中油财务有限责任公司
China Petroleum Finance Company Limited

ANNUAL REPORT
2017

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CHINA PETROLEUM FINANCE CO.,LTD.

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ABOUT CPF /

Corporate Profile

With the approval of the People's Bank of China, China Petroleum Finance Company Limited (hereinafter referred to as "CPF") is founded as a non-banking financial institution by China National Petroleum Corporation (CNPC) to intensify the centralized capital management of the corporation, improve capital usage efficiency, and provide financial services to its member companies. As a member of the National Inter-bank Bond Market and the China Foreign Exchange Trading Center, CPF is licensed as an IPO-issued price-inquiring agency by China Securities Regulatory Commission.

Since the company's establishment in December 1995, CPF has been giving full play to its roles as CNPC's capital collection platform, capital settlement platform, capital monitoring platform, and financial service platform. The company devoted to providing services to member companies of CNPC and assisting CNPC to improve the capital management level under the doctrine of "Service, Inspiration and Excellence" for over 22 years. CPF kept on serving as the "internal bank" and "treasury platform", so as to provide financial services and support the industry development of CNPC. With the support of CNPC and its member companies, CPF has maintained a healthy and stable growth, and ranked top among the companies in the industry for many years in a row in terms of assets, revenue, and earnings. CPF is nowone of China's leading finance companies in terms of asset sizes, business portfolio and profitability.

CPF is jointly controlled by CNPC, PetroChina Company Limited, and CNPC Capital Company Limited, with a registered capital of 8.33125 billion RMB. With the Board of Shareholders acting as the ultimate decision maker, the company implements a general manager responsibility system under the leadership of the Board of Directors. CPF's headquarter has over 11 departments, including Finance Department, Business Operation Department, Credit Department, Securities Department, International Operation Department, Risk Management Department, Internal Audit Department, Information Technology Department, Human Resources Department, Financing and Accounting Research Institute, and General Manager's Office (Party-Mass Working Department). The company has also set up the Daqing Branch, the Jilin Branch, the Shenyang Branch and the Xi'an Branch, as well as 33 more business divisions where CNPC's member companies are located. Currently, CPF possesses an extensive service network to provide financial products and services for over 400 member companies, with businesses covering from oil and gas exploration & development, refining & chemicals, pipeline transportation, marketing of refined products, tooilfield services & petroleum engineering. As part of CNPC's "looking abroad" strategy, the first overseas branch, CNPC Finance (HK) Ltd., was incorporated in Hong Kong in March 2008. In addition, the Dubai branch and the Singapore branch were set up in 2009 and 2011 respectively, to provide cross-border financial services for CNPC' sinternationalization strategies.

CPF focuses on the following financial services in both renminbi and foreign currencies:

Financial and financing advisory services, credit assurance and related advisory services, intermediary services to ; collection and payment of funds on behalf of member companies; approved insurance intermediary services; guarantee services ; entrusted loans and investments between member companies; acceptance and discounting of bills for member companies; account transfer and settlement among member companies and related settlement and clearing solutions; accepting deposits from member companies; lending and financial leasing to member companies; inter-bank borrowing; issuance of approved company debts; underwriting corporate bonds of member companies; equity investments in financial institutions; investments in securities; consumer lending, buyer credit and financial leasing services for member companies.

As approved by the People's Bank of China, the China Banking Regulatory Commission and the State Administration of Foreign Exchange, CPF is responsible for the services as follows: central operation and management of CNPC's foreign currency funds; collection, payment and management of foreign currency funds for general domestic projects; central operation and management of transnational company's foreign currency funds and bidirectional transborder RMB capital pool services; as well as handling of foreign exchange settlement and trading of derivatives on behalf of CNPC' s member companies.

Address from the Chairman of Boards

Chairman: Liu Yuezhen

In 2017, under the complex and changeful international political and economic situation, we were challenged by a number of unfavorable factors that affect our operation and management, including global monetary tightening, trade protectionism, domestic economic downturn, frequent financial and regulatory policies, as well as ups and downs in the stock market, bond market and foreign exchange market. In the favorable context of cyclical revival of global economy, phased recovery of international oil price, and orderly progress of supply structural reform, we still adhered to the overall tenet of seeking improvement in stability, and the positioning of "internal bank", cash pool and treasury center of CNPC, to continuously improve the financial service capabilities, fully facilitate increasing income and reducing expenditure, and further boost the business innovation, profitability and operation management. We have successfully achieved the operating objectives in the year.

At the end of 2017, the balance of our total assets was RMB 615.2 billion. Among others, the balance of the proprietary assets was RMB 478.9 billion, increased by RMB 59.4 billion at a rate of 14.2% on a year-on-year basis; and the total profits amounted to RMB 8.76 billion. We achieved the annual assessment objectives and targets by 117% and 102% respectively, maintained the leading position in terms of company size and profits, and were rated as Class A in terms of industry rating, regulatory rating and CNPC performance assessment. The regulatory indicators preceded the regulatory standards.

In 2017, both our operation and management were especially outstanding in the following three aspects:

I. Contribution to CNPC's development of principal operation and stick to the mission

Acting as the treasury settlement center and comprehensive financial service center of CNPC, we intensified such principal operation as capital collection, settlement, financing and credit management, to guarantee CNPC's capital demand and settlement safety, and to make efforts to increase revenue and reduce costs for the member companies. First, positively promoting the treasury center system building and fully improving the settlement coverage and efficiency, where the settlement volume and amounts were increased by 25.1% and 2.9%, respectively, on a year-on-year basis; Second, continuously providing credit services upon favorable conditions. In 2017, we released loans of RMB 393.8 billion in total, which greatly supported the credit capital demands of the member companies; Third, intensifying the functions as a financing center. In volumn of RMB 669.4 billion, with a daily amount of RMB 1.8 billion, which effectively relieved the liquidity pressure of CNPC and provided stable and low-cost capital sources for the member companies; Fourth, fulfilling the functions of a value-creation platform and continuously executing the favorable policies such as increasing interest deposits, decreasing loans interest, free-of-charge settlement, favorable exchange price and lowering service fee. In 2017, we created profits of nearly RMB 3.5 billion for the member companies. In addition, by making full use of the overseas preferential tax policies, we reduced the tax expenses of RMB 720 million and saved working capital of RMB 12.5 billion for CNPC by closed settlement and speed-up capital turnover.

II. Double-driving of industry financing and bank financing and continuous business innovation

We positively followed the spirits of the National Conference on Financial Work, implemented the deployment of CNPC's financial conference and provided practical services to the substantial economy, in order to build up a double-driven financial service mode. First, promotion of industry development through financing. Based on the credit services, we fully supported the pipeline construction of the Shanjing Line and plate business restructuring of CNPC, as well as 14 overseas projects. At the end of the year, the balance of the loans was RMB 396.7 billion, and the loan-to-deposit ratio was 86.6%; Second, financial cohesion and orderly bank financing development. Throughout the year, we released loans of RMB 21.9 billion to CNPC Capital and its subordinate financial enterprises to meet the financial demands; Third, business innovation breakthrough for extensive and convenient promotion of "industry and finance combination, and bank and finance collaboration". As a member of Shanghai Commercial Paper Exchange Corporation Ltd., we achieved seamless connection between the electronic bill system and the treasury platform and the system of the Exchange, and we were successful in the electronic bill pilot run. With the extended industry chain financial business license, we successfully discounted the first extended industry chain bills. The initial fixed deposit receipt pledge cross-border loan business met the personalized loan demands for the member companies.

III. Prominent refinement and marketization, and persistent efforts for income increase and cost reduction

By giving full play to our professional and license advantages, we focused on creating a new situation of "forwarding risk control and upgrading benefits" under the ideas of refinement and marketization. First, focusing on risk management and practically promoting refined management. In 2017, we gradually improved the organization structure and set up a new audit department to effectively separate risk management from audit, so as to further improve the risk control system. We also positively boosted the institutional building and made a deep adjustment to the credit approval management, business admission system, and risk review mechanism to effectively move risk control forward. Second, further improving the efficiency and innovation capability of marketization business. In 2017, we increased the income of RMB 1.572 billion by intensifying the market study and judgment capabilities, positively participating in the market competition, grasping the market timeliness and improving the business flexibility.

The year of 2018 is a key year for us to implement the "13th Five-Year Plan", and also the beginning for CNPC to "create a new chapter of high-quality development". In the context of persistent global geopolitical risk, domestic economic recovery fluctuation, and difficulty in sharp rebound of international oil price, CNPC still faces great operation pressure. We are still dealing with the complex situation of turbulent financial market, growing supervision intensity, tightened monetary policies, and narrow spread. All of these imposed higher requirements on our operation management, risk control, and sustainable and healthy development.

In 2018, we will work closely on the general policy of "stable development", functional positioning of "four platforms" defined by SASAC to financial companies under the Central Government, and the goal of building the first-class financial company focused on oil and gas development, to boost improvement in stability, promote reform, eliminate the shortcomings, prevent risks, and improve efficiency to fully elevate the professional financial service levels, and make positive contributions to advance the building of the world-class comprehensive international energy company, and create a new situation of stable development.

Chairman: Liu Yuezhen

General Manager's Report

General Manager: Lan Yunsheng

In the year of 2017, CPF operated under the leadership of CNPC and the Board of Directors, implemented the requirements of regulators and the Board of Directors, and acted positively in an unfavorable situation and environment. As the company aimed to be a first-class financial service company and focused on providing services to CPNC, CPF tapped into a new revenue stream and improved the quality and efficiency of business growth in an innovative manner, hence, successfully achieved all the objectives setted.

I. Robust improvement in operating results

As of December 2017, the amount of balance sheet assets is 615.2 billion RMB, decreased by 3.2 billion RMB at a rate of 0.5% on a yearly basis. Within the balance sheet assets, the balance of proprietary assets is 478.9 billion RMB, increased by 59.4 billion RMB at a rate of 14.2% on a yearly basis; and the balance of entrusted assets is136.4 billion RMB, decreased by 62.6 billion RMB at a rate of 31.5% on a yearly basis.

In 2017, CPF realized an income of 15.24 billion RMB, decreased by 60 million RMB at a rate of 0.4% on a yearly basis, recorded a profits before provisions of 8.23 billion RMB, increased by 100 million RMB at a rate of 1.3% on a yearly basis; and a book profits of 8.76 billion RMB. CPF kept its leading position in the industry with regard to these main indicators.

Within 2017, CPF reduced costs and created profits of 3.49 billion RMB for the member companies through a number of preferential and discount policies, including increase of interest rates on deposits, reduction of interest rates on loans, free settlement and clearing services, exchange rate discount, and service charge deductions . The offshore preferential tax policies helped reducing an amount of 720 million RMB in tax expenditures, and the closed settlement operation helped saving an amount of 12.5 billion RMB in working capital for CNPC.

CPF maintained its risk indicators in a good manner. At the end of 2017, the company's capital adequacy ratio is 16.2%, which is 5.7 percentage point higher than that required by the regulators; the non-performing asset ratio is 0, far below that of4% required by the regulators; the non-performing loan ratio is 0, far below that of5% required by the regulators; and the asset-loss reserve adequacy ratio is 373.2%, far above that of100% required by the regulators.

II. Stable improvement of the business

First, continuously improvement of the settlement and capital pool business. CPF actively followed the upgrade of the treasury working capital platform, pushed ahead with the implementation of Phase-II; paid close attention to the business sector of CNPC, primarily on the restructure, removal, merger, and new establishment of member companies, opened corporate accounts for CPECC, CPPMEC, and CPC and absorbed them into the settlement platform. The company also kept an eye on large funds movement, collection, and payment , and made efforts to increase the company's deposit level. In 2017, CPF managed a total of 2,548 settlement accounts in both domestic and foreign currencies, completed 4,005,000 settlement transactions at a growth rate of 25.1%, with a settlement amount of 33.6 trillion RMB at a growth rate of 2.9% on a yearly basis.

Second, positively mitigating unfavorable factors in the RMB credit loan business. On one hand, CPF focused on stabilizing the existing large-amount deposits, and renewed loans for a number of companies including PetroChina, Shandong Pipeline, and Jingtang LNG. On the other hand, CPF actively expanded the coverage of its loan business, and fully supported the financial demands for the profits of 23 enterprises, including pipeline construction of the Shanxi-Beijing Line IV, and plate business restructuring and financial collaboration of CNPC. At the end of the year, the average balance of RMB proprietary loans is 160 billion RMB, and the balance of RMB entrusted loans is 126.8 billion RMB.

Third, improvement on efficiency and scale of RMB securities investments. CPF actively invested in the primary bond market, made new investments in negotiable certificate of deposit, maintained stable trades in structured fund and investments in convertible bond by grasping opportunities, adjusting structure, and diversifying investment categories. By virtue of flexible utilization of the interbank funds and financial supports from the exchange markets, the company completed 1.5 trillion RMB of repurchase and reverse repurchase. In addition, to the extent that the capital safety is effectively secured, CPF improved the capital utilization efficiency by improving the capital management process and making investments in money market funds.

Fourth, stable growth of asset return of the international business. By closely monitoring the overseas projects as well as the restructuring, acquisition and financing progress of CNPC, we concluded loan contracts of 7 billion USD and maintained a stable level of loans. In addition, we put our efforts in securities investment and research, diversified the investment categories, established the special investment funds for the first time, increased investments level, and positively engaged in long-term and short-term capital operation such as investing in structured products and money market fund; we also strived to optimize the liability structure, reduced capital costs by a series of measures, such as substitute the matured USD bonds with bank loans, increase issuance of commercial bills and trade of cross-currency swaps when appropriate. By seizing opportunities of the domestic and overseas market, we recorded a foreign exchange dealings of 55.7 billion USD and gained a risk-free interest margin.

Fifth, remarkable financing and efficiency improvement results. To deal with the liquidity pressure, we improved the functions of the financing platform and raised funds from external markets through multiple channels. Within 2017, we raised funds of 669.4 billion RMB in total, and hence effectively met the payment and settlement demands. Besides, thanks to our professional advantages, we focused on developing new revenue sources and improving both business quality and efficiency in terms of loan coverage, capital operation, liquidity management, short-term market investments, foreign exchange transaction, and financing structure optimization, which brought a profit amounting to 1.57 billion RMB.

Last, significant improvement in services provided by branches. Four domestic branches achieved profits before provisions at a growth rate of 52% on a year-on-year basis through a number of actions, including provision of services to the fundamental clients, window service awareness improvement, and increase in business development efforts. The Daqing Branch hit a new high in terms of average balance of annual deposits. Jilin Branch intensified the buyer's interest-bearing customer service awareness, gave effective play to the role of the counter, and achieved sound progress to develop new deposit business. The Shenyang Branch focused on promoting the notes business and achieved discounting for the first electronic banker's acceptance bill, with an annual growth of 50% in terms of notes discounting. Xi'an Branch made steady headway and successfully achieved launching and stable operation of Phase-II enterprise treasury including Chuanqing Drilling and Changqing Oilfield. The settlement volume increased to 2,600,000, increased by 1.3 times, and the discount loans were up by 63%. The Hong Kong Company achieved results of a significant efficiency improvement, made great efforts to securities investment to reduce the capital costs and achieve profit growth by 2.2% on a year-on-year basis even though the average loans were reduced by 14.4% on a year-on-year basis.

III. Stable improvement in integrated management

First, continuously improvement in risk management. By separating risk control and audit, we boosted high-efficiency operation of the Credit Review Committee and the Investment Review Committee, and further improved the risk management structure. In addition, we steadily facilitated business admission, credit management, and system revision, so as to improve the risk management tools and promote effective risk control. On the other hand, we strengthened the risk limit management and continued optimizing the risk management mechanism.

Second, new progress in information system construction. We successfully updated the Phase-II treasury software and hardware and completed safety testing and the second batch of pilot. The e-commercial system had been upgraded three times successfully, and seamless switching of the electronic commercial draft system was achieved. We will continue deepening the building and application of the database system and positively promote the information building and internal control, thus fully improve the level of informatization safety.

