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

# ANNUAL REPORT
# 年度报告
# 2019

# 依托集团
# 服务集团

# Contents

# Company Profile

In terms of asset, revenue and profit, CPF, among 254 Finance Companies nationwide,

**A11 Ranked First**

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 internationalisation 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 comprehensive strength, ranking first by asset, revenue and profit among 254 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 principal business". 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 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 funding 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 internationalisation strategy.

As at the end of 2019, CPFHK had total assets on balance sheet of US$26.35 billion. Annual operating income of the year was US$1,042.72 million and profit before tax was US$453.53 million, accounted for 37.48%, 40.63% and 33.17%, respectively, of the parent company's total assets, income and profit.

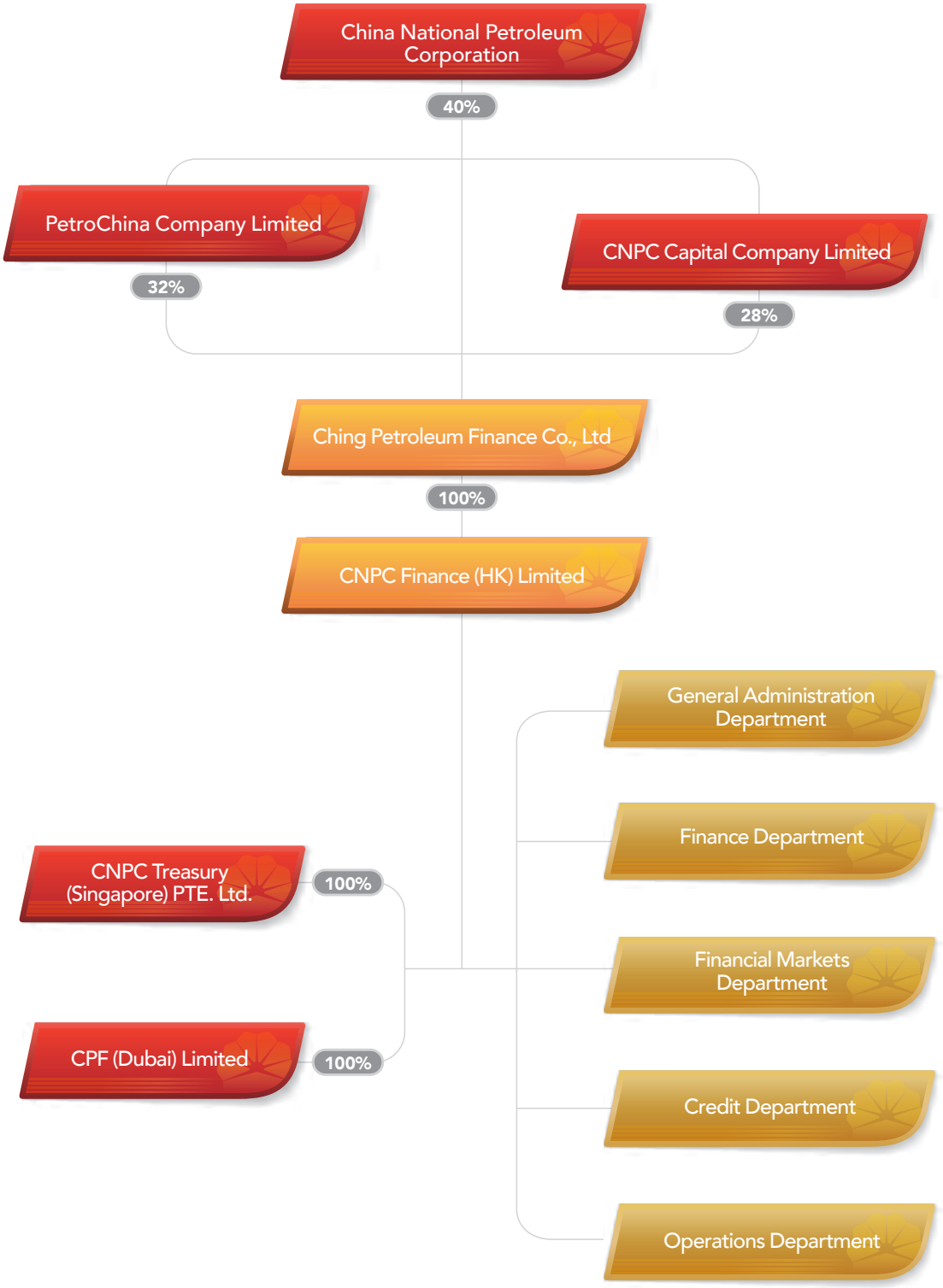
Under the leadership of the Board of Directors (the "Board"), the general manager is responsible for the management of the five departments of CPFHK, comprising Finance, Operations, Credit, Financial Market and General Administration. In order to provide all– round financial services to facilitate CNPC's 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 CPF (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 and financial derivatives hedging solutions for member companies; investing in marketable securities; providing guaranty services to, and handling entrusted loan and investment services amongst member companies.

# Organisational Structure



# Chairman's Statement

Liu De
**Chairman**

Total assets amounted to
**US$26.35 billion**
realised a profit of
**US$454 million**

In 2019, 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 integrated international energy company. In active response to the slowdown of the global economic, escalation of the China-US trade conflicts, the disturbances arising from the proposed legislative amendments 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. We have imposed tight cost control and continuously explored new business mode, enhance fund efficiency, optimised financing structure, lowered finance costs and enhance the operation ability in external market, further expanded the offshore capital management coverage and improved its service capability, profitability, innovation ability and risk management ability and achieved healthy growth in every business. As at the end of 2019, total assets of CPFHK amounted to US$26.35 billion and its profit was US$454 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, focused on enhancing the quality and efficiency of its development, placed significant effort on overcoming major risks, responded actively to the challenges caused by the fluctuations of international oil prices as well as optimised the operations of two industry chains of oil and gas, thereby

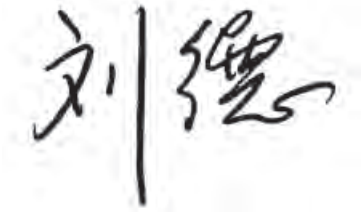
delivering better-than-expected operating results. In particular, in adherence to the openness, cooperation and win-win philosophies for internationalisation of operations, the offshore oil and gas business of CNPC successfully captured business opportunities arising from the "The Belt and Road" Initiative, which continuously enhanced its competitiveness and influence over the international oil and gas market. In 2019, CNPC recorded growth in the volume of overseas oil and gas production, achieving a new record high of 100 million tonnes, and the internationalisation of operation level of CNPC continuously improved.

CNPC's healthy development has promoted the sound development of CPFHK and its parent company, CPF. In 2019, CPF achieved remarkable results and demonstrated tangible progress in terms of marketing, professionalisation and internationalisation. Total assets of CPF reached RMB600.1 billion, and its profit was RMB9.95 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 17 consecutive years. The Group has received Grade A (i.e. the highest grade) in the Central Bank Financial Institutions Statistics Survey, Level 5 in the Central Bank Financial Institutions Ranking, ranked A in the group performance assessment, and has won various awards from China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, China Foreign Exchange Trade System, China National Association of Finance Companies and other major medias, awards won included the "Best Finance Company Award", the "Best Service Finance Company Award", the "Best Competitive Finance Company Award", the "Inter-bank Local Currency Market Transaction Best Improvement Award", the "RMB Forex Market Top 100", etc. All these awards have fully demonstrated our influence in the industry and reputation on society.

