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

中国石油财务(香港)有限公司十周年

ANNUAL REPORT 年度报告 2018

依托集团
服务集团

Contents

Company Profile

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

As the Company's parent company, CPF is a non-bank financial institution established in December 1995, incorporated with the approval of the People's Bank of China, which serves as the in-house banking and treasury centre of CNPC. CPF is currently the largest finance company in the PRC in terms of size and strength, ranking first by asset, revenue and profit among over 253 finance companies nationwide. As a fully-integrated, strategic component of CNPC, CPF provides the platform on which a centralised treasury management system for the Group is being developed with strong support from CNPC.

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

The Company, as an offshore financing platform of CNPC, has explored a wide range of financing channels including overseas bonds issuance, Euro medium-term notes, US and Euro commercial papers, and debentures repurchase. The Company has signed bank credit agreements with dozens of international banks and has participated in financing for more than 70 major projects of the Group abroad, providing member companies with steady long-term financial security for the smooth implementation of overseas mergers and acquisitions, oil and gas explorations, project construction, crude oil trading, equipment imports and other projects, and supporting CNPC in the implementation of the international development strategy.

As at the end of 2018, CPFHK had total assets on balance sheet of US$27.19 billion. Annual operating income of the year was US$968.17 million and profit before tax was US$390.23 million, accounted for 40.57%, 35.72% and 28.14%, respectively, of the parent company's total assets, income and profit.

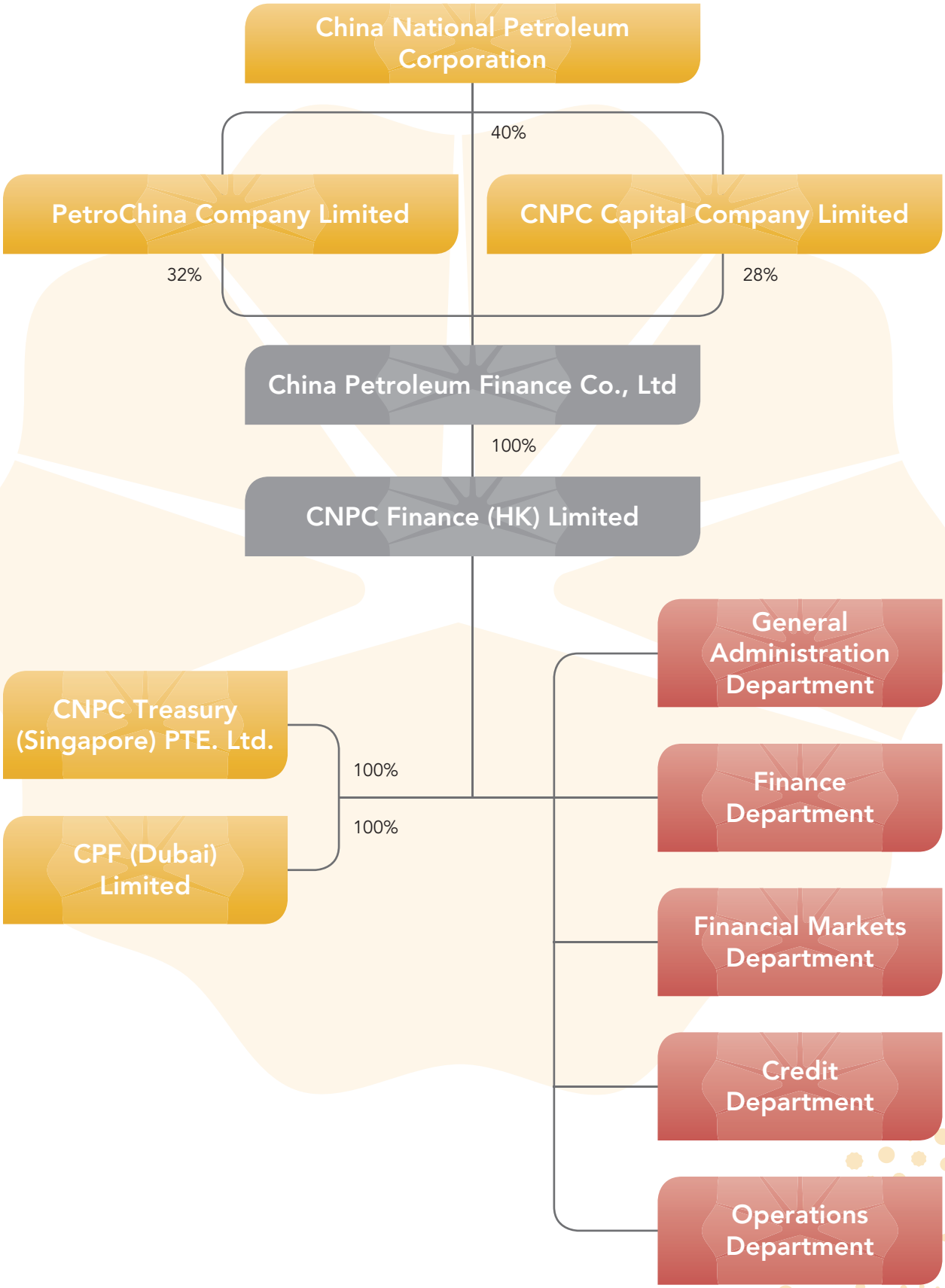
Under the leadership of the Board of Directors (the "Board"), the general manager is responsible for the management of the five departments of CPFHK, comprising Finance, Operations, Credit, Financial Market and General Administration. In order to provide all-round financial services to facilitate CNPC's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

The long-term and short-term credit ratings of the Company assigned by Moody's and Standard & Poor's are A2/P1 and A/A1, respectively.

THE COMPANY IS PRINCIPALLY ENGAGED IN THE FOLLOWING FINANCIAL BUSINESSES:

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

Organisational Structure



10th Anniversary Celebration of CNPC Finance (HK) Limited

RIDING THE WIND, FULL SAIL AHEAD

2008 was a year of great historical significance. To attain the strategic goal of building a first-class comprehensive international energy company in the world and by giving full play to the role of a vanguard as a state-owned enterprise, CNPC has continuously promoted its strategy of internationalisation and achieved leap-forward development in its overseas operations. As an integral component of CNPC's financial segment, CPF has provided comprehensive financial service support for the CNPC's international operations by strictly adhering to CNPC's international development strategy and giving full play to its role as the "internal bank". On 18 March 2008, CNPC Finance (HK) Limited was established in earnest hope.

From then on, the Company has embarked on an extraordinary development path.

SOLID DEVELOPMENT WITH THRIVING GROWTH

As the one and the only overseas finance company approved by CBIRC, with considerate care and strong support of CNPC and its parent company, the Company has achieved rapid growth over the past decade. The Company was headquartered in Beijing at its inception. After going through the three-year transition period of "one team with two brands", it officially moved into Hong Kong in November 2011 and subsequently established its subsidiaries in Dubai and Singapore. The Company has effectively played its role as the CNPC's offshore treasury platform, enabling CNPC to take the lead in becoming a multinational company among the state-owned enterprises which have achieved centralised management of global funds.

Over the past ten years, the Company, as CNPC's "offshore treasury centre", has given into full play to its functions of "fund collection, fund monitoring, fund settlement, financial services" platform of CNPC, in pursuit of its objective of "of the Group, for the Group". The Company also strengthened its efforts in finance-backed production, value creation and risk management, thereby constantly improving its service quality and level.

Following a decade of leap-forward development, the Company has grown from an enterprise initially operating the deposit and loan business into CNPC's offshore financial service platform with diversified financial services and integrated comprehensive services which cover extensive business lines including settlement, lending, securities investment, foreign exchange transactions, bond issuance and commercial paper issuance. It is known as the company with a full set of licenses, the most complete business lines and the most comprehensive service functions in the whole industry.

In the past ten years, the Company has been found as the successor of the honourable legacy from Chinese oil and petrochemical industry, working arduously and mindfully, providing customers with intimate services and making contribution to CNPC. By providing financial services, the Company creates value for CNPC and achieves its own steady and healthy development. As of the end of 2018, the Company monitored 2,933 bank accounts of CNPC's member companies, settled an accumulative amount of US$2.7 trillion, issued loans of nearly US$141.1 billion to more than 70 major overseas projects of CNPC, carried out external financing of US$401.1 billion, conducted foreign exchange transactions in amount of US$188.4 billion and made investment in securities of US$3.2 billion. The Company maintained steady growth in main business indicators, and recorded an average annual growth rate of 25% in assets, making an accumulative direct and indirect contribution of nearly US$3 billion to CNPC. Its assets increased from the initial US$4.5 billion to US$28 billion, with its profit growing from the initial US$8.48 million to nearly US$400 million. The assets and profit of the Company account for 40% and 28% of CPF's overall size, respectively, thus becoming an important driving force in CPF's business development.

STRIVING FOR EXCELLENCE AND THE BEST

With CNPC's strong support, the Company has set the following "five firsts" record in the domestic finance company industry: the first to set up overseas branches, the first to issue overseas US dollar-denominated bonds, the first to issue overseas RMB-denominated bonds, the first to issue US commercial papers, and the first to issue European medium-term notes. In addition, the Company has become a leader in the industry, which is evidenced by the "Taozhu Awards – Best Finance Company" awarded by EuroFinance in 2015, and the Company's sharing of its experience at the Asian Financial Forum 2016 in recognition as the outstanding case of the "Corporate Treasury Centre" (CTC) program by the Hong Kong Monetary Authority.

The Company's remarkable achievements have been attained with the care and support from all stakeholders, and the rapid development and powerful strength of CNPC and the parent company have laid a solid foundation for the Company's development. The construction of pipelines in Central Asia, the acquisitions of Singapore Petroleum Company Limited and British refineries, the Natural Gas Project in Turkmenistan, the construction of refineries in Chad, the acquisition of Kashagan Block in Kazakhstan, the acquisition of Mozambique Block 4, the acquisition of assets at West Qurna-1 in Iraq. All these successful strategic projects were made possible with the Company's financial support as well as our concerted efforts in composing a magnificent chapter of international development.

CONTINUING EFFORTS TO REACH NEW HEIGHTS

Over the past decade, we have attained remarkable achievements in both Mainland China and Hong Kong.

In the past ten years, the Company has cherished every encouragement and support received, and borne in mind every care and help offered to us. We have provided customers with intimate service and strived for excellence to deliver solid results as expected and to accomplish our mission.

The past ten years is a decade of arduous work and rapid changes. As ten years have passed, we are now heading towards a new era and embarking on a new journey. Looking ahead, the Company will further enhance its capabilities in internationalised comprehensive financial services, comprehensively strengthen its functions of the offshore treasure platform, fully develop itself into a first-class finance company in the world and further strengthen its leading position in the industry. With our unwavering persistence and encouragement, let's contribute our wisdom and strength to the construction of a first-class finance company, the full establishment of a first-class comprehensive international energy company, the realisation of the grand objectives set by the 19th CPC National Congress and a prosperous future.