Third, practical and orderly human resource management. We recruited and selected the General Manager Assistant and the officers at the sectional level to further optimize the knowledge and aging structure of the management team. We expanded our staff team and retained talents by attracting excellent students and professionals to join us.

In the past year, our business development and results could not be parted from the great support of CNPC, PetroChina, the member companies, the leadership of the Board of Directors and the hard work of all employees.

In the year of 2018, the company will still face complex environment and tough tasks. CPF will work closely on the goal of building a first-class financial company, to intensify the functions of the internal bank and treasury platform, make every efforts to grasp market opportunities, explore new business areas, implement new mechanism, continue improving the risk management level and soft power, and make efforts to realize a high-quality development.

General Manager: Lan Yunsheng

Corporate Governance and Risk Control Report

In 2017, CPF continues to follow the regulatory requirements of the People's Bank of China, the China Banking Regulatory Commission (CBRC), and the Beijing Banking Regulatory Bureau and the resolutions adopted by the Board of Directors, CPF further improved its internal control and risk management capabilities.

I. Corporate Governance

CPF has established the Board of Shareholders as the supreme authority. The Board of Directors is responsible for significant operation decisions; the Board of Supervisors is responsible for supervision and assessment; and the top management is responsible for the daily operation, under the Company Law and other applicable laws and regulations. CPF has developed a corporate governance framework comprising the Memorandum and Articles of Association, the Rules of Procedure for the Board of Shareholders, the Rules of Procedure for the Board of Directors, and the Rules of Procedure for the Supervisory Board etc., with the duties and responsibilities of these governing bodies clearly defined and effectively performed. All members of the Board of Directors and the Supervisory Board are senior-level financial executives from CNPC member companies and headquarters, who possess expertise, strong insights and many years of experience in Financial Management. During the reporting period, the members of the Board of Directors and the Supervisory Board presented their views with due care and diligence to support the company's healthy and sustainable growth.

In 2017, the board of shareholders convened 3 meetings and reviewed and passed 8 proposals. The board of directors convened 4 meetings(including 3 temporary shareholder meetings) and reviewed 13 proposals and formed 13 resolutions. The board of supervisors convened 1 meeting to review the working report of the board of supervisors and issue 2 review opinions.

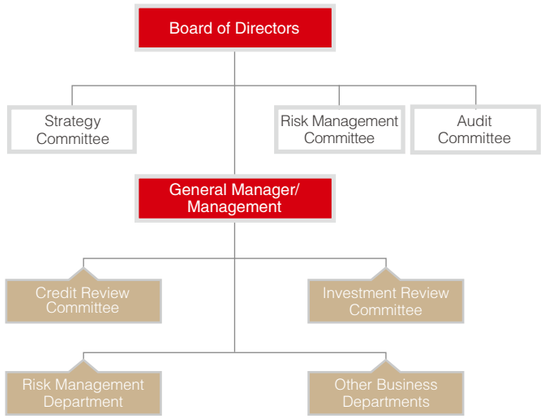
II. Risk Management

(I) External Supervision

CBRC Beijing Office is the authority regulating the banking sector. The daily operations of CPF are under CBRC's on-site and off-site supervision. Meanwhile, CPF's business practices are under supervision of other regulatory authorities, including the People's Bank of China, the National Audit Office, the State Administration of Foreign Exchange, and China Securities Regulatory Commission. With many years of great support from these regulators, CPF has been widely recognized for its business performance and management competence. In 2017 CPF performed well, with its operations in good shape and risk mitigation measures in place, receiving no negative opinion from the regulators.

(II) Risk Management

1. Organizational structure for Risk Management. CPF has developed and maintained a hierarchical structure for risk management (as illustrated).



—— Board of Directors: The Board of Directors is responsible for review and approval of strategies, policies and procedures for risk management, assessment of the company's overall risk tolerance, monitoring and evaluation of comprehensiveness and effectiveness of risk controls as well as accountability of senior management in risk management.

—— The Strategy Committee, the Risk Management Committee and the Audit Committee are authorized by the Board of Directors to assist the board in the field of duty. The Risk Management Committee is responsible for reviewing the company risk management and internal control policies, supervising and evaluating the establishment and risk control of the company's risk management structure, and reviewing the related proposals of risk management.

—— General Manager / Management: The General Manager / Management is authorized to review and approve business activities, receive regularly reports from the risk management department and make sure risk mitigation measures are effectively implemented.

—— Credit Review Committee and Investment Review Committee: These teams are responsible for reviewing the company's reports on credit business and investment in accordance with the risk policies and overall planning determined by the Board of Directors and reporting their opinions to the General Manager or an authorized member of management.

—— Risk Management Department: The department is responsible for identification, analysis, monitoring, measurement, control and release of market risk, credit risk, operational risk, liquidity risk, compliance risk, etc. The department oversees the risks in relation to credit and investment decisions, examines legal documents, including business contracts, for compliance and assets classification review purpose.

—— Business departments: These business units are responsible for the identification, monitoring and risk control in daily business activities.

In addition, CPF has retained a perennial legal counsel to provide legal opinions on the contracts and new business, to minimize the legal risk.

In 2017, CPF's Credit Review Committee examined 73 loan reports of a total amount of RMB 236.281 billion, granted 15 discount loans of RMB 182 million (including 1 extended industrial chain of discount loan at an amount of RMB 100,000); and provided 162 non-financing guarantees amounting to RMB 698 million.

2. Credit risk management. CPF effectively carries out risk management of business, risk control and auditing mainly by strictly adhering to loan three-inspection mechanism, prudent assessing the counterparty and strengthening internal and external credit. CPF's credit business is progressively reviewed and approved by the loan officer, department manager, risk control department, Credit Review Committee and general manager. In addition, because most borrowers are CNPC member companies, and our business counterparties in interbank deposits and rediscounting are mainly large and medium-sized state-owned banks, the credit risk is relatively low and controllable. There is no credit default for CPF in 2017.

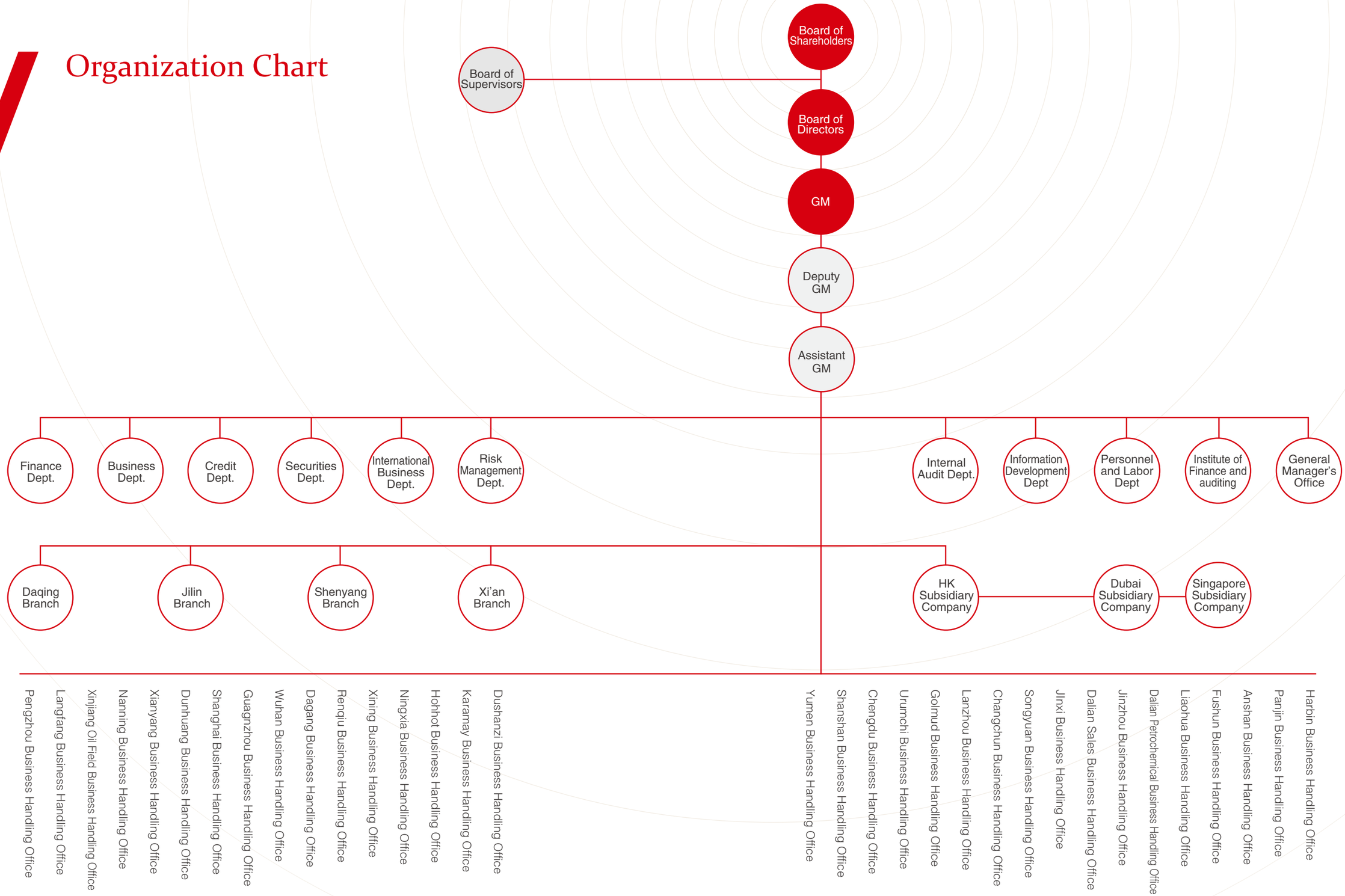
3. Market risk management. CPF conducts investment business in a prudent manner, strictly enforced the range of investment products policies that the board has approved. It mainly controls the market risk by controlling the investment target, strengthening the risk monitoring and authorization management. CPF invests mainly in low-risk products, such as government bonds, credit rating corporate bonds and principal-guaranteed trust products, etc. Meanwhile, interest rate and exchange rate fluctuation studies are continuously done, investment authorities and stop-loss policies are clearly defined to manage and control market risk. This year, CPF has no investment loss on market risk.

4. Operation risk management. CPF controls operational risks by strengthening system construction, procedures construction and authorization management. In 2017, CPF revised its systems and streamlined business processes to meet business growth needs. At present, CPF has revised a total of 138 regulations, including 81 sets of business management rules, 22 management requirements and 35 implementation rules, which has further defined division of labor and job responsibilities, and standardized the business operation and authorization approval. Meanwhile, an annual internal control self-assessment is conducted to ensure that rules and procedures are effectively implemented. This year, CPF has no loss event on operation risk.

5. Liquidity risk management. In 2017, CPF further intensified the treasury planning management, enhanced national debt repo and inter-bank operation. Meanwhile, CPF increased the general credit limits with the commercial banks, in order to meet the liquidity demands effectively. While ensuring the company's liquidity effort required, CPF increased the profitability of the precipitation funds. In 2017, CPF had no liquidity risk event.

Looking ahead to 2018, CPF will be further in accordance with the requirements of regulatory, continue to bolster the institutional framework for the Board of Shareholders, the Board of Directors and the Supervisory Board, focusing on performance of duties and responsibilities of these governing bodies and streamlining of the decision-making process. Internal control and risk management will remain our top priority and our internal audit actions will continue focusing on in-process monitoring and internal control review in order to identify risk management weaknesses and risk factors. Meanwhile, we will continue to foster risk awareness and heighten risk management measures to improve risk prevention throughout the whole process of risk management.

Organization Chart



ANALYSIS OF THE FINANCIAL SITUATION AND OPERATION RESULTS IN 2017 /

Financial Particulars (Consolidated) /

Unit: 10k yuan

Year	2013	2014	2015	2016	2017
Pre-tax Profits	647,696	665,503	685,468	891,698	876,426
Net Profits	523,726	543,206	582,028	752,402	728,647
Interest income	1,348,570	1,455,157	1,389,899	1,373,304	1,433,413
Investment income	26,058	76,043	190,051	58,368	31,592
Interest expense	573,480	642,045	645,069	673,273	671,445
Operating and administrative expenses	22,241	23,883	23,879	23,568	23,556
Domestic taxes	200,806	233,652	205,066	190,445	171,282
Total assets	64,920,846	64,046,706	64,006,044	61,839,144	61,523,329
On-balance sheet total assets	33,096,211	39,505,603	39,137,791	41,942,296	47,887,026
Proprietary and entrusted loans	50,599,150	50,417,475	50,662,313	44,142,992	39,670,914
Total liabilities	61,393,037	60,174,198	59,648,764	56,188,912	55,540,428
Deposits and entrusted funds	49,624,427	47,356,093	47,172,707	43,458,059	43,187,333
Owners' equity	3,527,809	3,872,508	4,357,280	5,650,232	5,982,901

Analysis of the Financial Situation and Operation Results /

In 2017, under the strong leadership of CNPC and the Board of Directors of the company, CPF followed the principles of improving quality and efficiency and reaching healthy development in the complex environments. Through a series of measures of increasing profits by tapping potential and reducing cost, CPF achieved the expected operating objectives, which laid a solid foundation for the smooth progress in the implementation of the "13th Five Year Plan". Meanwhile, considering the main operating indicators, CPF kept its leading position among the domestic peers.

In 2017, CPF realised pre-tax profit of RMB 8.764 billion, decreased by RMB 153 million at a rate of 1.71% compared to the previous year, and realised profit before provision of RMB 8.229 billion, increased by RMB 102 million at a rate of 1.25% compared to the previous year. At the end of 2017, the total assets were RMB 615.233 billion (including on-balance sheet assets of RMB 478.87 billion and off-balance sheet assets of RMB 136.363 billion), decreased by RMB 3.158 billion at a rate of 0.51% compared to the previous year. Adhere to the principle of safety, liquidity, and profitability, CPF further strengthens its risk management abilities to achieve stable operation and healthy development. In 2017, the return on capital, liquidity ratio, capital adequacy ratio, non-performing asset ratio, and reserve adequacy ratio for loss of assets was 12.53%, 49.29%, 16.24%, 0, and 373.2% respectively.

Assets /

At the end of 2017, CPF recorded total assets of RMB 615.233 billion, decreased by RMB 3.158 billion at a rate of 0.51% compared to the previous year, including on-balance sheet total assets of RMB 478.87 billion, increased by RMB 59.447 billion at a rate of 14.17% compared to the previous year.

Deposits in Central Bank

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Deposits in Central Bank	1,863,523	1,825,429
Including: Renminbi	1,243,786	1,505,596
Foreign currency	619,737	319,834
Total	1,863,523	1,825,429

Among others, The deposits in the Central Bank were RMB 18.254 billion, decreased by RMB 381 million at a rate of 2.04% compared to the previous year. The main reasons include: first, the risk reserves that had been deposited by CPF for the entrusted forward sale of foreign exchange at 20% had been refunded; second, a significant increase in RMB deposits at the end of the year led to the increase in the provision payment to the Central Bank.

Balance Due from Other Financial Institutions

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Balance due from other financial institutions	12,238,397	11,526,728
Including: Renminbi	4,249,831	2,572,592
Foreign currency	7,988,566	8,954,135
Total	12,238,397	11,526,727

The balance due from other financial institutions was RMB 115.267 billion, decreased by RMB 7.117 billion at a rate of 5.82% compared to the previous year, which is mainly due to the significant increase in the deposits from CNPC and PetroChina at the end of the previous year.

