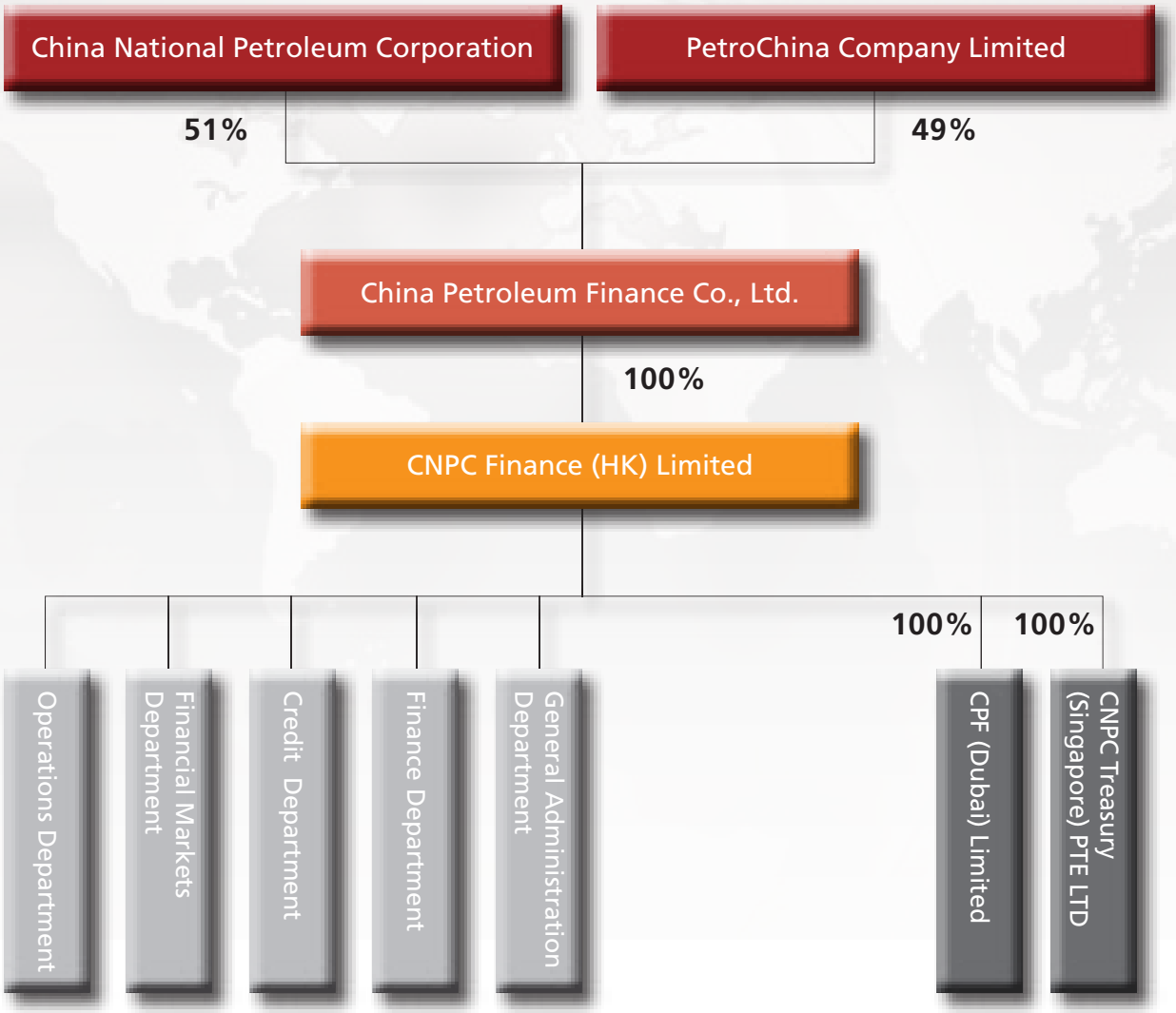
WANG Yongfa Deputy General Manager of China Petroleum Finance Co., Ltd.

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.

Organizational Structure



Corporate Governance, Internal Control and Risk Management

In 2011, 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 perfecting rules and regulation, streamlining workflow management and strengthening risk monitoring and controlling. CPFHK has maintained a momentum of healthy development.

CORPORATE GOVERNANCE

As the core of corporate governance, the Board of CPFHK mainly aims to formulate 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.

The Board has attached great importance to establishing and improving internal control system, regulating governance structure and rules of procedure, and has defined directors' responsibility and authority regarding decision-making, implementation and supervision, etc., laying a solid foundation for the governance of CPFHK.

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

At present, the Board of CPFHK comprises of seven directors, of whom, four are senior executives of CPF, and the Board of CPFHK is chaired by the Chief Accountant of CNPC. In 2011, the Board convened three meetings, reviewed and approved 16 motions including the re-election of the Board, the nomination of senior executives, financial budgets and final accounts, bond issuance, organizational structuring and staffing of CPFHK, material business management regulations, establishment of CNPC Treasury (Singapore) PTE. LTD., and the engagement of legal consultants.

