



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

年度報告 ANNUAL REPORT 2016



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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 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 237 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 bonds issuance, Euro medium term notes, US and Euro commercial papers, so as to maintain a steady long-term capital supply.

As at the end of 2016, CPFHK had total proprietary asset of US\$26.216 billion. Annual operating income of the year was US\$779.89 million and pre-tax profit was US\$397.89 million. Its assets, income and profit before impairment allowance accounted for 43%, 35% and 34%, respectively, of the parent company’s total proprietary 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+/A1, respectively.

THE COMPANY IS PRINCIPALLY ENGAGED IN THE FOLLOWING FINANCIAL BUSINESSES:

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

COMPANY PROFILE

CORPORATE DEVELOPMENT MILESTONES

2016

- Conducting experience promotion in the “2016 Asian Financial Forum”, as the sole case-study of the “Corporate Treasury Center” Scheme (CTC)

2015

- Establishing USD2 billion Euro Commercial Paper program
- Received the “Taozhu Gong Award – Best Finance Company” from *EuroFinance*

2014

- Issuance of USD1.5 billion bonds
- Establishing USD6 billion Commercial Paper program
- Issuance of USD1.5 billion Euro Medium Term Note
- Issuance of USD4.2 billion Commercial Paper

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

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

2010

- Commencement of USD/CNH Business

2009

- Incorporation of CPF (Dubai) Limited, CPFHK’s Dubai Subsidiary

2008

- Incorporation of CPFHK

CHAIRMAN'S STATEMENT



LIU YUEZHEN
CHAIRMAN

In 2016, the Company persistently adhered to CNPC's strategic efforts to establish itself as a first-class comprehensive international energy company. In active response to sustained depression of international oil prices, a tumultuous capital market, and the tough times owing to declined efficiency and cash flow of the member companies of the CNPC Group, CPFHK fully utilized the functions of the Group's foreign treasury platform to vigorously implement effective cost control measures and push ahead with the work on exploiting potentials and increasing efficiency. It effectively controlled its operation risks and improved service capability. As such, stable operation was achieved in every business, maintaining a stable profit contribution.

CHAIRMAN'S STATEMENT



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As at the end of December 2016, total assets of the Company amounted to US\$26.216 billion, representing a decrease of US\$319 million or 1.20% as compared to last year. Profit amounted to US\$397.89 million, representing a year-on-year decrease of US\$55.32 million, remaining largely stable as compared to last year on the same basis. Businesses maintained a stable growth. 2016 was the fifth year of CPFHK to carry out localized operation. Over the past five years, abiding by the target of establishing an internationalized financial service platform of the highest caliber and CNPC's "going global" strategy, CPFHK continued to create innovative business model, enriched financing channels and improved the service capability. It expanded the coverage of its centralized management of foreign funds and the services supporting the development capability of CNPC were continued to upgrade. Recognized by Hong Kong Monetary Authority, CPFHK conducted an experience promotion in the "2016 Asian Financial Forum" as the sole case-study of the "Corporate Treasury Center" Scheme (CTC).

CHAIRMAN'S STATEMENT

Over the past year, due to the sharp decline of international oil prices, CNPC experienced a serious threat of turning loss as a whole. Nevertheless, by adhering to its steady development guidelines, reasonably organizing its operations, enhancing adjustment and optimization, and improving the operation mechanism, CNPC was able to achieve the aim of broadening source of income, reducing costs and improving efficiency while maintaining a stable production and operation with the best effort. The Company surpassed the performance appraisal indicators set by the SASAC, realizing a favorable commencement of the 13th Five Year Plan. CNPC was ranked No. 3 in the list of "World Largest Oil Companies" and the "Global 500". During 2016, CNPC focused on the key projects of the overseas oil and gas exploration. By capturing the opportunities arising from the implementation of the "One Road, One Belt" Initiative, CNPC entered into cooperation agreements or cooperation memorandums with countries including Russia, Saudi Arabia, Mozambique, Algeria, Peru and Venezuela. Volume of oil and gas production attributable to CNPC for the current year grew by 5.5% as compared with that of last year.

In healthy, rapid development, CNPC forcefully encouraged the sound development of CPFHK and its parent company, CPF. As the treasury centre and internal bank for CNPC, CPF faithfully performed the functions of settlement, fundraising and financing, and fund management platform, providing powerful financial services for CNPC's growth into a first-class comprehensive international energy company in the world. As at the end of 2016, the total on – and off-balance sheet assets of CPF reached RMB618.391 billion, and its profit was RMB8.917 billion, maintaining its position as the largest intra-group financial company in terms of scale and comprehensive strength in the PRC and ranking the first in terms of asset, revenue and profit for 14 consecutive years. The ratings of the Company in both the industry rating and regulatory rating are Grade A, and all of our regulatory indicators are better than the regulatory standards.

2017 is a crucial year for CNPC in the implementation of the "13th Five Year Plan" to push forward the reform and innovation development. Adhering to the pursuit for sound development, the implementation of our strategies targeting innovation, resources, market and internationalisation will be vigorously carried out. We will push forward the internal reform and structural adjustment precisely, reinforcing the innovation drive and quality and efficiency improvement. CPFHK will continue to play by the development strategy of CNPC for international development, putting efforts in the solid promotion of our functions as the foreign funds management platform. Through these, we will make new contribution to CNPC in its effort to become a first-class comprehensive international energy company in the world.

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

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 first-class comprehensive international energy company in 2016. Abiding by the operation objectives set by the Board, CPFHK actively responded to the adverse trends such as declining efficiency and cash flow of CNPC and the significant reduction of loan scale over two consecutive years. We explored in depth the means to open up new income sources and minimise expenses, reducing cost while enhancing efficiency. Risk management and cash management were reinforced. Potential in domestic and foreign markets was explored with best efforts. As such, we were able to maintain a stable profit contribution while our operation management and service standard continued to improve, supporting the development of overseas businesses of CNPC.