2020 is the final year of the "13th Five-Year Plan", 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 to promote the high-quality development of the Company to a new stage, as well as to build up a first-class financial company with our intelligence and strength. Through these, we will contribute our best effort to sustain CNPC as a first-class integrated 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


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 2019. The Company earnestly implemented the operation objectives set by the Board and all work requirements 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 the macro economy, geopolitical events which occurred frequently and tightening overseas investments of the Group, made great efforts to explore new income source 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 2019, the total assets of CPFHK were US$26.35 billion, representing a decrease of US$836 million or 3.07% compared with last year. Annual operating income was US$1,042.72 million, a year-on-year increase of US$74.55 million, or 7.70%. Profit before tax was US$453.53 million, a year-on-year increase of US$63.30 million, or 16.22%.

In 2019, the Company enhanced cash pools efficiency through allocating assets and liabilities in a scientific manner and refining funds management, as well as reducing the cost of capital by utilising instruments such as bonds repurchase, currency swaps and commercial papers. All of the above have provided us with comprehensive funding and financial services, and have supported our overseas development and brought economic efficiency.

## II. KEY BUSINESSES GROW STEADILY

### (I) Loan and Credit

By actively aligning with CNPC overseas strategic layout and providing comprehensive funding support, the Company closely followed up the progress of major loan projects and needs for acquisition and financing in 2019. We provided loans for 7 new projects, including the acquisition of Buzios project, the ADNOC ADCO M&A project. Total loan amounted to US$4.56 billion, and the balance at the end of the year was US$10.47 billion.

### (II) Settlement and Cash Management

As the offshore cash management platform of CNPC, we have carried out the cash monitoring and cash pooling platform functions, and made use of the three cash pools in Hong Kong, Singapore and Dubai to implement the offshore centralised cash management function of the Group. In 2019, we realised the automatic cash pooling that allows us to pool fund globally from our international operations without caring about the time zones, thus helping us to centralise our fund further. We have provided clearing services to our group companies, and helped to handle global collection and payment tasks, which has enhanced the efficiency of settlements. The settlement services covered more than 80 countries, satisfied the settlement requirements and protected the funds safety for member companies of the Group. In 2019, the average cash volume pooled from foreign members was US$7.51 billion. The number of settlements completed was 37,153, whereas the amount being settled was US$359.78 billion.

### (III) Funding and Financing

As the offshore financing platform of CNPC enjoying strong credit backing from CNPC, we make good use of the global 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 2019, the aggregate borrowings from third parties was US$231.5 billion, of which US$119.1 billion was bank borrowings, US$107.9 billion was US commercial papers, US$4.51 billion of repurchase was made, and the external finance balance was US$13.72 billion.

### (IV) Foreign Exchange and Derivatives Transactions

As the foreign exchange trading platform of CNPC, the Company provides currency exchange, exchange rate and interest rate hedging services for member companies. In 2019, the Company launched its Singapore trading platform, which has further expanded the scope of the Company's global foreign exchange trading service, and has fully leveraged its professional advantage to provide interest rate hedging services for member companies and efficiently hedge risk exposures for the exchange rate and interest rate, enhancing our balance sheet risk management ability. During 2019, the Company has completed various kinds of foreign exchange transactions amounted to US$13.65 billion, of which spot transactions amounted to US$4.77 billion, forward transactions amounted to US$3.33 billion, foreign currency swaps amounted to US$3.69 billion and cross-currency swaps amounted to US$1.85 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. We will also explore opportunities in fund investment and keep track of market development to capture profitable opportunities. The Company has been adhering to the principle of prudence, seeing a stable increase in investment gains. Investment balance of the Company was US$3.13 billion, of which bond investment accounted for 98.86%, and achieved investment gain of US $150 million in 2019.

### (VI) Business of 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$10.47 billion and making settlements of US$69.99 billion in 2019, these subsidiaries have become a powerful complement to the business development of the Company.

## III. INTEGRATED MANAGEMENT STEADILY ENHANCING

Firstly, we continued to strengthen risk management by paying great attention to credit risk, and has carried out more in-depth post-loan assessment, post-investment assessment, counterparty credit evaluation and country specific risk evaluation work, with a view to identify credit risk in advance; 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, we continued to promote the digitalisation construction with a focus on upgrading and modifying the core system. With our automated forex quotation platform going online, we have enhanced our trading services. The use of fund planning module Phase I, financial robot and other systems have provided technical support for the smooth operation and management of our businesses. Thirdly, we attached great importance to team building and enhancing the overall quality of the team. The Company organised various professional financial training for employees 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 principal business", 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：

# 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.

**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.
General Manager of CNPC Finance (HK) Limited

**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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# A New Era
# A New Journey

# Corporate Governance, Internal Control and Risk Management

In 2019, 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 working plan 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 main responsibilities of the Board of CPFHK are to formulate mid-to-long-term development strategies and to monitor the implementation thereof; to review and approve annual business plans and financial budgets; and the Board is also responsible for, among others, corporate governance and compliance. Directly under the leadership and supervision of our parent company CPF, CPFHK's significant credit and investment businesses as well as significant expenditures should be reported to CPF for approval.

In 2019, the Board convened one formal meeting in which 6 motions including the annual work reports and financial reports were reviewed and approved.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board and CPF are responsible for leading and planning CPFHK's internal control, as well as the preparation of internal control manual as a basis for the building of CPFHK's internal control system. Meanwhile, CPFHK's intemal control is under the supervision and administration of CPF.

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"), and is subject to their regular audit. 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 continuously 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, determining the risk appetite 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 is also resibonsible for reviewing material investment plans, defining investment domain, size and requirements on investment risk control. According to the risk policies set by the Board and the scope of authorisation being granted, 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 our management and department heads, it examines businesses involving significant risks, such as credit and investment, and reports its opinion 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 is resporible for directing, supervising and testing 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 fund businesses such as our proprietary loans, inter-bank depositing, foreign exchange and derivative transactions, and bond investment. The granting of oversea-project proprietary loans of CPFHK must be approved by the Treasury Department of CNPC and should strictly follow the three-level-approval policy and be examined regularly on-site and off-site after the loan is provided .Loans of CPFHK are merely offered to member companies of CNPC. The business partners for interbank depositing, foreign exchange transactions and investments are banks and institutions with high credit rating, 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 approved 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 control risks on investment products strictly.

## 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 formulates 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 of the system, 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 2019, CPFHK vigorously promoted refined management in key areas so as to further improve its operational risk control 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 significant 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 its staff to enhance their abilities to identify and deal with risks and foster a culture of risk awareness across the board.