Proprietary Loans and Entrusted Loans

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
I. Proprietary loans	24,246,144	26,034,611
1. Fixed asset loans	3,744,346	4,403,429
2. Current asset loans	20,303,078	21,364,872
3. Discounted assets	198,720	266,309
II. Entrusted loans	19,896,848	13,636,303
Total	44,142,992	39,670,914

Proprietary loans and entrusted loans stood at RMB 396.709 billion, decreased by RMB 44.721 billion at a rate of 10.13% compared to the previous year, mainly due to sharp decline in the CNPC's entrusted loans.

Investments in Securities

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Proprietary investment in securities	4,522,035	7,840,271
Including: 1. Held–for–trading financial assets	450,133	320,541
2. Available–for–sale financial assets	1,651,902	4,974,730
3. Held–to–maturity investments	2,420,000	2,545,000
Total	4,522,035	7,840,271

Investments in securities were RMB 78.403 billion, increased by RMB 33.182 billion at a rate of 73.38% compared to the previous year, mainly due to adjustment to the asset structure and increase in securities investment of higher earnings.

Provision for asset Impairment

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
I. Provision for bad debts	91	73
II. Loan loss provision	1,327,945	1,262,989
III. Provision for available–for–sale financial assets	15,321	14,696
IV. Provision for held–to–maturity investments	84,700	89,075
Total	1,428,056	1,366,833

CPF recorded a balance of asset impairment reserves amounting to RMB 13.668 billion, decreased by RMB 612 million at a rate of 4.29% compared to the previous year, mainly due to reversals of impairment reserves throughout the previous years.

Liabilities /

At the end of 2017, CPF reported total liabilities of RMB 555.404 billion, decreased by RMB 6.485 billion at a rate of 1.15% compared to the previous year, including on–balance sheet total liabilities of RMB 419.041 billion, increased by RMB 56.121 billion at a rate of 15.46%.

Deposits

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Current deposits	6,775,527	15,987,457
Fixed deposits	16,785,684	13,572,848
Total	23,561,211	29,560,304

Among others, the deposits taken by CPF stood at RMB 295.603 billion, increased by RMB 59.991 billion at a rate of 25.46% compared to the previous year, mainly due to an increase of deposits from CNPC and PetroChina.

Off–balance Sheet Liabilities

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Entrusted loan funds	19,896,848	13,636,303
Total	19,896,848	13,636,303

CPF recorded off–balance sheet liabilities of RMB 136.363 billion, decreased by RMB 62.605 billion at a rate of 31.47% compared to the previous year, which is mainly due to decline in the entrusted loans of CNPC.

Interbank Borrowings

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Interbank borrowings	6,653,035	6,948,082
Total	6,653,035	6,948,082

Interbank borrowings stood at RMB 69.481 billion, increased by RMB 2.95 billion at a rate of 4.43% compared to the previous year, which is mainly due to adjustment made by CPF HK to the structure of assets and liabilities, and increase in loans from banks.

Bonds Payable

Unit: 10k yuan

Item	December 31, 2016	December 31, 2017
Bonds payable	4,994,162	4,257,666
Total	4,994,162	4,257,666

Bonds payable amounted to RMB 42.577 billion, decreased by RMB 7.365 billion at a rate of 14.75%, mainly due to USD bonds repaid by CPF HK at maturity.

Owners' Equity /

At the end of 2017, CPF reported owners' equity of RMB 59.829 billion, increased by RMB 3.327 billion at a rate of 5.89% compared to the previous year, which is mainly due to increase in net profits of RMB 7.286 billion, allocations to shareholders of RMB 2.548 billion, allocations to supporting institutions of RMB 17 million, and decrease in translation reserve of RMB 1.395 billion.

Operating Income /

In 2017, CPF recorded a total operating income of RMB 15.237 billion, decreased by RMB 55 million at a rate of 0.36% compared to the previous year.

Interest Income

Unit: 10k yuan

Item	2016	2017
I. Loans	1,041,573	960,508
II. Investment in securities	161,421	253,992
III. Due from other financial institutions	142,689	174,455
IV. Deposits in Central Bank	22,759	21,636
V. Securities repurchase	4,862	22,336
VI. Other income	–	487
Total	1,373,304	1,433,413

Among others, The interest income amounted to RMB 14.334 billion, increased by RMB 601 million at a rate of 4.38%, mainly due to sharp increase in the interest income from investments in securities.

Income from Fees and Commissions

Unit: 10k yuan

Item	2016	2017
Entrusted loans	23,971	19,661
Entrusted FX trading	38,036	32,294
Others	23,096	14,394
Total	85,102	66,349

The income from fees and commissions was RMB 663 million, decreased by RMB 188 million at a rate of 22.04% compared to the previous year, mainly due to decline in gains from entrusted FX trading and decrease in up-front fee income from loans.

Investment Income

Unit: 10k yuan

Item	2016	2017
Stock gains	836	112
Funds gains	54,322	26,310
Bond gains	113	5,170
Future gains	3,097	0
Total	58,368	31,592

The investment income was RMB 316 million, decreased by RMB 268 million at a rate of 45.87%, mainly due to sharp decline in gains from the money market funds this year.

Exchange Gains/Losses

Unit: 10k yuan

Item	2016	2017
Exchange gains/losses	8,896	–2,577
Total	8,896	–2,577

The exchange gains or losses amounted to RMB –26 million, decreased by RMB 115 million at a rate of 128.97% compared to the previous year, mainly due to US dollar depreciated significantly against RMB this year.

Operating Expenses /

In 2017, CPF recorded total operating expenses of RMB 6.473 billion, increased by RMB 98 million at a rate of 1.53%, mainly due to the decrease in asset impairment losses.

Interest Expenses

Unit: 10k yuan

Item	2016	2017
Deposits	401,974	399,443
Financial assets sold for repurchase	16,158	5,038
Interbank borrowings	90,434	115,743
Due to other financial institutions	13,710	12,829
Bonds payable	150,914	137,472
Others	83	921
Total	673,273	671,445

Among others, The interest expenses were RMB 6.714 billion, decreased by RMB 18 million at a rate of 0.27% compared to the previous year.

Asset Impairment Losses

Unit: 10k yuan

Item	2016	2017
Asset impairment losses	–78,928	–53,499
Total	–78,928	–53,499

The asset impairment losses amounted to RMB –535 million, increased by RMB 254 million at a rate of 32.22% compared to the previous year, mainly due to decline in reversal of impairment reserves.

Other Operating Expenses

Unit: 10k yuan

Item	2016	2017
Fees and commissions	462	980
Sales tax and charges	19,117	5,555
Operating and administrative expenses	23,568	23,556
Other expenses	4	–773
Total	43,151	29,319

Other expenses amounted to RMB 293 million, decreased by RMB 138 million at a rate of 32.06% compared to the previous year, CPF has adopted value-added tax and abolished business tax since May 1, 2016, as required by the Ministry of Finance and the State Administration of Taxation.

Capital Adequacy Ratio /

Capital Adequacy Ratio

Unit: 10k yuan, %

Item	December 31, 2016	December 31, 2017
Net capital	6,019,694	6,394,720
Risk assets	34,746,360	39,376,060
Capital adequacy ratio (%)	17.32	16.24

AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 /

立信会计师事务所有限公司
立信会计师事务所管理有限公司成员所

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Auditors' Report

PCPAR [2018] No. ZK10017

To all shareholders of China Petroleum Finance Co., Ltd.,

I. Opinion

We have audited the accompanying financial statements of China Petroleum Finance Co., Ltd. (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet and the parent company's balance sheet as at December 31, 2017, the consolidated income statement and the parent company's income statement, the consolidated statement of cash flows and the parent company's statement of cash flows, the consolidated statement of changes in owners' equity and the parent company's statement of changes in owners' equity for the year then ended and the notes to the financial statements.

In our opinion, the financial statements attached are prepared, in all material respects, in accordance with the Accounting Standards for Business Enterprises, and present fairly the consolidated financial positions and the parent company's financial positions as at December 31, 2017 and the consolidated operating results and cash flows and the parent company's operating results and cash flows for the year then ended.

II. Basis for Opinion

We conducted our audit in accordance with the Accounting Standards for Certified Public Accountants in China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. According to the Code of Ethics for Chinese CPA, We are independent of the Company in accordance with the Code of Ethics for Chinese CPA and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company's management (hereinafter referred to as the "Management") is responsible for preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises to achieve a fair presentation, and for designing, implementing and maintaining internal control that is necessary to ensure that the financial statements are free from material misstatements, whether due to frauds or errors.

In preparing the financial statements, the Management is responsible for assessing the Company's going–concern ability, disclosing the matters related to going concern (if applicable) and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

IV. Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit standards 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 financial statements.

During the process of audit in accordance with audit standards, we exercise professional judgment and maintain professional scepticism. Meanwhile, we also:

(1) Identify and assess the risks of material misstatement of the 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.

(2) Understand the 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 internal control.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) Conclude on the appropriateness of the Management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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.

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BDO CHINA Shu Lun Pan
Certified Public Accountants LLP
(Special General Partnership)

Certified Public Accountant of China:
Han Zirong

Certified Public Accountant of China:
Huang Li

Shanghai, China

March 25, 2018

CHINA PETROLEUM FINANCE CO., LTD. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 /

1. Company profile /

1.1 History, registered address, organizational form and head office address of the Company

Established upon the approval

China Petroleum Finance Co., Ltd. (hereinafter referred to as the "Company"), was established upon the approval of the People's Bank of China with the document YF [1995] No. 389.

Commenced its business

Company obtained the Business License for Enterprise Legal Person [registration No. 100000000018557] issued by the State Administration for Industry & Commerce of the People's Republic of China on December 8, 1995 and commenced its business on December 18, 1995.

Registered capital was changed

The Company holds a Financial License of the People's Republic of China [license No. L0003H111000001] issued by the China Banking Regulatory Commission (the "CBRC"). On August 31, 2016, the Company's registered capital was changed to RMB 8.33125 billion, and the original Business License was correspondingly renewed as a new Business License with the unified social credit code No. 91110000100018558M.

The registered capital of the Company is RMB 8.33125 billion. The Company is a limited liability company co-founded by China National Petroleum Corporation (hereinafter referred to as "CNPC") and PetroChina Company Limited (hereinafter referred to as the "PCL") and CNPC Capital Company Limited (hereinafter referred to as "CNPC Capital"). The Company's registered address is Floors 8-12, Block A, China Petroleum Building, No. 9, Dongzhimen North Street, Dongcheng District, Beijing. The Company's legal representative is Liu Yuezhen.

In December 1995, the Company was originally co-founded by China National Petroleum Head Company and other 19 oil and gas field enterprises with a registered capital of RMB 800 million.

In June 1996, China National Petroleum Head Company changed the registered capital of the Company from RMB 395 million to RMB 144.812 million and USD 30 million upon the approval of the State Administration of Foreign Exchange.

In April 1997, according to the resolution of the Second Shareholders' Meeting, the Company increased its registered capital by RMB 800 million, which consists of RMB 395 million and USD 50 million (equivalent to RMB 405 million at the exchange rate of 1 : 8.2924). The capital reserve climbed by RMB 72 million. The paid-in capital of the Company was increased to RMB 1.6 billion (including USD 80 million). The number of shareholders increased to 24.

In June 1999, according to the resolution of the 4th and 5th Shareholders' Meetings, five former shareholders including Shengli Petroleum Administrative Bureau transferred their shares of the Company to three new shareholders such as Jinlin Chemical Group Corporation. 11 new shareholders acquired shares of the Company. The paid-in capital and the capital reserve of the Company respectively increased by RMB 200 million and RMB 31.2169 million. The paid-in capital of the Company increased to RMB 1.8 billion (including USD 80 million). The number of the Company's shareholders increased to 33.

According to the resolution of the 11th Shareholders' Meeting held in June 2003, the Company increased its registered capital by RMB 1.2 billion (including USD 40 million of capital of foreign currency) and increased its capital reserve by RMB 55,200. As at July 1, 2003, the Company's paid-in capital increased to RMB 3 billion, including USD 120 million of capital of foreign currency. The number of shareholders increased to 35.

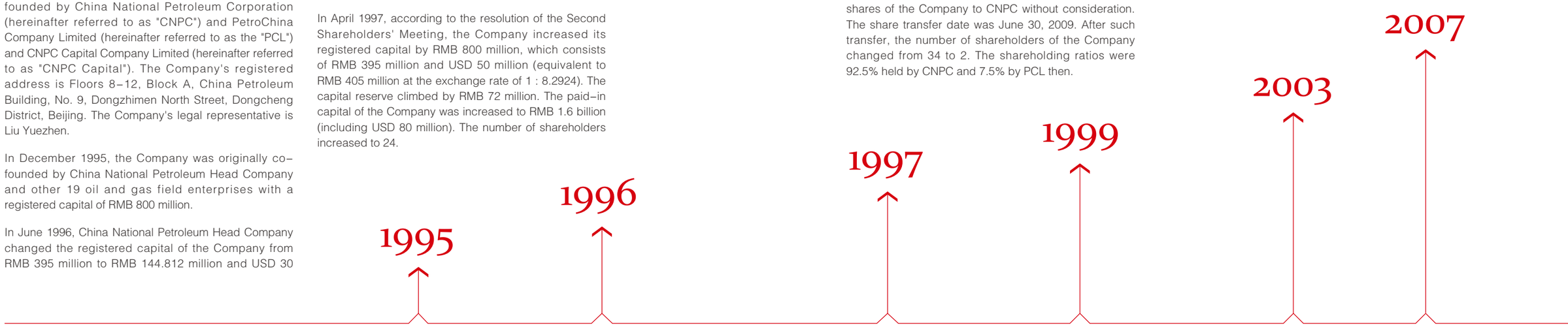
In April 2007, CNPC Lanzhou Refining and Chemical Complex, a former shareholder of the Company, merged with CNPC Lanzhou Chemical Industry Company to form a new entity - China Petroleum Lanzhou Petrochemical Corporation. The aggregate capital invested by China Petroleum Lanzhou Petrochemical Corporation in the Company was RMB 60 million. The number of the Company's shareholders changed to 34. The shareholding ratios were: 38.13% held by the controlling shareholder of CNPC, 7.50% held by PCL and 54.38% held by other 32 shareholders.

According to the Circular of Share Transfer of China Petroleum Finance Co., Ltd. (ZYZ [2009] No. 341) issued by CNPC on August 1, 2009, total 32 shareholders including Daqing Administrative Bureau and other associates under CNPC, were required to transfer all their shares of the Company to CNPC without consideration. The share transfer date was June 30, 2009. After such transfer, the number of shareholders of the Company changed from 34 to 2. The shareholding ratios were 92.5% held by CNPC and 7.5% by PCL then.

According to the CBRC's Reply on the Increase in the Registered Capital and Equity Structure' Change of China Petroleum Finance Co., Ltd. (YJF [2010] No. 278), the Company was authorized to increase its registered capital to RMB 5.441 billion. The investment amounts and shareholding ratios after the capital increase were as follows: CNPC invested RMB 2.775 billion, accounting for 51%, and PCL invested RMB 2.666 billion, accounting for 49%. The Company has received the additional capital injection on June 25, 2010.

According to the Reply on the Change of Registered Capital and Equity Structure of China Petroleum Finance Co., Ltd. (JYJF [2016] No. 458) issued by Beijing Regulatory Bureau of the CBRC, the Company was authorized to increase its registered capital to RMB 8.33125 billion from RMB 5.441 billion with the increased capital solely contributed by CNPC. The Company has received the additional capital injection on August 18, 2016.

According to the Circular on Transferring the Share of China Petroleum Finance Co., Ltd. without Compensation (ZYZ [2016] No. 203) issued by CNPC, 28% of shares of the Company held by CNPC was decided to be transferred to Beijing Jinyaguang Real Estate Business Management Co., Ltd. (later renamed as "CNPC Capital Company Limited"). The share transfer date was December 31, 2015. According to the Reply on the Change of Shares of China Petroleum Finance Co., Ltd. (JYJF [2016] No. 459) issued by Beijing Regulatory Bureau of the CBRC, the adjusted equity structure of the Company (including RMB 3.3325 billion contributed by CNPC with the contribution proportion of 40%; RMB 2.666 billion contributed by PetroChina Company Limited with contribution proportion of 32%; RMB 2.33275 billion contributed by CNPC Capital Company Limited with contribution proportion of 28%) was replied.