10th

中国石油财务(香港)有限公司十周年

Development Milestones 2008-2018

北 京 Beijing

2008

On March 18, 2008, as approved by CBIRC, CNPC Finance (HK) Limited was officially incorporated by China Petroleum Finance Co., Ltd. in Hong Kong as a wholly-owned subsidiary. It is the first and only overseas subsidiary of a PRC finance company approved by CBIRC.

2010

In 2010, the Company conducted cross-border RMB business as its key corporate business to commence US$/CNH trading.

2011

On 29 March 2011, the Company convened the 1st meeting of the Second Session of the Board of Directors in Beijing for general election of members of the board, at which Wang Guoliang, the then chief accountant of CNPC, was elected as the Chairman of the Second Session of the Board of Directors of the Company.

On 28 April 2011, the Company made its debt in the international capital market by successfully issuing US$1.85 billion corporate bonds, which established diversified financing channels for CNPC. The bonds were assigned a credit rating next only to China's sovereign credit rating by Standard & Poor's, Moody's and other international credit rating agencies, marking a new milestone for its corporate development.

2012

On 19 April 2012, the Company successfully issued US$1.15 billion bonds and maintained the high credit ratings assigned by Standard & Poor's, Moody's and Fitch.

In April 2012, the Company made its debt in the international currency market by successfully establishing a US$2 billion US Commercial Paper program, and officially issued such commercial papers in the US market on 2 May of the same year, thus becoming the first state-owned enterprise to issue US commercial papers.

2015

In June 2015, the Company successfully established a US$2 billion Euro Commercial Paper program.

On 24 August 2015, the Company convened the 1st meeting of the Third Session of the Board of Directors in Beijing for general election of members of the board, at which Liu Yuezhen, the then chief accountant of CNPC, was elected as the Chairman of the Third Session of the Board of Directors of the Company.

In 2015, the Company was awarded the "Taozhu Awards – Best Finance Company" by EuroFinance.

新加坡 Singapore

For The Group Of The Group

2009

On 25 February 2009, CPF (Dubai) Limited was incorporated as a wholly-owned subsidiary of the Company, and was granted tax exemption status as a "Dubai International Financial Centre" (DIFC) resident. As an extended service platform of the Company, CPF (Dubai) Limited focuses on the centralised cash management function of CNPC in the Middle East.
On 19 April 2009, Mr. Xi Jinping, the then Vice President of the State, inspected the foreign exchange trading centre of the Company

2011

香 港 Hong Kong

On 27 May 2011, CNPC Treasury (Singapore) Pte. Ltd. was incorporated as a wholly-owned subsidiary of the Company, and was granted preferential tax status as a "Finance and Treasury Centre" (FTC) resident. As an extended service platform of the Company, CNPC Treasury (Singapore) Pte. Ltd. provides financial services to CNPC's oil and gas operations in the Asian-Pacific region.
On 19 October 2011, the Company issued RMB3 billion overseas RMB bonds for the first time.
On 19 November 2011, after going through the three-year transition period of "one team with two brands" in Beijing, the Company officially moved into Hong Kong and achieved localized operation of its business.

2013

On 16 April 2013, the Company successfully issued US$2 billion bonds.
On 10 May 2013, the Company successfully established a US$7 billion EMTN Euro Medium-term Note program.
On 24 June 2013, the credit line of US Commercial Paper program of the Company increased to US$4 billion.

2014

On 14 May 2014, the Company successfully issued US$1.5 billion bonds.
On 04 July 2014, the credit line of US Commercial Paper program of the Company increased to US$6 billion.
On 18 November 2014, the Company successfully issued US$1.5 billion EMTN Euro medium-term notes.

2016

In 2016, in recognition as an outstanding case of the "Corporate Treasury Centre" (CTC) program by the Hong Kong Monetary Authority, the Company shared its experience at the Asian Financial Forum 2016.

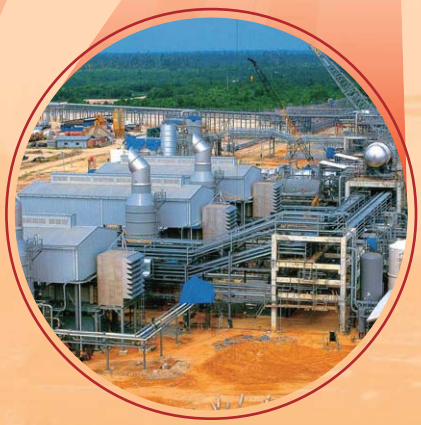
2018

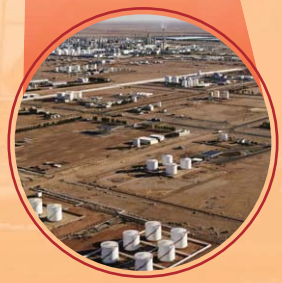
18 March 2018, marked the 10th Anniversary of CNPC Finance (HK) Limited since its incorporation.
On 12 December 2018, the Company convened the 1st meeting of the Fourth Session of the Board of Directors in Beijing for general election of members of the board, at which Liu De, the Chairman of CPF, was elected as the Chairman of the Fourth Session of the Board of Directors of the Company.

迪 拜 Dubai

NEW ERA, NEW JOURNEY !


Russia
Europe
Central Asia
Middle East
Mediterranean
West Asia
China
South Asia
South China Sea
Africa
Southern Ocean
Indian Ocean
Southeast Asia
Asia-Pacific Region





The Belt and Road

Funding CNPC's overseas projects globally

Since its inception a decade ago, the Company has made constructive contribution towards CNPC's international development strategy, facilitated CNPC's overseas strategic layout, and had participated in more than 70 major projects abroad, providing our member companies with powerful financial security and services for the smooth implementation of overseas mergers and acquisitions, oil and gas explorations, project construction, crude oil trading, equipment imports and other projects.

- Loans in cumulative amount of US$89.9 billion have been granted for oil and gas pipeline projects in Russia, Kazakhstan and other countries and regions
- Settlement services in cumulative amount of US$2.2 trillion have been provided to the countries and regions covered by "The Belt and Road" Initiative
- Foreign exchange transaction services in cumulative amount of US$530.9 billion have been provided, including hedging transactions in cumulative amount of US$8.77 billion for acquisition and construction projects including acquisition of Singaporean refineries, Kazakhstan Kashagan Project, and foreign exchange purchases in cumulative amount of US$522.1 billion for oil and gas trade

Central Asia

Amu Darya Hiret Right Bank Project
Central Asia Pipeline Project
Yolotan Project, Southern Turkmenistan
Kashagan Project, Kazakhstan
New Silk Road Project, Uzbekistan

Asia-Pacific Region

SPC Project, Singapore
ARROW Project, Australia
Browse Project, Australia
ConocoPhillips Offshore & Onshore Project, Australia
UT Project, Singapore

America

Oil Sands Project, Canada
Unconventional Natural Gas Project, Canada

Middle East

Euphrates Project, Syria
Pipeline Project, Abu Dhabi
West Qurna Project, Iraq
ADCO Development Project, Abu Dhabi

Africa

Refinery Project, Chad
Crude Oil Trade Project, Sudan
Mozambique Project
H Block Project, Chad

Chairman's Statement

Chairman: LIU YUEZHEN

2018 marked the 40th anniversary of the reform and opening-up of the PRC. It was also a crucial year in the implementation of "The 13th Five-Year Plan" and the 10th anniversary of CPFHK since its establishment. Over the past decade, CPFHK made constructive contribution towards CNPC's international development strategy, based in Hong Kong with CNPC backing up, CPFHK continued to expand and innovate with a global perspective, fully utilised the functions of the foreign treasury platform, implemented the global centralised FX fund management function of CNPC, provided financial service for offshore member companies of CNPC, secured capital supply, managed the fund with high efficiency, conducted FX risk management, and has become a financial service platform integrated with diversified financial business and comprehensive services. With great support of CNPC and its parent company CPF, CPFHK achieved rapid growth during the past decade, with total assets of CPFHK increased from US$4.5 billion since its establishment to US$28 billion, and an accumulated profit of US$2.8 billion. The share of total assets of its parent company increased from 10.9% to 40.57% with its share of profit increasing from 2% to 28.14%. CPFHK is playing an important role in supporting the development of overseas businesses of CNPC.

In 2018, in pursuit of establishing an internationalised financial service platform of the highest standard, CPFHK persistently adhered to CNPC's strategic efforts to become a first-class comprehensive international energy company. In active response to global economic and financial vibration and the tightening overseas investments of the Group, the Company upheld the principle of "seeking progress while maintaining stability", actively captured the significant opportunity arising from "The Belt and Road" Initiative, fully utilised the functions of the Group's foreign treasury platform to continuously explore new business mode, optimised financing structure and enhance the operation ability in foreign market, further expanded the offshore capital management coverage and enhanced its service ability, profitability, innovation ability and risk management ability and achieved healthy growth in every business. As at the end of 2018, total assets of CPFHK amounted to US$27.19 billion and its profit was US$390 million, with the work goals laid down by the Board fully accomplished and maintained a stable profit contribution.

Over the past year, CNPC adhered to its steady development guidelines, leveraged the favorable opportunities arising from upward trend amidst fluctuations of the international oil prices in the first three quarters and the thriving demand of natural gas in China as well as optimised the operations of two industry chains of oil and gas. In addition, CNPC continued its reforms and innovation, promotion of opening up new income sources while minimising expenses and reduced cost while enhancing efficiency, thereby achieving overall improvements in respective production indicator and delivering better-than-expected operating results. In particular, in adherence to the openness, cooperation and win-win philosophies for internationalisation of operations, the offshore oil and gas business of CNPC successfully captured business opportunities arising from the "The Belt and Road" Initiative, which continuously enhanced its competitiveness and influence over the international oil and gas market. In 2018, CNPC recorded double-digit growth in volume of overseas oil and gas production, achieving a new record high of 98.18 million tonnes, and the internationalisation of operation level of CNPC continuously improved.

CNPC's healthy, rapid development, promoted the sound development of CPFHK and its parent company, CPF. In 2018, CPF achieved remarkable results and demonstrated tangible progress in terms of marketing, internationalisation and professionalisation. Total assets of CPF reached RMB594.4 billion, and its profit was RMB9.18 billion, maintaining its position as the largest intra-group finance company in terms of scale and comprehensive strength amongst PRC enterprise finance companies and ranking the first in terms of asset, revenue and profit for 16 consecutive years. The ratings of the Company in both the industry and group

performance assessment were Grade A. In the industry rating, the Company ranked third among all state-owned enterprises and sixth in the industry, achieving the ever-best records. In the rating of "Gold-Medal List of Financial Institutions in China • Golden Dragon Award", the Company received the most significant "Award of the Best Finance Company of the Year".