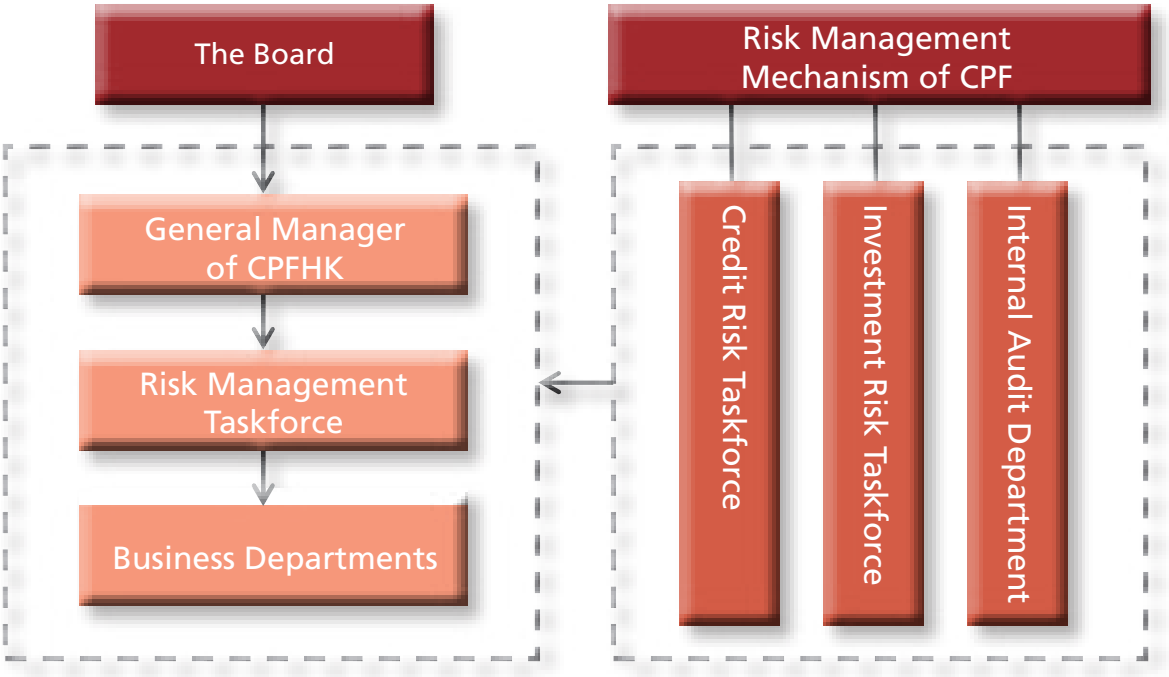
INTERNAL CONTROL AND RISK MANAGEMENT

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 and regularly submits financial statements and reports on material matters to CBRC. In addition, as a wholly owned overseas subsidiary of state-owned enterprise, CPFHK is also under regulation of other PRC government authorities including State-owned Assets Supervision and Administration Commission ("SASAC") and National Audit Office ("NAO"). We implement their regulations on assets and material risks in our overseas operations, regularly report material business matters and are subject to their audit. Upon request of these 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.

ORGANIZATIONAL 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 credit and investment and reports to the General Manager;

- The business departments manage risks involved in daily businesses;

Corporate Governance, Internal Control and Risk Management

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

- The Internal Audit Department of CPF aims to test and supervise the operation of the internal control system of CPFHK.

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

CREDIT RISK MANAGEMENT

Credit risk refers to the risk arising from clients' or counterparties' inability or unwillingness to implement 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. All loans of CPFHK should strictly follow the three-level-approval policy and the financing arrangement led by the CNPC's Overseas Financing taskforce, which is in charge of CNPC's overseas financing arrangement. Loans of CPFHK are merely offered to CNPC's member enterprises. The business partners for inter-bank depositing, foreign exchange transactions and investments are highly rated banks and institutions with large asset size and in sound financial conditions.

MARKET RISK MANAGEMENT

Market risk means possible losses due to changes in bond price, stock price, interest rate and exchange rate. CPFHK applies a balanced methodology to market risk, cautiously conducts investments on bond, fund and stock within the limit and scope of investable products ratified by the Board, 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 building 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.

In 2011, 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 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 so as to monitor and prevent potential risks in due course. CPFHK improved the disaster recovery plan for its information system, protection procedures and emergency response plans for system failure. 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 enterprises 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 ten banks. CPFHK ensures sufficient cash sources under all circumstances to meet liquidity demand.

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.

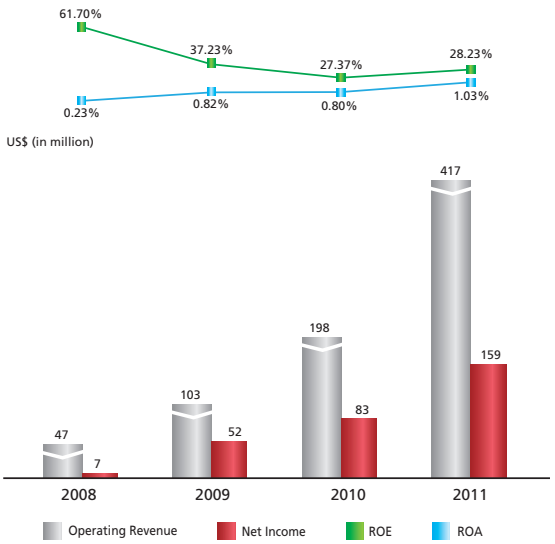
Financial Position and Operating Results of 2011