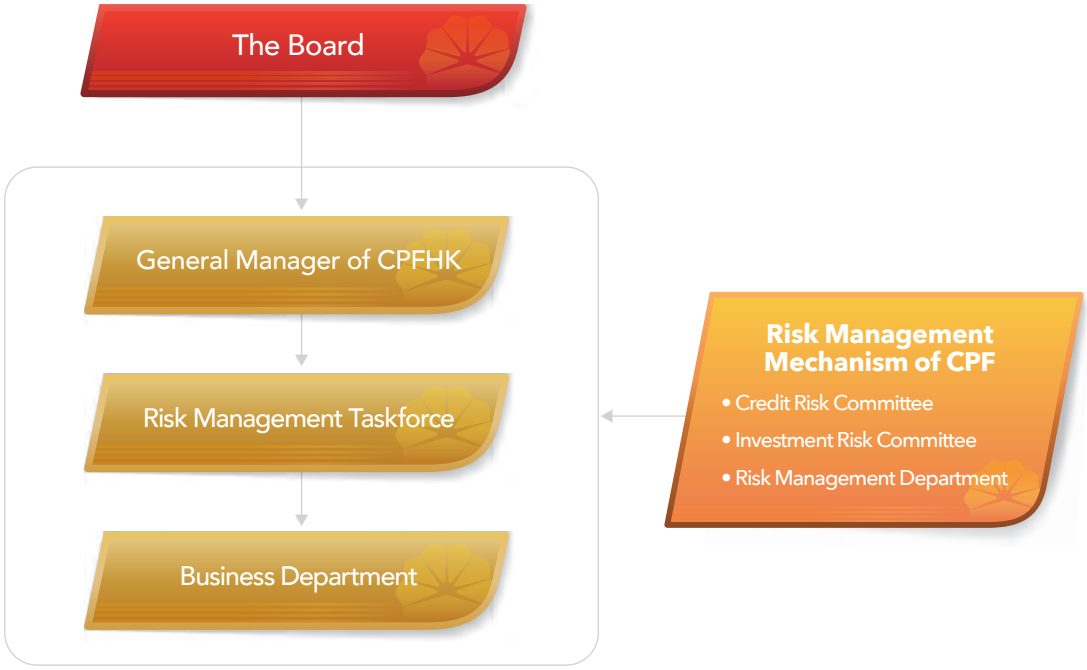
## LIQUIDITY RISK MANAGEMENT

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. As CPFHK prefer to maintain stable liquidity to manage its liquidity risk, CPFHK has maintained enough liquidity position as it has been provided with facilities of approximately US$27.21 billion by 40 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

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# Financial Position

# Financial Position and Operating Summary for 2019

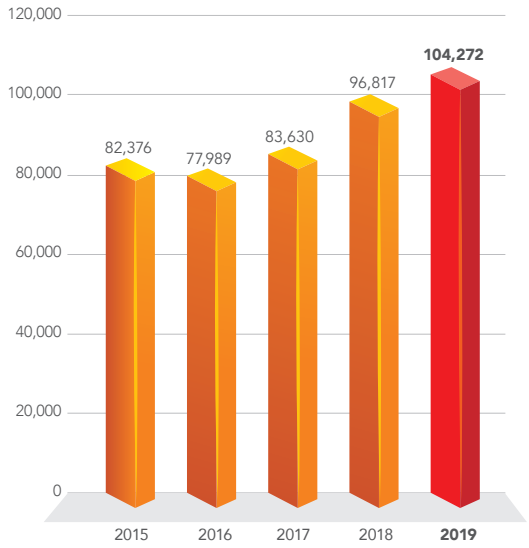
## 1. KEY INDEX

US$
(in millions)

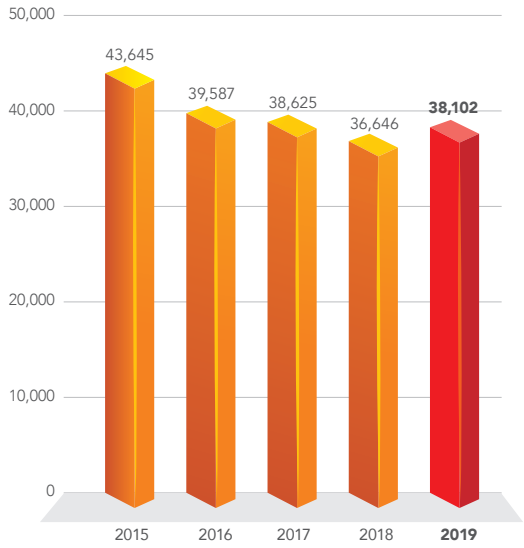
| Year | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Operating Profit before Provision | **454** | 390 | 407 | 398 | 453 |
| Profit for the year | **381** | 366 | 386 | 396 | 436 |
| Interest Income | **1,021** | 966 | 797 | 732 | 708 |
| Investment Income | **16** | 0 | 8 | 5 | 29 |
| Interest Expenses | **578** | 559 | 416 | 369 | 357 |
| Administrative Expenses | **9** | 11 | 13 | 13 | 13 |
| Total Assets | **26,351** | 27,187 | 28,656 | 26,216 | 26,535 |
| Loans | **10,474** | 9,688 | 14,619 | 14,916 | 17,944 |
| Total Liabilities | **22,866** | 24,216 | 25,950 | 23,903 | 24,615 |
| Owner's Equity | **3,486** | 2,971 | 2,706 | 2,313 | 1,920 |

Note: * represents amount less than 1 million

### OPERATING INCOME

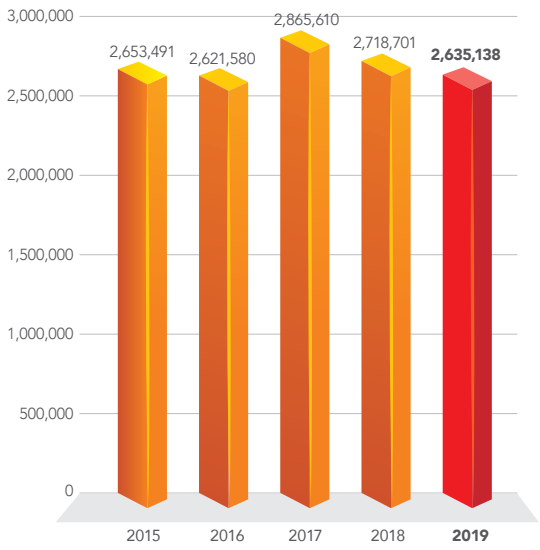



### PROFIT FOR THE YEAR

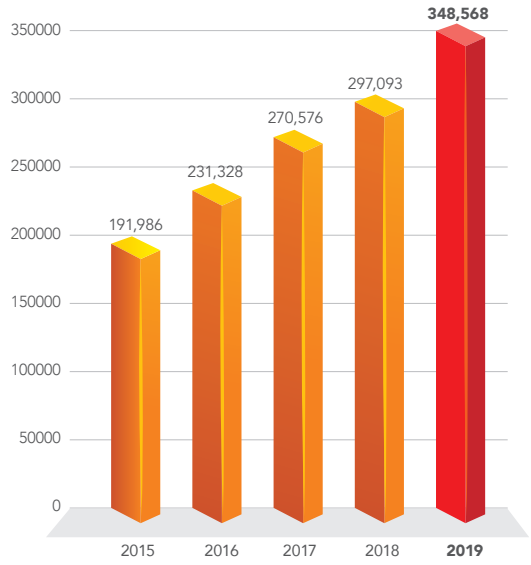


| Year | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| ROE | 11.80% | 12.91% | 15.39% | 18.70% | 25.68% |
| ROA | 1.42% | 1.31% | 1.41% | 1.50% | 1.61% |
| Operating Income | 1,043 | 968 | 836 | 780 | 824 |
| Profit for the year | 381 | 366 | 386 | 396 | 436 |

## TOTAL ASSETS




## OWNER'S EQUITY




| Year | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total Assets | 26,351 | 27,187 | 28,656 | 26,216 | 26,535 |
| Owner's Equity | 3,486 | 2,971 | 2,706 | 2,313 | 1,920 |

## 2. FINANCIAL POSITION AND OPERATING ACTIVITIES FOR THE YEAR 2019

### Assets

The operating profit for the year 2019 increased by US$63 million, or 16.22%, to US$454 million. By the end of 2019, the total assets of CPFHK were amounted to US$26,351 million, decreased by US$836million, or 3.07%. The financial position remains solid with key financial ratios at healthy levels. Return on assets (ROA) was 1.42%, and return on equity (ROE) was 11.80%. Non-performing asset ratio and non-performing loan ratio were both zero.