I. OPERATING RESULTS BETTER THAN EXPECTED

As at the end of 2016, the total asset of CPFHK was US\$26.216 billion, representing a decrease of US\$319 million, or 1.20% as compared to last year. Average proprietary asset reached US\$27.617 billion, a decrease of US\$241 million, or 0.87% from that of last year. Annual operating income was US\$779.89 million, a year-on-year decrease of US\$43.87 million, or 5.33%. Pre-tax profit was US\$397.89 million, a year-on-year decrease of US\$55.32 million, which was in line with that of last year on the same basis.

II. QUALITY AND EFFICIENCY OF MAIN BUSINESSES IN CONTINUED GOOD DEVELOPMENT

(I) Loan and Credit

The Company closely followed up the progress of CNPC's major loan projects and reorganization and acquisition financing of our member companies. 10 projects of loan contracts were signed, including the oil depot storage and transportation project in Singapore, the non-conventional energy project in Canada and projects in the United Arab Emirates with a total amount of US\$7.761 billion, representing an increase of US\$1.153 billion as compared to that of last year. Aggregate advanced loans of various classes for the year amounted to US\$5.521 billion. Balance at the end of the year was US\$14.916 billion, a decrease by US\$3.028 billion or 16.88% from that of last year.

(II) Settlement and Cash Management

As the offshore cash management platform of CNPC, we make use of the three cash pools in Hong Kong, Singapore and Dubai to implement the offshore centralised cash management function of CNPC to continuously enhance the cash concentration and funding efficiency. Annual aggregate deposit for our member companies was US\$7.026 billion, a year-on-year increase of 9.1%. Volume of settlement was 46,122, whereas the amount involved in the settlements was US\$147.225 billion, a year-on-year decrease by 13.67%, due to the impact of low oil prices.

(III) Funding and Financing

As the offshore financing platform of CNPC, we actively raised funds for its foreign businesses. A total of US\$20.705 billion of credit lines was signed with 36 banks. In the whole year, an aggregate of US Commercial Paper of US\$11.766 billion was issued, securing capital supply for overseas business. In the meantime, we closely monitored the interest bearing liabilities and actively adjusted the debt structure so as to lower finance costs constantly.

(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, exchange rate hedging, and interest rate hedging services for the members of the Group. We also hedge our risks exposures for exchange rate and interest rate, enhancing our balance sheet management ability. Annual amount of foreign currency transactions of various types was US\$13.034 billion. Of which volume of spot transactions was US\$4.343 billion, forward transactions US\$5.171 billion, currency swaps US\$1.522 billion, and cross currency swaps US\$1.998 billion.

(V) Securities Investments

Mainly focused on investments with fixed income, the Company's securities investments adhered to the principle of prudence, seeing a stable increase in investment gains. Investment balance as at the end of the year was US\$1.339 million, with an annual revenue from investments of US\$36.55 million.

BUSINESS REVIEW

(VI) Establishment of Subsidiaries

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. Steady growth is achieved in each business. With a total assets of subsidiaries of US\$9.763 billion, these subsidiaries have become a powerful complement to the business development of the Company.

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 continue to establish itself as a first-class overseas financial service platform and persist in the provision of all-round financial services to CNPC and its member companies, relentlessly enhancing its standards of management, with a view to improving the quality and efficiency of its development, creating values for CNPC and our member companies as well as achieving sustainable, steady and healthy growth.



BOARD OF DIRECTORS AND SENIOR EXECUTIVES



LIU Yuezhen

Chief accountant of CNPC

Director of PetroChina

Chairman of China Petroleum
Finance Co., Ltd.

CHAIRMAN

LIU Yuezhen is the Chairman of CPFHK, the chief accountant of CNPC, a director of PetroChina, and the Chairman of CPF. Mr. Liu is a researcher – level senior accountant and has over 30 years of working experience in the financial and accounting industry. From November 2006, he served as the chief accountant of CASIC (Group) Company. He has served as the chief accountant of CNPC since December 2013. From May 2014, Mr. Liu has been appointed a director of PetroChina. Mr. Liu was appointed as the Chairman of CPFHK in August 2015.

DIRECTORS

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 Revolutionary Committee of the Chinese Kuomintang. In April 2011, Mr. Lan was appointed a Director of CPFHK.



LAN Yunsheng

General Manager of China Petroleum
Finance Co., Ltd.

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

**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.

CHAI Shouping is a Director of CPFHK and the General Manager 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 CNPC, 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 Overseas Exploration and Development branch of CNPC and the General Manager of the Finance Department of PetroChina. From January 2014, Mr. Chai worked as the General Manager of the Finance Department of CNPC. In November 2012, Mr. Chai was appointed a Director of CPFHK.

**CHAI Shouping**

General Manager of the Finance
Department of CNPC

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

**ZHU Dongmei**

Deputy Manager of Cash
Management Department of CNPC

ZHU Dongmei is a Director of CPFHK and the deputy manager of the Cash Management Department of CNPC. As a senior accountant, Ms. Zhu has over 20 years of working experience in China's oil and gas industry. From October 2009, she was an Official-level Cadre and, subsequently, Head of the Administrative Office for Foreign Fund under the Financial Asset Department of CNPC. She was appointed as the Deputy Chief Accountant of the Financial Asset Department of CNPC in October 2012. Ms. Zhu has worked as the Deputy Manager of Cash Management Department of CNPC since July 2014, and was appointed as a Director of CPFHK in August 2015.

