



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

年度報告 ANNUAL REPORT 2013

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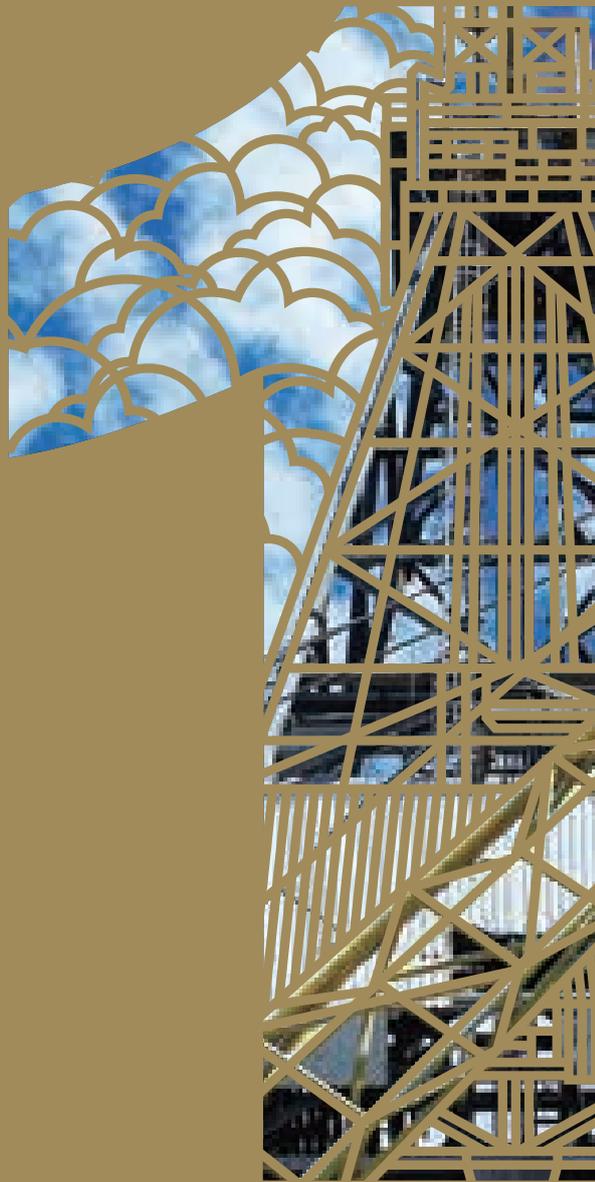
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A photograph of an industrial refinery or chemical plant. On the left, several tall distillation columns are visible, each with multiple levels of platforms and ladders. The scene is illuminated by warm, yellowish lights, possibly from the plant's own power sources. On the right, a large, white, spherical storage tank is prominent, with a metal walkway and railing around its top. The background is a hazy, overcast sky. The overall tone is industrial and somewhat somber due to the muted colors and lighting.

「FOR THE GROUP
OF THE GROUP」



**INFORMATION
ABOUT
CPFHK**

Company Profile



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

As the Company’s parent company, CPF is a non-bank financial institution established in December 1995, incorporated with the approval of the People’s Bank of China, which serves as the in-house banking and sole treasury centre of CNPC. CPF is currently the largest finance company in the PRC in terms of size and strength, ranking first by asset, revenue and profit among over 170 finance companies nationwide. As a fully-integrated, strategic component of CNPC that provides the platform on which a centralised treasury management system for the Group is being developed, CPF enjoys strong backing from CNPC.

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

The Company has explored a wide range of financing channels involving bank credit, overseas USD bonds, overseas RMB bonds, Euro medium term notes and US commercial papers, so as to maintain a steady long-term capital supply.

As of the end of 2013, the Company's total assets increased by US\$76.67 billion or 32.89% over the previous year to US\$30.98 billion. Company's operating income for the year increased by US\$2.15 million or 0.44% over the previous year to US\$487.79 million. Profit before income tax increased by US\$30.60 million or 14.93% over the previous year to US\$235.53 million. Its assets, income and profit accounted for 29.09%, 15.32% and 22.19%, respectively, of CPF'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 Markets and General Administration. In order to provide all-round financial services to facilitate CNPC's overseas development strategy, the Company has further extended its service platform by establishing two wholly-owned subsidiaries, CPF (Dubai) Limited in 2009 in Dubai and CNPC Treasury (Singapore) Pte. Ltd. in 2011 in Singapore, respectively.