### Bank balances and cash

| | | US$ (in millions) |
|---|---|---|
| Details | 2019.12.31 | 2018.12.31 |
| Time deposit | 10,308 | 13,426 |
| Current deposit | 2,105 | 591 |
| Total | 12,413 | 14,017 |

By the end of 2019, bank balances and cash were totalled US$12,413million, decreased by US$1,604 million, or 11.44%. The decrease was driven by a large amount of time deposit settled on maturity this year.

### Loan Receivables

| | | US$ (in millions) |
|---|---|---|
| Details | 2019.12.31 | 2018.12.31 |
| Loan receivables | 10,474 | 9,688 |
| Total | 10,474 | 9,688 |

Total loan receivables for 2019 were US$10,474 million, increased by US$786 million, or 8.11%. It reflected the net increase in loan drawdown.

### Securities investments

| | | US$ (in millions) |
|---|---|---|
| Details | 2019.12.31 | 2018.12.31 |
| Fixed rate investments | 3,097 | 2,820 |
| Securities investments | 4 | 8 |
| Hedge funds | 32 | 228 |
| Other investments | 0 | 50 |
| Total | 3,133 | 3,106 |

By the end of 2019, the securities investments were US$3,133 million, increased by US$27 million, or 0.86%.

### Liabilities

The total liabilities by the end of the year 2019 were amounted to US$22,866 million, decreased by US$1,350 million, or 5.58%.

### Deposits from group companies of its holding companies

| | | US$ (in millions) |
|---|---|---|
| Details | **2019.12.31** | 2018.12.31 |
| Current deposit | **4,321** | 3,489 |
| Time deposit | **4,544** | 3,530 |
| Total | **8,865** | 7,019 |

Deposits from group companies of its holding companies were US$8,865 million by the end of 2019, increased by US$1,846 million, or 26.30%. The reason is the increase in account balance of clients at the year end.

### Other interest-bearing liabilities

| | | US$ (in millions) |
|---|---|---|
| Details | **2019.12.31** | 2018.12.31 |
| Bank borrowings | **8,315** | 9,790 |
| Bonds payable | **2,400** | 3,850 |
| Corporate commercial paper | **2,621** | 3,245 |
| Repurchase agreement | **392** | 32 |
| Other borrowings | **171** | 191 |
| Total | **13,901** | 17,108 |

Other interest-bearing liabilities were US$13,901 million, decreased by US$3,207 million, or 18.75%. The reason for the decrease is US$1,450 million of bond payables settled on maturity, and a net decrease of US$1,474 million for bank borrowings.

### Owner's Equity

By the end of 2019, the owner's equity was US$3,486 million, increased by US$515 million, or 17.33%. The increase was primarily due to the retained earnings contributed by net profit.

## Operating income

The operating income of 2019 was US$1,043 million, increased by US$75 million, or 7.70%.

### Interest income

| | | US$ (in millions) |
|---|---|---|
| Details | 2019 | 2018 |
| Loan interest | 456 | 496 |
| Bank interest | 433 | 352 |
| Securities interest | 133 | 118 |
| Total | 1,021 | 966 |

Interest income was US$1,021 million, increased by US$56 million, or 5.75%, including loan interest was US$456 million, bank interest income was US$433 million, securities interest income was US$133 million.

### Fees and Commission Income

| | | US$ (in millions) |
|---|---|---|
| Details | 2019 | 2018 |
| Foreign exchange commissions | 2.7 | 2.2 |
| Fees charged from syndicate loan origination | 0.7 | 1.0 |
| Entrusted loan commissions | 0.7 | 0.8 |
| Services of financial guarantees | 0.2 | 0.1 |
| Total | 4.2 | 4.2 |

Fees and commission income was US$4.2 million, increased by 1.91% from last year.

### Investment Income

| | | US$ (in millions) |
|---|---|---|
| Details | 2019 | 2018 |
| Gain on disposal of investment funds | 15.5 | 0.0 |
| Income from investment funds | 0.2 | 0.1 |
| Gain on disposal of available-for-sale financial assets | 0.8 | 0.0 |
| Total | 16.5 | 0.1 |

Investment income was US$16.4 million, increased by US$16.3 million. The increase was mainly because of the disposal gain of investment funds in 2019.

### Exchange gain or loss

US$ (in millions)

| Details | 2019 | 2018 |
|---|---|---|
| Exchange gain or loss | * | 0.6 |
| Total | * | 0.6 |

The exchange loss was US$80 thousand in 2019. It was exchange gain of US$0.6 million in last year.

### Operating expense

The operating expense of 2019 was US$588 million, increased by US$17 million, or 3.06%.

### Interest Expense

US$ (in millions)

| Details | 2019 | 2018 |
|---|---|---|
| Bank Borrowings | 251 | 265 |
| Bond payables | 137 | 155 |
| Commercial papers | 113 | 84 |
| Deposits from fellow subsidiaries | 64 | 50 |
| Repurchase agreement | 10 | 1 |
| Other borrowings | 4 | 6 |
| Total | 578 | 559 |

Meanwhile, interest expense was US$578 million, increased by US$19 million, or 3.37%. The increase was mainly driven by the rising cost of clients' deposit.

### Administrative Expense and commission fee expenses

US$ (in millions)

| Details | 2019 | 2018 |
|---|---|---|
| Administrative expense | 9.1 | 10.9 |
| Commission fee and other expenses | 1.0 | 0.7 |
| Total | 10.1 | 11.5 |

Administrative expense and commission fee expenses were US$10.1 million, decreased by US$1.4 million, or 12.32%.

# Independent Auditor's Report

# Directors' Report

For the year ended 31 December 2019

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 2019.

## 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 25 to the consolidated financial statements.

## FINANCIAL STATEMENTS AND APPROPRIATIONS

The financial performance of the Group for year ended 31 December 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 36 to 91.

The directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2019.

## DIRECTORS

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

Liu De
Wang Zengye
Zhou Jianming
Gao Wei
Wang Zhijun
Mu Xiuping
Zhou Yingqiu
Liao Xiaoyan
Jing Lin

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:

Wang Zengye
Zhou Jianming
Liao Xiaoyan
Zhang Yun

For the year ended 31 December 2019

## MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Other than disclosed in Note 26 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, April, 2020

# Independent Auditor's Report

**TO THE MEMBER OF CNPC FINANCE (HK) LIMITED**
**（中国石油财务（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 36 to 91, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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***<br>*Refer to note 13 and 31(c)(i) in the consolidated financial statements* | |
| The Group had debt instruments of US$3,096,902,000 as at 31 December 2019 in which US$347,229,000 were unlisted debt instruments with level 3 fair value measurement.<br><br>The fair value of these unlisted debt instruments were determined by discounted cash flow method that required significant management judgement. | Our procedures in relation to management's fair value calculation included:<br><br>– Assessing the valuation methodologies used by management;<br><br>– Checking the arithmetical accuracy of the calculation;<br><br>– Challenging management's key assumptions based on our knowledge of the business and industry; and<br><br>– 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, April, 2020