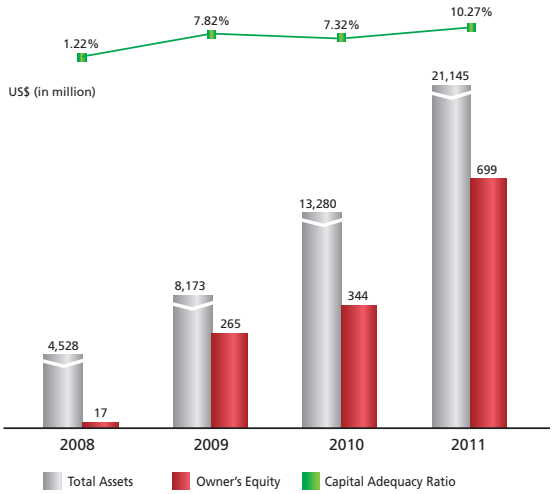
Financial Position and Operating Results of 2011

1. KEY INDEX (SINCE THE FOUNDING OF CPFHK)

				US$ (in millions)
Year	**2011**	2010	2009	2008
Operating Summary				
Income Before Tax	**174**	87	58	8
Net Income	**159**	83	52	7
Interest Income	**406**	187	85	41
Investment Income	*	3	18	5
Interest Expense	**239**	109	45	39
Administrative Expense	**4**	1	*	*
Assets and Liabilities				
Total Assets	**21,145**	13,280	8,173	4,528
Loans	**12,599**	8,820	5,791	2,222
Total Liabilities	**20,446**	12,936	7,908	4,511
Owner's Equity	**699**	344	265	17

Note: * less than a million





Financial Position and Operating Results of 2011

2. FINANCIAL POSITION AND OPERATING SUMMARY FOR 2011

The total profit for 2011 was US$174 million, increased by US$87 million, or 99.59%. The total assets for the end of 2011 were US$21,145 million (among which US$17,974 million were proprietary assets, and US$3,171 million were entrusted assets), increased by US$7,864 million, or 59.22%. Return on assets (ROA) was 1.03%, return on equity (ROE) was 28.23%, and capital adequacy ratio was 10.27%. 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 2011, the total assets of CPFHK were accumulated to US$21,145 million, increased by US$7,864 million, or 59.22%. Meanwhile:

Deposit by the end of 2011 was US$7,994 million, increased by US$3,786 million, or 89.96%.

Table of Deposit

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Deposit in banks	**2,948**	1,773
Deposit in CPF	**5,046**	2,435
Total	**7,994**	4,208

The total loans of CPFHK by the end of 2011 were US$12,599 million, increased by US$3,779 million, or 42.85%.

Table of Loans

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Proprietary Loans	**9,428**	7,226
Entrusted loans	**3,171**	1,594
Total	**12,599**	8,820

The security investments by the end of 2011 were US$378 million, increased by US$160 million, or 73.54%.

Table of Security Investments

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Available-for-sale financial assets	**10**	15
Held-for-trading financial assets	**22**	21
Held-to-maturity investments	**346**	182
Total	**378**	218

Liabilities

By the end of 2011, the total liabilities of CPFHK were accumulated to US$20,446 million, increased by US$7,510 million, or 58.06%. Meanwhile: the total proprietary liabilities were US$17,275 million, increased by US$5,933 million, or 52.31%.

The deposit by the end of 2011 was US$6,124 million, increased by US$3,362 million, or 121.72%.

Table of Deposit

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Demand deposit	**2,516**	1,198
Time deposit	**3,608**	1,564
Total	**6,124**	2,762

Other interest-bearing liabilities were US$14,229 million by the end of 2011, increased by US$4,084 million, or 40.26%. The bonds payable was increased by US$2,361 million. The increase was primarily due to the issuance of USD bonds and RMB bonds.

Financial Position and Operating Results of 2011

Table of Other Interest-bearing Liabilities

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Bank borrowings	**7,896**	7,603
Held-for-trading financial liabilities	**802**	948
Bonds payable	**2,361**	
Entrusted deposit	**3,171**	1,594
Total	**14,229**	10,145

Owner's equity

By the end of 2011, the owner's equity was US$699 million, increased by US$354 million, or 102.83%. The increase was primarily due to US$200 million capital injection from CPF and US$159 million increase in retained earnings contributed by the net profit.

Operating income

The operating income of 2011 was US$417 million, increased by US$219 million, or 110.79%.

The interest income was US$406 million, increased by US$220 million comparing to the last year, or 117.50%. The increase was primarily due to the expansion in terms of business scale.

Table of interest income

		US$ (in millions)
Details	**2011**	2010
Loans	**251**	170
Deposit	**126**	8
Securities investments	**14**	9
Interest rate Swap	**16**	–
Total	**406**	187

Fees and commission income was US$1.6 million, increased by US$1.1 million, or 192.99%. The increase was primarily due to the increase of entrusted loans.

Table of Fees and Commission Income

		US$ (in millions)
Details	**2011**	2010
Entrusted loans	**1.6**	0.5
Total	**1.6**	0.5

Investments income was US$0.2 million, decreased by US$3.1 million, or 94.80%. The decrease was primarily due to the disposal of security investments in the previous year.