Through ten years of endeavour and efforts, and ten years of pursuit and exploration, CPFHK has been expanding in the past ever changing ten years and come to a new foothold. CPFHK will continue to support the strategy of CNPC for international development, fully strengthening our functions as an offshore treasury platform, further enhancing our capabilities in internationalised financial services, improving quality and efficiency and keeping risks in strict control with the aim of promoting the high-quality development of the Company to a new stage. Through these, we will contribute our best effort to sustain CNPC as a first-class comprehensive international energy company in the world.

Last but not least, I would like to express my heartfelt gratitude towards the general society for their trustful cooperation, to the member companies for their great support, and to all staff for their hard work.

Chairman:

Business Review

General Manager: LIAO XIAOYAN

Under the solid support of CNPC and each of our member companies and the strong leadership of our parent company, the Company made constructive contribution towards CNPC's strategic efforts to establish itself as a worldwide first-class comprehensive international energy company in 2018. The Company earnestly implemented the operation objectives set by the Board and each work requirement formulated by the parent company, centralised on serving the principal business of the Group in oil and gas, targeted to establish a first-class finance company, actively responded to the severe situation owing to downwards of macro economy, geopolitical events which occurred frequently and tightening overseas investments of the Group, made great efforts to open income resources while minimising expenses and reduce cost while enhancing efficiency, strive for exploration and innovation, strengthen management, improve service, with the work goals laid down by the Board fully fulfilled.

I. OPERATING RESULTS KEEP A GOOD MOMENTUM OF STEADY GROWTH

As at the end of 2018, the total assets of CPFHK were US$27.19 billion, representing a decrease of US$1.47 billion, with an average asset amounted to US$28.68 billion, representing a year-on-year increase of US$1,163 million or 4.23%. Annual operating income was US$968.17 million, a year-on-year increase of US$131.87 million, or 15.77%. Profit before tax was US$390.23 million, maintaining a stable contribution of profit.

In 2018, the Company enhanced cash pools efficiency through allocating assets and liabilities in a scientific manner and refining funds management, as well as reducing cost of capital by utilising instruments such as bonds repurchase, currency swaps and commercial papers, exploited potentials and enhanced efficiency, income was increased by US$166.90 million throughout the year.

II. KEY BUSINESSES STEADILY GROW

(I) Settlement and Cash Management

As the offshore cash management platform of CNPC, we make use of the three cash pools in Hong Kong, Singapore and Dubai to implement the offshore centralised cash management function of the Group to fully utilise the functions of cash monitoring and collection platform, which enhanced the efficiency of settlements, and the settlement covered more than 80 countries, satisfied the settlement requirements and protected the funds safety for member companies of the Group. In 2018, the average cash volume collected by the Company was US$7.78 billion, a year-on-year increase of 13.23%. The volume of settlement was 31,789, whereas the amount involved in the settlements was US$334.56 billion.

(II) Loan and Credit

In order to provide all-round credit fund support to facilitate CNPC's overseas development strategy, the Company closely followed up the progress of CNPC's major loan projects and acquisition and financing. 6 projects of loan contracts were signed, including the ADNOC offshore project, Sino-Kazakhstan crude oil pipeline project, BGP ADNOC 3D seismic project with a total amount of credit fund of US$1.87 billion and balance at the end of the year was US$9.69 billion in 2018.

(III) Funding and Financing

As the offshore financing platform of CNPC enjoying strong credit backing from CNPC, we made the most of Hong Kong finance market, raised funds for the Group in a low-cost manner such as bonds issuance, US commercial papers, bank borrowings and bond repurchases, and realised diversified financing channels. In 2018, the aggregate borrowings from banks was of US$22.46 billion, and an aggregate of US Commercial Paper of US$87.3 billion was issued, representing a year-on-year growth of 114.17%. The balance of bonds issued amounted to US$3.85 billion.

(IV) Foreign Exchange and Derivatives Transactions

As the foreign exchange trading platform of CNPC, the Company fully leveraged its professional advantage to provide currency exchange, exchange rate and interest rate hedging services for member companies and efficiently hedge risk exposures for exchange rate and interest rate, enhancing our balance sheet risk management ability. In 2018, the Company launched FX night trading service in order to satisfy the trading demands across time zones for member companies, and further expanded its global FX trading service offerings. During 2018, the number of foreign currency transactions of various types (including spot transactions, forward transactions, foreign currency swaps, cross-currency swaps and so on) handled by the Company was US$22.73 billion.

(V) Securities Investments

While maintaining sufficient settlement and credit funds, the Company adhered to the principle of "safety, liquidity and efficiency" and carried out the securities investment business to a proper extent, for the purpose of increasing the cash pools gain and value maintenance and appreciation of assets. The Company's securities mainly focused on investments with fixed income. The Company has been adhering to the principle of prudence, seeing a stable increase in investment gains. Investment balance of the Company was US$3.11 billion and achieved investment gain of US$116 million during 2018.

(VI) Subsidiaries

Strictly followed the overseas development strategy, the Company continued to expand its service network. As the extended service platforms of the Company, the subsidiaries in Dubai and Singapore conformed to our general development plan while playing on their respective strengths to further expand service coverage by engaging in businesses such as cash management, loan and settlement. Its subsidiaries provided loans of US$4.03 billion and making settlements of US$69.99 billion through the year, these subsidiaries have become a powerful complement to the business development of the Company.

III. INTEGRATED MANAGEMENT STEADILY ENHANCED

Firstly, continue to strengthen risk management, pay great attention to three-step verification for credit business, investment assessment, counterparty credit evaluation and different countries' risk evaluation work, effectively alert credit risk; strengthen investment risk tracking and identification, scientifically adjust investment strategies, and effectively avoid market risks; continuously improve the system revision process, stick to risk self-examination normalisation, and effectively control and manage operational risks. Secondly, continuously promote the digitalisation construction, continue to upgrade and modify the core system, realize the automatic quotation function for FX electronic trading, etc., strengthen the construction and application of data system, provide technology security for comprehensive risk prevention and management improvement; Thirdly, attach great importance to team building and enhance the comprehensive quality of the team. The Company organised various professional financial training with over 70 persons participated and continuously improved the professional level and occupational standards of employees, strengthen the corporate culture construction, create L.O.V.E. home culture, and motivate the employees' initiatives and creativities in career.

Never forget why you started, and your mission can be accomplished. As the sole offshore treasury centre of CNPC, CPFHK is committed to pursuing the Group's strategy of internationalisation and loyal fulfilment of our objective of "of the Group, for the Group", targets to build a first-class finance company, leverages the advantage of Hong Kong as an international financial centre, fully capitalises its functions as an offshore treasury centre, continuously enhances global funds management and operation ability and cross-border financial service ability, improves operational management level and achieves high-quality development, making new contribution to CNPC in its best effort to become a first-class comprehensive international energy company in the world.

General Manager:

New-Term Board of Directors and Senior Executives

BOARD OF DIRECTORS

CHAIRMAN LIU DE

Chairman of China Petroleum Finance Co., Ltd.

WANG ZENGYE

General Manager of China Petroleum Finance Co., Ltd.

ZHOU JIANMING

Deputy General Manager of Treasury Department of CNPC

GAO WEI

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

WANG ZHIJUN

General Manager of China Oil (HK) Co., Ltd
General Manager of PetroChina International (HK) Co., Ltd.

Note: On 12 December 2018, the Company convened the 1st meeting of the fourth session of the board of Directors. After the re-election of the Board, Mr. Liu De was elected as the new Chairman. The qualification approval process for the new Chairman and certain new Directors was under progress by the Company.

MU XIUPING

Chief Accountant of China Petroleum Engineering Co., Ltd.

ZHOU YINGQIU

Chief Accountant of China Petroleum International Pipeline Co., Ltd.

LIAO XIAOYAN

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

JING LIN

Deputy General Manager and Chief Accountant of China Petroleum Finance Co., Ltd.

SENIOR EXECUTIVES

LIAO XIAOYAN

General Manager of CNPC Finance (HK) Limited

ZHANG YUN

Deputy General Manager of CNPC Finance (HK) Limited

GUO HONGDE

Deputy General Manager of CNPC Finance (HK) Limited

Corporate Governance, Internal Control and Risk Management

In 2018, in view of the stable growth of various operations, CPFHK continued to review the existing corporate governance structure. It further improved its corporate governance and internal control system by strictly implementing various risk management policies and deployments set by the Board and CPF. In addition, CPFHK enhanced its risk management and continuously strengthened its internal control and risk management standard. CPFHK has maintained a momentum of healthy development.

CORPORATE GOVERNANCE

As the core of corporate governance, the Board of CPFHK mainly aims to formulate mid-to-long-term development and risk management strategies and to monitor the implementation thereof; to review and approve annual business plans and financial budgets; to be responsible for corporate governance and compliance, among others. Directly under the leadership and supervision of CPF, CPFHK's significant credit and investment businesses as well as significant expenditures should be reported to CPF for approval.

In 2018, the Company held the first meeting of the fourth session of Board. The Board of CPFHK comprises nine directors, including all senior executives of CPF, and the Board of CPFHK is chaired by the Chairman of CPF. The Board convened two formal meeting in which 8 motions including the Board election, annual work reports and financial reports were reviewed and approved.

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

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

- 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 authorisation specified by the Board, CPFHK examines and controls risk businesses including credit and investment;

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

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

- The business departments manage risks involved in daily businesses;

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

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

Major risks faced by CPFHK include 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 perform the contractual obligations. Credit risk mainly comes from loan and other businesses such as inter-bank depositing, foreign exchange and derivative transactions, and bond investment. The oversea-project proprietary loans of CPFHK should strictly follow the three-level-approval policy and be examined regularly on-site and off-site after loan provided and must be approved by the Treasury Department of CNPC. Loans of CPFHK are merely offered to member companies of CNPC. The business partners for interbank depositing, foreign exchange transactions and investments are highly rated banks and institutions with large asset size and sound financial positions.

MARKET RISK MANAGEMENT

Market risk means possible losses due to changes in prices in the financial market, such as bond price, stock price, interest rate and exchange rate. CPFHK applies a methodology that seeks to balance risk and gains with professional prudence. Investments on bond, fund and stock within the limit and scope of products ratified by the Board are conducted prudently, and all investment plans have to be reported to CPF for approval. The separation of the front desk, middle office and back office are 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 CBIRC and the requirements of the Board and CPF, CPFHK manages its operational risks and implements the "three-defensive-line" strategy in operational risk management. Under this strategy, the business departments serve as the first defensive line, which monitors and controls risks in its own department according to its functions, duties and operational process. The management of CPFHK and the Risk Management Committee serve as the second defensive line, which makes an overall plan for the build-up of internal control system, guides, inspects and assesses operational risk management in the business departments and the implementation, and also considers and reviews material matters relating to operational risks. CPF serves as the third defensive line, which supervises and tests CPFHK's operational risk management on a regular basis.