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| Revenue | 6 | **1,041,155** | 969,489 |
| Interest income | 6 | **1,021,408** | 965,868 |
| Interest expenses | 7 | **(578,310)** | (559,445) |
| Net interest income | | **443,098** | 406,423 |
| Other operating income | 6 | **19,747** | 3,621 |
| Decrease in fair value of financial assets at fair value through profit or loss | | **(96)** | (9,604) |
| Other (losses)/gains | 8 | **(82)** | 644 |
| Administrative expenses | | **(9,141)** | (10,855) |
| Profit before income tax | 9 | **453,526** | 390,229 |
| Income tax expense | 10(a) | **(72,505)** | (23,764) |
| Profit for the year | | **381,021** | 366,465 |
| Other comprehensive income (net of tax): | | | |
| Fair value gain/(loss) on listed equity securities, debt instruments and financial products, which will not be reclassified to profit or loss, net of tax | | **133,733** | (101,298) |
| Other comprehensive income (net of tax) | | **133,733** | (101,298) |
| Total comprehensive income for the year | | **514,754** | 265,167 |

# Consolidated Statement of Financial Position

As at 31 December 2019

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **26,175** | 26,772 |
| Deferred taxation | 12 | **–** | 9,354 |
| Listed equity securities at fair value through profit or loss | | **3,779** | 7,519 |
| Debt instruments at fair value through other comprehensive income | 13 | **2,955,969** | 2,670,174 |
| Loan and other receivables | 15 | **7,579,895** | 8,534,208 |
| | | **10,565,818** | 11,248,027 |
| **Current assets** | | | |
| Debt instruments at fair value through other comprehensive income | 13 | **140,933** | 150,183 |
| Financial products at fair value through profit or loss | 14 | **–** | 197,636 |
| Financial products at fair value through other comprehensive income | 14 | **–** | 50,000 |
| Unlisted hedge fund at fair value through profit or loss | | **32,054** | 30,620 |
| Loan and other receivables | 15 | **3,174,109** | 1,460,087 |
| Derivative financial assets | 16 | **25,497** | 33,827 |
| Deposits in non-bank financial institution | | **46** | 150 |
| Bank balances and cash | 17 | **12,412,921** | 14,016,484 |
| | | **15,785,560** | 15,938,987 |
| **Current liabilities** | | | |
| Account and other payables | 18 | **8,937,910** | 7,115,532 |
| Short term bond payables | 19 | **2,621,418** | 3,245,142 |
| Derivative financial liabilities | 20 | **22,057** | 52,822 |
| Borrowings – due within one year | 21 | **8,707,919** | 9,789,572 |
| Bond payables – due within one year | 22 | **–** | 1,448,003 |
| Tax payable | | **9,633** | 5,816 |
| | | **20,298,937** | 21,656,887 |
| **Net current liabilities** | | **(4,513,377)** | (5,717,900) |
| **Total assets less current liabilities** | | **6,052,441** | 5,530,127 |

# Consolidated Statement of Financial Position

As at 31 December 2019

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred taxation | 12 | **3,433** | – |
| Borrowings – due after one year | 21 | **171,500** | 191,189 |
| Bond payables – due after one year | 22 | **2,391,829** | 2,368,013 |
| | | **2,566,762** | 2,559,202 |
| **NET ASSETS** | | **3,485,679** | 2,970,925 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 24 | **400,000** | 400,000 |
| Reserves | | **3,085,679** | 2,570,925 |
| **TOTAL EQUITY** | | **3,485,679** | 2,970,925 |

On behalf of the directors

Director

Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Share capital US$'000 | Investment revaluation reserve US$'000 (Note 27(a)) | Other reserves US$'000 (Note 27(b)) | Retained profits US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **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 and 1 January 2019** | **400,000** | **(95,459)** | **1,203,628** | **1,462,756** | **2,970,925** |
| Total comprehensive income for the year | **–** | **133,733** | **–** | **381,021** | **514,754** |
| Transfer to other reserves | **–** | **–** | **114,307** | **(114,307)** | **–** |
| **At 31 December 2019** | **400,000** | **38,274** | **1,317,935** | **1,729,470** | **3,485,679** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before income tax | **453,526** | 390,229 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **762** | 743 |
| Dividend income from financial products | **(751)** | – |
| Dividend income from investment funds | **(141)** | (141) |
| Gain on realisation of financial products at fair value throught profit or loss | **(15,543)** | – |
| Gain on disposal of equity securities at fair value through profit or loss | **(60)** | – |
| Decrease/(increase) in fair value of financial assets at fair value through profit or loss | **96** | 9,604 |
| Bond interest expenses | **249,303** | 239,662 |
| Operating cash flows before changes in working capital | **687,192** | 640,097 |
| (Increase)/Decrease in loan and other receivables | **(761,200)** | 4,811,073 |
| Increase/(decrease) in account and other payables | **1,854,434** | (1,555,363) |
| **Cash generated from operations** | **1,780,426** | 3,895,807 |
| Bond interest paid | **(242,549)** | (236,240) |
| Income tax paid | **(68,688)** | (26,938) |
| **Net cash generated from operating activities** | **1,469,189** | 3,632,629 |
| **Investing activities** | | |
| Acquisition of debt instruments | **(407,025)** | (834,322) |
| Acquisition of financial products at fair value through other comprehensive income | **–** | (50,000) |
| Proceeds from maturity/disposal of debt instruments | **277,000** | 320,000 |
| Proceeds from maturity/disposal of financial products at fair value through profit or loss | **216,242** | – |
| Proceeds from maturity/disposal of financial products at fair value through other comprehensive income | **50,000** | 250,000 |
| Dividend received from investment funds | **141** | 141 |
| Purchase of property, plant and equipment | **(9)** | (18) |
| **Net cash generated from/(used in) investing activities** | **136,349** | (314,199) |

For the year ended 31 December 2019

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Financing activities** | | |
| New borrowings raised | **21,206,251** | 22,464,817 |
| Repayment of borrowings | **(22,339,651)** | (23,117,465) |
| Repayment of bond payables | **(1,450,000)** | (500,000) |
| Proceeds from issuance of short term bonds | **1,273,195** | 4,196,895 |
| Repayment of short term bonds | **(1,899,000)** | (3,147,895) |
| **Net cash used in financing activities** | **(3,209,205)** | (103,648) |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,603,667)** | 3,214,782 |
| **Cash and cash equivalents at beginning of year** | **14,016,634** | 10,801,852 |
| **Cash and cash equivalents at end of year** | **12,412,967** | 14,016,634 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **12,412,921** | 14,016,484 |
| Deposits in non-bank financial institution | **46** | 150 |
| | **12,412,967** | 14,016,634 |

# Notes to the Consolidated Financial Statements

31 December 2019

## 1. GENERAL

CNPC Finance (HK) Limited (the "Company") is incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance and is engaged in investments in financial and investment products and the provision of treasury services to group companies of its holding companies. The principal activities of its subsidiaries are set out in Note 25. The address of its registered office and principal place of business 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 2019

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 2019.