Table of Investment Income

		US$ (in millions)
Details	**2011**	2010
Investment income from Stock	**0.2**	1.8
Other investments		1.5
total	**0.2**	3.3

Gains from change in fair value hit US$3.1 million, increased by US$3.2 million, the increase was primarily attributable to the floating gains from investment funds and FX forward transactions.

Table of Change of Fair Value

		US$ (in millions)
Details	**2011**	2010
Fund investments	**1.7**	0.5
FX forward transactions	**1.4**	-0.6
Total	**3.1**	*

The exchange gain was US$5.5 million, decreased by US$1.6 million, or 22.41%. The decrease was primarily due to the decrease in gains from entrusted FX hedging activities.

Financial Position and Operating Results of 2011

Table of Exchange Gain or Loss

		US$ (in millions)
Details	**2011**	2010
Exchange gain or loss	**5.5**	7.1
Total	**5.5**	7.1

Operating Expense

The total operating expense of 2011 was US$242.7 million, increased by US$132.3 million, or 119.75%.

Interest expense was US$239 million, increased by US$130 million, or 118.89%. The increase was primarily due to the increase of bank borrowings and bonds issuance.

Table of Interest Expense

		US$ (in millions)
Details	**2011**	2010
Deposit	**13**	4
Bank borrowings	**147**	79
Held-for-trading financial liabilities	**14**	23
Bonds payable	**60**	
Interest rate swap	**4**	3
Total	**239**	109

Administrative expense was US$3.9 million, increased by US$2.5 million, or 186.67%. The increase was primarily due to the increase of insurance paid for overseas political risk, and the increase in office rental expenses.

Administrative Expense

		US$ (in millions)
Details	**2011**	2010
Administrative expense	**3.9**	1.4
Total	**3.9**	1.4

Capital Adequacy Ratio

The capital injection from CPF and net profit in the year 2011 has increased the capital adequacy ratio by 2.95%.

Table of Capital Adequacy Ratio

		US$ (in millions)
Details	**2011.12.31**	2010.12.31
Net capital	**699**	344
Risk-bearing assets	**6,805**	4,704
Capital adequacy ratio (%)	**10.27%**	7.32%

Independent Auditor's Report

Directors' Report

For the Year Ended 31 December 2011

The directors present their report and the audited consolidated financial statements of CNPC Finance (HK) Limited ("CPFHK") and its subsidiaries (collectively referred as the "Group") for year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of CPFHK are investments in financial and investment products and the provision of treasury services to group companies of its holding companies and the principal activities of its subsidiaries are set out in Note 25 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2011 and the state of CPFHK's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 29 to 61.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2011.

SHARE CAPITAL

Details of movements in the share capital during the year are set out in Note 24 to the consolidated financial statements. The issue of shares during the year was made to broaden the capital base of CPFHK.

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 CPFHK during the year and up to the date of this report are as follows:

Wang Guoliang
Lan Yunsheng
Liang Ping
Liu Jian
Ma Xiaofeng
Wang Yongfa
Liao Xiaoyan

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than disclosed in Note 27 to the consolidated financial statements, no other contract of significance to which CPFHK, any of its holdings companies, subsidiaries or fellow subsidiaries was a party and in which the directors of CPFHK had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

For the Year Ended 31 December 2011

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

MANAGEMENT CONTRACTS

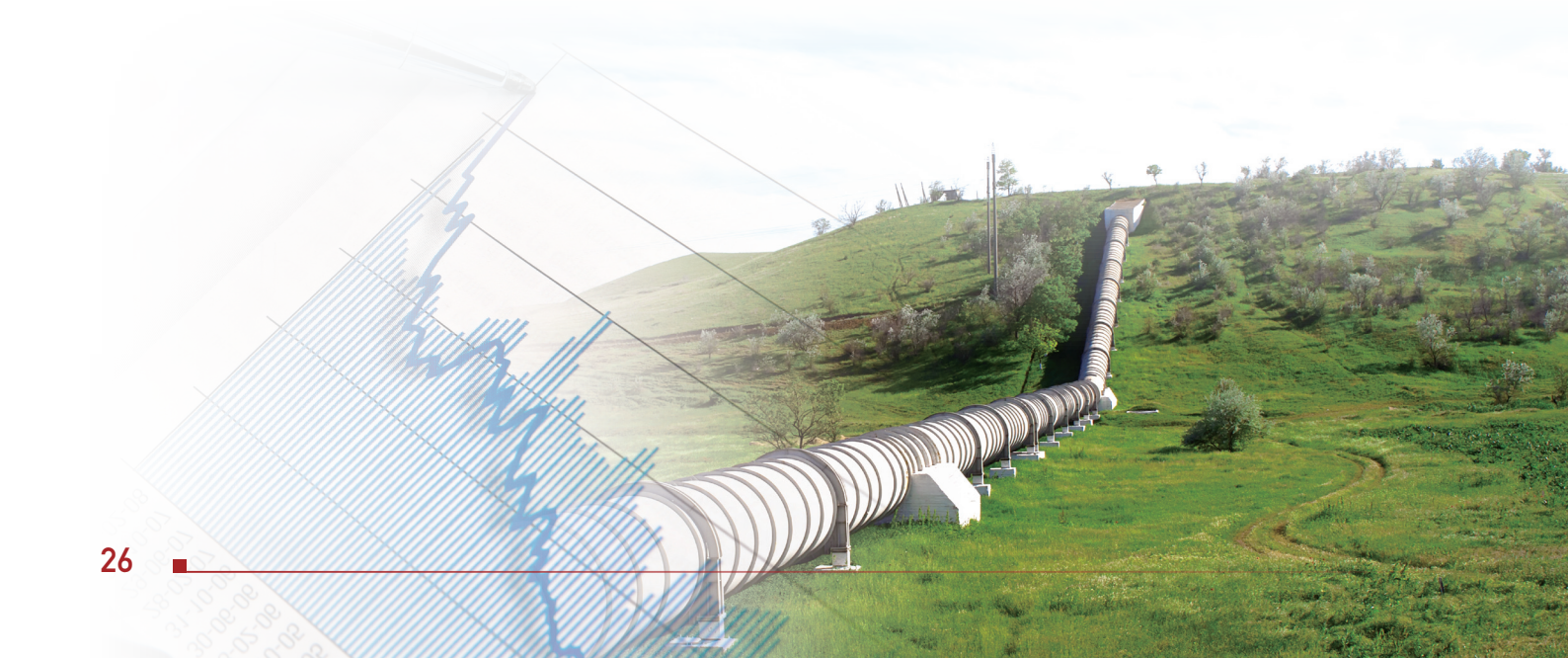
No contract concerning the management and administration of the whole or any substantial part of the business of CPFHK was entered into or existed during the year.