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



Company Profile

THE COMPANY IS PRINCIPALLY ENGAGED IN THE FOLLOWING FINANCIAL BUSINESSES:

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



Corporate Development Milestones

2013

Establishing USD7 billion Euro Medium Term Note program
 Issuance of USD2 billion bonds
 Establishing USD4 billion Commercial Paper program
 Issuance of USD3.5 billion Commercial Paper



2012

Commercial Paper debut with program size of USD2 billion
 Issuance of USD1.15 billion bonds



2011

Offshore corporate bond debut with successful issuances of USD1.85 billion bonds and RMB3 billion bonds, both of which were assigned respectable credit rating
 Incorporation of CNPC Treasury (Singapore) Pet Ltd, CPFHK's Singapore Subsidiary



2010

Commencement of USD/
 CNH trading



2009

Incorporation of CPF (Dubai) Limited,
 CPFHK's Dubai Subsidiary



2008

Incorporation of CPFHK



Chairman's Statement

The Company reported steady growth in operating results in 2013, as it proactively responded to uncertainties in the international financial markets as well as complicated economic situations in China and elsewhere in persistent adherence to the principle of “of the Group, for the Group”, diligently performing its functions as the sole offshore treasury centre of CNPC to provide financial services for CNPC’s overseas business development. As of the end of December 2013, total assets of the Company increased by 32.89% over the previous year to US\$30.98 billion, while profit for the year increased by 14.93% over the previous year to US\$235.53 million. The company’s various assets were of high quality and its major operating indicators hit their record highs. These good results have been accomplished with the benefit of the ongoing drive of the Group’s “going global” strategy, the benefit of the strong backing from CNPC and CPF, our parent company, and also the benefit of the support of all member companies of the Group.



WANG Guoliang Chairman

The past year was full of challenges and tests. The new leading party group of CNPC firmly grasped the keynote of making progress while ensuring stability, highlighted the development of its major oil and gas business, strengthened the integrated balance of production, transportation, sales and storage, improved quality and profitability and tightened the control of investments and costs. As a result, CNPC maintained stable and sound development with stable and positive production indicators. The company's overseas operations maintained a sound momentum of development. It successfully acquired equity interests in major projects in Mozambique Offshore Area, Caspian Sea at Kazakhstan, Iraq and Russia, won the bid of the Libra Deepwater Project in Brazil and delivered the UAE's Abu Dhabi Project. The China-Myanmar natural gas pipeline started full operation, and the Overseas Daqing construction stepped forward to achieve a higher goal. As CNPC's treasury centre and in-house bank, CPF, our parent company, made full use of its function of "settlement, financing and cash management" platforms to develop the Group into a comprehensive international energy company with CPF's strong financial services. As at the end of 2013, CPF's assets amounted to RMB649.20 billion and it made a profit of RMB6.48 billion, representing increases of 9.3% and 6.2%, respectively, thus maintaining its position as China's largest group finance company in terms of size and comprehensive strength. Its major indicators related to, among other things, assets, revenue and profits ranked first among over 170 finance companies nationwide for 11 straight years.



Chairman's Statement

2013 is the 5th anniversary of the Company since its corporation. Under the support of CNPC and the parent company, the Company strictly adhered to CNPC's company strategy of developing into an international energy company and continued to improve its international service capacity and standards, thus maintaining rapid growth in operating results for five years with annual average growth rates of assets and profit at 39.53% and 41.96%, respectively. In 2013, the Company fully broadened its financing channels by the successful further issuance of US\$2 billion offshore US dollar bonds, the setting up of a new Euro Medium Term Note Programme of US\$7 billion and the successful further issuance of US\$2 billion US Commercial Paper. The Company's new loan contracts amounted to US\$19.7 billion, equivalent to the sum of the amounts over the past three years. As a lead bank in overseas financing for the first time, the Company increasingly optimised loan structure and diversified loan models. The Company significantly improved its ability to support the international development of the Group and further strengthened its functions of providing services to entities and industries and safeguarding the real economy. Meanwhile, the Company continued to maintain strong credit ratings by Moody's, Fitch and Standard & Poor's, which assign positive ratings equivalent or next to Chinese sovereign rating. The Company's position as CNPC's only offshore treasury centre has also been increasingly recognised in the international market, providing a solid foundation for its future development. The accomplishment of these results would not have been possible without the trust in CNPC shown by international investors. For this may I express sincere appreciation.

Looking to 2014, the Company will continue to adhere to CNPC's strategic goal of developing CNPC into a comprehensive international energy company. The Company will continue to facilitate centralised offshore cash management and give play to the functions of oversea

financing platform through active exploring and innovation efforts so as to ensure safe and high efficient cash pools while continue to implement delicacy management, thus proving strong financial services in line with CNPC's international strategies.