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features and Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 | Annual Improvements to HKFRSs 2015-2017 Cycle |

The impact of the adoption of HKFRS 16 Leases has been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

#### (i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The management of the Company considered that the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 was immaterial as the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 of HK$720,000 were leases of low-value assets. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

#### (ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

#### (ii) The new definition of a lease (Continued)

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

#### (iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

*Right-of-use asset*

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

For leasehold land and buildings which is held for own use, the Group would continue to be accounted for under HKAS 16 and would be stated at cost and are amortised over the period of the lease. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

#### (iii) Accounting as a lessee (Continued)

*Lease liability*

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

#### (iv) Accounting as a lessor

As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

#### (v) Transition

As mentioned above, the management of the Company considered that the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 was immaterial as the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 of HK$720,000 were leases of low-value assets. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

#### (v) Transition (Continued)

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

### (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[1] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[1] |

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

**Amendments to HKFRS 3 – Definition of a Business**

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

**Amendments to HKAS 1 and HKAS 8 – Definition of Material**

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

## 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 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform**

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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$4,513,377,000 as of 31 December 2019. 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.

## 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Financial instruments

#### (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 (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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Financial instruments (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 Group 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 (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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Financial instruments (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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Financial instruments (Continued)

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

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Financial instruments (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 (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) 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Revenue recognition

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.

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).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) 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.

### (h) 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) 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.

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.

### (j) 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.

### (k) Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Leasing (accounting policies applied from 1 January 2019) (Continued)

**Right-of-use asset**

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and would be stated at cost and are amortised over the period of the lease.

**Lease liability**

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Leasing (accounting policies applied until 31 December 2018)

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.

(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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Related parties (Continued)

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

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

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

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### (a) Critical judgments in applying accounting policies

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

#### (i) Impairment of 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.

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

### (a) Critical judgments in applying accounting policies (Continued)

#### (ii) Determination of functional currency

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

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

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

### (b) Key sources of estimation uncertainty

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

#### Impairment on loans and other receivables

The policy for impairment on loans and other receivables of the Group 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 Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required.

## 6. REVENUE AND OTHER OPERATING INCOME

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Interest income from | | |
| – group companies of its holding companies | 455,804 | 495,898 |
| – banks and other enterprises | 565,604 | 469,970 |
| | 1,021,408 | 965,868 |
| Gain on realisation of financial products at fair value through profit or loss | 15,543 | – |
| Gain on disposal of equity securities at fair value through profit or loss | 60 | – |
| Commission income, net | 2,570 | 2,455 |
| Origination fees from the creation of loan receivables | 682 | 1,025 |
| Dividend income from financial products | 751 | – |
| Dividend income from investment funds | 141 | 141 |
| | 19,747 | 3,621 |
| Revenue | 1,041,155 | 969,489 |
| Timing of revenue recognition | | |
| – At a point in time | 19,747 | 3,621 |
| – Transferred over time | 1,021,408 | 965,868 |
| | 1,041,155 | 969,489 |

## 7. INTEREST EXPENSES

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Interest expenses on: | | |
| Bank borrowings wholly repayable within five years | 250,669 | 264,649 |
| Borrowing from non-banking financial institution not wholly repayable within five years | 4,410 | 5,563 |
| Bond payables | 136,673 | 154,553 |
| Short term bond payables | 112,630 | 84,385 |
| Deposits from fellow subsidiaries | 64,015 | 49,571 |
| Others | 9,913 | 724 |
| | 578,310 | 559,445 |

## 8. OTHER (LOSSES)/GAINS

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Exchange (losses)/gains, net | (82) | 644 |

## 9. PROFIT BEFORE INCOME TAX

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting): | | |
| Directors' remuneration | – | – |
| Auditor's remuneration | 57 | 66 |
| Depreciation of property, plant and equipment | 757 | 743 |
| Staff cost excluding directors' remuneration: | | |
| – Salaries and allowances | 2,732 | 2,269 |
| – Mandatory provident fund contributions | 22 | 19 |
| Fair value (gain)/loss on hedging derivative financial instruments on fair value hedges, net | (21,140) | 6,072 |
| Fair value adjustment to bond payables attributable to interest rate risk, net | 21,140 | (6,072) |

## 10. INCOME TAX EXPENSE

a) Income tax expense comprises:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Current tax in Hong Kong | | |
| – provision for current year | 32,399 | 23,494 |
| – under provision for prior years | 39,754 | – |
| Current tax in Singapore | | |
| – provision for current year | 352 | 270 |
| Income tax expense | 72,505 | 23,764 |

## 10. INCOME TAX EXPENSE (Continued)

**b)** Hong Kong profits tax is calculated at 8.25% (2018: 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:

| | **2019** | 2018 |
|---|---|---|
| | **US$'000** | US$'000 |
| Profit before income tax | **453,526** | 390,229 |
| Tax at the domestic income tax rate of 8.25% | **37,416** | 32,194 |
| Tax effect of expense not deductible for tax purpose | **8,520** | 6,580 |
| Tax effect of income not chargeable for tax purpose | **(8,864)** | (6,574) |
| Under provision for prior years | **39,754** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **63** | 48 |
| Effect of tax exemptions granted to a subsidiary | **(5,627)** | (7,911) |
| Others | **1,243** | (573) |
| Income tax expense | **72,505** | 23,764 |

**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%.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings US$'000 | Office and computer equipments US$'000 | Total US$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 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 |
| Additions | – | 9 | 9 |
| Exchange alignment | 180 | 3 | 183 |
| At 31 December 2019 | 31,035 | 263 | 31,298 |
| **Accumulated depreciation** | | | |
| At 1 January 2018 | 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 |
| Charge for the year | 737 | 24 | 761 |
| Exchange alignment | 25 | 3 | 28 |
| At 31 December 2019 | 4,914 | 209 | 5,123 |
| **Net carrying value** | | | |
| At 31 December 2019 | 26,121 | 54 | 26,175 |
| At 31 December 2018 | 26,703 | 69 | 26,772 |

## 12. DEFERRED TAXATION

The following are the deferred tax asset/(liability) recognised and movements thereon during 2019 and 2018:

| | **Revaluation of debt instruments and financial products** US$'000 |
|---|---|
| At 1 January 2018 | (382) |
| Deferred tax charged to equity upon revaluation | 9,736 |
| At 31 December 2018 | 9,354 |
| Deferred tax charged to equity upon revaluation | (12,787) |
| At 31 December 2019 | (3,433) |

## 13. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income comprised:

| | **2019 US$'000** | 2018 US$'000 |
|---|---|---|
| Non-current | | |
| – listed debt instruments | **2,608,740** | 2,199,466 |
| – unlisted debt instruments | **347,229** | 470,708 |
| | **2,955,969** | 2,670,174 |
| Current | | |
| – listed debt instruments | **49,961** | |
| – unlisted debt instruments | **140,933** | 100,222 |
| | **140,933** | 150,183 |
| Total | **3,096,902** | 2,820,357 |

## 14. 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. The investment fund was realised during the year.

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. These products were matured and realised on 1 February 2019.

## 15. LOAN AND OTHER RECEIVABLES

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Loan receivables from group companies of its holding companies | 10,474,028 | 9,688,122 |
| Other receivables | 279,974 | 306,173 |
| | 10,754,004 | 9,994,295 |
| Less: loan and other receivables – non-current | (7,579,895) | (8,534,208) |
| Loan and other receivables – current | 3,174,109 | 1,460,087 |

Loan receivables from group companies of its holding companies are interest bearing from 1.67% to 7.81% (2018: 1.74% to 8.78%) per annum, repayable within 1 to 9 years (2018: within 1 to 10 years) and unsecured, except for loan receivables of US$1,822,562,000 (2018: US$3,117,707,000) 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.