LU Yaozhong is a Director of CPFHK and the Chief Accountant of Overseas Exploration and Development branch of CNPC, Chief Accountant of China National Oil & Gas Exploration and Development Corporation, and Financial Director of PetroChina International Investment Limited. Mr. Lu is a senior accountant with over 20 years of working experience in China's oil and gas industry. From 2004 to 2013, he worked as the Deputy General Manager of the Sino-Kazakhstan Pipeline Project under CNPC International (Kazakhstan) Ltd., the Deputy General Manager and Chief Accountant of CNPC International (PK), the Chief Accountant of CNPC International (Kazakhstan) Ltd. In August 2013, Mr. Lu became Chief Accountant of Overseas Exploration and Development branch of CNPC, Chief Accountant of China National Oil & Gas Exploration and Development Corporation and Financial Director of PetroChina International Investment Limited. He was appointed as a Director of CPFHK in August 2015.

**LU Yaozhong**

Chief Accountant of Overseas
Exploration and Development branch
of CNPC

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

Financial Director of PetroChina
International Investment Limited

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

**WANG Zhijun**

General Manager of ChinaOil (Hong Kong) Corporation Limited

General Manager of PetroChina International (Hong Kong) Corporation Limited

WANG Zhijun is a Director of CPFHK, the General Manager of ChinaOil (Hong Kong) Corporation Limited and General Manager of PetroChina International (Hong Kong) Corporation Limited. Mr. Wang is a senior economist with nearly 30 years of working experience in China's oil and gas industry. From 1996 to 2008, he worked successively as the General Manager of ChinaOil (Singapore) Int'l Pte Ltd and PetroChina International (East China) Co., Ltd. Since December 2008, he is the General Manager of ChinaOil (Hong Kong) Corporation Limited and PetroChina International (Hong Kong) Corporation Limited. Mr. Wang was appointed as a Director of CPFHK in August 2015.

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.

**WANG Yongfa**

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

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

**LIAO Xiaoyan**

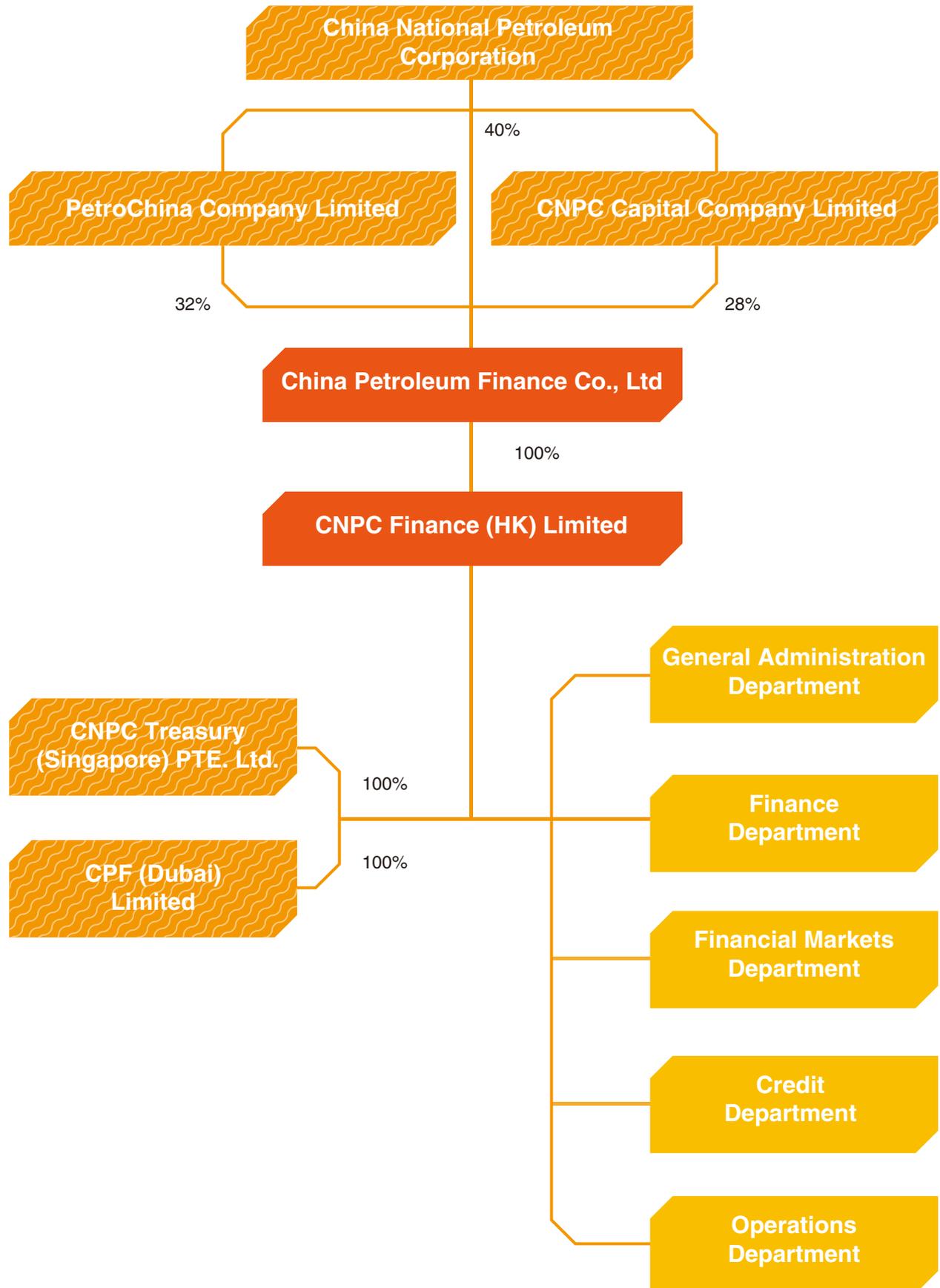
Deputy General Manager of China
Petroleum Finance Co., Ltd.

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 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
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 2016, 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 nine directors, all of whom are senior executives of CPF, and the Board of CPFHK is chaired by the Chief Accountant of CNPC. In 2016, the Board convened one formal meeting in which 5 motions including the annual work reports and financial reports were reviewed and approved. One extraordinary meeting was also convened in which the resolution in relation to the investment of offshore USD bonds was considered.