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



Business Review

In 2013, we diligently fulfilled the requirements of the Board and CPF and proactively responded to uncertainty in the international financial markets as well as complicated economic situations in China and elsewhere, in adherence to our functional role and to CNPC's "going global" strategy. Capitalising on our position as CNPC's sole offshore treasury platform, we fully broadened financing channels in international markets and improved our service standards to provide credit and treasury management support for CNPC's overseas operations. Rapid development and steady growth was reported in various businesses, as the functions of CPFHK's "settlement, financing and cash management" platforms were brought into full play.

I. SHARP RISE IN ASSETS AND HEALTHY GROWTH IN PROFIT

As of the end of 2013, CPFHK had total assets of US\$30.98 billion, representing an increase of US\$7.67 billion or 32.89% from 2012, an annual operating revenue of US\$487.79 million for the year, an increase of US\$2.15 million or 0.44% from 2012, and a pre-tax profit of US\$235.53 million, an increase of US\$30.60 million or 14.93% from 2012.



Business Review

II. SOUND AND RAPID DEVELOPMENT OF MAIN BUSINESSES

(I) Loan and Credit

CPFHK's comprehensive involvement in CNPC's overseas project financing was highlighted by supportive efforts in the project acquisition of oil and gas assets in Kashagan Block at Kazakhstan, natural gas assets in Mozambique Block 4, Iraq's West Qurna-1 oilfield, natural gas assets in Australia, and in the financing of over 10 big projects such as extra-heavy Oil Development at MPE3 Project in Venezuela, financing, construction and operation projects of Central Asia Gas and Crude Oil pipeline (中亞天然氣及原油管道), and in the provision of credit facilities for the Group's overseas projects through CPFHK and the Dubai and Singaporean subsidiaries. During the year, CPFHK's new loan contracts amounted to US\$19.73 billion, equivalent to the sum of amounts over the past three years, provided loans of various types with a total amount of US\$33.42 billion, of which US\$26.13 billion was outstanding as of the end of the period, a year-on-year increase of US\$12.25 billion or 95.24%.

(II) Settlement and Cash Management

CPFHK facilitated centralised offshore treasury management on behalf of CNPC through three cash pools in Hong Kong, Singapore and Dubai, as it made ongoing efforts to improve the quality of its settlement services and increase settlement efficiency. The average balance of deposits taken from group companies for the year amounted to US\$6.36 billion. Settlement transactions with an amount of US\$300.28 billion (a year-on-year increase of 69.19%) were processed. Offshore capital concentration ratio was 90%.

(III) Funding and Financing

As the offshore financing platform of CNPC, CPFHK actively raised funds for the Group's overseas businesses and fully broadened overseas financing channels by the following ways: firstly, the successful further issuance of US\$2 billion offshore US dollar bonds; secondly, the newly established US\$7 billion Euro Medium Term Note program; thirdly, the increase of the issuance size of US Commercial Paper from US\$2 billion to US\$4 billion; and fourthly, the expansion of bank credit lines by entering into credit facilities with an amount of US\$15.3 billion with 32 banks. The Company's international profile has been further boosted as a result and its financial servicing capacity has also been significantly enhanced.

(IV) Foreign Exchange and Derivatives Transactions

As the sole offshore foreign exchange trading platform of CNPC, CPFHK made full use of its professional strength to provide FX transaction and hedging services for the members of the Group. CPFHK effectively hedged foreign exchange risks of, and reduced acquisition costs for, members of the Group by formulating hedging solutions for overseas acquisition and financing while improving the Company's balance sheet management ability through effectively managing its foreign exchange rates and interest rate risks. In 2013, the Company's foreign exchange transactions volume hit US\$32.2 billion, including US\$25.05 billion in spot transactions and US\$7.06 billion in derivatives transactions.

(V) Securities Investments

The Company's securities investments adhere to the principle of prudence, strictly control investment risks, seize market opportunities and optimise the investment portfolio with newly bond investment of US\$248 million and bond sales of US\$143 million to achieve significant growth in return on investment. Investment balance as of the end of the year amounted to US\$453 million and return on investment for the year amounted to US\$24.88 million.

(VI) Establishment of Subsidiaries

The subsidiary in Singapore fully capitalised on its function role as a "Finance and Treasury Centre" (FTC), engaged in providing cash management, loans, invoice financing, foreign exchange transaction and settlement services to local enterprises. As CPFHK's service extension platforms, the Dubai and Singaporean subsidiaries brought their respective advantages into full play under CPFHK's overall development strategy to expand the coverage of the Company's services and further enhanced its financial servicing capabilities.