## 16. DERIVATIVE FINANCIAL ASSETS

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Derivative financial instruments | | |
| – fair value hedges (Note a) | 4,320 | – |
| Other interest rate and/or currency swap derivative financial instruments | 21,177 | 33,827 |
| | 25,497 | 33,827 |

## 16. DERIVATIVE FINANCIAL ASSETS (Continued)

(a) This represents outstanding fixed-to-floating interest rate swap contracts at 31 December 2019 and 2018. Major terms of the outstanding contracts are as following:

| Maturity | Interest rate | 2019 | 2018 |
|---|---|---|---|
| 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 2019, the Group has outstanding fixed-to-floating interest rate swap contracts with notional amounts of US$550,000,000 (2018: 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 3.40% per annum (2018: 3.40% 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).

## 17. BANK BALANCES AND CASH

Included in the bank balances and cash of the Group are time deposits of approximately US$10,307,871,000 (2018: US$13,425,508,000). The deposits carry interest at the market rates ranging from 0.00% to 3.68% (2018: 1.30% to 3.80%) per annum.

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

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| US$ | 11,550,552 | 13,746,129 |
| EUR | 810,386 | 95,081 |
| RMB | 29,217 | 161,703 |
| SGD | 12,852 | 4,984 |
| CAD | 5,467 | 5,239 |
| HKD | 3,152 | 716 |
| GBP | 720 | 2,114 |

## 18. ACCOUNT AND OTHER PAYABLES

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Deposits from group companies of its holding companies | 8,865,031 | 7,019,277 |
| Other payables | 72,879 | 96,255 |
| | 8,937,910 | 7,115,532 |

Deposits from group companies of its holding companies bear interest at 0.00% to 1.85% (2018: 0.00% to 1.85%) per annum, are unsecured and repayable on demand.

## 19. SHORT TERM BOND PAYABLES

At 31 December 2019, the outstanding balance of short term bond payables with an aggregate principal amount of US$2,623,195,000 (2018: US$3,249,000,000) is unsecured, interest bearing at a range from 2.05% to 2.80% (2018: 2.75% to 3.25%) per annum and repayable within six months (2018: within six months).

## 20. DERIVATIVE FINANCIAL LIABILITIES

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| Derivative financial instruments | | |
| – fair value hedges (Note 16(a)) | – | 16,820 |
| Other interest rate and/or currency swap derivative financial instruments | 22,057 | 36,002 |
| | 22,057 | 52,822 |

## 21. BORROWINGS

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| Bank borrowings – current | 8,707,919 | 9,789,572 |
| Non-banking financial institution borrowing – non-current (Note 26(b)) | 171,500 | 191,189 |
| | 8,879,419 | 9,980,761 |

The above borrowings are unsecured, non-guaranteed, and denominated in US$, RMB, HK$, EUR and SGD (2018: US$, RMB, HK$, EUR and SGD).

As at 31 December 2019, all borrowings bear variable interest rate mainly by reference to LIBOR and interests are mainly charged ranging from LIBOR plus 0.35% to LIBOR plus 3.00% per annum.

As at 31 December 2018, borrowings of US$244,784,000 were interest-bearing at fixed rate ranging from 3.70% to 4.20% per annum, other borrowings bear variable interest rate mainly by reference to LIBOR and interests are mainly charged ranging from LIBOR plus 0.30% to LIBOR plus 3.00% per annum.

## 22. BOND PAYABLES

| Guaranteed Bonds | Principal US$'000 | Interest rate (per annum) | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|---|
| US$750 million 2.75% Guaranteed Bonds ("5-year 2019 US$ Bonds") (Note d) | 750,000 | 2.75% | – | 749,117 |
| US$700 million 2.70% Guaranteed Bonds ("5-year 2019 US$ Bonds") (Note e) | 700,000 | 2.70% | – | 698,886 |
| US$650 million 4.50% Guaranteed Bonds ("10-year 2021 US$ Bonds") (Note a) | 650,000 | 4.50% | 644,852 | 646,518 |
| US$500 million 3.95% Guaranteed Bonds ("10-year 2022 US$ Bonds") (Note b) | 500,000 | 3.95% | 492,141 | 498,826 |
| US$750 million 3.40% Guaranteed Bonds ("10-year 2023 US$ Bonds") (Note c) | 750,000 | 3.40% | 500,130 | 731,318 |
| US$500 million 5.95% Guaranteed Bonds ("30-year 2041 US$ Bonds") (Note a) | 500,000 | 5.95% | 754,706 | 491,351 |
| | | | 2,391,829 | 3,816,016 |

## 22. BOND PAYABLES (Continued)

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Carrying amounts repayable: | | |
| Within one year | – | 1,448,003 |
| After one year | 2,391,829 | 2,368,013 |
| | 2,391,829 | 3,816,016 |

(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 rate 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) 10-year 2023 US$ Bonds were issued on 16 April 2013 with fixed annual interest rate of 3.40%. 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. The 5-year 2019 US$ Bonds were repaid during the year.

(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. The 5-year 2019 US$ Bonds were repaid during the year.

(f) The fair values of bond payables, which are classified as level 1 in the fair value hierarchy amounted to US$2,636,809,000 (2018: US$3,962,451,000). The fair values are based on quoted market price as at balance sheet date.

## 23. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | 26,167 | 26,764 |
| Deferred taxation | – | 9,354 |
| Investments in subsidiaries | 5,800 | 5,800 |
| Listed equity securities at fair value through other comprehensive income | 3,779 | 7,519 |
| Debt instruments at fair value through other comprehensive income | 2,955,969 | 2,670,174 |
| Loan and other receivables | 7,579,895 | 5,207,247 |
| | 10,571,610 | 7,926,858 |
| **Current assets** | | |
| Amounts due from subsidiaries | 916,455 | 2,855,250 |
| Debt instruments at fair value through other comprehensive income | 140,933 | 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 | 32,054 | 30,620 |
| Loan and other receivables | 672,210 | 758,130 |
| Derivative financial assets | 25,497 | 33,827 |
| Deposits in non-bank financial institution | 46 | 150 |
| Bank balances and cash | 12,366,689 | 13,972,901 |
| | 14,153,884 | 18,048,697 |
| **Current liabilities** | | |
| Account and other payables | 8,721,409 | 7,028,264 |
| Short term bond payables | 2,621,418 | 3,245,142 |
| Derivative financial liabilities | 22,057 | 52,822 |
| Borrowings – due within one year | 7,252,325 | 9,190,462 |
| Amounts due to subsidiaries | 1,212,737 | 1,409,296 |
| Tax payable | 9,226 | 5,515 |
| | 19,839,172 | 20,931,501 |
| **Net current liabilities** | (5,685,288) | (2,882,804) |
| **Total assets less current liabilities** | 4,886,322 | 5,044,054 |

## 23. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION (Continued)

| | Notes | 2019 US$'000 | 2018 US$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred taxation | | 3,433 | – |
| Borrowings – due after one year | | 171,500 | 195,473 |
| Amounts due to subsidiaries | | 2,391,829 | 2,972,393 |
| | | 2,566,762 | 3,167,866 |
| **NET ASSETS** | | 2,319,560 | 1,876,188 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | 400,000 | 400,000 |
| Reserves | 29 | 1,919,560 | 1,476,188 |
| **TOTAL EQUITY** | | 2,319,560 | 1,876,188 |

On behalf of the board

Director

Director

## 24. SHARE CAPITAL

| | 2019 Number | 2019 US$'000 | 2018 Number | 2018 US$'000 |
|---|---|---|---|---|
| Issued and fully paid: | | | | |
| At beginning and end of year | 40,000 | 400,000 | 40,000 | 400,000 |