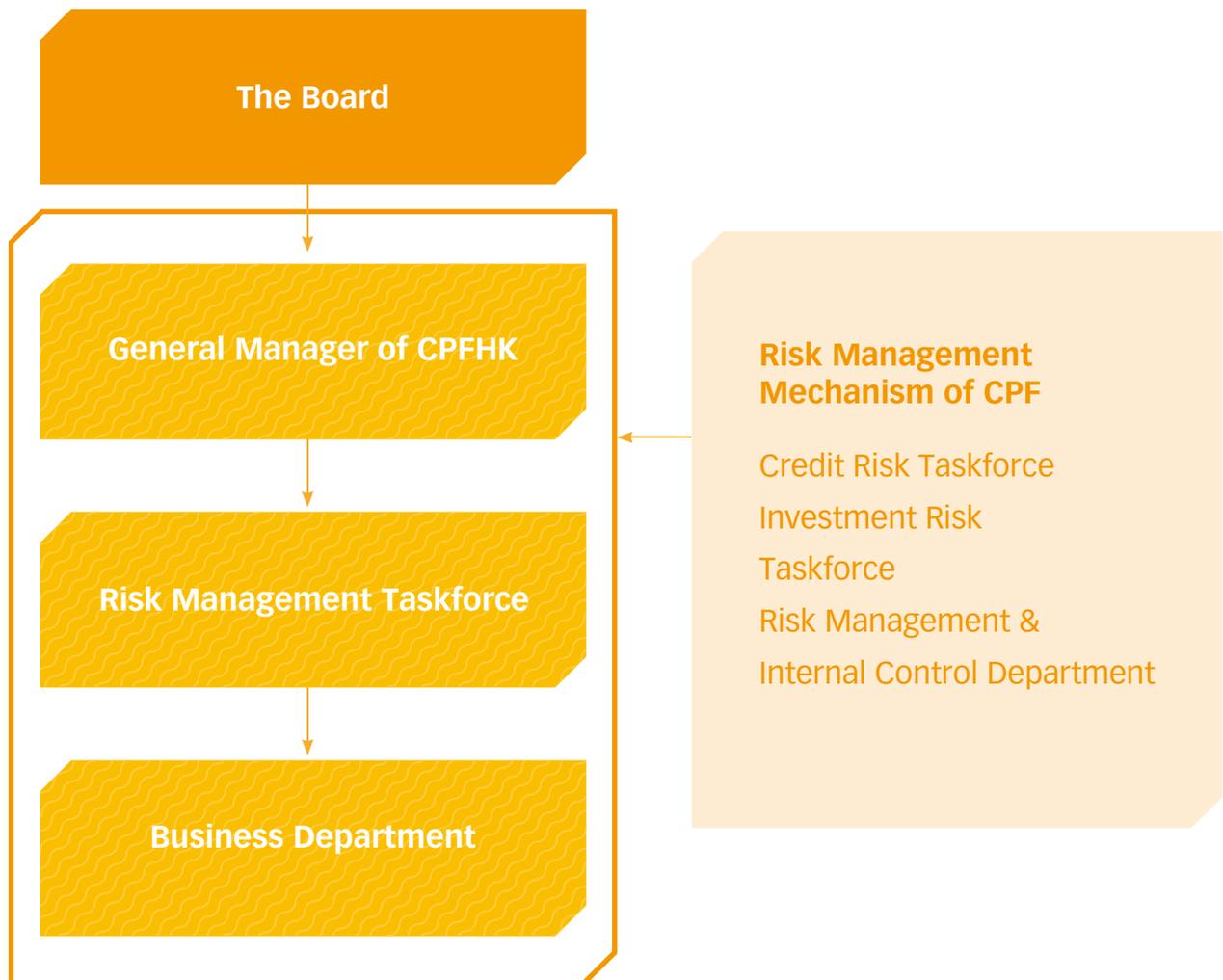
INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT



CORPORATE GOVERNANCE, INTERNAL CONTROL AND 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 Committee and the Investment Risk Committee are set up by CPF to review respectively the credit and investment business reports submitted by CPFHK;
- The Risk Management Department of CPF aims to direct, supervise and test the operation of the internal control system of CPFHK.

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

CREDIT RISK MANAGEMENT

Credit risk refers to the risk arising from clients' or counterparties' inability or unwillingness to perform the contractual obligations. Credit risk mainly comes from loan and other businesses such as operating loans, inter-bank depositing, foreign exchange and derivative transactions, and bond investment. The overseas-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.