In 2018, 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, streamline business workflow with a particular emphasis on management over the safety of capital and clarified job responsibilities to ensure checks and balances between positions. CPFHK strictly defined operational and approval authorisation and strengthened the enforcement of rules. It also carried out thorough-inspection on risks related to major businesses and weak links. Through the incorporation of its business development and risk control points, CPFHK continued to promote information system advancement to strengthen the level of operational risk control. CPFHK improved the disaster recovery plan for its information system, protection procedures and emergency response plans for system failure, to ensure the stability and safety of the IT system. It organised training programs on professional skills and ethics to enhance abilities to identify and deal with risks and foster a culture of risk awareness across the board.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to losses that CPFHK may suffer from failures in funding assets or repaying loans. CNPC requires member companies to exercise cash flow planning and in accordance CPFHK prepares enough cash positions. In line with balanced liquidity risk appetite, CPFHK has been provided with short-term credit facilities of approximately US$26 billion by 39 banks in addition to the US$6 billion commercial paper program and US$2 billion Euro commercial paper program. CPFHK ensures sufficient cash sources under all circumstances to meet liquidity demand.

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

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

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Financial Position

Financial Position and Operating Summary for 2018

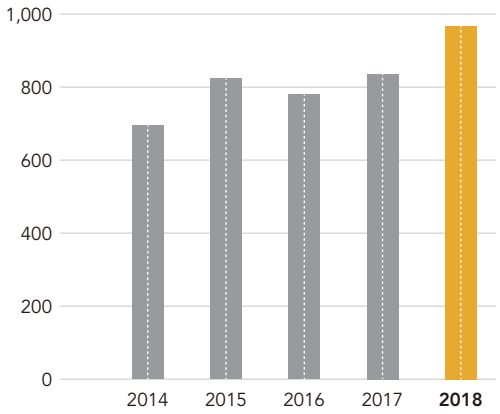
1. KEY INDEX

US$ (in millions)

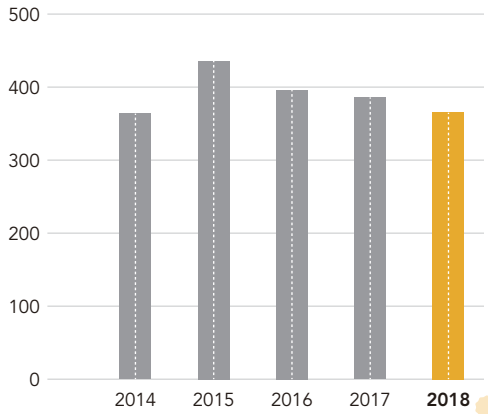
Year	2018	2017	2016	2015	2014
Operating Profit	390	407	398	453	374
Profit for the year	366	386	396	436	364
Interest Income	966	797	732	708	647
Investment Income	*	8	5	29	*
Interest Expenses	559	416	369	357	312
Administrative Expenses	11	13	13	13	9
Total Assets	27,187	28,656	26,216	26,535	28,651
Loans	9,688	14,619	14,916	17,944	22,000
Total Liabilities	24,216	25,950	23,903	24,615	27,172
Owner's Equity	2,971	2,706	2,313	1,920	1,479

Note: * represents amount less than 1 million

OPERATING INCOME



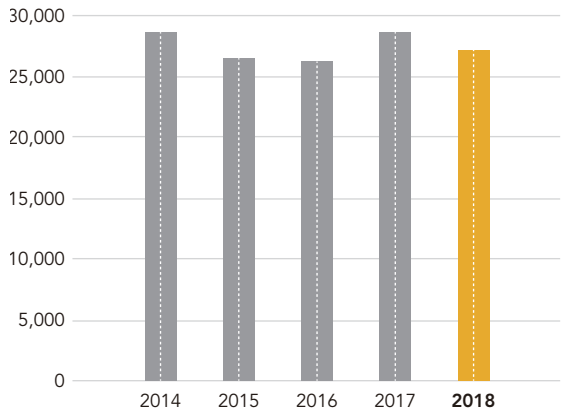
PROFIT FOR THE YEAR



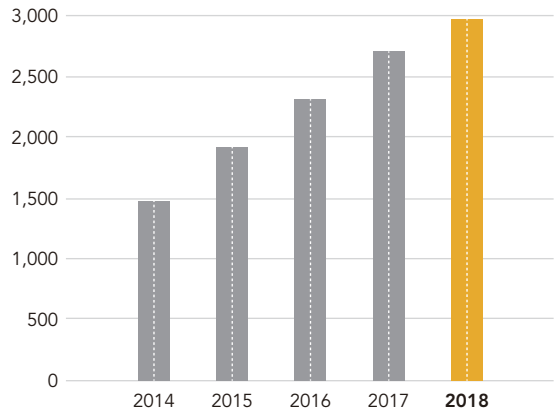
Financial Position and Operating Summary for 2018

Year	2018	2017	2016	2015	2014
ROE	12.91%	15.39%	18.70%	25.68%	28.12%
ROA	1.31%	1.41%	1.50%	1.61%	1.36%
Operating Income	968	836	780	824	695
Profit for the year	366	386	396	436	364

TOTAL ASSETS



OWNER'S EQUITY



(in thousands)

Year	2018	2017	2016	2015	2014
Total Assets	27,187	28,656	26,216	26,535	28,651
Owner's Equity	2,971	2,706	2,313	1,920	1,479

2. FINANCIAL POSITION AND OPERATING ACTIVITIES FOR THE YEAR 2018

Assets

The operating profit for the year 2018 decreased by US$16 million, or 4.02%, to US$390 million. By the end of 2018, the total assets of CPFHK were amounted to US$27,187 million, decreased by US$1,469 million, or 5.13%. The financial position remains solid with key financial ratios at healthy levels. Return on assets (ROA) was 1.31%, and return on equity (ROE) was 12.91%. Non-performing asset ratio and non-performing loan ratio were both zero.

Bank balances and cash

US$ (in millions)

Details	2018.12.31	2017.12.31
Time deposit	13,426	9,545
Current deposit	591	1,257
Total	14,017	10,802

By the end of 2018, bank balances and cash were totalled US$14,017million, increased by US$3,215 million, or 29.76%. The increase was driven by a large amount of time deposit raised this year.

Loan Receivables

US$ (in millions)

Details	2018.12.31	2017.12.31
Loan receivables	9,688	14,619
Total	9,688	14,619

Total loan receivables for 2018 were US$9,688 million, decreased by US$4,931 million, or 33.73%. The decrease reflected the loan received upon maturity.

Securities investments

US$ (in millions)

Details	2018.12.31	2017.12.31
Fixed rate investments	2,820	2,422
Securities investments	8	9
Hedge funds	228	232
Other investments	50	250
Total	3,106	2,912

By the end of 2018 the securities investments were US$3,106 million, increased by US$194 million, or 6.65%.

Liabilities

The total liabilities by the end of the year 2018 were amounted to US$24,216 million, decreased by US$1,734 million, or 6.68%.

Deposits from group companies of its holding companies

US$ (in millions)

Details	2018.12.31	2017.12.31
Current deposit	3,489	5,434
Time deposit	3,530	3,171
Total	7,019	8,605

Deposits from group companies of its holding companies were US$7,019 million by the end of 2018, decreased by US$1,585 million, or 18.43%. The reason for the decrease was fund transfer by clients.

Other interest-bearing liabilities

US$ (in millions)

Details	2018.12.31	2017.12.31
Bank borrowings	9,790	10,400
Bonds payable	3,850	4,350
Corporate commercial paper	3,245	2,200
Repurchase agreement	32	0
Other borrowings	191	233
Total	17,108	17,183

Other interest-bearing liabilities were US$17,108 million, decreased by US$75 million, or 0.44%.

Owner's Equity

By the end of 2018, the owner's equity was US$2,971 million, increased by US$265 million, or 9.80%. The increase was primarily due to the retained earnings contributed by net profit.

Operating income

The operating income of 2018 was US$968 million, increased by US$132 million, or 15.77%.

Interest income

US$ (in millions)

Details	2018	2017
Loan interest	496	510
Bank interest	352	209
Securities interest	118	78
Total	966	797

Interest income was US$966 million, increased by US$169 million, or 21.25%. The increase was primarily due to the large increase in bank interest income.

Fees and Commission Income

US$ (in millions)

Details	2018	2017
Foreign exchange commissions	2.2	3.1
Fees charged from syndicate loan origination	1.0	21.4
Entrusted loan commissions	0.8	1.1
Services of financial guarantees	0.1	0.1
Total	4.2	25.7

Fees and commission income were US$4.2 million, decreased by US$21.6 million, or 83.83%. The decrease was mainly due to the sharp decrease in loan origination fees.

Investment Income

US$ (in millions)

Details	2018	2017
Dividend income from investment funds	0.1	0.04
Gain on disposal of available-for-sale financial assets	*	7.9
Total	0.1	7.9

Note: represents amount less than 1 million

Investment income was US$0.1 million, decreased by US$7.8 million, or 98.23%. The decrease was mainly because of the gain on disposal of available-for-sale financial assets in 2017.

Exchange gain or loss

US$ (in millions)

Details	2018	2017
Exchange gain or loss	0.6	4.1
Total	0.6	4.1

The exchange gain was US$0.6 million in 2018, decreased by US$3.4 million, or 84.31%.

Operating expense

The operating expense of 2018 was US$571 million, increased by US$141 million, or 32.87%.

Interest Expense

US$ (in millions)

Details	2018	2017
Bank borrowings	265	177
Bond payables	155	184
Commercial papers	84	26
Deposits from fellow subsidiaries	50	29
Repurchase agreement	1	0
Other borrowings	6	7
Total	559	416

Meanwhile interest expense was US$559 million, increased by US$143 million, or 34.37%. The increase was mainly driven by the rising US federal funds rate.

Administrative Expense and commission fee expenses

US$ (in millions)

Details	2018	2017
Administrative expense	10.9	12.7
Commission fee and other expenses	0.7	0.7
Total	11.5	13.4

Administrative expense and commission fee expenses were US$11.5 million, decreased by US$1.8 million, or 13.75%.

Independent Auditor's Report

Directors' Report

For the year ended 31 December 2018

The directors present their annual report and the audited consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are holding of financial and investment products and the provision of treasury services to group companies of its holding companies. The principal activities of its subsidiaries are set out in Note 27 to the consolidated financial statements.

FINANCIAL STATEMENTS AND APPROPRIATIONS

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 8 to 74.

The directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2018.