## 25. 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 |

## 26. RELATED PARTY TRANSACTIONS

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

| Nature of transactions | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| China National Petroleum Corporation and its subsidiaries and joint ventures | | |
| Interest income earned | 455,803 | 495,854 |
| Interest expenses paid | (68,425) | (55,134) |
| Net interest income | 387,378 | 440,720 |
| Commission income | 3,555 | 3,145 |
| Origination fee income from the creation of loan receivables | 600 | 661 |
| | 391,533 | 444,526 |

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 | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| China National Petroleum Corporation and its subsidiaries and joint ventures | | |
| Loan receivables | 10,474,029 | 9,688,122 |
| Other receivables | 20,188 | 26,956 |
| Account payables | (8,865,031) | (7,019,277) |
| Other payables | (26,503) | (14,594) |
| | 1,602,683 | 2,681,207 |
| China Petroleum Finance Co. Ltd. | | |
| Borrowings | (171,500) | (191,189) |
| Other payables | (1,361) | (1,906) |
| | (172,861) | (193,095) |

### (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.

## 26. 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.

## 27. 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 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** |
| Total comprehensive income for the year | **133,733** | **–** | **309,639** | **443,372** |
| Transfer to other reserves | **–** | **91,459** | **(91,459)** | **–** |
| **At 31 December 2019** | **38,274** | **968,100** | **913,186** | **1,919,560** |

(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.

## 27. RESERVES OF THE COMPANY (Continued)

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.

## 28. ENTRUSTED LENDING BUSINESS

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Entrusted loans | **553,329** | 823,016 |
| Entrusted funds | **553,329** | 823,016 |

## 29. 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.

## 30. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 4(k).

## 30. LEASES (Continued)

**Nature of leasing activities (in the capacity as lessee)**

The Group leases office premises and staff quarters in Singapore and Hong Kong. Lease term is ranged from one to three years (2018: one to three years) with fixed rental.

**Operating leases – lessee**

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

| | 2019<br>US$'000 |
|---|---|
| Low value lease expense | 646 |

| | 2018<br>US$'000 |
|---|---|
| Minimum lease payments | 630 |

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

| | 2018<br>US$'000 |
|---|---|
| Not later than one year | 482 |
| Later than one year and not later than five years | 238 |
| | 720 |

## 31. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| **Financial assets** | | |
| At amortised cost (including cash and cash equivalents) | 23,166,971 | 24,010,929 |
| Fair value through profit or loss ("FVTPL"): | | |
| – listed equity securities | 3,779 | 7,519 |
| – hedge fund | 32,054 | 30,620 |
| – unlisted financial products | – | 197,636 |
| Fair value through other comprehensive income ("FVOCI"): | | |
| – listed debt instruments | 2,749,673 | 2,249,427 |
| – unlisted debt instruments | 347,229 | 570,930 |
| – unlisted financial products | – | 50,000 |
| | 26,299,706 | 27,117,061 |

| | 2019 US$'000 | 2018 US$'000 |
|---|---|---|
| **Financial liabilities** | | |
| Derivative financial liabilities | | |
| – not used for hedging | 16,696 | 18,002 |
| – used for hedging | – | 16,820 |
| At amortised cost | 22,830,576 | 24,157,451 |
| | 22,847,272 | 24,192,273 |

### (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.

## 31. 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:

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Assets** | | |
| RMB | **269,371** | 417,181 |
| GBP | **719** | 2,114 |
| EUR | **1,628,483** | 721,252 |
| SGD | **174,440** | 169,753 |
| **Liabilities** | | |
| RMB | **(137,367)** | (362,675) |
| GBP | **(8,015)** | (9,130) |
| EUR | **(978,786)** | (603,797) |
| SGD | **(166,469)** | (97,967) |
| **Notional Amounts** | | |
| RMB | **(168,594)** | (89,535) |
| EUR | **(617,915)** | (89,184) |
| SGD | **–** | (65,648) |

## 31. 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% (2018: 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% (2018: 5%) change in foreign currency rates, after taking into account the effect of interest rate swaps designated as fair value hedging instruments (see Note 16 and 20(a) above):

| | **2019**<br>**US$'000** | 2018<br>US$'000 |
|---|---|---|
| Increase/(decrease) in profit for the year | | |
| – if US$ weakens against RMB | **(1,679)** | (1,607) |
| – if US$ strengthens against RMB | **1,679** | 1,607 |
| Increase/(decrease) in profit for the year | | |
| – if US$ weakens against GBP | **(335)** | (322) |
| – if US$ strengthens against GBP | **335** | 322 |
| Increase/(decrease) in profit for the year | | |
| – if US$ weakens against EUR | **1,458** | 1,297 |
| – if US$ strengthens against EUR | **(1,458)** | (1,297) |
| Increase/(decrease) in profit for the year | | |
| – if US$ weakens against SGD | **366** | 282 |
| – if US$ strengthens against SGD | **(366)** | (282) |

## 31. 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 (2018: 100 basis points) higher/lower and all other variables were held constant, the Group's profit would increase/decrease by approximately US$42,585,000 (2018: US$60,705,000).

*(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.

## 31. 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 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 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Account and other payables | 8,937,910 | 8,937,910 | 8,937,910 | – | – | – |
| Short term bond payables | 2,621,418 | 2,771,168 | 2,771,168 | – | – | – |
| Borrowings | 8,879,419 | 8,908,705 | 8,720,796 | 4,503 | 13,511 | 169,895 |
| Bond payables | 2,391,829 | 3,221,883 | 104,250 | 739,505 | 1,387,375 | 990,753 |
| | 22,830,576 | 23,839,666 | 20,534,124 | 744,008 | 1,400,886 | 1,160,648 |
| Derivative financial liabilities | 16,696 | 16,747 | 15,451 | – | 1,296 | – |

## 31. 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 |
|---|---|---|---|---|---|---|
| **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 | – |

### (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.

## 31. 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<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 |
|---|---|---|---|
| **2019** | | | |
| Financial assets at FVOCI | | | |
| – debt instruments | 2,749,673 | – | 347,229 |
| Financial assets at FVTPL | | | |
| – listed equity securities | 3,779 | – | – |
| – hedge fund | 32,054 | – | – |
| | 2,785,506 | – | 347,229 |
| Derivative financial liabilities not used for hedging | | | |
| – currency swap contracts and interest rate swap contracts | – | 16,696 | – |

## 31. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value (Continued)

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

| | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>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 | – |

**(ii)** During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

## 31. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value (Continued)

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

As at 31 December 2019 and 2018, 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 2019 and 2018, 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% (2018: 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 2019, 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 2019 and 2018 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 22.

## 32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in notes 19, 21 and 22, cash and cash equivalents and equity of the Group, 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:

| | **2019**<br>**US$'000** | 2018<br>US$'000 |
|---|---|---|
| Debts | **13,892,666** | 17,041,919 |
| Cash and cash equivalents | **(12,412,921)** | (14,016,634) |
| Net debts | **1,479,745** | 3,025,285 |
| Equity | **3,485,679** | 2,970,925 |
| Net debts to equity ratio | **42%** | 102% |

## 33. CONTINGENT LIABILITIES

(a) At 31 December 2019, the Company had provided unconditionally and irrevocably guarantees to all the bond holders as disclosed in Note 22 with aggregate principal amount of US$2,400,000,000 (2018: US$3,150,000,000).

(b) At 31 December 2019, the Company had provided guarantees of US$68,728,000 (2018: US$71,958,000) 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.

## 34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on April 2020.

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