AUDITOR

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

By Order of the Board

Director



Independent Auditor's Report

To the Shareholders of CNPC Finance (HK) Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CNPC Finance (HK) Limited ("CPFHK") and its subsidiaries (collectively referred as the "Group") set out on pages 29 to 61, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 CPFHK 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of CPFHK and of the Group as at 31 December 2011 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 2011

	Notes	2011 US$'000	2010 US$'000
Turnover	6	**408,094**	190,670
Interest income	6	**406,420**	186,859
Interest expenses	7	**(238,722)**	(109,060)
Net interest income		**167,698**	77,799
Other operating income	6	**1,674**	3,811
Increase/(decrease) in fair values of derivative financial instruments		**3,067**	(89)
Other gains	8	**5,690**	7,140
Administrative expenses		**(3,868)**	(1,351)
Profit before income tax	9	**174,261**	87,310
Income tax expense	10(a)	**(14,990)**	(4,806)
Profit for the year		**159,271**	82,504
Other comprehensive income:			
Fair value loss on available-for-sale financial assets		**(5,059)**	(714)
Release of fair value adjustment arising from the disposal of available-for-sale financial assets		**–**	(1,613)
Other comprehensive income for the year (net of tax)		**(5,059)**	(2,327)
Total comprehensive income for the year		**154,212**	80,177

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
ASSETS AND LIABILITIES				
Non-current assets				
Plant and equipment	11	**132**	6	2
Available-for-sale financial assets	12	**9,985**	15,023	7,956
Held-to-maturity investments	13	**319,848**	182,521	102,915
Loans and other receivables	14	**5,918,691**	1,208,341	–
		6,248,656	1,405,891	110,873
Current assets				
Loans and other receivables	14	**6,144,651**	7,038,228	5,770,626
Held-for-trading investments	15	**22,153**	20,501	14,302
Held-to-maturity investments	13	**26,400**	–	–
Derivative financial assets	16	**109,019**	4,776	607
Deposits in non-bank financial institutions	17	**5,057,507**	2,441,725	7,363
Tax recoverable	10(c)	**–**	2,834	–
Bank balances and cash	18	**3,536,127**	2,366,371	2,239,842
		14,895,857	11,874,435	8,032,740
Current liabilities				
Accounts and other payables	19	**9,339,137**	4,377,058	3,217,013
Derivative financial liabilities	20	**45,131**	7,792	2,997
Borrowings – due within one year	22	**4,034,766**	5,935,101	2,276,283
Other loans – due within one year	21	**220,000**	220,000	200,939
Tax payable	10(c)	**3,584**	–	6,970
		13,642,618	10,539,951	5,704,202
Net current assets		**1,253,239**	1,334,484	2,328,538
Total assets less current liabilities		**7,501,895**	2,740,375	2,439,411
Non-current liabilities				
Borrowings – due after one year	22	**3,860,923**	1,667,559	665,240
Other loans – due after one year	21	**581,667**	728,333	1,509,865
Bond payables	23	**2,360,610**	–	–
		6,803,200	2,395,892	2,175,105
NET ASSETS		**698,695**	344,483	264,306
CAPITAL AND RESERVES				
Share capital	24	**400,000**	200,000	200,000
Reserves		**298,695**	144,483	64,306
TOTAL EQUITY		**698,695**	344,483	264,306

On behalf of the board

Director *Director*

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2011

	Share capital US$'000	Investment revaluation reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1 January 2010	200,000	5,860	15,418	43,028	264,306
Total comprehensive income for the year	–	(2,327)	–	82,504	80,177
Transfer to other reserves	–	–	24,614	(24,614)	–
At 31 December 2010	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**