1.2 Industry, business scope, business nature, primary business and business segments of the Company

The Company operates its business in the industry of finance. Business scope of the Company: providing accounting, financing, credit verifying services and related advisory and agency services for member companies; assisting the collection and payment of transaction process for member companies; conducting authorized insurance agency business; providing guarantee for member companies; providing entrusted loan and entrusted investment service among member companies; providing notes acceptance and discount for member companies; providing internal transfer settlement and corresponding settlement or liquidation scheme design among member companies; accepting deposits of member companies; providing loan and financial leasing services for member companies; undertaking inter-bank borrowings; issuing corporate bonds upon authorization; underwriting corporate bonds of member companies; investing in the equity of financial institutions; investing in value securities; and providing consumer credit, buyers' credit and financial leasing services for the products of member companies. (The Company may independently choose business items and conduct business activities according to law; any item that need to be approved according to law shall be carried out after acquiring the approval of related administration; any operating activity of the item banned and restricted by Beijing industrial policy may not be conducted.)

1.3 Operation term

The operation term of the Company is from December 8, 1995 and has no prescribed time limit.

2. Basis of preparation for the financial statements /

The Company prepares its financial statements on the going-concern basis.

The Company prepares the financial statements according to the transactions and events actually occurred and based on the recognition and measurement in accordance with the Accounting Standards for Business Enterprises – Basic Standard and specific accounting standards promulgated by the Ministry of Finance and the Accounting Standard for Business Enterprises – Application Guidance and the Interpretations for the Accounting Standards for Business Enterprises issued thereafter and other relevant provisions (hereinafter collectively referred to as "Accounting Standards for Business Enterprises").

CNPC Finance (HK) Limited (hereinafter referred to as "Hong Kong Subsidiary"), a subsidiary of the Company, has adopted Hong Kong Accounting Standard. When the Company consolidates the financial statements, it shall convert items of Hong Kong Subsidiary in accordance with the Accounting Standards for Business Enterprises and make conversation and adjustment according to the principles stated in Note 4.7.2.

3. Statement on compliance with the Accounting Standards for Business Enterprises /

The financial statements of the Company meet the requirements of the Accounting Standards for Business Enterprises, and truly and completely reflect the Company's (consolidated) financial position as at December 31, 2017, and its (consolidated) operating results, (consolidated) cash flows and other related information for the year then ended.

4. Notes to principal accounting policies and accounting estimates /

4.1 Accounting period

The accounting period of the Company is from January 1 to December 31 in calendar year.

4.2 Functional currency

The Company adopts RMB as its functional currency. Hong Kong Subsidiary of the Company adopts USD as its functional currency.

The financial statements of Hong Kong Subsidiary have been translated into the financial statements in RMB when the Company consolidates the financial statements.

4.3 Basis of accounting and measurement bases

The financial statements have been prepared on the accrual basis and follow the principle of historical cost convention unless otherwise stated.

4.4 Business combination

The term "business combinations" refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. The term "acquisition date" refers to the date when the combiner or purchaser actually obtains the right of control over the net asset or production and management decision-making of the combinee or acquiree.

Business combinations are classified into the business combinations under the same control and the business combinations not under the same control. See the Note 4.10.1 for the details on the method for the determination of combination costs.

4.5 Measures for preparation of the consolidated financial statements

The scope of consolidation of consolidated financial statements shall be determined on the basis of control, and all the subsidiaries of the Company (including separate subjects under the control of the Company) shall be included in the scope of the consolidated financial statements.

The Company prepares the consolidated financial statements on the basis of its and its subsidiaries' financial statements and according to other relevant information. When preparing the consolidated financial statements, the same accounting policies and accounting periods shall be adopted by the Company and its subsidiaries (See Note 7.2), and the impact of significant transactions among companies on the consolidated financial statements and the current balance shall be written off. Owners' equity, net current profit or loss and current comprehensive income attributable to minority shareholders of the subsidiaries are separately listed under the owners' equity in the consolidated balance sheet and under the net profit and the total comprehensive income in the consolidated income statement.

During the reporting period, if the Company acquires a subsidiary or business from business combination, the incomes, expenses and profits from the combination date or acquisition date of the subsidiary or business to the end of the reporting period shall be included in the consolidated income statement, and the cash flows of the acquired subsidiary or business shall be included in the consolidated statement of cash flows.

During the reporting period, if the Company disposes a subsidiary or business, the incomes, expenses and profits from the beginning of the period to the date of disposal of the subsidiary or business shall be included in the consolidated income statements, and the cash flows of the disposed subsidiary or business shall be included in the consolidated statement of cash flows.

The share premium in the capital reserves under the consolidated statement of financial position will be adjusted at the difference between the long-term equity investment acquired by the Company for the purchase of minority equities and the share of net assets calculated constantly from the acquisition date (or combination date) according to the newly increased shareholding ratio. Where the share premium is insufficient, retained earnings will be adjusted.

The equity premium of capital reserves in the consolidated balance sheet will be adjusted according to the difference between the disposal price obtained for partial disposal of long-term equity investments in subsidiaries in the case of not lose control and the share of net assets of subsidiaries calculated from the acquisition date or the combination date corresponding to the disposal of long-term equity investments; if the equity premium of capital reserves is insufficient, the retained earnings will be adjusted.

4.6 Recognition criteria of cash and cash equivalents

Cash and cash equivalents refer to the short-term and highly liquid monetary assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, which are held by the Company, including cash, unrestricted deposits with the central bank, interbank deposits and deposits with other financial institutions with an original maturity period of not more than three months, loans to banks and other financial institutions and amounts of purchase under resale agreements.

4.7 Accounting method and conversion method of foreign currency business

4.7.1 Foreign currency transactions

The Company's foreign currency transaction is converted into RMB for recording purpose at the spot exchange rate on the day when the transaction occurs. As at the balance sheet date, monetary assets and liabilities in foreign currency shall be converted into RMB at the spot exchange rate prevailing on the balance sheet date. The gains or losses arising from the exchange difference are recorded in the financial expenses during the operation period. The gains or losses relevant to the acquisition and construction of fixed assets, oil and gas assets and other assets eligible for capitalization shall be measured in accordance with the relevant provisions of the borrowing costs. The gains or losses during the liquidation period are recorded in the profits or losses on liquidation.

Foreign currency non-monetary items measured at historical costs shall still be translated at the spot exchange rates on the transaction dates and the amount in functional currency (RMB) shall remain unchanged. Foreign currency non-monetary items measured at fair value shall be translated into RMB at the spot exchange rates on the day when the fair value is determined. The exchange difference arising therefrom is recorded in current profit or loss as the change of the fair value.

4.7.2 Translation of the financial statements denominated in foreign currency

Assets and liabilities in the balance sheet of overseas operations are translated at the spot exchange rates on the balance sheet date. Owners' equity items, except for "undistributed profits", are translated at spot exchange rates upon occurrence. Income and expense items in the income statement of overseas operations are translated at average exchange rate of the daily RMB exchange rate (medial rate) announced by the People's Bank of China for the period. Differences arising from such translation are recognized as foreign currency translation differences separately disclosed in owners' equity. For foreign currency monetary items that are substantially the investments in overseas entities, exchange differences resulting from foreign currency rate fluctuation are recognized as foreign currency translation differences separately disclosed in shareholders' equity when preparing consolidated financial statements. In case of disposal of overseas entities, these translation differences in connection with the overseas operation are recognized in current profit or loss proportionally.

Beginning balance of cash and cash equivalents of statement of foreign currency cash flows is translated at the exchange rate at the beginning of the period of such statement, while ending balance is translated at the spot exchange rate on the balance sheet date. Other items of the statement of cash flows are translated at average rate of the daily RMB exchange rate (medial rate) announced by the People's Bank of China for the period. Translation differences arising therefrom are separately disclosed as the "effect of fluctuations in foreign exchange rate on cash" in the statement of cash flows.

4.8 Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

4.8.1 Financial assets

(1) Classification of financial assets:

(2) Recognition basis and measurement methods

Financial assets are initially recorded at fair value. For financial assets measured at fair value through current profit or loss, relevant transaction expenses for acquisition are directly included in current profit or loss. For other financial assets, the relevant transaction expenses are included in the amount upon initial recognition.

Financial assets measured at fair value through current profit or loss and the available-for-sale financial assets are subsequently measured at fair value. For equity instrument investments without quotes in the active market and whose fair values cannot be reliably measured, they are measured at cost. Loans, accounts receivable and held-to-maturity investments are measured at amortized cost by using the effective interest method. If the difference between effective interest rate and coupon rate is insignificant, coupon rate would be used in calculating interest and investment income (The same below).

For the financial assets measured at their fair value through current profit or loss, the interests or cash dividends received during the period of holding the assets are recognized as investment income, and the changes in their fair value are charged to current gains or losses at the end of the period. Difference between the fair value and initial book-entry value is recognized as profits and losses on investment upon disposal; meanwhile the adjustment is made to gains or losses from changes in fair values.

During the holding period, interest income is recognized based on the amortized cost and effective interest rate. The effective interest rates are determined upon acquisition and remain unchanged during the expected remaining period, or a shorter period if applicable. Difference between the proceeds and the book value of the investment is recognized as investment income upon disposal.

For loans and accounts receivable, the difference between the actual amount received and the book value of accounts receivable shall be recognized as current profits or losses when they are recovered or disposed of by the Company.

The interest or cash dividends on available-for-sale financial assets to be received during the holding period are recognized as investment income. Changes in fair value are included in the current profit or loss at the end of the period. Difference between the proceeds and the book value of the financial assets is recognized as gain or loss on investment upon disposal. Meanwhile, amount of disposal corresponding to the accumulated change in fair value which is originally and directly included in the owners' equity shall be transferred out and recognized as gains or losses on investment upon disposal.

4.8.2 Transfer of financial assets

When transfer of financial assets occurs, the Company derecognizes the financial assets if the risks and rewards of ownership of the financial assets are significantly transferred to the transferee. If the substantial risks and rewards of ownership of the financial assets are retained by the Company, the Company still recognizes the financial assets.

The principle of substance over form is adopted to determine whether the transfer of a financial asset satisfies the criteria as described above for de–recognition of a financial asset. The Company shall classify the transfer of a financial asset into the entire transfer and the partial transfer of financial asset. If the entire transfer of financial asset satisfies the criteria for de–recognition, the difference between the amounts of the following two items shall be included in the current profit or loss:

(1) The book value of the transferred financial asset;

(2) The sum of the consideration received from the transfer and the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial asset transferred is an available–for–sale financial asset is involved).

If the partial transfer of financial asset satisfies the criteria for de–recognition, the entire book value of the transferred financial asset shall be split into the derecognized and recognized part according to their respective fair value and the difference between the amounts of the following two items shall be included in the current profit or loss:

(1) The book value of derecognized part;

(2) The sum of the consideration for the derecognized part and the portion of de–recognition corresponding to the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial asset transferred is an available–for–sale financial asset is involved).

If the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognized, and the consideration received will be recognized as a financial liability.

4.8.3 The impairment of financial assets

Except for financial assets measured at fair value through current profit or loss, the Company examines the book value of other financial assets at the end of the period. If there is objective evidence indicating the specific financial asset has impaired, provision for impairment is made.

For financial assets measured at amortized cost, if the fair value has been impaired, provision for impairment is made at the difference of present value of expected future cash flows lower than the book value. If there is evidence showing that the fair value of the specific financial assets has been recovered, and that the recovery is related to events after recognition of impairment loss, the originally recognized impairment loss should be reversed and included in current profit or loss.

If the fair value of available–for–sale financial assets has greatly dropped, or the decrease trend is expected to be non–temporary, accumulated losses previously recognized directly in shareholders' equity due to decreases in fair value are transferred out and charged to impairment loss. For available–for–sale debt instrument investments, if their fair values increase and the increases are related to events after recognition of impairment loss, the originally recognized impairment loss is reversed and charged to current profit or loss. For available–for–sale equity instrument investments that impairment losses have been recognized, if their fair values increase and the increases are related to events after recognition of impairment loss, the originally recognized impairment loss is reversed and directly charged to owners' equity.

In accordance with the instructions in the Notice of the CBRC on Printing and Releasing the Loan Risk Classification Guidelines (YJF [2007] No. 54) and the Guiding Opinions of the CBRC on the Chinese Banking Industry's Implementation of New Regulatory Standards (YJF [2011] No. 44) issued by the CBRC, the Company divides loans into five categories – pass, special–mention, substandard, doubtful and loss. When there are signs indicating that borrowers have difficulties in full repayments due to obvious problems in repaying ability, loans will be classified as non–performing loans, which are substandard, doubtful and loss as defined by five categories of loans.

In principle, the provision for impairment losses on assets is proportionally made by the Company based on the five categories of assets. For some individual assets with a large amount and special risk status (including credit assets, security investments and interbank deposits, etc.), the provision for impairment losses on assets can be made separately by specific identification method in accordance with the operation condition of the counterparties, debtors and issuers, the operation environment and others.

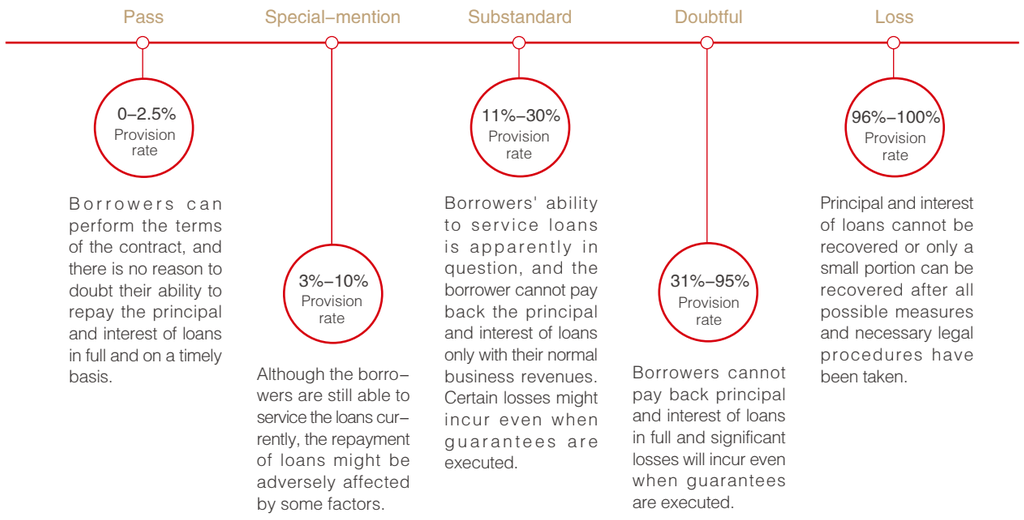
(1) The five categories of major assets:

A. Credit assets: Credit assets are divided into five categories in accordance with requirements of the CBRC and the relevant provisions of the Company.

B. Security investments: Bank financial products guaranteed by the five state–controlled banks, namely, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications, are classified as Pass and the impairment provision rate is 2.5%; trust products, asset–securitized products and other bank financial products guaranteed by other banks than the five state–controlled banks are classified as Special–mention and the impairment provision rate is 3.5%.

C. Inter–bank deposits: In general, inter–bank deposits in financial institutions all over the world by the Company are classified as Pass and no provision for impairment losses is made. Nevertheless, when signs indicate significant changes in the financial institution's operating conditions, the economic environment, political setting and other factors of the countries where the financial institutions locate, the impairment provision on the inter–bank deposits in those financial institutions is made by using specific identification method.