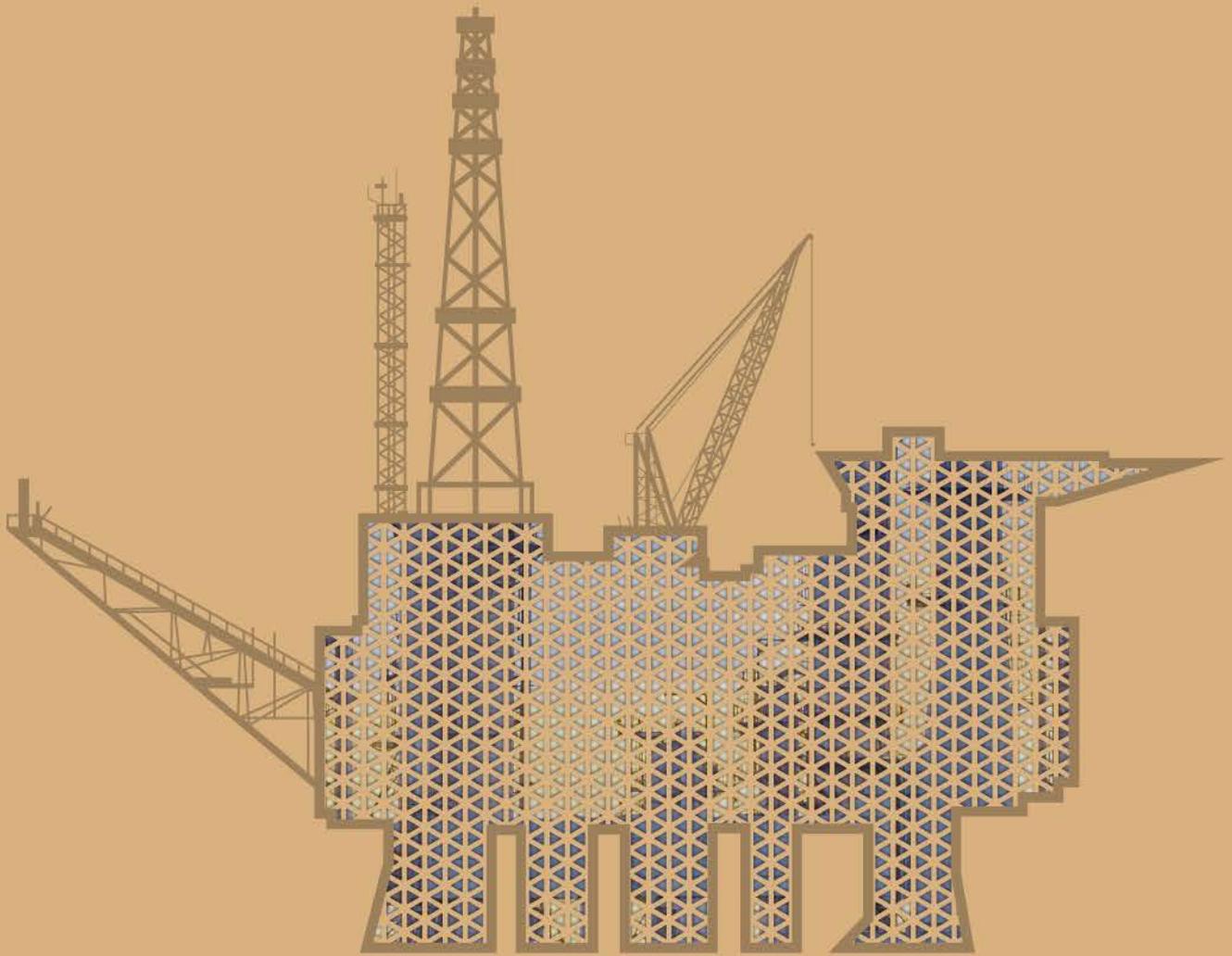
In 2016, CPFHK vigorously promoted refined management in key areas so as to further improve its operational risk mechanism. It reviewed and amended relevant rules and regulations, streamline business workflow with a particular emphasis on management over the safety of capital and clarified job responsibilities to ensure checks and balances between positions. CPFHK strictly defined operational and approval authorisation and strengthened the enforcement of rules. It also carried out an annual inspection on risks related to major businesses and weak links. Through the incorporation of its business development and risk control points, CPFHK continued to promote information system advancement to strengthen the level of operational risk control. CPFHK improved the disaster recovery plan for its information system, protection procedures and emergency response plans for system failure, to ensure the stability and safety of the IT system. It organised training programs on professional skills and ethics to enhance abilities to identify and deal with risks and fostered a culture of risk awareness across the board.

LIQUIDITY RISK MANAGEMENT

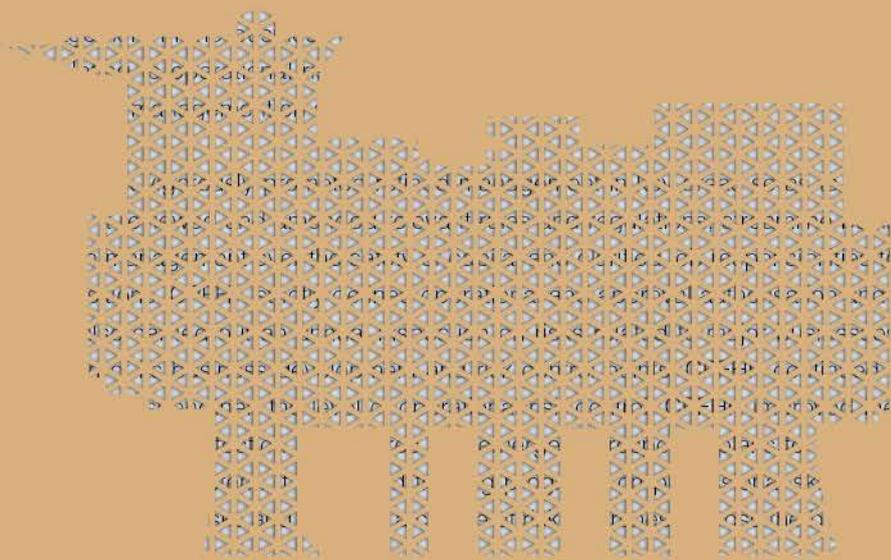
Liquidity risk refers to losses that CPFHK may suffer from failures in funding assets or repaying loans. CNPC requires member companies to exercise cash flow planning and in accordance CPFHK prepare enough cash positions. In line with balanced liquidity risk appetite, CPFHK has been provided with short-term credit facilities of approximately US\$20.7 billion by 36 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.



FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016





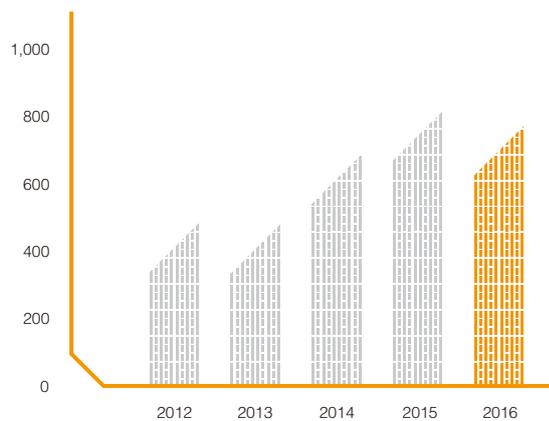
FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

1. KEY INDEX

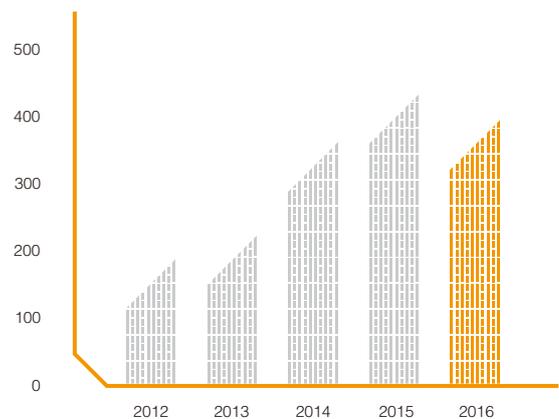
Year	US\$ (in millions)				
	2016	2015	2014	2013	2012
Income before Tax	398	453	374	236	205
Profit for the year	396	436	364	226	192
Interest Income	732	708	647	454	455
Investment Income	5	29	*	12	22
Interest Expenses	369	357	312	245	275
Administrative Expenses	13	13	9	7	6
Total Assets	26,216	26,535	28,651	30,977	23,310
Loans	14,916	17,944	22,930	26,130	13,884
Total Liabilities	23,903	24,615	27,172	29,864	22,403
Owner's Equity	2,313	1,920	1,479	1,113	907

Note: * represents amount less than 1 million

OPERATING INCOME



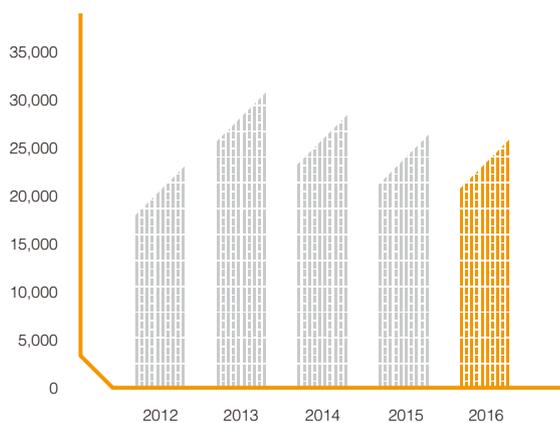
PROFIT FOR THE YEAR



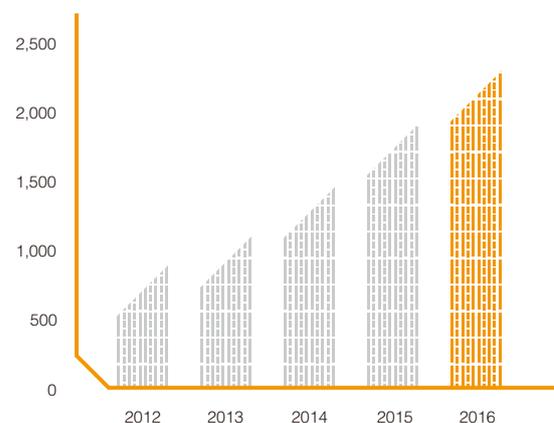
FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Year	2016	2015	2014	2013	2012
ROE	18.70%	25.68%	28.12%	22.38%	23.96%
ROA	1.50%	1.61%	1.36%	1.04%	1.08%
Operating Income	780	824	695	488	486
Profit for the year	396	436	364	226	192

TOTAL ASSETS



OWNER'S EQUITY



Year	2016	2015	2014	2013	2012
Total Assets	26,216	26,535	28,651	30,977	23,310
Owner's Equity	2,313	1,920	1,479	1,113	907

2. FINANCIAL POSITION AND OPERATING ACTIVITIES FOR THE YEAR 2016

The operating profit for the year 2016 decreased by US\$55 million, or 12.21%, to US\$398 million. By the end of 2016, the total assets of CPFHK were amounted to US\$26,216 million, decreased by US\$319 million, or 1.20%.

The financial position remains solid with key financial ratios at healthy levels. Return on assets (ROA) was 1.50%, and return on equity (ROE) was 18.70%. Non-performing asset ratio and non-performing loan ratio were both zero.

FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Bank balances and cash

Details	US\$ (in millions)	
	2016.12.31	2015.12.31
Time deposit	9,301	6,785
Current deposit	349	765
Total	9,650	7,550

By the end of 2016, bank balances and cash were totalled US\$9,650 million, increased by US\$2,100 million, or 27.81%.

Loan Receivables

Details	US\$ (in millions)	
	2016.12.31	2015.12.31
Loan receivables	14,916	17,944
Total	14,916	17,944

Total loan receivables for 2016 were US\$14,916 million, decreased by US\$3,028 million, or 16.87%.

FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Securities investments

Details	US\$ (in millions)	
	2016.12.31	2015.12.31
Fixed rate investments	1,181	659
Securities investments	6	8
Hedge funds	29	30
Other investments	123	100
Total	1,339	797

By the end of 2016 the securities investments were US\$1,339 million, increased by US\$542 million, or 67.95%.

Liabilities

The total liabilities by the end of year 2016 were amounted to US\$23,903 million, decreased by US\$713 million, or 2.89%.

Deposits from group companies of its holding companies

Details	US\$ (in millions)	
	2016.12.31	2015.12.31
Current deposit	3,953	3,859
Time deposit	3,072	2,579
Total	7,026	6,438

Deposits from group companies of its holding companies were US\$7,026 million by the end of 2016, increased by US\$587 million, or 9.12%.

FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Other interest-bearing liabilities

Details	US\$ (in millions)	
	2016.12.31	2015.12.31
Bank borrowings	9,322	9,221
Bonds payable	6,550	8,000
Corporate commercial paper	691	565
Other borrowings	218	239
Total	16,782	18,026

Other interest-bearing liabilities were US\$16,782 million, decreased by US\$1,244 million, or 6.90%.