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2011

	2011 US$'000	2010 US$'000
Operating activities		
Profit before income tax	**174,261**	87,309
Adjustment for:		
Depreciation of plant and equipment	**2**	1
Dividend income from available-for-sale financial assets	**(171)**	(54)
Gain on disposal of available-for-sale financial assets	**–**	(1,734)
Gain on disposal of held-to-maturity investments	**–**	(16)
Decrease in fair value of derivative financial instruments	**8,600**	625
Bond interest expenses	**60,457**	–
Operating cash flows before changes in working capital	**243,149**	86,133
Increase in loans and other receivables	**(3,816,773)**	(2,476,069)
Increase in held-for-trading investments	**(1,652)**	(6,199)
Increase in accounts and other payables	**4,945,677**	1,160,120
Cash generated from/(used in) operation	**1,370,401**	(1,236,015)
Bond interest paid	**(40,437)**	–
Income tax paid	**(8,572)**	(14,610)
Net cash generated from/(used in) operating activities	**1,321,392**	(1,250,625)
Investing activities		
Increase in deposits in non-bank financial institutions	**(2,615,782)**	(2,434,362)
Proceeds from disposal of available-for-sale financial assets	**–**	2,337
Proceeds from disposal of held-to-maturity investment	**–**	20,035
Dividend received from available-for-sale financial assets	**171**	54
Receipt upon maturity of held-to-maturity investment	**9,158**	–
Purchase of held-to-maturity investments	**(172,885)**	(99,628)
Purchase of available-for-sale financial assets	**–**	(9,997)
Purchase of plant and equipment	**(128)**	(5)
Net cash used in investing activities	**(2,779,466)**	(2,521,566)
Financing activities		
New borrowings raised	**8,774,552**	5,900,398
Proceeds from issuance of bond payables	**2,281,467**	–
Proceeds from issuance of shares	**200,000**	–
Repayment of borrowings	**(8,481,523)**	(1,239,195)
Repayment of other loans	**(146,666)**	(762,433)
Net cash generated from financing activities	**2,627,830**	3,898,770
Net increase in cash and cash equivalents	**1,169,756**	126,579
Cash and cash equivalents at beginning of year	**2,366,371**	2,239,792
Cash and cash equivalents at end of year		
Bank balances and cash	**3,536,127**	2,366,371

Notes to the Consolidated Financial Statements

31 December 2011

1. GENERAL

CNPC Finance (HK) Limited ("CPFHK") 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 has changed to Room 4301-4306, 43/F, Office Tower of Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The directors consider CPF 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) 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 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

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) 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.

Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets[1]
Amendment to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 27 (2011)	Separate Financial Statements[3]
Amendments to HKAS 32 and HKFRS 7	Offsetting Financial Assets and Financial Liabilities[3&4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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.

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 recognise 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 implementation 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 disclosure 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 new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's consolidated 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

As most of CPFHK's transactions are denominated and settled in United State dollars since the date of its incorporation, the functional currency of CPFHK should be United State dollars ("US$"), instead of Hong Kong dollars ("HK$"). Accordingly, CPFHK changed its functional currency from HK$ to US$ in the preparation of the financial statements. In view of the US$ being pegged with HK$, the effect of change in functional currency to the financial statements is considered to be minimal.

In the current year, CPFHK had also changed the presentation currency of the consolidated financial statements from HK$ to US$ in order to conform with change in functional currency of CPFHK. The change in presentation currency is accounted for as a change in CPFHK's accounting policy and has been applied retrospectively by re-presenting the opening balances at 1 January 2010, and therefore, statements of financial position as at 1 January 2010 were presented.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business Combination and Basis of Consolidation

The consolidated financial statements comprise the financial statements of CPFHK 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.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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 CPFHK.

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 CPFHK is able to exercise control. Control is achieved where CPFHK, 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 CPFHK'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 CPFHK 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. The Group designated convertible bond and investments in a trust fund as held-to-maturity investments. 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;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For Loan 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 CPFHK 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 CPFHK and subsidiary in currencies other than the currency of the primary economic environment in which it/they operate(s) (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 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 expected to apply in the period when the liability is settled or the asset is realised based on tax rates 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.

CPFHK 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 CPFHK'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) Held-to-Maturity Investments

The directors of the Group have reviewed the Group's held-to-maturity investments in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity investments is US$346,248,000 (2010: US$182,521,000). Details of these assets are set out in Note 13.

(ii) 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 investments 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.

(iii) Determination of Functional Currency

The Group measures foreign currency transactions in the respective functional currencies of CPFHK 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.

(iv) 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 CPFHK 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 CPFHK were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required.

6. TURNOVER AND OTHER OPERATING INCOME

	2011 US$'000	2010 US$'000
Interest income from		
– group companies of its holding companies	**363,321**	161,205
– banks	**43,099**	25,654
	406,420	186,859
Gain on disposals of available-for-sale investments	**–**	1,734
Gain on disposals of held-to-maturity investments	**–**	15
Interest income from investment funds	**1,503**	1,458
Commission income	**–**	545
Dividend income from investment funds	**171**	54
Others	**–**	5
	1,674	3,811
	408,094	190,670

7. INTEREST EXPENSES

	2011 US$'000	2010 US$'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	**74,964**	50,654
Borrowings from financial institution wholly repayable within five years	**72,077**	27,951
Bond payables	**60,457**	–
Other loans	**18,005**	26,519
Deposits from fellow subsidiaries	**13,219**	3,936
	238,722	109,060