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



Board of Directors and Senior Executives

CHAIRMAN

WANG Guoliang

Chairman of China Petroleum Finance Co., Ltd.

WANG Guoliang is the Chairman of CPFHK, the Director of PetroChina and the Chairman of CPF. Mr. Wang is a professor-level senior accountant. He has over 30 years of working experience in China's oil and gas industry. Mr. Wang worked as a Vice President of CPF from October 1995, as a Deputy General Manager and the Chief Accountant of China National Oil & Gas Exploration and Development Corporation from November 1997, and as the Chief Financial Officer of PetroChina from November 1999. Since February 2007, Mr. Wang has worked as the Chief Accountant of CNPC. In May 2008, Mr. Wang was appointed as the Director of PetroChina. In July 2013, Mr. Wang retired from his position as the Chief Accountant of CNPC due to age reason. In February 2011, Mr. Wang was appointed Chairman of CPFHK.



WANG Guoliang Chairman



CHAI Shouping



LIU Jian



LAN Yunsheng



LIANG Ping



MA Xiaofeng



WANG Yongfa



LIAO Xiaoyan

DIRECTORS

CHAI Shouping

General Manager of the Finance Department of China National Petroleum Corporation

CHAI Shouping is a Director of CPFHK and the Head of the Finance Department of CNPC. Mr. Chai is a professor-level senior accountant. He has over 20 years of working experience in China's oil and gas industry. From 1999 to 2012, Mr. Chai worked as the Section Chief of the IT Management Section of the Finance Department of PetroChina, Deputy Chief Accountant of the Finance Department of PetroChina and Deputy General Manager of the Finance Department of PetroChina. Since September 2012, Mr. Chai has worked successively as the Chief Accountant of China National Oil & Gas Exploration and Development Corporation and the General Manager of the Finance Department of PetroChina. From January 2014, Mr. Chai worked as the Head of the Finance Department of CNPC. In November 2012, Mr. Chai was appointed a Director of CPFHK.

Board of Directors and Senior Executives

LIU Jian

General Manager of the Tax Department of China National Petroleum Corporation

LIU Jian is a Director of CPFHK and the Head of the Finance and Asset Department of CNPC. Mr. Liu is a senior accountant. He has over 30 years of working experience in China's oil and gas industry. From October 2000, Mr. Liu worked as a Deputy General Manager and the Chief Accountant of CNPC Service and Engineering Company Ltd. From April 2008, Mr. Liu worked as Deputy General Manager and the Chief Accountant of China National Petroleum Engineering Construction Corp. Since August 2009, Mr. Liu has worked as the Deputy General Manager of the Finance and Asset Department of CNPC. Since January 2014, Mr. Liu has worked as the Head of the Tax Department of CNPC. In April 2011, Mr. Liu was appointed a Director of CPFHK.

LAN Yunsheng

General Manager of China Petroleum Finance Co., Ltd.

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

LIANG Ping

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

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

MA Xiaofeng

Deputy General Manager of the Tax Department of China National Petroleum Corporation

MA Xiaofeng is a Director of CPFHK and a Deputy General Manager of the Finance and Asset Department of CNPC. Mr. Ma is a senior accountant. He has over 20 years of working experience in China's oil and gas industry. From 1999 to 2007, Mr. Ma worked successively as the General Manager of the Daqing Branch of CPF, Section Chief of the Fund Settlement Section of the Finance Department of PetroChina and Deputy Chief Accountant of the Finance Department of PetroChina. From 2007 to 2013, Mr. Ma worked as a Deputy General Manager of the Finance Department of PetroChina. From January 2014, Mr. Ma worked as a Deputy General Manager of the Tax Department of CNPC. In August 2009, Mr. Ma was appointed a Director of CPFHK.