DIRECTORS

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

Gao Wei	(Appointed on 25 June 2018)
Jing Lin	(Appointed on 25 June 2018)
Lan Yunsheng	(Resigned on 24 December 2018)
Liao Xiaoyan	
Liu De	(Resigned on 25 June 2018 and appointed on 24 December 2018)
Liu Yawei	(Appointed on 25 June 2018 and resigned on 24 December 2018)
Liu Yuezhen	(Resigned on 24 December 2018)
Lu Yaozhong	(Resigned on 25 June 2018)
Mu Xiuping	(Appointed on 24 December 2018)
Wang Liang	(Resigned on 25 June 2018)
Wang Zengye	
Wang Zhijun	
Zhou Jianming	
Zhou Yingqiu	(Appointed on 24 December 2018)

The directors of the Company's subsidiaries included in the consolidated financial statements during the year and up to the date of this report were as follows:

Liao Xiaoyan	
Wang Zengye	
Zhang Yun	
Zhou Jianming	(Appointed on 6 August 2018)
Zhu Dongmei	(Resigned on 6 August 2018)

For the year ended 31 December 2018

MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Other than disclosed in Note 28 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which any of the Company's holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

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

AUDITOR

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

On behalf of the directors

Director

Hong Kong, 12 April 2019

Independent Auditor's Report

TO THE MEMBER OF CNPC FINANCE (HK) LIMITED
(中國石油財務(香港)有限公司)
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 35 to 99, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the "Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Determine the fair value of debt instruments and classified under level 3 fair value measurement *Refer to note 14 and 33(c)(i) in the consolidated financial statements*	
The Group had debt instruments of US$2,820,357,000 as at 31 December 2018 in which US$570,930,000 were unlisted debt instruments with level 3 fair value measurement. The fair value of these unlisted debt instruments was determined by the discounted cash flow method that required significant management judgement.	Our procedures in relation to management's fair value calculation included: – Assessing the valuation methodologies used by management; – Checking the arithmetical accuracy of the calculation; – Challenging management's key assumptions based on our knowledge of the business and industry; and – Considering input data to supporting evidence such as approved budgets and considering the reasonableness of these budgets.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the Section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charge with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number P05309

Hong Kong, 12 April 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Revenue	6	969,489	829,510
Interest income	6	965,868	796,580
Interest expenses	7	(559,445)	(416,330)
Net interest income		406,423	380,250
Other operating income	6	3,621	32,930
(Decrease)/Increase in fair value of financial assets at fair value through profit or loss		(9,604)	2,013
Other gains	8	644	4,084
Administrative expenses		(10,855)	(12,690)
Profit before income tax	9	390,229	406,587
Income tax expense	10(a)	(23,764)	(20,335)
Profit for the year		366,465	386,252
Other comprehensive income (net of tax):			
Fair value gain on available-for-sale financial assets, which may be reclassified subsequently to profit or loss, net of tax		–	6,229
Fair value loss on listed equity securities, debt instruments and financial products, which will not be reclassified to profit or loss, net of tax		(101,298)	–
Other comprehensive income (net of tax)		(101,298)	6,229
Total comprehensive income for the year		265,167	392,481

Consolidated Statement of Financial Position

As at 31 December 2018

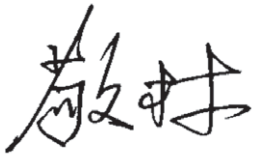
	Notes	2018 US$'000	2017 US$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	26,772	27,553
Deferred taxation	12	9,354	–
Available-for-sale financial assets	13	–	2,230,169
Listed equity securities at fair value through profit or loss		7,519	–
Debt instruments at fair value through other comprehensive income	14	2,670,174	–
Loan and other receivables	16	8,534,208	11,052,291
		11,248,027	13,310,013
Current assets			
Available-for-sale financial assets	13	–	651,365
Held-for-trading investment	17	–	30,911
Debt instruments at fair value through other comprehensive income	14	150,183	–
Financial products at fair value through profit or loss	15	197,636	–
Financial products at fair value though other comprehensive income	15	50,000	–
Unlisted hedge fund at fair value through profit or loss		30,620	–
Loan and other receivables	16	1,460,087	3,793,030
Derivative financial assets	18	33,827	68,928
Deposits in non-bank financial institution		150	4,743
Bank balances and cash	19	14,016,484	10,797,109
		15,938,987	15,346,086
Current liabilities			
Account and other payables	20	7,115,532	8,677,209
Short term bond payables	21	3,245,142	2,200,027
Derivative financial liabilities	22	52,822	114,379
Borrowings – due within one year	23	9,789,572	10,400,000
Bond payables – due within one year	24	1,448,003	500,074
Tax payable		5,816	8,990
		21,656,887	21,900,679
Net current liabilities		(5,717,900)	(6,554,593)
Total assets less current liabilities		5,530,127	6,755,420

As at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Non-current liabilities			
Deferred taxation	12	–	382
Borrowings – due after one year	23	191,189	233,409
Bond payables – due after one year	24	2,368,013	3,815,871
		2,559,202	4,049,662
NET ASSETS		2,970,925	2,705,758
CAPITAL AND RESERVES			
Share capital	26	400,000	400,000
Reserves		2,570,925	2,305,758
TOTAL EQUITY		2,970,925	2,705,758

On behalf of the directors

Director



Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital US$'000	Investment revaluation reserve US$'000 (Note 29(a))	Other reserves US$'000 (Note 29(b))	Retained profits US$'000	Total US$'000
At 1 January 2017	400,000	(1,985)	961,900	953,362	2,313,277
Total comprehensive income for the year	–	6,229	–	386,252	392,481
Transfer to other reserves	–	–	153,395	(153,395)	–
At 31 December 2017 as originally presented	400,000	4,244	1,115,295	1,186,219	2,705,758
Initial application of HKFRS 9 (note 2(a)A(i))	–	1,595	–	(1,595)	–
Restated balance as at 1 January 2018	**400,000**	**5,839**	**1,115,295**	**1,184,624**	**2,705,758**
Total comprehensive income for the year	**–**	**(101,298)**	**–**	**366,465**	**265,167**
Transfer to other reserves	**–**	**–**	**88,333**	**(88,333)**	**–**
At 31 December 2018	**400,000**	**(95,459)**	**1,203,628**	**1,462,756**	**2,970,925**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Operating activities		
Profit before income tax	390,229	406,587
Adjustments for:		
Depreciation of property, plant and equipment	743	747
Dividend income from investment funds	(141)	(40)
Gain on realisation of available-for-sale investments	–	(7,862)
Decrease/(increase) in fair value of financial assets at fair value through profit or loss	9,604	(2,013)
Bond interest expenses	239,662	210,389
Operating cash flows before changes in working capital	640,097	607,808
Decrease in loan and other receivables	4,811,073	312,388
(Decrease)/increase in account and other payables	(1,555,363)	1,600,844
Cash generated from operations	3,895,807	2,521,040
Bond interest paid	(236,240)	(210,333)
Income tax paid	(26,938)	(5,264)
Net cash generated from operating activities	3,632,629	2,305,443
Investing activities		
Acquisition of available-for-sale investments	–	(1,780,479)
Acquisition of debt instruments	(834,322)	–
Acquisition of financial products at fair value through other comprehensive income	(50,000)	–
Proceeds from maturity/disposal of available-for-sale investments	–	223,862
Proceeds from maturity/disposal of debt instruments	320,000	–
Proceeds from maturity/disposal of financial products at fair value through other comprehensive income	250,000	–
Dividend received from investment funds	141	40
Purchase of property, plant and equipment	(18)	(28)
Net cash used in investing activities	(314,199)	(1,556,605)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Financing activities		
New borrowings raised	22,464,817	30,321,360
Repayment of borrowings	(23,117,465)	(29,228,602)
Repayment of bond payables	(500,000)	(2,200,000)
Proceeds from issuance of short term bonds	4,196,895	4,028,500
Repayment of short term bonds	(3,147,895)	(2,518,500)
Net cash (used in)/generated from financing activities	(103,648)	402,758
Net increase in cash and cash equivalents	3,214,782	1,151,596
Cash and cash equivalents at beginning of year	10,801,852	9,650,256
Cash and cash equivalents at end of year	14,016,634	10,801,852
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	14,016,484	10,797,109
Deposits in non-bank financial institution	150	4,743
	14,016,634	10,801,852

Notes to the Consolidated Financial Statements

31 December 2018

1. GENERAL

CNPC Finance (HK) Limited (the "Company") is incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance and is engaged in investments in financial and investment products and the provision of treasury services to group companies of its holding companies. The principal activities of its subsidiaries are set out in Note 27. The address of its registered office and principal place of business is located at Room 4301-4306, 43/F, Office Tower of Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The directors consider China Petroleum Finance Co. Ltd. and China National Petroleum Corporation ("CNPC"), 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. CNPC is a wholly state-owned company registered in China.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2018

The Group has adopted the following amendments to 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 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Saved as disclosed below, the adoption of the amendments to 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.

A. HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained profits and investment revaluation reserve as of 1 January 2018 as follows (increase/(decrease)):

	US'000
Retained profits	
Retained profits as at 31 December 2017	1,186,219
Accumulated fair value losses recognised from investment revaluation reserve due to reclassification of financial assets from FVOCI to FVTPL	(1,595)
Restated retained profits as at 1 January 2018	1,184,624

	US'000
Investment revaluation reserve	
Investment revaluation reserve as at 31 December 2017	4,244
Accumulated fair value losses recognised from investment revaluation reserve due to reclassification of financial assets from FVOCI to FVTPL	1,595
Restated investment revaluation reserve as at 1 January 2018	5,839

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 US$000	Carrying amount as at 1 January 2018 under HKFRS 9 US$'000
Listed equity securities	Available-for-sale financial assets	FVTPL	8,532	8,532
Debt instruments	Available-for-sale financial assets	FVOCI	2,421,826	2,421,826
Hedge fund	FVTPL	FVTPL	30,911	30,911
Financial products – unlisted fund	Available-for-sale financial assets	FVTPL	201,176	201,176
Financial products – others	Available-for-sale financial assets	FVOCI	250,000	250,000
Derivative financial assets	FVTPL	FVTPL	68,928	68,928
Loan and other receivables	Loans and receivables	Amortised cost	14,845,321	14,845,321
Deposits in non-bank financial institution	Loans and receivables	Amortised cost	4,743	4,743
Cash and bank balances	Loans and receivables	Amortised cost	10,797,109	10,797,109

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECL model

- Impairment of listed equity securities, debt instruments, hedge funds, financial products and derivative financial assets

  All of the Group's listed equity securities, debt instruments, hedge funds, financial products and derivative financial assets at amortised costs, FVTPL and FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs.

- Impairment of loan receivables

  The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL, loan receivables have been grouped based on shared credit risk characteristics and the historical observed default rates adjusted by forward looking estimates. As at 31 December 2018, the directors of the Company considered that the default risk for the loan receivables is low and the lifetime ECL allowance is insignificant as at 31 December 2018.

- Impairment of other receivables

  The Group has applied the ECL model for other receivables and the impact is considered insignificant to the Group. No ECL is recognised upon the transition to HKFRS 9 as of 1 January 2018 and for the year ended 31 December 2018.

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Company has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

B. HKFRS 15 – HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Company has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The adoption of HKFRS 15 has no material impact on the Group's statement of financial position as at 31 December 2018 and statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

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

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

Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and 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 provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements.

(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.