(2) The general principles of five categories of loans:



Among which: For special-mention category, reference is made to the risk level of credit assets, and provision is made on assets group according to financial profits and losses, assets to liabilities ratio, domestic and foreign loans and other risk characteristics.

(3) The classification of loans to banks and other financial institutions and the impairment provision rate are listed as follows:

A	B	C	D	E
2.5%	10%	30%	95%	100%
Loans to banks and other financial institutions with the principal and interest retrievable on time are classified as Pass and the impairment provision rate is 2.5%;	Loans to banks and other financial institutions overdue less than one month (including one month) are classified as Special-mention and the impairment provision rate is 10%;	Loans to banks and other financial institutions overdue more than one month and less than three months (including three months) are classified as Substandard and the impairment provision rate is 30%;	Loans to banks and other financial institutions overdue more than three months and less than six months (including six months) are classified as Doubtful and the impairment provision rate is 95%;	Loans to banks and other financial institutions overdue more than six months are classified as Loss and the impairment provision rate is 100%.

(4) Other receivables

A. Provision method for bad debts

The Company adopts the allowance method for potential bad debts. At the end of the period, the provision for bad debts is made at the following rates and recorded in current profit or loss. Receivables with strong evidence showing the debtors failed to repay obligations are considered as losses on bad debts and shall be written off with the approval after the stipulated procedures.

A	B	C	D	E
2.5%	10%	30%	95%	100%
Loans to banks and other financial institutions with the principal and interest retrievable on time are classified as Pass and the impairment provision rate is 2.5%;	Loans to banks and other financial institutions overdue less than one month (including one month) are classified as Special-mention and the impairment provision rate is 10%;	Loans to banks and other financial institutions overdue more than one month and less than three months (including three months) are classified as Substandard and the impairment provision rate is 30%;	Loans to banks and other financial institutions overdue more than three months and less than six months (including six months) are classified as Doubtful and the impairment provision rate is 95%;	Loans to banks and other financial institutions overdue more than six months are classified as Loss and the impairment provision rate is 100%.

B. Recognition criteria of bad debts loss

a.Uncollectable receivables arising from the debtor's bankruptcy or repeal declared in accordance with the law and the debtor's inability to pay off by the liquidating property;

b.Uncollectable receivables arising from the debtor's death or the debtor being declared missing or dead by laws with insufficient property or heritage to pay off debts;

c. Uncollectable receivables involved in litigation arising from, for example, the defeated party with an effective verdict (or a ruling) by the People's Court or the prevailing party with a verdict of an execution cease or incapability of an execution recovery due to the court's failure of execution;

d. Uncollectable receivables arising from the cease of production, the huge loss and failure of the repayment by the properties within three years (including insurance claim) due to the natural disasters or accidents the debtor has suffered.

Overseas wholly-owned subsidiaries of the Company and subsidiaries of the Company's subsidiaries do not make provision for impairment on assets, and the headquarters (the parent company) shall make corresponding adjustments when preparing the consolidated financial statements.

4.8.4 Financial liabilities

(1) Classification of financial liabilities

The financial liabilities of the Company are classified upon initial recognition as financial liabilities measured at fair value through current profit or loss and other financial liabilities.

(2)Recognition basis and measurement methods

Financial liabilities are initially recognized at fair value. As to the financial liabilities recognized at fair value through current profit or loss, the relevant transaction costs are charged to the current profit or loss upon acquisition. Relevant transaction costs of other financial liabilities are included in the amount upon initial recognition.

Financial liabilities measured at fair value through current profit or loss are subsequently measured at fair value without deducting the future transaction cost, which may occur during the settlement; except for hedging-related financial liabilities, the changes in fair value of such financial liabilities are charged to profits and losses in changes in fair value.

Other financial liabilities are subsequently measured at amortized cost by using the effective interest method.

(3) De-recognition criteria of financial liabilities

A financial liability shall be wholly or partly derecognized if its present obligations are wholly or partly dissolved. Where the Company enters into an agreement with a creditor so as to substitute the existing financial liabilities with any new financial liability, and the new financial liability is substantially different from the contractual stipulations regarding the existing financial liability, it shall derecognize the existing financial liability, and recognize a new one at the same time.

Where substantial revisions are made to some or all of the contractual stipulations of the existing financial liability, the Company shall derecognize the existing financial liability wholly or partly, and at the same time recognize the financial liability with revised contractual stipulations as a new financial liability.

Upon whole or partial de-recognition of financial liabilities, the difference between the book value of the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered or new financial liabilities assumed) shall be included in the current profit or loss.

Where the Company redeems part of its financial liabilities, it shall, on the redemption date, allocate the entire book value of financial liabilities according to the comparative fair value of the part that continues to be recognized and de-recognized part. The difference between the book value allocated to the derecognized part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit or loss.

4.8.5 Measures for recognition of fair value of financial assets and liabilities

See the Note 4.21 for the information on measurement of fair value.

4.8.6 Entrusted loans

Entrusted loans are accounted at the actual amount of the loans entrusted. The handling charges at the end of the period are calculated at the stipulated rate for the entrusted loans and included in income from handling charges.

4.8.7 Derivative instruments

The term "derivative instruments" refers to the financial instruments or other contracts that contain the following characters involved in the recognition and measurement standard of financial instruments:

(1) Firstly, the value thereof varies with particular interest rates, prices of financial instruments, prices of commodities, foreign exchange rates, price indexes, cost indexes, credit ratings, credit indexes, and other similar variables; if the variable is a non-financial variable, there is no special relationship between such variable and any party to the contract; changes in the value of derivatives depend on the change of object variables.

(2) No initial net investment is required or, compared with other types of contracts that respond to the market changes similarly, very little initial net investment is required.

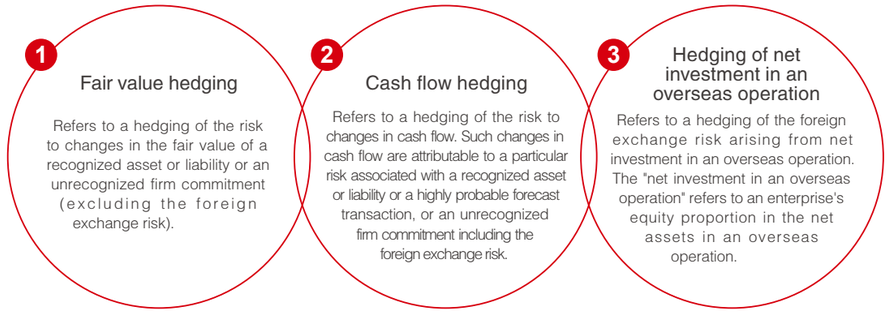
(3) It is settled at a certain future date.

Derivative instruments include forward contracts, futures contracts, swaps and options, as well as the instruments that contain one or more of the features of the above.

The derivative instruments' initial recognition shall be measured at their fair value when the derivative transaction contract is signed. On the balance sheet date, the Company shall make subsequent measurement to derivative instruments according to their fair values, and the difference between fair value and book value is recognized in "the profits and losses from the changes in fair value." The fair value is determined by the public bidding price in the open and active market. Derecognized derivatives are accounted for by reference to the provisions of held-for-trading financial assets and held-for-trading financial liabilities.

4.9 Hedging instruments

4.9.1 Classification of hedging



4.9.2 Designation of the hedging relationship and determination of the effectiveness of the hedging

At the commencement of the hedging relationship, the Company formally designates the hedging relationship and prepares a formal written document about the hedging relationship, risk management objectives and the strategies of hedging. This document specifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method for the assessment of the effectiveness of the hedging by the Company.

The "effectiveness of hedging" refers to the extent that the changes in the fair value or cash flow of a hedging instrument offsets the changes resulting from the hedging risks in the fair value or cash flow of a hedged item. The Company continuously assesses the effectiveness of the hedging and judges whether the hedging is highly effective in the accounting period designated for the hedging relationship or not. If a hedging simultaneously satisfies the following conditions, the Company shall recognize it as being highly efficient:

(1) At the commencement of hedging and in subsequent periods, the hedging is expected to be highly effective in offsetting the changes in the fair value or cash flow caused by the hedged risk during the designated periods;

(2) The hedging's actual offset results are within a range of 80% to 125%.

4.9.3 Accounting method of hedging

(1) Fair value hedging

The changes in the fair value of a hedging derivative instrument are included in the current profit or loss. The changes arising from hedging risks to the fair value of a hedged item are included in the current profit or loss, and, at the same time, the book value of the hedged item is adjusted.

With respect to a fair value hedging relating to the financial instruments measured at amortized cost, the adjustments in the book value of a hedged item are amortized over the residual period between the adjustment date and the maturity date, and are included in the current profit or loss. The amortization under the effective interest method may begin promptly after the adjustment in the book value and shall not be later than the adjustment made for the changes in fair value resulting from hedging risk upon the completion of hedged item.

If a hedged item is derecognized, the unamortized fair value shall be recognized as the current profit or loss.

Where a hedged item is an unrecognized firm commitment, the accumulative amount of the changes in the fair value of the firm commitment incurred by the hedged risk shall be recognized as an asset or liability and the relevant profit or loss shall be recorded in the profit or loss of the current period.

(2) Cash flow hedging

The portion of profit or loss on the hedging instrument that is attributable to the effective hedging is directly recognized as other comprehensive income; while the portion that is attributable to the ineffective hedging is included in the current profit or loss.

If a hedged transaction affects the current profit or loss, when the hedged financial income or expenses are recognized or the presale occurs, the amounts recognized in the other comprehensive income shall be transferred in the current profit or loss. If a hedged item is the cost of a non-financial asset or non-financial liability, the amount originally recognized in other comprehensive income shall be transferred out and be included in the initial recognition amount of the non-financial asset or non-financial liability (or the amount originally recognized in other comprehensive income shall be transferred out during the same period in which the impact on the profit of non-financial asset or non-financial liability are affected and be included in the current profit or loss).

If the expected transaction or firm commitment shall not occur, the accumulative profit or loss of hedging instrument previously included in the shareholders' equity shall be transferred out and be included in the current profit or loss. If the hedging instrument has matured or been sold, or the contract is terminated or has been exercised (but has not been replaced or extended), or the designation of hedging relationship is cancelled, the amounts previously included in other comprehensive income shall not be transferred out, unless the current profit or loss of the expected transaction or firm commitment are affected.

(3) Hedging of net investment in an overseas operation

A hedging of net investment in an overseas operation, including the hedging of monetary item as part of net investment, shall be treated according to the provisions similar to the cash flow hedging accounting; the portion of profit or loss on the hedging instrument that is attributable to the effective hedging is recognized as other comprehensive income; while the portion that is attributable to the ineffective hedging is included in the current profit or loss. When the overseas business is disposed, any accumulative profit or loss included in the shareholders' equity shall be transferred out and included in the current profit or loss.

4.10 Long-term equity investments

4.10.1 Determination of investment cost

(1) Long-term equity investment acquired from business combination

Business combination under common control: if the Company makes payment in cash, transfers non-cash assets or bears debts and issues equity securities as the consideration for the business combination, the sharing of book value of the owners' equity of the combine obtained in the consolidated financial statements is recognized as the initial cost of the long-term equity investment on the combination date. The stock premium in the capital reserve is adjusted according to the difference between the initial cost of long-term equity investment and the payment in cash, non-cash assets transferred, book value of debts assumed and total face value of issued shares; if there is no sufficient premium in the capital reserve for write-downs, the retained earnings are adjusted. Where control can be executed on the investee under common control for reasons such as additional investment, the initial cost of the long-term equity investment shall be determined based on the share of the accessible net assets of the combine in the book value of the consolidated financial statements of the ultimate controller on the combination date. The stock premium is adjusted according to the difference between the initial cost of the long-term equity investment on the combination date and, the sum of the book value of long-term equity investment prior to the realization of combination and the book value of the consideration newly paid for further acquisition of shares on the combination date, and if there is no sufficient premium for write-offs, the retained earnings are written off.

Business combination not under common control: The Company recognizes the combination cost determined on the combination date as the initial cost of long-term equity investment. Where control can be executed on the investee not under common control for reasons such as additional investment, the initial cost of the long-term equity investment shall be accounted in the cost method based on the book value of the equity investment originally held plus the newly-added investment cost.

Intermediary costs such as audit fee, legal service fee, appraisal and consultancy fee paid for the

business combination and other relevant administrative expenses are included in the current profit or loss when incurred; the transaction costs for the issuance of equity securities or the debt securities as the consideration for the business combination are included in the initially recognition amounts of the equity or debt securities.

(2) Long-term equity investment acquired by other means

For long-term equity investments acquired from making payments in cash, the initial cost is the actually paid purchase cost.

For long-term equity investments acquired from issuance of equity securities, the initial cost is the fair value of the issued equity securities.

If the exchange of non-monetary assets has commercial substance, and the fair values of assets traded out and traded in can be measured reliably, the initial cost of long-term equity investment traded in with non-monetary assets are determined based on the fair values of the assets traded out unless there is any conclusive evidence showing that the fair values of the assets traded in are more reliable. If the exchange of non-monetary assets does not meet the above criteria, the book value of the assets traded out and relevant taxes and surcharges payable are recognized as the initial cost of long-term equity investment traded in.

For a long-term equity investment acquired from debt restructuring, the initial cost is determined based on the fair value.

4.10.2 Subsequent measurement and recognition of profit or loss

(1) Long-term equity investment calculated under the cost method

Long-term equity investments of the Company in its subsidiaries are accounted for at cost method. Except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration which have been declared but not yet distributed, the Company recognizes the proportion it shall enjoy in the cash dividends or profits declared by the investee as its investment income.

(2) Long-term equity investments calculated under the equity method

Long-term equity investments of the Company in associates and joint ventures are accounted for in the equity method. If the cost of initial investment is in excess of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will not be adjusted to the initial cost of long-term equity investment; if the cost of initial investment is in short of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will be included in the current profit or loss.

The Company should recognize the investment income and other comprehensive income respectively in accordance with its share of net profit or loss and other comprehensive income realized by the investees that it should enjoy or share, and adjust the book value of long-term equity investments; calculate the part it shall have based on the distributable profits or cash dividends declared by the investees, and reduce accordingly the book value of long-term equity investments; for changes in owners' equity of the investees other than those in net gains or losses, other comprehensive income and profit distribution, the book value of long-term equity investments shall be adjusted and included in the owners' equity.

The share the Company shall have in the net gains or losses of the investees is recognized after adjustment to the net profits of the investees based on the fair value of the net identifiable assets of the investees when the investment is made and according to the accounting policies and accounting period of the Company. During the period when the investment is held, where the investees prepare consolidated financial statements, such shall be accounted for based on the amount attributable to the investees in the net profits, other comprehensive income and other changes in the owners' equity listed in the consolidated financial statements.

For gains or losses from unrealized internal transitions between the Company and the associates or joint ventures, the part attributable to the Company is calculated according to the proportion it shall have, and offset, based on which the investment income is recognized. The losses from unrealized internal transactions with the investees that are losses on asset impairment shall be recognized in full amount.

When the Company recognize the share it should take in the losses of the investee, treatment shall be done in following sequence: firstly, the book value of the long-term equity investment shall be reduced; secondly, where the book value is insufficient to cover the share of losses, investment losses are recognized to the extent of book value of other long-term equity which form net investment in the investee in substance and the book value of long term receivables shall be reduced; finally, after all the above treatments, if the Company is still responsible for any additional liabilities in accordance with the provisions stipulated in the investment contracts or agreements, estimated liabilities are recognized and included into current investment loss according to the obligations estimated to undertake. If the investee achieves profit in subsequent periods, the treatment is in the reversed sequence described above, i.e. after deducting any unrecognized investment losses, reduce book value of estimated liabilities recognized, restore book values of other long-term equity which form net investment in the investee in substance, and of long-term equity investment, and recognize investment income at the same time.