WANG Yongfa

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

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

LIAO Xiaoyan

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

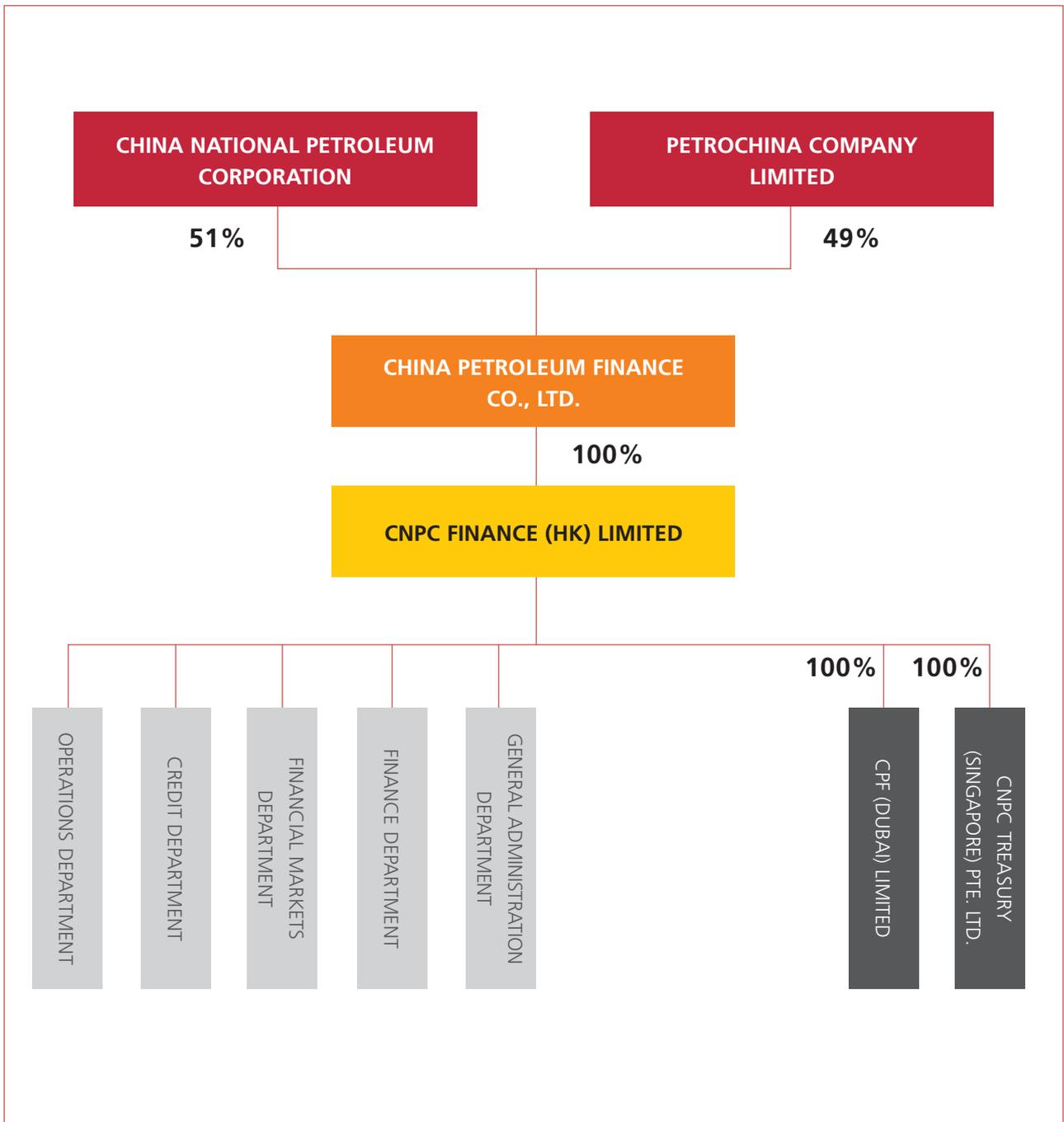
LIAO Xiaoyan is the Director and President of CPFHK and a Deputy General Manager of CPF. Ms. Liao is a senior accountant. She has over 20 years of working experience in China's oil and gas industry. From 1999 to 2008, Ms. Liao worked successively as a Deputy Manager of the Management and Auditing Department,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

SENIOR EXECUTIVES

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



Organisational Structure



Corporate Governance, Internal Control and Risk Management

In 2013, in view of the rapid growth of various operations, CPFHK continued to review the existing corporate governance structure. It further improved its corporate governance and internal control system by strictly implementing various risk management policies and deployments set by the Board and CPF. In addition, CPFHK enhanced its risk management and continuously strengthened its internal control and risk management standard. CPFHK has maintained a momentum of healthy development.

CORPORATE GOVERNANCE

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

The Board of CPFHK comprises eight directors, of whom, four are senior executives of CPF, and the Board of CPFHK is chaired by the CFO of CNPC. In 2013, the Board convened two meetings, reviewed and approved 7 motions including the annual work reports, financial reports, increment of the limit of US commercial paper issuance programme, issuance of offshore US dollar bonds and establishment of a Euro Medium Term Note programme, appointment of the general manager of Singaporean subsidiary and acquisition of office premises in Hong Kong.