In preparing the consolidated financial statements, the directors of the Company have considered the net current liabilities of US$5,717,900,000 as of 31 December 2018. Pursuant to a keepwell agreement entered between China National Petroleum Corporation and the Company, China National Petroleum Corporation has agreed, where necessary, to make available to or arrange for the Company sufficient funds to enable the Company to meet debt obligations in full as and when due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency

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

31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved when the Company:

1. has power over the investee;

2. is exposed, or has rights, to variable returns from its involvement with the investee; and

3. has the ability to use its power to affect its return.

The Company reassesses whether or not it controls an investee if fact and circumstances indicate that there are changes to one or more of the three elements listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment

Buildings held for supply of services or administrative purposes are stated in the consolidated statement of financial position at their historical cost, less any subsequent accumulated depreciation and accumulated impairment losses. Other property, plant and equipment are stated at historical cost less accumulated depreciation and any 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.

Where the lease payments in respect of the land portion cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease under leasehold land and buildings.

Property, 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:

Leasehold land and buildings	2.5%
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 Property, 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(i) Financial assets (Continued)

Debt instruments (Continued)

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(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.

Where 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, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group 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) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps and forward commodity contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(iv) Derivative financial instruments and hedge accounting (Continued)

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest method. The effective interest amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(iv) Derivative financial instruments and hedge accounting (Continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other expense.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) 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 HKFRS 9.

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

(e) Financial instruments (accounting policies until 31 December 2017)

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (accounting policies until 31 December 2017) (Continued)

(i) Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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.

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.

When the fair value of unlisted equity investments cannot be reliably measured because they do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of other reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (accounting policies until 31 December 2017) (Continued)

(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 loans and receivables

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (accounting policies until 31 December 2017) (Continued)

(ii) Impairment loss on financial assets (Continued)

For available-for-sale financial assets (Continued)

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 recognizing 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (accounting policies until 31 December 2017) (Continued)

(iii) Financial liabilities (Continued)

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (accounting policies until 31 December 2017) (Continued)

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) Derivative financial instruments

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

(viii) Embedded derivatives

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

(ix) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fiduciary activities

The Group grants entrusted loans on behalf of their customers, as an agent, under the instructions of these customers who provided the corresponding funding for these loans. The Group has been contracted by these customers to manage the administration and collection of these loans on their behalf. These customers determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by these customers. The Group does not recognise the entrusted loans and the corresponding funds in the consolidated financial position as the Group does not assume any risks and rewards on the entrusted loans and funds.

(g) Revenue recognition

Subsequent to 1 January 2018, Revenue from contracts with customers is recognised when control of services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the service may be transferred over time or at a point in time. Control of the service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the service.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition (Continued)

Before 1 January 2018, 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.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees and origination fees received by the entity relating to the creation or acquisition of a loan receivable) and reported in "origination fee from the creation of loan receivables" (see Note 6).

(h) Foreign currency

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes

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

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

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

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

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

(j) Impairment of assets (other than financial 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:

– Property, 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (other than financial assets) (Continued)

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.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(k) 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.

(l) Leasing

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

The Group 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.

(m) Related parties

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

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

(ii) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Related parties (Continued)

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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.

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5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgments in applying accounting policies

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

(i) Impairment of listed equity securities, debt instruments and financial products

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

(ii) Determination of functional currency

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

(iii) Fair value of derivatives and other financial instruments

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(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 loans and other receivables

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

6. REVENUE AND OTHER OPERATING INCOME

	2018 US$'000	2017 US$'000
Interest income from		
– group companies of its holding companies	495,898	510,147
– banks and other enterprises	469,970	286,433
	965,868	796,580
Gain on realisation of available-for-sale investments	–	7,862
Commission income, net	2,455	3,642
Origination fees from the creation of loan receivables	1,025	21,386
Dividend income from investment funds	141	40
	3,621	32,930
Revenue	969,489	829,510
Timing of revenue recognition		
– At a point in time	3,621	32,930
– Transferred over time	965,868	796,580
	969,489	829,510

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7. INTEREST EXPENSES

	2018 US$'000	2017 US$'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	264,649	170,183
Borrowing from non-banking financial institution not wholly repayable within five years	5,563	6,637
Bond payables	154,553	183,909
Short term bond payables	84,385	26,480
Deposits from fellow subsidiaries	49,571	29,121
Others	724	–
	559,445	416,330

8. OTHER GAINS

	2018 US$'000	2017 US$'000
Exchange gains, net	644	4,084

9. PROFIT BEFORE INCOME TAX

	2018 US$'000	2017 US$'000
Profit before income tax is arrived at after charging/(crediting):		
Directors' remuneration	–	–
Auditor's remuneration	66	64
Depreciation of property, plant and equipment	743	747
Staff cost excluding directors' remuneration:		
– Salaries and allowances	2,269	1,823
– Mandatory provident fund contributions	19	15
Fair value loss on hedging derivative financial instruments on fair value hedges, net	6,072	245
Fair value adjustment to bond payables attributable to interest rate risk, net	(6,072)	(245)

10. INCOME TAX EXPENSE

a) Income tax expense comprises:

	2018 US$'000	2017 US$'000
Current tax in Hong Kong		
– provision for current year	23,494	19,914
Current tax in Singapore		
– provision for current year	270	421
Income tax expense	23,764	20,335

b) Hong Kong profits tax is calculated at 8.25% (2017: 8.25%) on the estimated assessable profits for the year. Overseas taxes are calculated at the rates applicable in the respective jurisdictions.

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

	2018 US$'000	2017 US$'000
Profit before income tax	390,229	406,587
Tax at the domestic income tax rate of 8.25% (2017: 8.25%)	32,194	33,543
Tax effect of expense not deductible for tax purpose	6,580	25,231
Tax effect of income not chargeable for tax purpose	(6,574)	(25,114)
Effect of different tax rates of subsidiaries operating in other jurisdictions	48	76
Effect of tax exemptions granted to a subsidiary	(7,911)	(13,401)
Others	(573)	–
Income tax expense	23,764	20,335

c) The Hong Kong Government gazetted the "Inland Revenue (Amendment) (No. 2) Ordinance 2016" ("the Ordinance") on 3 June 2016 bringing into law a concessionary profits tax rate for Qualifying Corporate Treasury Centre ("QCTC"). According to the Ordinance, the Company is regarded as a QCTC and should be entitled to a concessionary tax rate of 8.25% (50% of 16.5%) for profits derived from qualifying corporate treasury activities after 1 April 2016.

Under the relevant laws and regulations in Dubai, CPF (Dubai) Limited established and operating in Dubai International Financial Centre is exempted from income tax on its profits for a period of 50 years.

CNPC Treasury (Singapore) PTE. Ltd has been awarded the Tax Incentive Scheme for Finance and Treasury Centre ("FTC") in Singapore and the profits derived from approved FTC services are subject to 10% concessionary rate for a period of five years commencing on 18 July 2011. The Tax Incentive Scheme has been expired on 18 July 2016 and being conditionally extended for another 5 years with concessionary rate at 8%.

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11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Office and computer equipments US$'000	Total US$'000
Cost			
At 1 January 2017	31,167	206	31,373
Additions	–	28	28
Exchange alignment	(249)	3	(246)
At 31 December 2017	30,918	237	31,155
Additions	–	18	18
Disposals	–	(1)	(1)
Exchange alignment	(63)	(3)	(66)
At 31 December 2018	30,855	251	31,106
Accumulated depreciation			
At 1 January 2017	2,714	162	2,876
Charge for the year	734	13	747
Exchange alignment	(21)	–	(21)
At 31 December 2017	3,427	175	3,602
Charge for the year	732	11	743
Eliminated on disposal	–	(1)	(1)
Exchange alignment	(7)	(3)	(10)
At 31 December 2018	4,152	182	4,334
Net carrying value			
At 31 December 2018	26,703	69	26,772
At 31 December 2017	27,491	62	27,553

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12. DEFERRED TAXATION

The following are the deferred tax asset/(liability) recognised and movements thereon during 2018 and 2017:

	Revaluation of debt instruments and financial products US$'000
At 1 January 2017	392
Deferred tax credited to equity upon revaluation	(774)
At 31 December 2017	(382)
Deferred tax charged to equity upon revaluation	9,736
At 31 December 2018	9,354

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 US$'000	2017 US$'000
Available-for-sale financial assets comprise:		
Listed equity securities investments at fair value	–	8,532
Debt securities investments at fair value	–	2,421,826
Financial products, at fair value	–	451,176
Total available-for-sale financial assets	–	2,881,534
Less: amounts to be realised after one year	–	(2,230,169)
Amounts to be realised within one year	–	651,365

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income comprised:

	2018 US$'000	2017 US$'000
Non-current		
– listed debt instruments	2,199,466	–
– unlisted debt instruments	470,708	–
	2,670,174	–
Current		
– listed debt instruments	49,961	–
– unlisted debt instruments	100,222	–
	150,183	–
Total	2,820,357	–

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15. FINANCIAL PRODUCTS

Financial products at fair value through other comprehensive income represented an investment fund acquired on 2 August 2017 with variable returns and has no specific maturity date. The investment fund includes bond and equity investments and may be redeemable if the annualised return on bond investments is below 1.5% or the market value of the equity investments decreases above 8% at the fair value assessment date.

Financial products at fair value through profit or loss represented unlisted principal-guaranteed wealth management products issued by a banking institution with an expected return of 3% on 6 February 2018 and will be matured on 1 February 2019.

16. LOAN AND OTHER RECEIVABLES

	2018 US$'000	2017 US$'000
Loan receivables from group companies of its holding companies	9,688,122	14,618,941
Other receivables	306,173	226,380
	9,994,295	14,845,321
Less: loan and other receivables – non-current	(8,534,208)	(11,052,291)
Loan and other receivables – current	1,460,087	3,793,030

Loan receivables from group companies of its holding companies are interest bearing from 1.72% to 7.67% (2017: 0.65% to 7.67%) per annum, repayable within 1 to 10 years (2017: within 1 to 11 years) and unsecured, except for loan receivables of US$3,117,707,000 (2017:US$3,760,957,000) secured by the relevant group companies' assets.

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.

17. HELD-FOR-TRADING INVESTMENT

	2018 US$'000	2017 US$'000
Unlisted investment at fair value:		
– hedge fund	–	30,911

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18. DERIVATIVE FINANCIAL ASSETS

	2018 US$'000	2017 US$'000
Other interest rate and/or currency swap derivative financial instruments	33,827	68,928

19. BANK BALANCES AND CASH

Included in the bank balances and cash of the Group are time deposits of approximately US$13,425,508,000 (2017: US$9,544,914,000). The deposits carry interest at the market rates ranging from 1.30% to 3.80% (2017: 0.00% to 3.96%) per annum.