(3) Disposal of long-term equity investments

For disposal of long-term equity investment, the difference between its book value and the actual price for acquisition shall be included in current profit or loss.

For the long-term equity investment calculated under the equity method, upon disposal of such investment, accounting treatment shall be conducted on the part included in other comprehensive income originally in corresponding proportion by using the same basis for direct disposal of the relevant assets or liabilities by the investee. The owners' equity recognized from changes in owners' equity of the investee other than net profits or losses, other comprehensive income and profit distribution shall be transferred to current profit or loss in the corresponding proportion.

In case the joint control or significant influence on the investee is lost due to the disposal of part of equity investments and other reasons, the remaining equity upon disposal shall be accounted for in the recognition and measurement criteria for financial instruments, and the difference between the fair value on date when the Company loses the joint control or significant influence and the book value shall be included in the current profit or loss. For other comprehensive income recognized from the original equity investment by using the equity method, the accounting treatment shall be conducted by using the same basis for direct disposal of the relevant assets or liabilities by the investor when the equity method is not used. The owners' equity recognized from changes in owners' equity of the investee other than net profits or losses, other comprehensive income and profit distribution shall be transferred totally into the current profit or loss when the equity method is not used.

In case the control over the investee is lost due to disposal of part of equity investments or other reasons, in the preparation of individual financial statements, the remaining equity after the disposal that can exercise joint control or exert significant influence over the investee shall be calculated under the equity method, and such remaining equity shall be adjusted as if it had been accounted for in the equity method since the time of acquisition; the remaining equity after disposal that cannot exercise joint control or exert significant influence over the investee shall be subject to account treatment according to the relevant provisions of the recognition and measurement criteria for financial instruments, and the difference between the fair value on the date when the control is lost and the book value shall be included into the current profit or loss.

In case the equity disposed of is acquired through business combination due to additional investment or other reasons, in the preparation of individual financial statements, if the remaining equity after the disposal is accounted for in the cost method or the equity method, other comprehensive income and other owners' equity recognized from the equity investments held before the date of acquisition in the equity method shall be carried over in proportion; if the remaining equity after the disposal is subject to accounting treatment according to the recognition and measurement criteria for financial instruments, all the other comprehensive income and other owners' equity shall be carried over.

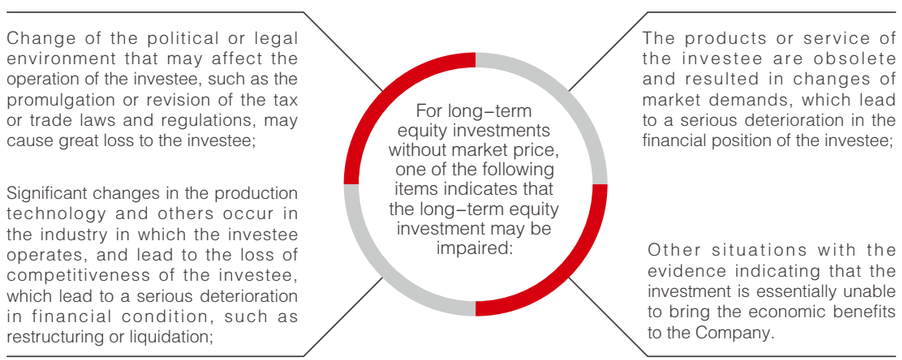
4.10.3 Determination basis of joint control or significant influence over the investee

Joint control is the sharing of control over a certain arrangement in accordance with the relevant agreement, and the relevant activities of such arrangement may be decided only upon the unanimous consent of the parties sharing the control. Where the Company and other parties do joint control over an investee and are entitled to the net assets of the investee, the investee shall be deemed as a joint venture of the Company.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not the control or joint control over those polices. Where an investing enterprise is able to have significant influence on an investee, the investee shall be its associate.

4.10.4 Testing and provision method for impairment

The Company conducts an impairment test for the long-term equity investment at the end of the period, and provides a provision for long-term equity investment impairment at the difference between the recoverable amount and the book value of long-term equity investment. Once recognized, the impairment loss of long-term equity investment shall not be reversed.



4.11 Fixed assets

4.11.1 Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes and have useful life of more than one accounting year.

4.11.2 Measurement of fixed assets

A fixed asset is initially recorded at its cost. The cost of a fixed asset which is purchased comprises its purchase price, value-added tax (excluding the deductible VAT input), import duties and other related taxes and surcharges, and other directly attributable expenditures for bringing the asset to working condition for its intended use; a self-constructed fixed asset is recorded at the total amount of expenditure necessarily incurred for bringing the asset to working condition for its intended use; a fixed asset contributed by an investor is recorded at the value stipulated in the investment contract or agreement, or recorded at fair value if the value stipulated in the contract or agreement is unfair; a fixed asset acquired under a finance lease is recorded at the lower of the fair value and the present value of the minimum rental payment of the leased assets as starting of the lease date.

4.11.3 Classification and depreciation of fixed assets

The Company provides depreciation for all its fixed assets except for the fully depreciated fixed assets that are still in use and the land that is separately valued and recorded as a fixed asset in accordance with relevant regulations. Fixed assets are depreciated on a straight-line basis. Expected residual value of fixed assets is 5% of original cost. The categories, depreciation life and depreciation rates are listed as follows:

11.88%	6.79%~23.75%	2.38%
Transportation equipment 8 years	Office equipment 4 to 14 years	Building 40 years

4.11.4 Provision for impairment of fixed assets

The Company examines its fixed assets at the end of the period and if the following circumstances are discovered, the Company will calculate the recoverable amount of a fixed asset to determine whether the asset is impaired. If the recoverable amount of a fixed asset is lower than its book value, the Company makes a provision for impairment of the fixed asset at an amount equal to the difference between the single fixed asset's recoverable amount lower than its book value. The provision of impairment cannot be reversed in the subsequent accounting periods once made.

(1) Market price of the fixed asset has declined significantly, which is apparently more than expected decline as a result of the passage of time or normal use;

(2) Significant changes with an adverse effect on the Company in the technological, economic or legal environment in which the enterprise operates or in the market for the Company's assets have taken place during the period, or will take place in the near future;

(3) The market interest rates or other market rate of return on investment in the current period have been increased so that the Company's calculation of the discount rate of the present value of the estimated future cash flows is affected, leading to significant reduction in the recoverable amounts of the assets;

(4) There is evidence showing that the assets have been obsolete or actually damaged;

(5) The fixed asset has been or will be left unused, or terminated for use, or disposed ahead of schedule;

(6) Evidence of the Company's internal report indicates that the economic performance of the fixed asset has been or will be lower than the expectation. The net cash flows or operating profits (or losses) from assets are significantly lower (or higher) than the expected amount;

(7) Other circumstances under which there is any sign indicating that the asset may be impaired.

For the fixed assets under any of the following circumstances, the recoverable amount is zero:

(1) Oil gas gathering and transportation facilities, oil and gas transportation pipeline, oil storage facilities and others will not be utilized in the future due to exhausted resources; and

(2) The office buildings, employee dormitory and other fixed assets in mining area, which are no longer developed or produced, and will not be used in future according to expectation.

4.11.5 Subsequent expenditure of fixed assets

Subsequent expenses relating to fixed assets mainly include repair, betterment and renovation and so on. The expenses will be recognized as cost of fixed asset when meeting the requirements of capitalization; for the replaced component, its book value shall be derecognized; other subsequent expenses are included in current profit or loss upon occurrence.

When the fixed assets have been disposed or cannot bring economic benefit through the expected usage or disposal, the fixed assets are derecognized. The amount of proceeds from being sold, transferred, obsoleted or destroyed, after deducting the book value and related taxes and surcharges, is included in current profit or loss.

4.12 Intangible assets

4.12.1 Intangible assets

The term "intangible assets" refers to the identifiable non-monetary assets possessed or controlled by the Company which have no physical shape. Intangible assets of the Company mainly include financial software and land use rights.

4.12.2 Evaluation method of intangible assets

The intangible assets shall be measured at the actual cost on acquisition. The actual cost of a purchased intangible asset shall be the actual payment for the purchase and other relevant expenses; the actual cost of an intangible asset invested by investor shall be determined according to the value agreed in the investment contract or agreement, but if the value of the contract or agreement is not fair, the actual cost shall be determined according to the fair value;

4.12.3 Amortization method and period of intangible assets

An intangible asset with a limited useful life is amortized using the straight-line method over its useful life from the time when it is available for use to the time when it is not recognized as an intangible asset. An intangible asset with an indefinite useful life shall not be amortized. The Company will reexamine the estimated useful life and amortization methods of intangible assets with limited useful life at the end of each year. And in each accounting period, the Company reviews the estimated useful life of intangible asset with indefinite useful, and estimates the useful life and amortizes the asset over its estimated useful life when there is evidence showing that the intangible asset has limited life.

4.12.4 Recognition criteria and provision method for intangible asset impairment provision

For the intangible assets with indefinit lives and the intangible assets with definite lives and involved in one or several situations below, their impairment provisions shall be made at the difference of their estimated recoverable amounts in short of their book values at the end of the period. Once provision for impairment of intangible assets is made, it shall not be reversed in subsequent accounting periods.

1. The intangible asset is replaced by other new technologies, which adversely affects its ability to generate economic benefits for the Company;
2. The market price falls sharply in the period, and is estimated not to be recovered in the remaining amortization period;
3. The intangible asset is no longer within legal protection term but still has some use value;
4. Other circumstances that may prove that the impairment has been essentially incurred.

4.13 Long-term deferred expenses

The Company's long-term deferred expenses refer to the renovation costs that have been incurred but have more than one-year amortization period, and are averagely amortized within the benefit period.

4.14 Employee compensation

Employee compensations refer to multiform remuneration or compensation offered of the Company in order to get services provided by its employees or terminate the labor relation,mainly including short–term compensation, post–employment benefits, dismissal benefits and other long–term employee benefits.

4.14.1 Short–term compensation

During the accounting period when employees serve the Company, the actual short–term compensation is recognized as liabilities and included in current profit or loss or related asset costs.

The social insurance premium and the housing provident fund paid by the Company for its employees, together with the labor union expenditures and employee education drew as required are used to calculate and determine the relevant employee compensation amount based on the prescribed accrual basis and accrual proportion during the accounting period in which the employees provide services to the Company.

Employee welfare, if being non–monetary benefits that can be measured reliably, is measured at fair value.

4.14.2 Dismissal welfare

When the Company fails to unilaterally withdraw the dismissal benefits offered due to the termination of the labor relation plan or layoff proposal, or confirms the costs or fees associated with the reorganization involving the payment of the dismissal benefits (whatever is earlier), the employee compensation liabilities arising from the confirmation of dismissal benefits are included in the current profit or loss.

4.14.3 Post–employment benefits

(1) Defined contribution plans

The Company pays basic endowment insurance premium and unemployment insurance premium for its employees in accordance with relevant provisions of local government. During the accounting period when the Company receives services from employees, the payable amount calculated based on the basis and proportion prescribed is recognized as an liability and included in current profit or loss, or related asset cost.

The Company establishes enterprise annuity system, and the enterprise annuity fund shall be paid by the Company and individual collectively. The part of enterprise annuity fund assumed by the Company will be withdrawn at 5% of the total salaries of last year from the cost of the Company; the part assumed by the individual shall be 1% of the payment base of the basic endowment insurance in that year, and will be deducted by the Company from the salaries of the employees.

(2) Defined benefit plans

The Company, according to the formula determined based on expected accumulative walfare unit method, recognizes the welfare obligations arising from defined benefit plan to the period of receiving services from employees and includes them into the current profit or loss or relelated asset costs.

A net liability or net asset in connection with the defined benefit plan is recognized at the present value of the obligation under the defined benefit plan less the deficit or surplus arising from the fair value of the assets under the defined benefit plan. For a surplus of defined benefit plans, the Company should measure the net asset of such defined benefit plans at the lower of the surplus of such defined benefit plans and the asset thereof.

All obligations under the defined benefit plan, including the estimated payment obligation within 12 months following the annual report period during which the employees provide service, are discounted to the present value at the market return of the national debt corresponding to the period and currencies of the obligations under the defined benefit plan or high–quality corporate bonds active on the market on the balance sheet date.

Net interest of the service costs arising from the defined benefit plan and net defined benefit liabilities or assets is included in the current profit or loss, or related asset costs; changes due to the remeasurement of net defined benefit liabilities or assets are included in other comprehensive income and will not turned into the proft or loss during the subsequent accounting period.

Upon settlement of defined benefit plan, the difference between the present value of defined benefit plan obligation determined on the settlement date and the settlement price thereof is recognized as settlement profit or loss.

4.15 Bonds payable

4.15.1 Measurement and amortization of premium or discount of bonds payable

Bonds payable are measured at the actual issue price; the difference between the total issue price and the total par value of the bonds is the premium or discount of the bonds, which shall be amortized in effective interest method during the duration of the bonds when the interest is accrued, and treated in the principle for borrowing costs.

4.15.2 Accrued interest of bonds payable

Accrued interest is calculated on schedule according to the par value of bonds payable and stipulated interest rate, and respectively included into engineering costs or current financial expenses in the principle of capitalization of borrowing costs.

4.16 Estimated liabilities

4.16.1 Recognition criteria of estimated liabilities

Liabilities shall be recognized when the Company is involved in such contingencies as external guarantee, pending litigation or arbitration, product quality guarantee, loss making contract, restructuring obligation or asset disposal which satisfy the following conditions simultaneously:

(1) The obligation is a present obligation of the Company;

(2) The performance of such obligation is likely to result in outflow of economic benefits from the Company; and

(3) The amount of the obligation can be measured reliably.

4.16.2 Measurement method of estimated liabilities

The estimated liabilities of the Bank are initially measured as the best estimate of expenses required for the performance of relevant present obligations by considering comprehensively the risks, uncertainties, the time value of money and others with respect to contingencies. If the time value of money is significant, the best estimate shall be determined after discounting the relevant future outflow of cash. At the balance sheet date, the Company will reexamine the book value of the estimated liabilities and will make adjustment to the book value to reflect the best estimate.

4.17 Income

The Company's main income includes interest income and income from handling charges and commissions.

Interest income is recognized on the accrual basis and according to the actual interest rate or the applicable floating rate of the financial instruments at the end of accounting period. Interest income includes any discount or premium amortization, or any amortization of the difference between the initial book value of the interest–bearing tool and its amount at maturity date calculated on an effective interest rate basis. If there is objective evidence proving that the calculation of the interest income indicates little difference between the effective interest rate and nominal interest rate of the financial assets or financial liabilities, the Company adopts the nominal interest rate for measurement of interest income.

The effective interest method refers to the method to calculate the amortized cost and interest income or interest expense of financial assets and financial liabilities, in accordance with their effective interest rate. When the loan principal or interest is overdue for more than 90 days, the calculation of accrued interest income will be terminated on the original terms. However, for the financial assets for which provisions for impairment have been made, the interest income will continue to be calculated according to the future cash flows' discounted rate of the related impairment loss.

Based on the accrual basis, income from handling charges and commissions are measured and recognized at the agreed rate or the agreed amount, and recorded in current profits or losses when the related service is rendered.

4.18 Government subsidies

4.18.1 Classification of government subsidies

Government subsidies refer to the monetary assets and non–monetary assets freely obtained by the Group from the government. The government subsidies are divided into government subsidies related to assets and government subsidies related to income.

Government subsidies of the Company that are acquired to be used for acquisition and construction or that form long term assets by other means are defined as government subsidies related to assets; the remaining government subsidies are defined as government subsidies related to income. Where government documents fail to clearly define subsidy objects, the Company will divide government subsidies into those related to assets or those related to income by the following ways:

(1) Where government documents clarify specific items, the subsidies should be classified according to the relative proportion of expenditures that form assets and that are included on expenses in the budget for specific items. The proportion shall be reviewed on each balance sheet date and may be changed if necessary;

(2) Where government documents only make a general description on the purpose and fail to clarify specific items, the subsidies should be classified as government subsidies related to income.