8. OTHER GAINS

	2011 US$'000	2010 US$'000
Exchange gains, net	**5,540**	7,140
Others	**150**	–
	5,690	7,140

9. PROFIT BEFORE INCOME TAX

	2011 US$'000	2010 US$'000
Profit before income tax is arrived at after charging/(crediting):		
Directors' remuneration	–	–
Auditor's remuneration	–	22
Depreciation of plant and equipment	2	1
Staff cost excluding directors' remuneration:		
– Salaries and allowances	181	–
– Mandatory provident fund contributions	1	–
Fair value gain on derivative financial instruments on fair value hedges	(75,527)	–
Fair value adjustment of bond payables attributable to interest rate risk	75,527	–

Prior to November 2011, the staff costs were paid and borne by CPF Co. Ltd., the immediate holding company of CPFHK.

10. INCOME TAX EXPENSE

(a) Income tax expense comprises:

	2011 US$'000	2010 US$'000
Hong Kong profits tax		
– provision for current year	10,946	4,806
– under provision in prior years	4,044	–
	14,990	4,806

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

	2011 US$'000	2010 US$'000
Profit before income tax	**174,261**	87,310
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**28,753**	14,406
Tax effect of expense not deductible for tax purpose	**4,663**	4,853
Tax effect of income not taxable for tax purpose	**(22,361)**	(14,453)
Tax effect of temporary difference not recognised	**(109)**	–
Under provision in prior years	**4,044**	–
Income tax expense	**14,990**	4,806

(c) Taxation in the statements of financial position represents:

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Profits tax for the year	**10,946**	4,806	5,947
Under provision in prior years	**4,044**	–	1,023
Provisional profits tax paid	**(11,406)**	(7,640)	–
Tax payable/(recoverable)	**3,584**	(2,834)	6,970

(d) There was no significant deferred tax asset or liability as at 31 December 2011 and 2010.

11. PLANT AND EQUIPMENT

	Office equipment US$'000	Computer equipment US$'000	Total US$'000
Cost			
At 1 January 2010	1	3	4
Additions	–	5	5
At 31 December 2010	1	8	9
Additions	75	53	128
At 31 December 2011	76	61	137
Accumulated depreciation			
At 1 January 2010	–	2	2
Charge for the year	–	1	1
At 31 December 2010	–	3	3
Charge for the year	1	1	2
At 31 December 2011	1	4	5
Net carrying values			
At 31 December 2011	75	57	132
At 31 December 2010	1	5	6
At 1 January 2010	1	1	2

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Available-for-sale financial assets	**9,985**	15,023	7,956

There is no addition or disposal during the year.

13. HELD-TO-MATURITY INVESTMENTS

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Held-to-maturity investments	**346,248**	182,521	102,915
Less: held-to-maturity investments – current	**(26,400)**	–	–
	319,848	182,521	102,915

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 is no credit rating information available in the market for the remaining 70% of the held-to-maturity investments. The directors estimated that no impairment is necessary as there is no deterioration in the credit quality of instrument issuers and the balances are considered fully recoverable.

14. LOAN AND OTHER RECEIVABLES

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Loan receivables from group companies of its holding companies	**8,828,068**	6,626,203	5,580,775
Other receivables	**3,235,274**	1,620,366	189,851
	12,063,342	8,246,569	5,770,626
Less: loan and other receivables – non current	**(5,918,691)**	(1,208,341)	–
Loan and other receivables – current	**6,144,651**	7,038,228	5,770,626

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

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Held-for-trading investments include:			
Unlisted investments:			
– currency funds	**22,153**	20,501	14,302

16. DERIVATIVE FINANCIAL ASSETS

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Floating-to-fixed cross interest rate swap contracts	**14,506**	4,776	–
Fixed-to-floating cross interest rate swap contracts	**75,527**	–	–
Foreign currency forward contracts	**18,986**	–	607
	109,019	4,776	607

17. DEPOSITS IN NON-BANK FINANCIAL INSTITUTIONS

Deposits in non-bank financial institution in the Group and CPFHK comprises of some short-term deposits which carry interest at market rates ranging from 0.01% to 0.16% (2010: 0.01% to 0.16%) per annum.

18. BANK BALANCES AND CASH

Included in the bank balances and cash of the Group and CPFHK amounted to approximately US$1,606,778,649 (2010: US$1,716,220,000) are time deposits. The deposits carry interest at the market rates ranging from 0.15% to 3.325% (2010: 0.1% to 1.583%) per annum.

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Bank balances and cash	**3,536,127**	2,366,371	2,239,842

19. ACCOUNTS AND OTHER PAYABLES

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Deposits from group companies of its holding companies	**6,123,854**	2,762,001	3,029,789
Other payables	**3,215,283**	1,615,057	187,224
	9,339,137	4,377,058	3,217,013

Deposits from fellow subsidiaries bear interest at 0.02% to 0.3% (2010: 0.05% to 0.3%) per annum, are unsecured and repayable on demand.

Other payables are denominated in US$ and included an amount of approximately US$3,170,918,000 (2010: US$1,593,893,000) which are linked with equivalent amount of other receivables where the Group and CPFHK manage the borrowings between the subsidiaries of China National Petroleum Corporation.