Owner's Equity

By the end of 2016, the owner's equity was US\$2,313 million, increased by US\$393 million, or 20.49%. The increase was primarily due to the retained earnings contributed by net profit.

Operating income

The operating income of 2016 was US\$780 million, decreased by US\$44 million, or 5.33%.

Interest income

Details	US\$ (in millions)	
	2016	2015
Loan interest	558	581
Bank interest	136	97
Securities interest	38	30
Total	732	708

Interest income were US\$732 million, increased by US\$24 million, or 3.32%.

FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Fees and Commission Income

Details	US\$ (in millions)	
	2016	2015
Foreign exchange commissions	5.3	2.7
Fees charged from syndicate loan origination	32.8	34.9
Entrusted loan commissions	1.6	1.2
Services of financial guarantees	0.1	0.2
Total	39.8	38.9

Fees and commission income was US\$39.8 million, decreased by US\$0.85 million, or 2.19%.

Investment Income

Details	US\$ (in millions)	
	2016	2015
Dividend income from investment funds	0.0	0.1
Gain on disposal of available-for-sale financial assets	0.2	0.0
Gain on derivative financial instruments	4.5	29.3
Total	4.7	29.4

Investment income was US\$4.7 million, decreased by US\$24.77 million, or 84.17%, which is mainly due to the 29.3 million one-time gain on derivative financial instruments last year.

FINANCIAL POSITION AND OPERATING SUMMARY FOR 2016

Exchange gain or loss

Details	US\$ (in millions)	
	2016	2015
Exchange gain or loss	4.9	45.8
Total	4.9	45.8

The exchange gain was US\$4.9 million in 2016, decreased by US\$40.9 million, or 89.32%.

Operating expense

The operating expense of 2016 was US\$382 million, increased by US\$11 million, or 3.09%.

Interest Expense

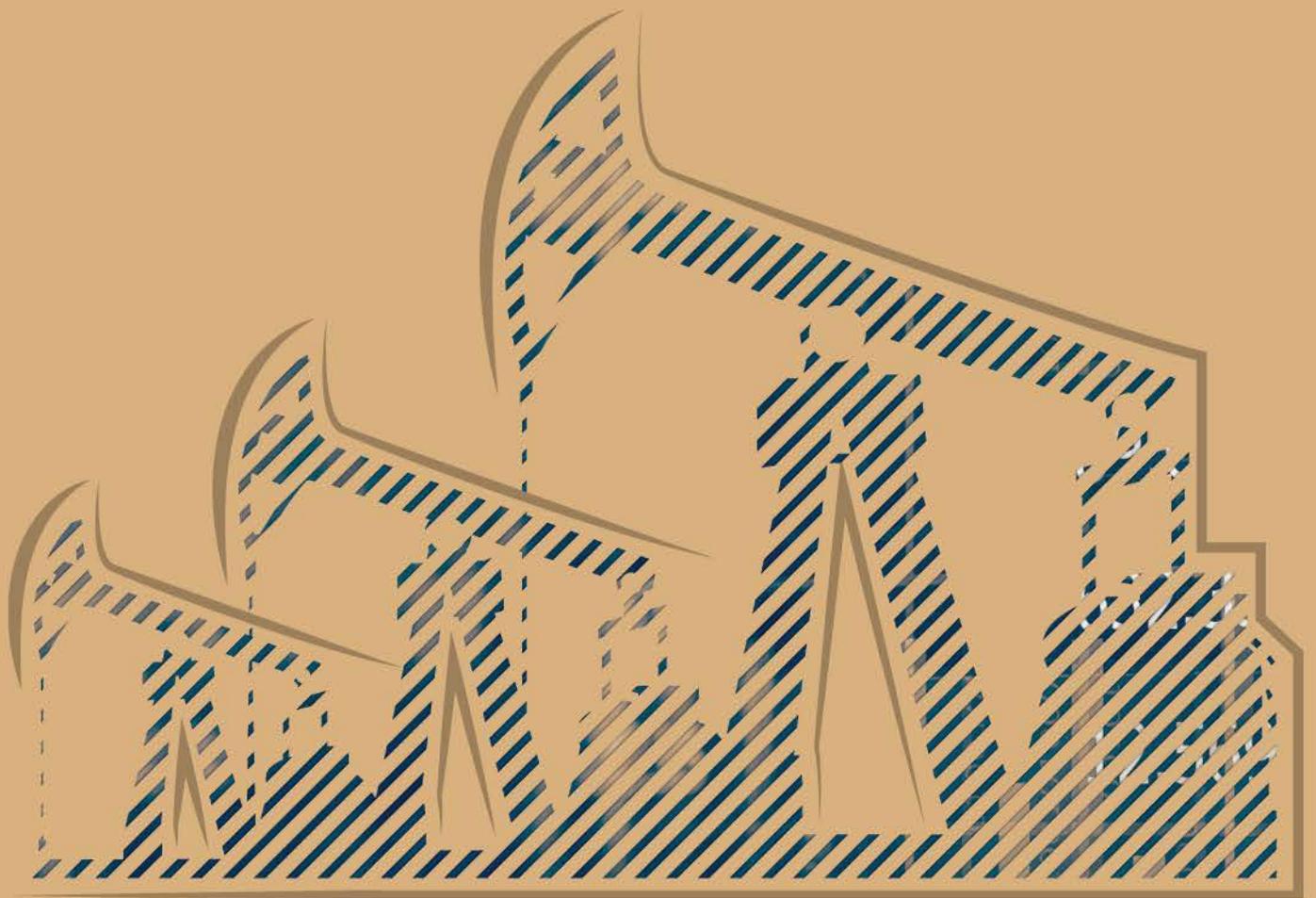
Details	US\$ (in millions)	
	2016	2015
Bank borrowings	124	92
Bond payables	211	217
Commercial papers	6	23
Deposits from fellow subsidiaries	21	18
Other borrowings	7	8
Total	369	357

Meanwhile interest expense was US\$369 million, increased by US\$12 million, or 3.29%.