INTERNAL CONTROL AND RISK MANAGEMENT

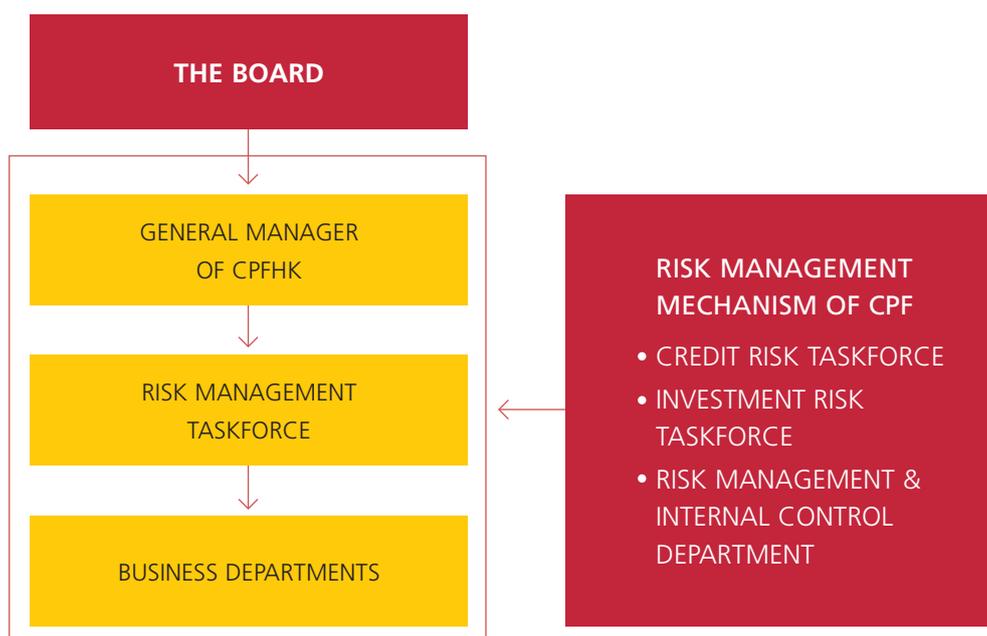
The Board and CPF are responsible for CPFHK's internal control, under whose leadership CPFHK formulated internal control manual as a basis for the building of CPFHK's internal control system.

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

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

Corporate Governance, Internal Control and Risk Management

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT



- The Board is responsible for examining and approving risk management strategies, policies and procedures based on the risk tolerance of CPFHK, monitoring and evaluating the comprehensiveness as well as the effectiveness of risk management and the performance of senior executives regarding risk management. The Board also deliberates material investment plans, defining investment domain, size and requirements on investment risk control. According to the risk policies and the scope of authorisation specified by the Board, CPFHK examines and controls risk businesses including credit and investment;
- The General Manager is responsible for managing risks of CPFHK, examining and approving business activities, and ensuring the implementation of risk management policies set at the meetings of the Board;
- The Risk Management Taskforce of CPFHK, consisting of the senior executives and department heads, examines businesses involving significant risks including those of credit and investment and reports to the General Manager;
- The business departments manage risks involved in daily businesses;

- The Credit Risk Taskforce and the Investment Risk Taskforce are set up by CPF to review respectively the credit and investment business reports submitted by CPFHK;
- The Management and Auditing Department of CPF aims to direct, supervise and test the operation of the internal control system of CPFHK.

Major risks faced by CPFHK include: credit risk, market risk, operational risk and liquidity risk.