4.18.2 Recognition time

Government subsidies shall be recognized only if the Company is able to comply with the conditions for the government subsidies, and is likely to receive the government subsidies.

4.18.3 Accounting treatment

If government subsidies are monetary assets, they shall be measured in the light of the amount received or receivable. Where government subsidies are non–monetary assets, they are measured at fair value; where the fair value cannot be reliably measured, they are measured at nominal amount.

Government subsidies related to assets shall be used to offset the book value of relevant assets or recognized as deferred income. Where such subsidies are recognized as the deferred income, they will be included in the current profit or loss in accordance with the reasonable and systematic methods within useful lives of related assets.

Government subsidies related to income that are used to recover relevant costs or losses of the Group in subsequent period are recognized as deferred income and included in the current profit or loss or offset relevant costs when relevant costs or losses are recognized; where such subsidies are used to recover relevant costs or losses incurred, they will be directly included in the current profit or loss or offset relevant costs.

For government subsidies that include subsidies related to assets and subsidies related to income, they shall distinguish the different parts for respective accounting treatment; if it is difficult to distinguish them, they shall be classified in to the governments related to income as a whole.

Government subsidies related to daily activities are included in other income or used to offset relevant costs; government subsidies irrelevant to daily activities are included in the non–operating revenue or expenditure.

4.19 Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognized based on differences (temporary differences) between tax base and book value of the assets and liabilities. The deductible losses and tax deductions, which can be utilized against the future taxable income in accordance with tax law, are regarded as temporary differences and a deferred income tax asset is recognized accordingly. On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The recognition of the deferred income tax assets is limited to the taxable income that is likely to deduct the deductible temporary differences, deductible losses and tax deductions. For the recognized deferred income tax assets, the book value of the deferred income tax assets should be written down when it is expected that it is unlikely to obtain sufficient taxable income to deduct the deferred income tax assets. When it is likely to earn sufficient taxable income, the write–down amount shall be reversed.

If the Company has the legal right of netting and intends to settle in net amount or to obtain assets and discharge liabilities simultaneously, the income tax assets and income tax liabilities of the Company for the current period shall be presented based on the net amount after offset.

When the Company has the legal rights to balance income tax assets and income tax liabilities for the current period with net settlement, and deferred income tax assets and deferred income tax liabilities are related to the income tax which are imposed on the same taxpaying subject by the same tax collection authority or on different taxpaying subjects, but, in each important future period in connection with the reverse of deferred income tax assets and liabilities, the involved taxpaying subject intends to balance income tax assets and liabilities for the current period with net settlement at the time of obtaining assets and discharging liabilities, deferred income tax assets and deferred income tax liabilities shall be presented based on the net amount after offset.

4.20 Leases

The Company's leases are classified into financing leases and operating leases. When all the risks and rewards associated with the ownership of an asset are substantially transferred to the lessee, the lease is called financing lease; and leases other than that are called operating leases.

4.20.1 Operating lease

Operating leases' rental expenses shall be included in related asset costs or the current profit or loss over the lease term on a straight–line basis.

4.20.2 Financing lease

The Company recognizes the fair value of leased assets or the present value of the minimum lease payment, whichever is the lower, as the book–entry value of the leased assets, and the difference between the book–entry value and the minimum lease payment as unrecognized financing expenses. The Company amortizes the unrecognized financing expenses over the lease term by the effective interest method. The balance of the minimum lease payments after deducting unrecognized financing expenses shall be presented as long–term payables. Provision for depreciation of fixed assets acquired under financing leases is made in accordance with the Company's policy on fixed asset depreciation.

4.21 Fair value measurement

The Company measures the relevant assets and liabilities at fair value based on the following assumptions:

4.21.1The market participants' transaction of asset sale or liability transfer on the measurement date are the orderly trading carried out under the current market conditions.

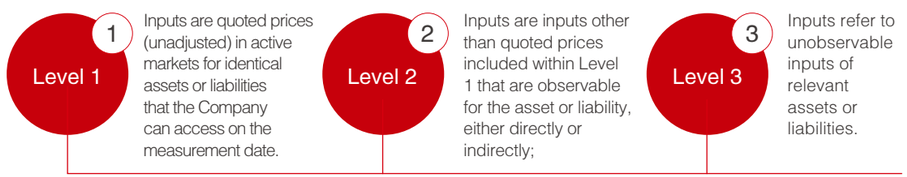
4.21.2The asset sale or liability transfer is carried out in the main market of the relevant assets or liabilities. Where there is no main market, the Company should assume that the transaction is carried out in the most advantageous market related to the assets or liabilities.

4.21.3The Company adopts the assumption used for realizing its utmost economic benefit when the market participants price the asset or liability.

When the Company measures non–financial assets at fair value, it should consider a market participant' s ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use.

When the Company uses the valuation techniques, it has considered the valuation techniques that are applicable in the current situation and are supported by enough available data and other information. The Company gives priority to the observable inputs when using valuation techniques, and those unobservable inputs are used only under the circumstance when it is impossible or unobservable inputs to obtain relevant observable inputs.

Inputs used in the fair value measurement are divided into three levels:



The level of the measurement result of fair value shall subject to the lowest level which the input that is great significance to the entire measurement of fair value belongs to.

5. Notes to adjustments for changes in accounting policies, accounting estimates and corrections of accounting errors /

5.1 Changes in accounting policies during the reporting period

According to the Accounting Standards for Business Enterprises No. 16 – Government Subsidies (CK [2017] No. 15) issued by the Ministry of Finance in June 2017, the Company includes the part of the government subsidies which are related to the daily activities of enterprises into other income according to the nature of economic activities, and at the same time adjusts the comparative data.

According to the above provisions, the Company will revise the presentation of financial statements. The government subsidies related to daily activities and also related to income will be adjusted from the "non–operating income" item in the income statement to the "other income" item in the income statement. Such change will have no significant impact on the financial condition, operating results and cash flows of the Company.

The amount of government subsidies in 2017 was RMB 42,604.75, which is unrelated to daily activities and is presented in the "non–operating income" item.

5.2 There was no change in the accounting estimates during the reporting period of the Company.

5.3 There was no correction of accounting errors in prior periods during the reporting period of the Company.

5.4 There were no adjustments of other matters during the reporting period of the Company.

6. Taxation /

Income tax	According to the Law of the People's Republic of China on Enterprise Income Tax, the enterprise income tax rate applicable to the Company is 25%. Based on the proportion distributed by the head office, each branch prepays the income tax to the local tax bureau based on its total profit before tax and applicable tax rate, and the head office of the Company will make the final payments to the local tax bureau. The Company's Hong Kong Subsidiary pays the enterprise income tax to local tax bureau at the rate of 16.5% according to the Inland Revenue Ordinance of Hong Kong.
Value–added tax (VAT)	The Company implements the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value–added Tax in Lieu of Business Tax (CS [2016] No. 36) issued by the Ministry of Finance and the State Administration of Taxation, and pays the VAT for the provided construction service, financial service, life service, sales of intangible assets and sales of real estate since May 1, 2016. The Company pays the VAT at VAT rate of 6% for financial service from May 1, 2016. Each branch of the Company pays its tax to the local tax bureau.
Interest withholding tax	The Singapore subsidiary of the Company's Hong Kong Subsidiary is subject to FTC preferential policies of Singapore government and is exempted from interest withholding tax.
Urban maintenance and construction tax and education surtax	The urban maintenance and construction tax of the Company was 7% of the turnover tax; the education surtax was 3% of turnover tax. Local education surtax was calculated and paid at 2% of turnover tax.
Individual income tax	Employees' individual income tax of the Company is assumed by the individuals and withheld and remitted by the Company.

7. Preparation of consolidated financial statements /

7.1 Subsidiaries included in the scope of consolidated statements in 2017

Monetary Unit: USD 0'000

S. N.	Enterprise name	Level	Enterprise type	Registered place	Business nature	Registered capital	Shareholding ratio %	Voting rights ratio %	Investment Amount	Way of acquisition
1	CNPC Finance (HK) Limited	5	Overseas subsidiary	RM1201, 12th Floor, NO.18 Central Plaza, Harbour Road, Wanchai, Hong Kong	Financial services	40,000.00 (Remark 2)	100	100	40,000.00 (Remark 2)	Established by investment
2	CNPC Finance (Dubai) Limited (Remark 1)	6	Subsidiary of overseas subsidiary	Level 108–109, Emarat Atrium Building Sheikh Zayed Road P. O. Box 72509 Dubai, UAE	Financial services	80.00 (Remark 3)	100	100	80.00 (Remark 3)	Established by investment
3	CNPC Finance (Singapore) Limited (Remark 1)	6	Subsidiary of overseas subsidiary	9 Batten, Road. #15–01 Straits Trading Building. Singapore 049910	Financial services	500.00 (Remark 4)	100	100	500.00 (Remark 4)	Established by investment
4	CNPC (HK) OVERSEAS CAPITAL LTD.	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
5	CNPC (BVI) LIMITED	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
6	CNPC Gold Autumn Limited	6	Subsidiary of overseas subsidiary	British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
7	CNPC General Capital Limited	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation

Remark 1: A subsidiary of Hong Kong Subsidiary of the Company.
Remark 2: Original investment is USD 400,000,000, equivalent to RMB 2,683,060,000.00.
Remark 3: Original investment is USD 800,000, equivalent to RMB 5,298,160.00.
Remark 4: Original investment is USD 5,000,000, equivalent to RMB 32,422,500.00.
Remark 5: Currency and monetary Unit: USD and RMB.

7.2 Treatment methods adopted by the parent company for the preparation of financial statements when its subsidiaries adopt the accounting policies inconsistent with those of the parent company

For overseas subsidiary enterprises that are should be included in the consolidated scope according to the Accounting Standards for Business Enterprises, the Company shall first convert the individual financial statements of such subsidiary enterprises into the financial statements presented in RMB under Note 4.7 "Accounting method and conversion method of foreign currency business" and the converted financial statements presented in RMB will serve as a basis for the preparation of the consolidated financial statements.

8. Notes to the main items of the consolidated financial statements /

1

8.1 Cash and deposits in central bank

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Cash	–	343.23
Including: RMB	–	343.23
Legal deposit reserve in the central bank	18,254,288,797.64	18,635,221,878.93
Excess deposit reserve in the central bank	3,456.61	3,431.48
Total	18,254,292,254.25	18,635,225,653.64

2

8.2 Deposits with banks and other financial institutions

8.2.1 Categories on term basis

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Demand deposits	40,464,315,425.83	49,761,857,203.05
Including: refundable deposits	40,000.00	400,000.00
Term deposits maturing within three months	13,596,089,000.00	12,336,715,118.37
Term deposits maturing over three months	61,206,870,528.19	60,285,399,894.44
Total	115,267,274,954.02	122,383,972,215.86

8.2.2 Categories on the basis of the nature of financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Deposits in state-owned commercial banks	40,422,770,334.59	49,254,042,479.77
Deposits in joint-stock commercial banks	58,970,342,221.77	51,672,882,334.97
Deposits in other financial institutions	15,874,162,397.66	21,457,047,401.12
Total	115,267,274,954.02	122,383,972,215.86

3

8.3 Financial assets held for trading

Monetary Unit: RMB

Item	Fair value as at December 31, 2017	Fair value as at January 1, 2017
Equity instrument investments – fund investment	3,205,414,482.02	4,501,331,713.51
Total	3,205,414,482.02	4,501,331,713.51

4

8.4 Derivative financial assets and derivative financial liabilities

The Company uses the following derivative financial instruments for trading purpose:

8.4.1 Interest rate swap

The interest rate swap is a financial agreement with counterparties, pursuant to which, certain nominal principal of the same currency and interests are exchanged within certain period. Only interest with different characteristics is exchanged, and there is no real exchange of principal.

8.4.2 Currency swap

Currency swap transaction refers to the contract between parties, pursuant to which, exchange at certain exchange interest rate between different currencies on the agreed date. The currency swap transactions which the company engaged in are based on the adjustment needs of different currency swap liquidity and hedging purposes.

8.4.3 Cross currency swap

Cross currency swap refers to a combination of the interest rate swap and the currency swap, is a financial contract with an exchange between different currencies and interest in different natures.

8.4.4 Derivative financial instruments

Monetary Unit: RMB

Item	Contract amount analyzed by the remaining maturity date				Fair value as at December 31, 2017	
	Within 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Assets	Liabilities
Currency swap hedging instrument	SGD 235,000,000.00	–	–	–	–	8,976,217.22
Interest rate swap hedging instrument	–	–	USD 100,000,000.00	USD 550,000,000.00	33,097,004.10	103,323,833.56
Cross currency swap hedging instrument	CNY 3,200,000,000.00	CNY 2,000,000,000.00	–	–	419,916,418.85	637,698,600.78
		USD 400,000,000.00				
		EUR 300,000,000.00	EUR 435,000,000.00	HKD 779,000,000.00		
Total	–	–	–	–	453,013,422.95	749,998,651.56

5 8.5 Financial assets purchased under resale agreements

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Bonds	15,310,000,000.00	–
Notes	–	–
Less: provision for bad debts	–	–
Book value	15,310,000,000.00	–

6 8.6 Interest receivable

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Deposits in the central bank	7,479,922.33	6,225,952.12
Deposits with banks and other financial institutions	895,867,770.97	611,917,766.58
Financial assets held for trading	–	–
Financial assets purchased under resale agreements	16,846,591.14	–
Loan	602,540,433.63	492,025,955.22
Held–to–maturity investments	71,630,410.96	49,021,392.71
Available–for–sale financial assets	221,563,923.88	130,156,772.45
Interest rate swap	24,222,584.03	9,227,248.81
Total	1,840,151,636.94	1,298,575,087.89

7 8.7 Disbursement of loans and advances

8.7.1 Loans and advances classified by item

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Loan	257,683,015,919.14	240,474,241,359.86
Discount	2,663,091,968.23	1,987,199,754.95
Total loans and advances	260,346,107,887.37	242,461,441,114.81
Less: provision for losses on loans	12,629,886,599.86	13,279,448,677.40
Including: provision made on single basis	1,307,320,000.00	1,320,500,000.00
Provision made on portfolio basis	11,322,566,599.86	11,958,948,677.40
Book value of loans and advances	247,716,221,287.51	229,181,992,437.41

8.7.2 As at December 31, 2017, loan risks of the Company are classified as follows:

Monetary Unit: RMB

Classification	Balance as at December 31, 2017	Balance as at January 1, 2017
Pass	102,915,620,847.41	80,841,539,761.91
Special–mention	157,430,487,039.96	161,619,901,352.90
Total	260,346,107,887.37	242,461,441,114.81

8 8.8 Available–for–sale financial assets

Monetary Unit: RMB

Item	Balance as at December 31, 2017			Balance as at January 1, 2017		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available–for–sale debt instruments	48,163,341,040.84	–	48,163,341,040.84	14,029,854,734.20	–	14,029,854,734.20
Available–for–sale equity instruments	1,583,958,411.31	146,961,402.54	1,436,997,008.77	2,489,161,906.64	153,205,859.39	2,335,956,047.25
Including: measured at fair value	1,583,958,411.31	146,961,402.54	1,436,997,008.77	2,489,161,906.64	153,205,859.39	2,335,956,047.25
Measured at cost	–	–	–	–	–	–
Total	49,747,299,452.15	146,961,402.54	49,600,338,049.61	16,519,016,640.84	153,205,859.39	16,365,810,781.45

9 8.9 Held–to–maturity investments

Monetary Unit: RMB

Item	Balance as at December 31, 2017			Balance as at January 1, 2017		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Bond investments (including convertible bonds)	250,000,000.00	8,750,000.00	241,250,000.00	1,200,000,000.00	42,000,000.00	1,158,000,000.00
Others	25,200,000,000.00	882,000,000.00	24,318,000,000.00	23,000,000,000.00	805,000,000.00	22,195,000,000.00
Total	25,450,000,000.00	890,750,000.00	24,559,250,000.00	24,200,000,000.00	847,000,000.00	23,353,000,000.00

Others include trust products, finance products and other investments.