Administrative Expense

Details	US\$(in millions)	
	2016	2015
Administrative expense	12.9	13.4
Total	12.9	13.4

Administrative expense was US\$12.9 million, decreased by US\$0.46 million, or 3.44%.



INDEPENDENT AUDITOR'S REPORT



632.33

89.635

632.33

12.569

5.2020

89.635

62.33

89.635

62.33

22.2

DIRECTORS' REPORT

For the year ended 31 December 2016

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 2016.

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 subsidiary are set out in Note 26 to the consolidated financial statements.

FINANCIAL STATEMENTS AND APPROPRIATIONS

The financial performance of the Group for year ended 31 December 2016 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 44 to 97.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

DIRECTORS

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

Liu Yuezhen
Lan Yunsheng
Liang Ping
Chai Shouping
Zhu Dongmei
Lu Yaozhong
Wang Zhijun
Wang Yongfa
Liao Xiaoyan

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 Yongfa
Liao Xiaoyan
Xiong Yu
Zhu Dongmei
Zhang Yun

DIRECTORS' REPORT

For the year ended 31 December 2016

MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Other than disclosed in Note 28 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which any of the Company's holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a 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

A handwritten signature in black ink, consisting of several loops and a long vertical stroke extending downwards.

Director

Hong Kong,
3 April 2017

INDEPENDENT AUDITOR'S REPORT for the Year Ended 31 December 2016



TO THE MEMBER OF CNPC FINANCE (HK) LIMITED

(中國石油財務(香港)有限公司)

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CNPC Finance (HK) Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 44 to 97, which comprise the consolidated statement of financial position as at 31 December 2016, 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 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 2016 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 ("HKSAAs") 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.

EMPHASIS OF MATTER

We draw attention to Note 6 to the financial statements which states that the Company has made prior year's adjustment to restate the consolidated financial statements for the year ended 31 December 2015 and the corresponding opening balance as at 1 January 2015. Our opinion is not modified in respect of this matter.

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 available-for-sale financial assets classified under level 3 fair value measurement

Refer to note 14 and 32(c)(i) in the consolidated financial statements

The Group had available-for-sale financial assets of US\$1,310,052,000 as at 31 December 2016 in which US\$367,586,000 were unlisted debt instruments with level 3 fair value measurement.

The fair value of these unlisted debt securities were determined by discounted cash flow method that required significant management judgement.

Our procedures in relation to management's fair value calculation included:

- Assessing the valuation methodologies used by management;
- Checking the arithmetical accuracy of the calculation;
- Challenging management's key assumptions based on our knowledge of the business and industry;
- 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.

INDEPENDENT AUDITOR'S REPORT
for the Year Ended 31 December 2016

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 HKSAAs 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 HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT
for the Year Ended 31 December 2016

- 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, 3 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 US\$'000	2015 US\$'000
Revenue	7	776,013	776,523
Interest income	7	731,894	708,385
Interest expenses	8	(368,761)	(357,023)
Net interest income		363,133	351,362
Other operating income	7	44,119	68,138
(Decrease)/increase in fair values of derivative financial instruments and held-for-trading investments		(1,321)	1,252
Other gains	9	4,895	45,774
Administrative expenses		(12,931)	(13,312)
Profit before income tax	10	397,895	453,214
Income tax expense	11(a)	(2,027)	(16,766)
Profit for the year		395,868	436,448
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		(2,446)	4,175
Other comprehensive income (net of tax)		(2,446)	4,175
Total comprehensive income for the year		393,422	440,623

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31/12/2016 US\$'000	31/12/2015 US\$'000 (Restated)	1/1/2015 US\$'000 (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	12	28,497	29,269	30,033
Deferred taxation	13	392	–	746
Available-for-sale financial assets	14	1,187,052	659,391	413,889
Loan and other receivables	15	12,353,373	14,127,296	16,821,119
		13,569,314	14,815,956	17,265,787
Current assets				
Available-for-sale financial assets	14	123,000	107,633	50,000
Loan and other receivables	15	2,716,490	3,921,761	5,266,786
Held-for-trading investment	16	28,898	30,219	28,967
Derivative financial assets	17	121,536	109,166	103,779
Tax recoverable		6,301	–	1,243
Deposits in non-bank financial institution		103,135	3,842	1,591
Bank balances and cash	18	9,547,121	7,546,335	5,002,083
		12,646,481	11,718,956	10,454,449
Current liabilities				
Account and other payables	19	7,082,679	6,512,362	6,317,608
Short term bond payables	20	690,876	565,179	4,218,129
Derivative financial liabilities	21	79,658	118,646	59,517
Borrowings – due within one year	22	9,322,354	9,221,167	7,390,000
Bond payables – due within one year	23	2,199,555	1,453,105	–
Tax payable		220	4,470	258
		19,375,342	17,874,929	17,985,512

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31/12/2016 US\$'000	31/12/2015 US\$'000 (Restated)	1/1/2015 US\$'000 (Restated)
Net current liabilities		(6,728,861)	(6,155,973)	(7,531,063)
Total assets less current liabilities		6,840,453	8,659,983	9,734,724
Non-current liabilities				
Deferred taxation	13	–	91	–
Borrowings – due after one year	22	218,297	239,316	281,215
Bond payables – due after one year	23	4,308,879	6,500,721	7,974,277
		4,527,176	6,740,128	8,255,492
NET ASSETS		2,313,277	1,919,855	1,479,232
CAPITAL AND RESERVES				
Share capital	25	400,000	400,000	400,000
Reserves		1,913,277	1,519,855	1,079,232
TOTAL EQUITY		2,313,277	1,919,855	1,479,232

On behalf of the directors



Director



Director

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