CREDIT RISK MANAGEMENT

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

MARKET RISK MANAGEMENT

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

OPERATIONAL RISK MANAGEMENT

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

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

Corporate Governance, Internal Control and Risk Management

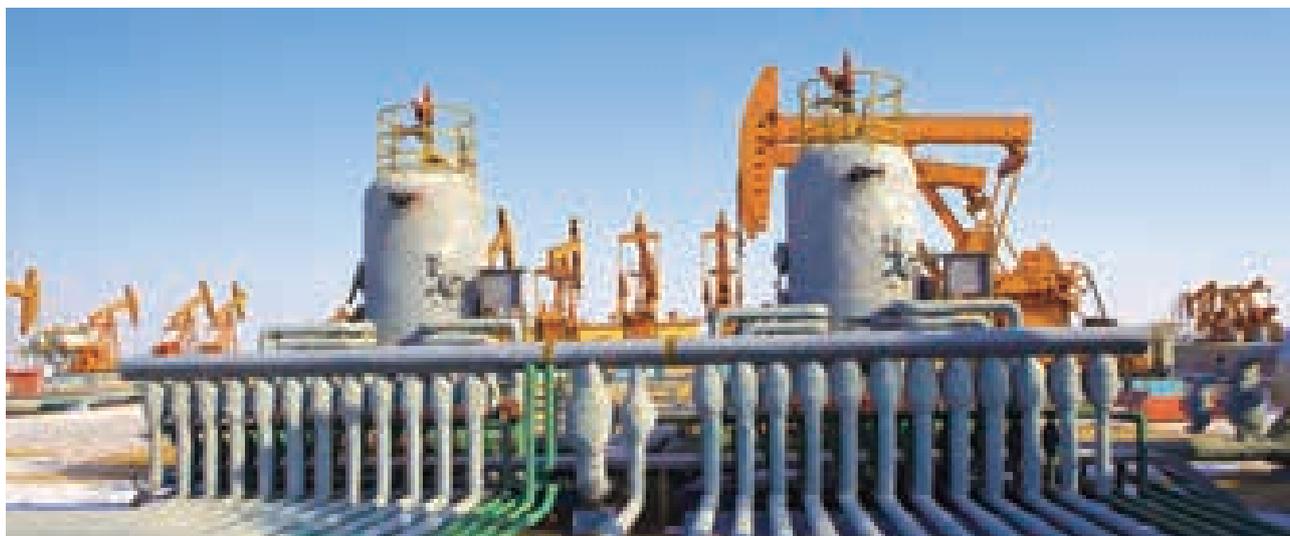
In 2013, CPFHK vigorously promoted refined management in key areas so as to further improve its operational risk mechanism. It reviewed and amended relevant rules and regulations, streamlined business workflow with a particular emphasis on management over the safety of capital and clarified job responsibilities to ensure checks and balances between positions. CPFHK strictly defined operational and approval authorisation and strengthened the enforcement of rules. It also carried out an annual inspection on risks related to major businesses and weak links. Through the incorporation of its business development and risk control points, CPFHK effected comprehensive information system advancement to strengthen the level of operational risk control. CPFHK improved the disaster recovery plan for its information system, protection procedures and emergency response plans for system failure, to ensure the stability and safety of the IT system. It organised training programmes on professional skills and ethics to enhance abilities to identify and deal with risks and fostered a culture of risk awareness across the board.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to losses that CPFHK may suffer from failures in funding assets or repaying loans. CNPC requires member companies to exercise cash flow planning and in accordance CPFHK prepares enough cash positions. In line with balanced liquidity risk appetite, CPFHK has been provided with short-term credit facilities of approximately US\$15.3 billion by 32 banks in addition to the \$4 billion US commercial paper programme. 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.





**INDEPENDENT
AUDITOR'S REPORT**

DIRECTORS' REPORT

For the Year Ended 31 December 2013

The directors present their report and the audited consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for year ended 31 December 2013.

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 26 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 42 to 45.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than disclosed in Note 28 to the consolidated financial statements, no other contract of significance to which the Company, any of its holdings companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

For the Year Ended 31 December 2013

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

MANAGEMENT CONTRACTS

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

AUDITOR

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

By Order of the Board

Director



28 February 2014

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CNPC FINANCE (HK) LIMITED

(中國石油財務(香港)有限公司)

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 42 to 76, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants



Practising Certificate Number P05309

Hong Kong, 28 February 2014



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2013

	Notes	2013 US\$'000	2012 US\$'000
Turnover	6	487,050	480,042
Interest income	6	454,392	455,167
Interest expenses	7	(244,986)	(274,852)
Net interest income		209,406	180,315
Other operating income	6	32,658	24,875
Increase/(decrease) in fair values of derivative financial instruments and held-for-trading investments		2,793	(1,155)
Other (losses)/gains	8	(2,215)	6,623
Administrative expenses		(7,116)	(5,728)
Profit before income tax	9	235,526	204,930
Income tax expense	10(a)	(9,477)	(12,572)
Profit for the year		226,049	192,358
Other comprehensive income (net of tax):			
Fair value (loss)/gain on available-for-sale financial assets, which may be reclassified subsequently to profit or loss, net of tax		(10,473)	15,742
Reclassification of cumulative fair value changes arising from the disposals of available-for-sale financial assets, net of tax		(9,089)	–
Other comprehensive income (net of tax)		(19,562)	15,742
Total comprehensive income for the year		206,487	208,100