The carrying amounts of the Group's bank balances and cash are mainly denominated in the following currencies:

	2018 US$'000	2017 US$'000
US$	13,746,129	9,809,531
RMB	161,703	23,255
EUR	95,081	929,054
CAD	5,239	5,679
SGD	4,984	8,021
GBP	2,114	1,986
HKD	716	19,066

20. ACCOUNT AND OTHER PAYABLES

	2018 US$'000	2017 US$'000
Deposits from group companies of its holding companies	7,019,277	8,604,769
Other payables	96,255	72,440
	7,115,532	8,677,209

Deposits from group companies of its holding companies bear interest at 0.00% to 1.85% (2017: 0.00% to 3.10%) per annum, are unsecured and repayable on demand.

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21. SHORT TERM BOND PAYABLES

At 31 December 2018, the outstanding balance of short term bond payables with an aggregate principal amount of US$3,249,000,000 (2017: US$2,200,000,000) is unsecured, interest bearing at a range from 2.75% to 3.25% (2017: 1.63% to 2.65%) per annum and repayable within six months (2017: within six months).

22. DERIVATIVE FINANCIAL LIABILITIES

	2018 US$'000	2017 US$'000
Derivative financial instruments		
– fair value hedges (Note a)	16,820	10,748
Other interest rate and/or currency swap derivative financial instruments	36,002	103,631
	52,822	114,379

(a) This represents outstanding fixed-to-floating interest rate swap contracts at 31 December 2018 and 2017. Major terms of the outstanding contracts are as following:

Maturity	Interest rate	2018	2017
16 April 2023	Pay 6 Months LIBOR +1.37% to receive 3.4%	US$100,000,000	US$100,000,000
16 April 2023	Pay 6 Months LIBOR +1.41% to receive 3.4%	US$50,000,000	US$50,000,000
16 April 2023	Pay 6 Months LIBOR +1.42% to receive 3.4%	US$400,000,000	US$400,000,000

At 31 December 2018, the Group has outstanding fixed-to-floating interest rate swap contracts with notional amounts of US$550,000,000 (2017: US$550,000,000). Maturity of these swap contracts matches with the maturity of the underlying fixed-rate bond payables which have fixed interest rates of 3.4% per annum (2017: 3.4% per annum).

The swap contracts were designated as fair value hedges of the interest rate risk in the Group's bond payables at fixed interest rates.

These swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate bond payables. The swap contracts were reflected at fair value in the statements of financial position and the related portion of fixed-rate bond payables being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the bond payables attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate bond payables being hedged, are recognised as adjustments in the consolidated statement of profit or loss and other comprehensive income (Note 9).

23. BORROWINGS

	2018 US$'000	2017 US$'000
Bank borrowings – current	9,789,572	10,400,000
Non-banking financial institution borrowing – non-current (Note 28(b))	191,189	233,409
	9,980,761	10,633,409

The above borrowings are unsecured, non-guaranteed, and denominated in US$, RMB, HK$, EUR and SGD (2017: US$ and EUR).

As at 31 December 2018, borrowings of US$244,784,000 were interest-bearing at fixed rate ranging from 3.7% to 4.2% per annum, other borrowings bear variable interest rate mainly by reference to LIBOR and interests are mainly charged ranging from LIBOR plus 0.3% to LIBOR plus 3.0% per annum.

As at 31 December 2017, all borrowings bear variable interest rate mainly by reference to LIBOR and interests are mainly charged ranging from LIBOR plus 0.38% to LIBOR plus 3.0% per annum.

24. BOND PAYABLES

Guaranteed Bonds	Principal US$'000	Interest rate (per annum)	2018 US$'000	2017 US$'000
US$500 million 1.95% Guaranteed Bonds ("5-year 2018 US$ Bonds") (Note c)	500,000	1.95%	–	500,074
US$750 million 2.75% Guaranteed Bonds ("5-year 2019 US$ Bonds") (Note d)	750,000	2.75%	749,117	747,283
US$700 million 2.70% Guaranteed Bonds ("5-year 2019 US$ Bonds") (Note e)	700,000	2.70%	698,886	697,342
US$650 million 4.50% Guaranteed Bonds ("10-year 2021 US$ Bonds") (Note a)	650,000	4.50%	646,518	642,134
US$500 million 3.95% Guaranteed Bonds ("10-year 2022 US$ Bonds") (Note b)	500,000	3.95%	498,826	499,421
US$750 million 3.40% Guaranteed Bonds ("10-year 2023 US$ Bonds") (Note c)	750,000	3.40%	731,318	738,314
US$500 million 5.95% Guaranteed Bonds ("30-year 2041 US$ Bonds") (Note a)	500,000	5.95%	491,351	491,377
			3,816,016	4,315,945

	2018 US$'000	2017 US$'000
Carrying amounts repayable:		
Within one year	1,448,003	500,074
After one year	2,368,013	3,815,871
	3,816,016	4,315,945

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24. BOND PAYABLES (Continued)

(a) 10-year 2021 US$ Bonds and 30-year 2041 US$ Bonds were issued on 28 April 2011 with fixed annual interest rates of 4.50% and 5.95% respectively. Interest will be paid semi-annually. Unless previously repurchased, cancelled or redeemed, the 10-year 2021 and 30-year 2041 US$ Bonds will mature on 28 April 2021 and 28 April 2041, respectively.

(b) 10-year 2022 US$ Bonds were issued on 19 April 2012 with fixed annual interest rates of 3.95%. Interest will be paid semi-annually. Unless previously repurchased, cancelled or redeemed, the 10-year 2022 US$ Bonds will mature on and 19 April 2022.

(c) 5-year 2018 US$ Bonds and 10-year 2023 US$ Bonds were issued on 16 April 2013 with fixed annual interest rates of 1.95% and 3.40% respectively. The 5-year 2018 US$ Bonds were repaid during the year. Interest will be paid semi-annually. Unless previously repurchased, cancelled or redeemed, the 10-year 2023 US$ Bonds will mature on 16 April 2023.

(d) 5-year 2019 US$ Bonds were issued on 14 May 2014 with fixed annual interest rate of 2.75%. Interest paid semi-annually for the 5-year 2019 US$ Bonds. Unless previously repurchased, cancelled or redeemed, the 5-year 2019 US$ Bonds will mature on 14 May 2019.

(e) 5-year 2019 US$ Bonds were issued on 25 November 2014 with fixed annual interest rate of 2.70%. Interest paid semi-annually for the 5-year 2019 US$ Bonds. Unless previously repurchased, cancelled or redeemed, the 5-year 2019 US$ Bonds will mature on 25 November 2019.

(f) The fair values of bond payables, which are classified as level 1 in the fair value hierarchy amounted to US$3,962,451,000 (2017: US$4,561,266,000). The fair values are based on quoted market price as at balance sheet date.

25. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	2018 US$'000	2017 US$'000
Non-current assets		
Property, plant and equipment	26,764	27,547
Deferred taxation	9,354	–
Investments in subsidiaries	5,800	5,800
Available-for-sale financial assets	–	2,230,169
Listed equity securities at fair value through other comprehensive income	7,519	–
Debt instruments at fair value through other comprehensive income	5,207,247	–
Loan and other receivables	2,670,174	1,610,565
	7,926,858	3,874,081
Current assets		
Amounts due from subsidiaries	2,855,250	7,757,740
Available-for-sale financial assets	–	651,365
Held-for-trading investments	–	30,911
Debt instruments at fair value through other comprehensive income	150,183	–
Financial products at fair value through profit or loss	197,636	–
Financial products at fair value through other comprehensive income	50,000	–
Unlisted hedge fund at fair value through profit or loss	30,620	–
Loan and other receivables	758,130	4,652,914
Derivative financial assets	33,827	68,928
Deposits in non-bank financial institution	150	4,743
Bank balances and cash	13,972,901	10,625,198
	18,048,697	23,791,799
Current liabilities		
Account and other payables	7,028,264	8,263,911
Short term bond payables	3,245,142	2,200,027
Derivative financial liabilities	52,822	114,379
Borrowings – due within one year	9,190,462	9,800,000
Amounts due to subsidiaries	1,409,296	1,520,026
Tax payable	5,515	8,534
	20,931,501	21,906,877
Net current (liabilities)/assets	(2,882,804)	1,884,922
Total assets less current liabilities	5,044,054	5,759,003

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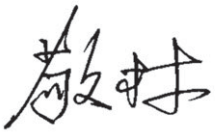
25. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	2018 US$'000	2017 US$'000
Non-current liabilities			
Deferred taxation		–	382
Borrowings – due after one year		195,473	233,409
Amounts due to subsidiaries		2,972,393	3,815,871
		3,167,866	4,049,662
NET ASSETS		1,876,188	1,709,341
CAPITAL AND RESERVES			
Share capital	26	400,000	400,000
Reserves	28	1,476,188	1,309,341
TOTAL EQUITY		1,876,188	1,709,341

On behalf of the board

Director



Director

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26. SHARE CAPITAL

	2018 Number	2018 US$'000	2017 Number	2017 US$'000
Issued and fully paid:				
At beginning and end of year	40,000	400,000	40,000	400,000

27. INVESTMENTS IN SUBSIDIARIES

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%	Dubai and Hong Kong, Provision of financial services to group companies of its holding companies
CNPC Treasury (Singapore) PTE Ltd	Singapore	5,000,000	100%	Singapore and Hong Kong, Provision of financial services to group companies of its holding companies
CNPC (HK) Overseas Capital Ltd	British Virgin Islands	1	100%	Hong Kong, Debt offering
CNPC Golden Autumn Limited	British Virgin Islands	1	100%	Hong Kong, Debt offering
CNPC (BVI) Limited	British Virgin Islands	1	100%	Hong Kong, Debt offering
CNPC General Capital Limited	British Virgin Islands	1	100%	Hong Kong, Debt offering

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28. RELATED PARTY TRANSACTIONS

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

Nature of transactions	2018 US$'000	2017 US$'000
China National Petroleum Corporation and its subsidiaries and joint ventures		
Interest income earned	495,854	510,147
Interest expenses paid	(55,134)	(35,759)
Net interest income	440,720	474,388
Commission income	3,145	4,345
Origination fee income from the creation of loan receivables	661	13,476
	444,526	492,209

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	2018 US$'000	2017 US$'000
China National Petroleum Corporation and its subsidiaries and joint ventures		
Loan receivables	9,688,122	14,618,941
Other receivables	26,956	60,196
Account payables	(7,019,277)	(8,604,769)
Other payables	(14,594)	(2,616)
	2,681,207	6,071,752
China Petroleum Finance Co. Ltd.		
Borrowings	(191,189)	(233,409)
Other payables	(1,906)	(2,325)
	(193,095)	(235,734)

(c) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: deposits and borrowings from other state-owned banks; purchase and sale of debt securities and financial products issued by other state-owned entities.

Those transactions are conducted in the ordinary course of the Group's business.

28. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation to key management personnel

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

29. RESERVES OF THE COMPANY

	Investment revaluation reserve US$'000 (Note a)	Other reserves US$'000 (Note b)	Retained profits US$'000	Total US$'000
At 1 January 2017	(1,985)	581,701	503,315	1,083,031
Total comprehensive income for the year	6,229	–	220,081	226,310
Transfer to other reserves	–	234,670	(234,670)	–
At 31 December 2017	4,244	816,371	488,726	1,309,341
Initial application of HKFRS 9 (note 2 (a)A(i))	1,595	–	(1,595)	–
Restated balance as at 1 January 2018	**5,839**	**816,371**	**487,131**	**1,309,341**
Total comprehensive income for the year	**(101,298)**		**268,145**	**166,847**
Transfer to other reserves	**–**	**60,270**	**(60,270)**	**–**
At 31 December 2018	**(95,459)**	**876,641**	**695,006**	**1,476,188**

(a) Investment revaluation reserve represents gains/losses arising on recognising financial assets classified as fair value through other comprehensive income.

(b) In accordance with the group policy of the ultimate holding company, the Company is required to appropriate annually 10% of its profit after tax to each of statutory surplus reserve, discretionary surplus reserve and exchange rate risk reserve. In addition, in accordance with the group policy, the Company is required to appropriate general risk reserve balance at an amount not lower than 1.5% of the ending balance of gross risk-bearing assets to the general risk reserve.

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

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

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

General risk reserve may be utilised to offset prior years' losses but restricted from distribution of dividends.

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30. ENTRUSTED LENDING BUSINESS

	2018 US$'000	2017 US$'000
Entrusted loans	823,016	838,221
Entrusted funds	823,016	838,221

31. MATERIAL INTEREST OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, were entered into or subsisted during the financial year.

32. LEASES

Operating leases – lessee

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

	2018 US$'000	2017 US$'000
Minimum lease payments	630	637

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

	2018 US$'000	2017 US$'000
Not later than one year	482	454
Later than one year and not later than five years	238	85
	720	539

The operating lease payments represent rentals payable by the Group for its office premises and staff quarters in Singapore and Hong Kong. Lease term is ranged from one to three years (2017: one to three years) with fixed rental.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 US$'000	2017 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	–	25,647,173
Available-for-sale financial assets	–	2,881,534
At amortised cost (including cash and cash equivalents)	24,010,929	–
Fair value through profit or loss ("FVTPL"):		
– listed equity securities	7,519	–
– hedge fund	30,620	30,911
– unlisted financial products	197,636	–
Fair value through other comprehensive income ("FVOCI"):		
– listed debt instruments	2,249,427	–
– unlisted debt instruments	570,930	–
– unlisted financial products	50,000	–
	27,117,061	28,559,618

	2018 US$'000	2017 US$'000
Financial liabilities		
Derivative financial liabilities		
– not used for hedging	18,002	68,928
– used for hedging	16,820	10,748
At amortised cost	24,157,451	25,826,590
	24,192,273	25,906,266

(b) Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, derivative financial assets and liabilities, equity instruments at fair value through profit or loss, debt instruments at fair value through other comprehensive income, financial products at fair value through other comprehensive income and profit or loss, hedge fund at fair value through profit or loss, loan and receivables at amortised cost and the financial liabilities at amortised cost. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measurements are implemented on a timely and effective manner.

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33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group has transactional currency exposure, certain loan and other receivables, investments, bank balances, account and other payables and bank borrowings of the Group are denominated in foreign currencies. During the year, the Group entered cross currency and interest rate swap to hedge the currency risk arising from the loan receivables in foreign currency. For the remaining monetary items denominated in foreign currencies, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of the Group's foreign currency denominated monetary assets, monetary (liabilities), and the notional amount of forward exchange contract and currency swap contracts used for economic hedge (the "Notional Amounts"), at the respective reporting date are as follow:

	2018 US$'000	2017 US$'000
Assets		
RMB	417,181	850,789
GBP	2,114	1,986
EUR	721,252	2,942,746
SGD	169,753	182,741
Liabilities		
RMB	(362,675)	(87,225)
GBP	(9,130)	(9,437)
EUR	(603,797)	(715,046)
SGD	(97,967)	(3,217)
Notional Amounts		
RMB	(89,535)	(795,813)
EUR	(89,184)	(877,642)
SGD	(65,648)	(175,619)

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk* (Continued)

Foreign currency sensitivity

The Group is mainly exposed to the currency risk of RMB, GBP, EUR and SGD. The Group's currency risk exposure arising from HKD is minimal as HKD is pegged to US$.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase/decrease in US$ against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of reporting period and adjusts their transaction at each of the reporting period for a 5% (2017: 5%) change in foreign currency rates, after taking into account the effect of interest rate swaps designated as fair value hedging instruments (see Note 18 and 22(a) above):

	2018 US$'000	2017 US$'000
Increase/(decrease) in profit for the year		
– if US$ weakens against RMB	(1,607)	(1,479)
– if US$ strengthens against RMB	1,607	1,479
Increase/(decrease) in profit for the year		
– if US$ weakens against GBP	(322)	(342)
– if US$ strengthens against GBP	322	342
Increase/(decrease) in profit for the year		
– if US$ weakens against EUR	1,297	61,934
– if US$ strengthens against EUR	(1,297)	(61,934)
Increase/(decrease) in profit for the year		
– if US$ weakens against SGD	282	179
– if US$ strengthens against SGD	(282)	(179)

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33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivatives instruments at the end of reporting period. For the above interest-bearing financial instruments, the analyses are prepared assuming the amount of outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been changed by 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, the Group's profit would increase/decrease by approximately US$60,705,000 (2017: US$44,726,000).

(iii) Other price risk

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

The management considered that the Group's exposure to the equity price risk on the equity instruments, debt instruments, financial products and hedge fund is not significant. Accordingly, no sensitivity analysis is presented.

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

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

Liquidity risk

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

The following table details the Group's and the Company's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000
2018						
Account and other payables	7,115,532	7,115,532	7,115,532	–	–	–
Short term bond payables	3,245,142	3,314,084	3,314,084	–	–	–
Borrowings	9,980,761	10,023,794	9,808,707	5,146	15,439	194,502
Bond payables	3,816,016	4,805,193	1,583,310	104,250	2,097,130	1,020,503
	24,157,451	25,258,603	21,821,633	109,396	2,112,569	1,215,005
Derivative financial liabilities	34,822	36,856	14,920	2,703	19,233	–

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33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	More than 5 years US$'000
2017						
Account and other payables	8,677,209	8,677,209	8,677,209	–	–	–
Short term bond payables	2,200,027	2,201,637	2,201,637	–	–	–
Borrowings	10,633,409	10,714,307	10,422,125	10,447	31,342	250,393
Bond payables	4,315,944	5,453,996	648,650	1,583,463	1,408,880	1,813,003
	25,826,589	27,047,149	21,949,621	1,593,910	1,440,222	2,063,396
Derivative financial liabilities	79,676	81,283	60,141	2,094	6,990	12,058

(c) Fair value

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

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

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

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

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

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

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

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

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

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

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

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
2018			
Financial assets at FVOCI			
– debt instruments	2,249,427	–	570,930
– financial products	–	–	50,000
Financial assets at FVTPL			
– listed equity securities	7,519	–	–
– hedge fund	30,620		
– financial products	–	–	197,636
	2,287,566	–	818,566
Derivative financial liabilities not used for hedging			
– currency swap contracts and interest rate swap contracts	–	18,002	–
Derivative financial liabilities used for hedging			
– interest rate swap contracts	–	16,820	–
	–	34,822	–

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33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

(i) Recurring fair value measurements recognised in the consolidated statement of financial position (Continued)

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
2017			
Available-for-sale financial assets			
– listed equity securities	8,532	–	–
– debt instruments	721,105	–	1,700,721
– financial products	–	–	451,176
Financial assets at FVTPL			
– held-for-trading	30,911	–	–
	760,548	–	2,151,897
Derivative financial liabilities not used for hedging			
– currency swap contracts and interest rate swap contracts	–	68,928	–
Derivative financial liabilities used for hedging			
– interest rate swap contracts	–	10,748	–
	–	79,676	–

(ii) During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

(iii) Valuation techniques and inputs used in Level 2 fair value measurements

As at 31 December 2018 and 2017, the fair values of the interest rate swap contracts were determined by discounted cash flow method. Their future cash flows are estimated by forward interest rates (observable inputs at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties. The fair values of the cross currency and interest rate swap contracts were determined by discounted cash flow method. Their future cash flows are estimated by forward interest rates (observable inputs at the end of the reporting period) and the contractual currency and interest rates, discounted by a discount rate that reflects the credit risk of various counterparties. The fair value of the currency swap contracts and currency forward contracts were determined by discounted cash flow method. Their future cash flows are estimated by the forward currency rates (observable inputs at the end of the reporting period) and the contractual currency rates, discounted by a discount rate that reflects the credit risk of various counterparties.

(iv) Valuation techniques and inputs used in Level 3 fair value measurements

As at 31 December 2018 and 2017, the fair values of unlisted debt securities were determined by discounted cash flow method. Their future cash flows were estimated by contractual coupon interest rates, discounted by appropriate discount rates ranging from 4.217% to 4.446% (2017: 4.217% to 4.446%) which are taken into management's experiences and knowledge of similar market comparables that reflects the similar credit risk of the counterparties.

As at 31 December 2018, the fair values of financial products were estimated based on its expected cash flows discounted by unquoted annual return rate of similar financial products provided by the counterparty.

There was no movement during the years ended 31 December 2018 and 2017 in the Level 3 fair value measurement.

Management considers that any reasonably possible changes in the significant unobservable inputs would not change fair value significantly for the corporate debt securities and the financial products. Accordingly, no sensitivity analysis is presented.

(v) The directors considered that the carrying amounts of financial assets and financial liabilities carried at amortised cost, except bond payables, approximate to their fair value. Analysis of the fair values and carrying amounts of bond payables are presented in Note 24.

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34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in notes 21, 23 and 24, cash and cash equivalents and equity of the Company, comprising share capital, reserves and retained profits. The Group's risk management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

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

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

	2018 US$'000	2017 US$'000
Debts	17,041,919	17,149,381
Cash and cash equivalents	(14,016,634)	(10,801,852)
Net debts	3,025,285	6,347,529
Equity	2,970,925	2,705,758
Net debts to equity ratio	102%	235%

35. CONTINGENT LIABILITIES

(a) At 31 December 2018, the Company had provided unconditionally and irrevocably guarantees to all the bond holders as disclosed in Note 24 with aggregate principal amount of US$3,150,000,000 (2017: US$3,650,000,000).

(b) At 31 December 2018, the Company had provided guarantees of US$71,958,000 (2017: US$40,681,000) for its group companies for the purpose of project biddings, contract fulfillments and quality assurances.

The directors do not consider it is probable that a claim will be made against the Company under any of the above guarantees.

In the opinion of the directors, no material liabilities will arise from the above guarantees which arose in the ordinary course of the business and the fair value of the guarantees executed by the Company is insignificant.

36. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 12 April 2019.

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CNPC Finance (HK) Limited

中国石油财务(香港)有限公司十周年