10 8.10 Fixed assets

8.10.1 Classification of fixed assets

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31, 2017
I. Total original book value	245,972,757.05	13,167,024.53	1,385,110.00	257,754,671.58
Including: buildings and constructions	215,251,753.42	–	–	215,251,753.42
Office equipment	16,883,092.46	13,167,024.53	357,835.00	29,692,281.99
Transportation facilities	13,837,911.17	–	1,027,275.00	12,810,636.17
II. Total accumulated depreciation	53,495,589.02	6,621,390.28	1,327,940.26	58,789,039.04
Including: buildings and constructions	27,807,549.29	5,005,100.37	–	32,812,649.66
Office equipment	14,232,191.81	1,061,043.95	340,600.11	14,952,635.65
Transportation facilities	11,455,847.92	555,245.96	987,340.15	11,023,753.73
III. Total net book value	192,477,168.03	–	–	198,965,632.54
Including: buildings and constructions	187,444,204.13	–	–	182,439,103.76
Office equipment	2,650,900.65	–	–	14,739,646.34
Transportation facilities	2,382,063.25	–	–	1,786,882.44
IV. Total provision for impairment	–	–	–	–
V. Total book value	192,477,168.03	–	–	198,965,632.54
Including: buildings and constructions	187,444,204.13	–	–	182,439,103.76
Office equipment	2,650,900.65	–	–	14,739,646.34
Transportation facilities	2,382,063.25	–	–	1,786,882.44

11 8.11 Intangible assets

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31, 2017
Total original book value	1,415,923.00	729,572.65	–	2,145,495.65
Including: software	1,289,882.05	729,572.65	–	2,019,454.70
Land	126,040.95	–	–	126,040.95
Total accumulated amortization	1,068,933.37	346,542.81	–	1,415,476.18
Including: software	997,510.25	333,938.73	–	1,331,448.98
Land	71,423.12	12,604.08	–	84,027.20
Total provision for impairment	–	–	–	–
Total book value	346,989.63	–	–	730,019.47
Including: software	292,371.80	–	–	688,005.72
Land	54,617.83	–	–	42,013.75

12 8.12 Deferred income tax assets and deferred income tax liabilities

8.12.1 Recognized deferred income tax assets

Monetary Unit: RMB

Item	Balance as at December 31, 2017		Balance as at January 1, 2017	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	2,291,815,509.16	11,064,871,181.47	2,371,362,227.83	11,855,950,176.49
Employee compensation payable	4,678,744.61	18,714,978.44	4,678,744.61	18,714,978.44
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	114,547,610.92	458,190,443.68	2,722,411.01	16,499,460.67
Total	2,411,041,864.69	11,541,776,603.59	2,378,763,383.45	11,891,164,615.60

8.12.2 Recognized deferred income tax liabilities

Monetary Unit: RMB

Item	Balance as at December 31, 2017		Balance as at January 1, 2017	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Changes in fair value of financial assets held for trading	858,915.99	3,435,663.96	15,042,871.67	60,171,486.68
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	10,028,390.41	60,778,123.70	65,099,904.38	275,925,431.38
Total	10,887,306.40	64,213,787.66	80,142,776.05	336,096,918.06

13 8.13 Other assets

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Other receivables	38,333.91	6,161.61
Handling charges and commissions receivable	23,420,025.11	45,876,976.87
Issue expenses subject to transfer	2,385,677.93	2,447,341.20
Deferred expenses	18,475,580.66	25,472,156.21
Re-classified taxes and charges	–	43,710,119.94
Agency business for clients	–	170,856,295.10
Re-classified housing provident funds	3,056.00	–
Securities transaction liquidation amount	9,244,272.21	–
Total	53,566,945.82	288,369,050.93

14 8.14 Deposits in banks and other financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Interbank deposits	–	–
Including: Bank	530,809,438.15	1,712,002,915.60
Other financial institutions	4,449,763,596.33	4,439,522,560.27
Total	4,980,573,034.48	6,151,525,475.87

15 8.15 Loans from banks and other financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Loans from other banks	67,955,680,000.00	65,016,018,725.00
Others	1,525,142,650.30	1,514,326,844.14
Total	69,480,822,650.30	66,530,345,569.14

16 8.16 Absorption of deposits

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Demand deposits	159,874,567,470.07	67,755,264,540.62
Time deposits (including call deposits)	135,728,475,027.49	167,856,841,238.23
Total	295,603,042,497.56	235,612,105,778.85

17 8.17 Employee compensation payable

8.17.1 Presentation of employee compensation payable

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31,2017
I. Short–term compensation	36,217,740.26	86,611,701.53	85,308,565.83	37,520,875.96
II. Post–employment benefits	–	10,593,727.14	10,593,727.14	–
Including: defined contribution plans	–	10,593,727.14	10,593,727.14	–
III. Dismissal welfare	–	–	–	–
IV. Others	–	46,847.33	46,847.33	7,217,142.13
Total	36,217,740.26	97,252,276.00	95,949,140.30	37,520,875.96

18 8.18 Taxes and surcharges payable

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31, 2017
I. Domestic taxes and surcharges	179,657,287.62	1,722,290,516.80	1,656,198,157.20	245,749,647.22
Value–added tax (6%)	96,801,366.66	377,136,826.00	380,495,205.29	93,442,987.37
Urban construction and maintenance tax (7%)	6,776,095.66	26,399,577.83	26,634,664.37	6,541,009.12
Education surtax and local education surtax (5%)	4,840,068.35	18,856,841.28	19,024,760.25	4,672,149.38
Income tax (25%)	55,742,869.10	1,279,446,515.64	1,202,932,416.50	132,256,968.24
Individual income tax	4,697,484.67	9,472,529.15	8,265,068.60	5,904,945.22
Vehicle and vessel tax	–	38,170.00	38,170.00	–
Housing property tax	10,782.81	169,244.68	169,244.68	10,782.81
Urban and rural land use tax	2,867.60	45,271.20	45,271.20	2,867.60
River maintenance costs	–	12,594.68	12,594.68	–
Water conservancy construction funds	4,997.54	56,338.25	52,641.83	8,693.96
Others	10,780,755.23	10,656,608.09	18,528,119.80	2,909,243.52
II. Overseas taxes and surcharges	–42,183,709.94	136,239,707.70	35,313,275.75	58,742,722.01
Income taxes	–42,183,709.94	135,761,775.97	34,835,344.02	58,742,722.01
Individual income tax	–	474,189.16	474,189.16	–
Others	–	3,742.57	3,742.57	–
III. Taxes and surcharges payable reclassified	43,710,119.94	–	–	–
Including: value added tax (VAT)	–	–	–	–
Enterprise income tax	43,710,119.94	–	–	–
Total	181,183,697.62	–	–	304,492,369.23

19 8.19 Interest payable

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Accepted deposits	4,450,797,174.81	2,467,097,104.29
Loans from banks and other financial institutions	60,599,594.38	103,351,752.95
Bonds payable	171,205,569.02	225,557,086.24
Others	495,489,088.84	200,988,892.78
Total	5,178,091,427.05	2,996,994,836.26

20 8.20 Bonds payable

Monetary Unit: RMB

Bond name	Par value	Date of issuance	Term of bonds	Interest rate	Amount issued		Balance as at January 1, 2017	Bonds issued in 2017	Interest withdrawn by par value	Premium and discount amortization	Principal repaid in 2017	Other changes	Balance as at December 31,2017
Senior secured bonds (10 years)	USD650,000,000.00	April 28, 2011	10 years	4.50%	USD 635,115,000.00		4,464,134,348.06	–	33,446,936.25	–12,381,616.09	–	–261,820,000.00	4,214,695,964.15
Senior secured bond (30 years)	USD 500,000,000.00	April 28, 2011	30 years	5.95%	USD 489,060,000.00		3,403,280,985.09	–	34,018,678.75	–6,244,150.77	–	–201,400,000.00	3,208,125,135.86
HK2012 USD bond (5 years)	USD 650,000,000.00	April 19, 2012	5 years	2.75%	0.00		4,508,189,929.93	–	0.00	45,029,929.93	4,463,160,000.00	0.00	0.00
HK2012 USD bond (10 years)	USD500,000,000.00	April 19, 2012	10 years	3.95%	USD 499,385,000.00		3,455,463,605.29	–	25,810,090.00	–3,058,205.62	–	–201,400,000.00	3,257,121,810.91
HK2013 USD bond (5 years)	USD500,000,000.00	April 16, 2013	5 years	1.95%	USD 500,000,000.00		3,465,836,156.69	–	13,272,593.75	–2,101,821.87	–	–201,400,000.00	3,266,537,978.56
HK2013 USD bond (10 years)	USD 750,000,000.00	April 16, 2013	10 years	3.40%	USD 749,745,000.00		5,111,026,137.04	–	34,712,937.50	–6,511,516.99	–	–302,100,000.00	4,815,437,654.03
HK2014 USD bond (3 years)	USD 500,000,000.00	May 14, 2014	3 years	3MLIBOR+0.90%	0.00		5,200,749,015.86	–	0.00	36,849,015.86	5,163,900,000.00	0.00	0.00
HK2014 USD bond (5 years)	USD 750,000,000.00	May 14, 2014	5 years	2.75%	USD 743,902,500.00		5,169,855,643.13	–	17,594,694.77	–15,000,679.66	–	–302,100,000.00	4,882,756,322.79
HK–EMTN2014 (3 years, floating)	USD 300,000,000.00	November 25, 2014	3 years	3MLIBOR+0.895%	0.00		2,079,372,276.19	–	0.00	98,352,276.19	1,981,020,000.00	0.00	0.00
HK–EMTN2014 (3 years, fixed)	USD 500,000,000.00	November 25, 2014	3 years	1.95%	0.00		3,463,149,864.97	–	0.00	161,449,864.97	3,301,700,000.00	0.00	0.00
HK–EMTN2014 (5years, fixed)	USD700,000,000.00	November 25, 2014	5 years	2.70%	USD 696,269,000.00		4,827,950,696.24	–	12,349,638.00	–10,578,812.42	–	–281,960,000.00	4,556,569,508.66
Commercial notes	USD2,200,000,000.00	–	Within 1 year	–	–		4,792,610,161.60	272,982,710,314.43	–	–	263,399,906,178.53	–	14,375,414,297.50
Total	USD 6,550,000,000.00	–	–	–	USD 4,313,476,500.00		49,941,618,820.09	272,982,710,314.43	171,205,569.02	–285,804,283.53	278,309,686,178.53	1,752,180,000.00	42,576,658,672.46

21 8.21 Other liabilities

Monetary Unit: RMB

Item	Balance as at December 31, 2017	Balance as at January 1, 2017
Deferred income	31,797,812.60	19,890,355.27
Receivings from vicariously traded securities	6,058.00	6,058.00
Other payables	87,355,031.04	17,977,451.28
Liquidation of current funds	–	800,041,310.58
Total	119,158,901.64	837,915,175.13

22 8.22 Paid–in capital

Monetary Unit: RMB

Name of investor	Book balance as at January 1, 2017		Increase in 2017	Decrease in 2017	Book balance as at December 31, 2017	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
CNPC	3,332,500,000.00	40.00	–	–	3,332,500,000.00	40.00
PetroChina Company Limited	2,666,000,000.00	32.00	–	–	2,666,000,000.00	32.00
CNPC Capital Company Limited	2,332,750,000.00	28.00	–	–	2,332,750,000.00	28.00
Total	8,331,250,000.00	100.00	–	–	8,331,250,000.00	100.00

23 8.23 Capital reserves

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31, 2017
I. Capital (share capital) premium	24,431,326,500.00	–	–	24,431,326,500.00
II. Other capital reserves	1,239,660.00	–	–	1,239,660.00
1. Changes in other equities of investees	–	–	–	–
2. Unvested share–based payment	–	–	–	–
3. Gains or losses on hedges of net investment in an overseas operation	–	–	–	–
4. Others	1,239,660.00	–	–	1,239,660.00
III. Transfer–in of capital reserve of original system	–	–	–	–
Total	24,432,566,160.00	–	–	24,432,566,160.00

24 8.24 Surplus reserves

Monetary Unit: RMB

Item	Balance as at January 1, 2017	Increase in 2017	Decrease in 2017	Balance as at December 31,2017	Reason and basis for changes
Statutory surplus reserves	4,909,770,737.58	725,374,384.76	–	5,635,145,122.34	10% of net profit
Discretionary surplus reserve	5,190,761,658.69	725,374,384.76	–	5,916,136,043.45	10% of net profit
Foreign currency risk reserves	751,712,202.82	373,200,035.43	–	1,124,912,238.25	*
Total	10,852,244,599.09	1,823,948,804.95	–	12,676,193,404.04	–

* Foreign currency risk reserve is provided in USD at 10% of profit after tax generated from foreign currency operations.

25 8.25 General risk reserve

Monetary Unit: RMB

Balance as at December 31, 2017	Balance as at January 1, 2017
7,041,716,146.24	6,117,704,969.14

General risk reserve before year 2012 (excluded) was provided at 1% of the net profit, while the notice on issuing the Administrative Measures for the Provision of Reserves of Financial Enterprises (CJ [2012] No. 20) requires that from year 2012, "general reserve balance of financial enterprises shall not be lower than 1.5% of the ending balance of the risk assets in principle" and "that if it is difficult for financial enterprises to provide general reserve balance at that ratio at one stroke, they can provide by installment in no more than five years in principle". According to that document, the general risk reserves of the Company from year 2012 to year 2016 are required to account for 0.47%, 0.73%, 0.98%, 1.24%, 1.5% and 1.5% of the ending balance of risk assets. In fact, as at December 31, 2016 and as at December 31, 2017, according to its resolutions of the meeting of the Board of Directors, the accumulative general risk reserve actually provided by the Company accounted for 1.5% of the ending balance of risk assets.

26 8.26 Undistributed profits

Monetary Unit: RMB

Item	Amount
Balance as at January 1, 2017	5,560,907,044.11
Increase in 2017	7,286,473,922.41
Including: net profit transferred in 2017	7,286,473,922.41
Decrease in 2017	–
Including: surplus reserves withdrawn in 2017	1,823,948,804.95
General risk reserves withdrawn in 2017	924,011,177.10
Cash dividends distributed in 2017	2,565,138,470.33
Balance as at December 31, 2017	7,534,282,514.14

9. Contingencies /

As at December 31, 2017, the Company issued letters of guarantee for the following member companies of CPNC to provide guarantee. Balance of letters of guarantee issued in RMB was RMB 1,217,327,078.06, in which RMB 648,892,291.30 expired on December 31, 2017; balance of letters of guarantee issued in USD was USD 40,680,983.50, in which USD 893,836.70 expired on December 31, 2017.

10. Events after the balance sheet date /

There were no post balance sheet events required to be disclosed by the Company.

COMPANY INFORMATION /

Ⅰ Board of Directors	Chairman	Liu Yuezhen
	Deputy Chairman	Chai Shouping
	Directors	Lan Yunsheng, Wang Liang, Lu Ling, Ma Xiaofeng, Wang Xueqing, Wang Hua and Jin Lin
Ⅱ Board of Supervisors	Chairman	Li Qingyi
	Supervisors	Wang Yue, Tong Tianxi, Fang Wu and Cai Wenhao
Ⅲ Senior Executives	General Manager	Lan Yunsheng
	Deputy General Manager	Wang Zengye and Liao Xiaoyan
	Assistant to General Manager	Wu Lincai, Hao Binbin, Cai Wenhao and Cui Bin

Ⅳ Legal Advisor

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Shenyang
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Zip Code: 100032

Xi'an
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CPF HK
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