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 US\$'000	2012 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	30,823	140
Deferred taxation	12	1,040	–
Available-for-sale financial assets	13	427,177	297,618
Loan and other receivables	14	9,466,327	4,560,301
		<u>9,925,367</u>	<u>4,858,059</u>
Current assets			
Available-for-sale financial assets	13	–	51,376
Loan and other receivables	14	16,760,918	9,179,684
Held-for-trading investments	15	25,202	22,409
Derivative financial assets	16	56,234	78,475
Tax recoverable		1,637	–
Deposits in non-bank financial institutions	17	503,238	1,043,226
Bank balances and cash	18	3,704,304	8,076,594
		<u>21,051,533</u>	<u>18,451,764</u>
Current liabilities			
Account and other payables	19	11,535,313	10,882,436
Short term bond payables	20	3,498,882	1,829,010
Derivative financial liabilities	21	92,408	19,862
Borrowings – due within one year	23	9,340,000	4,240,000
Bond payables – due within one year	24	81,814	396,632
Tax payable		99	4,705
		<u>24,548,516</u>	<u>17,372,645</u>
Net current (liabilities)/assets		<u>(3,496,983)</u>	<u>1,079,119</u>
Total assets less current liabilities		<u>6,428,384</u>	<u>5,937,178</u>
Non-current liabilities			
Other loans – due after one year	22	–	200,000
Borrowings – due after one year	23	387,742	1,711,521
Bond payables – due after one year	24	4,927,360	3,116,023
Deferred taxation	12	–	2,839
		<u>5,315,102</u>	<u>5,030,383</u>
NET ASSETS		<u>1,113,282</u>	<u>906,795</u>
CAPITAL AND RESERVES			
Share capital	25	400,000	400,000
Reserves		713,282	506,795
TOTAL EQUITY		<u>1,113,282</u>	<u>906,795</u>

On behalf of the board

Director



Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2013

	Share capital US\$'000	Investment revaluation reserve US\$'000 (Note 27a)	Other reserves US\$'000 (Note 27b)	Retained profits US\$'000	Total US\$'000
At 1 January 2012	400,000	(1,526)	89,406	210,815	698,695
Total comprehensive income for the year	–	15,742	–	192,358	208,100
Transfer to other reserves	–	–	59,631	(59,631)	–
At 31 December 2012	400,000	14,216	149,037	343,542	906,795
Total comprehensive income for the year	–	(19,562)	–	226,049	206,487
Transfer to other reserves	–	–	251,105	(251,105)	–
At 31 December 2013	400,000	(5,346)	400,142	318,486	1,113,282



CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2013

	2013 US\$'000	2012 US\$'000
Operating activities		
Profit before income tax	235,526	204,930
Adjustment for:		
Depreciation of property, plant and equipment	527	26
Dividend income from available-for-sale financial assets	(127)	(121)
Gain on disposal of derivative financial instruments	–	(22,160)
Gain on disposal of available-for-sales investments	(11,983)	–
(Increase)/decrease in fair value of derivative financial instruments and held-for-trading investments	(2,793)	1,156
Bond interest expenses	164,005	113,985
Operating cash flows before changes in working capital	385,155	297,816
Increase in loan and other receivables	(12,487,260)	(1,677,051)
Increase in account and other payable	631,842	1,537,118
Cash (used in)/generated from operation	(11,470,263)	157,883
Bond interest paid	(147,914)	(97,458)
Income tax paid	(15,720)	(11,451)
Net cash (used in) generated from operating activities	(11,633,897)	48,974
Investing activities		
Decrease in deposits in non-bank financial institutions	539,988	4,014,281
Proceeds from disposal of derivative financial instruments	–	22,160
Proceeds from disposals of available-for-sales investments	159,868	–
Acquisition of available-for-sales investments	(248,786)	–
Dividend received from available-for-sale financial assets	127	121
Receipt upon maturity of held-to-maturity investment	–	26,400
Purchase of property, plant and equipment	(31,210)	(34)
Net cash generated from investing activities	419,987	4,062,928
Financing activities		
New borrowings raised	15,849,231	6,921,609
Proceeds from issuance of bond payables	1,992,031	1,144,400
Repayment of bonds payables	(396,632)	–
Increase in issuance of short term bonds	1,670,000	1,830,000
Repayment of borrowings	(12,073,010)	(8,865,777)
Repayment of other loans	(200,000)	(601,667)
Net cash generated from financing activities	6,841,620	428,565
Net (decrease)/increase in cash and cash equivalents	(4,372,290)	4,540,467
Cash and cash equivalents at beginning of year	8,076,594	3,536,127
Cash and cash equivalents at end of year		
Bank balances and cash	3,704,304	8,076,594



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