20. DERIVATIVE FINANCIAL LIABILITIES

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Foreign currency forward contracts	**30,625**	3,016	2,978
Floating-to-fixed cross interest rate swap contract	**14,506**	4,776	19
	45,131	7,792	2,997

21. OTHER LOANS

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Secured loans	**801,667**	948,333	1,710,804
Carrying amounts repayable:			
On demand or within one year	**220,000**	220,000	200,939
More than one year but not exceeding two years	**220,000**	220,000	219,206
More than two years but not exceeding five years	**361,667**	508,333	1,290,659
	801,667	948,333	1,710,804
Less: Amounts due within one year shown under current liabilities	**(220,000)**	(220,000)	(200,939)
Amounts due after one year	**581,667**	728,333	1,509,865

All other loans are denominated in US$ and is secured with an equivalent amount of loan receivables from group companies of its holding companies. They bear variable interest rate ranging from 6 month LIBOR plus 0.62% to 1 month LIBOR plus 2.3% per annum during the year (2010: 6 month LIBOR plus 0.62% to 1 month LIBOR plus 2.3%).

22. BORROWINGS

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Bank borrowings	**6,233,888**	4,636,508	2,941,523
Non-financial institutions borrowings (Note 27(b))	**1,661,801**	2,966,152	–
	7,895,689	7,602,660	2,941,523
Carrying amounts repayable:			
On demand or within one year	**4,034,766**	5,935,101	2,276,283
More than one year but not exceeding two years	**2,500,000**	1,366,775	665,240
More than two years but not exceeding five years	**1,360,923**	300,784	–
	7,895,689	7,602,660	2,941,523
Less: Amounts due within one year shown under current liabilities	**(4,034,766)**	(5,935,101)	(2,276,283)
Amounts due after one year	**3,860,923**	1,667,559	665,240

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 plus 0.6% to LIBOR plus 3% (2010: LIBOR plus 0.6% to LIBOR plus 3%).

23. BOND PAYABLES

Guaranteed Bonds	Principal US$'000	Interest rate (per annum)	31.12.2011 US$'000	31.12.2010 US$'000
US$700 million 3.125% Guaranteed Bonds ("2016 US$ Bonds")	700,000	3.125%	**705,026**	–
US$650 million 4.5% Guaranteed Bonds ("2021 US$ Bonds")	650,000	4.5%	**694,663**	–
US$500 million 5.95% Guaranteed Bonds ("2041 US$ Bonds")	500,000	5.95%	**486,743**	–
RMB2,500 million 2.55% Guaranteed Bonds ("2013 RMB Bonds")	396,769	2.55%	**395,179**	–
RMB500 million 2.95% Guaranteed Bonds ("2014 RMB Bonds")	79,354	2.95%	**78,999**	–
			2,360,610	–

24. SHARE CAPITAL

	CPFHK	
	Number of shares	US$'000
Authorised:		
At 31 December 2010		
Ordinary shares of US$10,000 each	20,000	200,000
At 31 December 2011		
Ordinary shares of US$10,000 each	40,000	400,000
Issued and fully paid:		
At 1 January and 31 December 2010	20,000	200,000
Issue of shares	20,000	200,000
At 31 December 2011	40,000	400,000

On 23 February 2011, CPFHK 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 CPFHK, CPF Co. Ltd.. The new shares rank pari passu in all respects to the existing shares of CPFHK.

25. INVESTMENTS IN SUBSIDIARIES

	31.12.2011 US$'000	31.12.2010 US$'000	01.01.2010 US$'000
Unlisted shares, at cost	**5,800**	800	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
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

26. RESERVES OF CPFHK

	Investment revaluation reserve US$'000	Other reserves US$'000 (Note)	Retained profits US$'000	Total US$'000
At 1 January 2010	5,860	15,418	43,013	64,291
Total comprehensive income for the year	(2,327)	–	82,466	80,139
Transfer to other reserves	–	24,614	(24,614)	–
At 31 December 2010	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

Note: Other reserves represent the capital reserve and general risk surplus reserve of CPFHK

27. RELATED PARTY TRANSACTIONS

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

Nature of transaction	**2011 US$'000**	2010 US$'000
China National Petroleum Corporation and its subsidiaries		
Interest income earned	**363,321**	161,205
Interest expenses paid	**(103,301)**	(58,406)
	260,020	102,799

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	2011 US$'000	2010 US$'000
China National Petroleum Corporation and its subsidiaries		
Loan receivables	**8,828,068**	6,626,203
Other receivables	**3,222,517**	1,598,952
Accounts payables	**(6,123,854)**	(2,762,001)
Other payables	**(3,178,506)**	(1,598,941)
Other loans	**(801,667)**	(948,333)
	1,946,558	2,915,880
CPF Co. Ltd.		
Deposits in non-banking financial institution	**5,045,554**	2,434,573
Borrowings	**(1,661,801)**	(2,966,152)
Other payables	**(11,860)**	(9,327)
	3,371,893	(540,906)

(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.

(d) Compensation to key management personnel

The directors of CPFHK 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.

28. LEASES

Operating leases – lessee

The lease payments recognised as an expenses are as follows:

	2011 US$'000	2010 US$'000
Minimum lease payments	727	312

The total future minimum lease payments are due as follows:

	2011 US$'000	2010 US$'000
Not later than one year	764	–
Later than one year and not later than five years	1,146	–
	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.

Contact Information

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