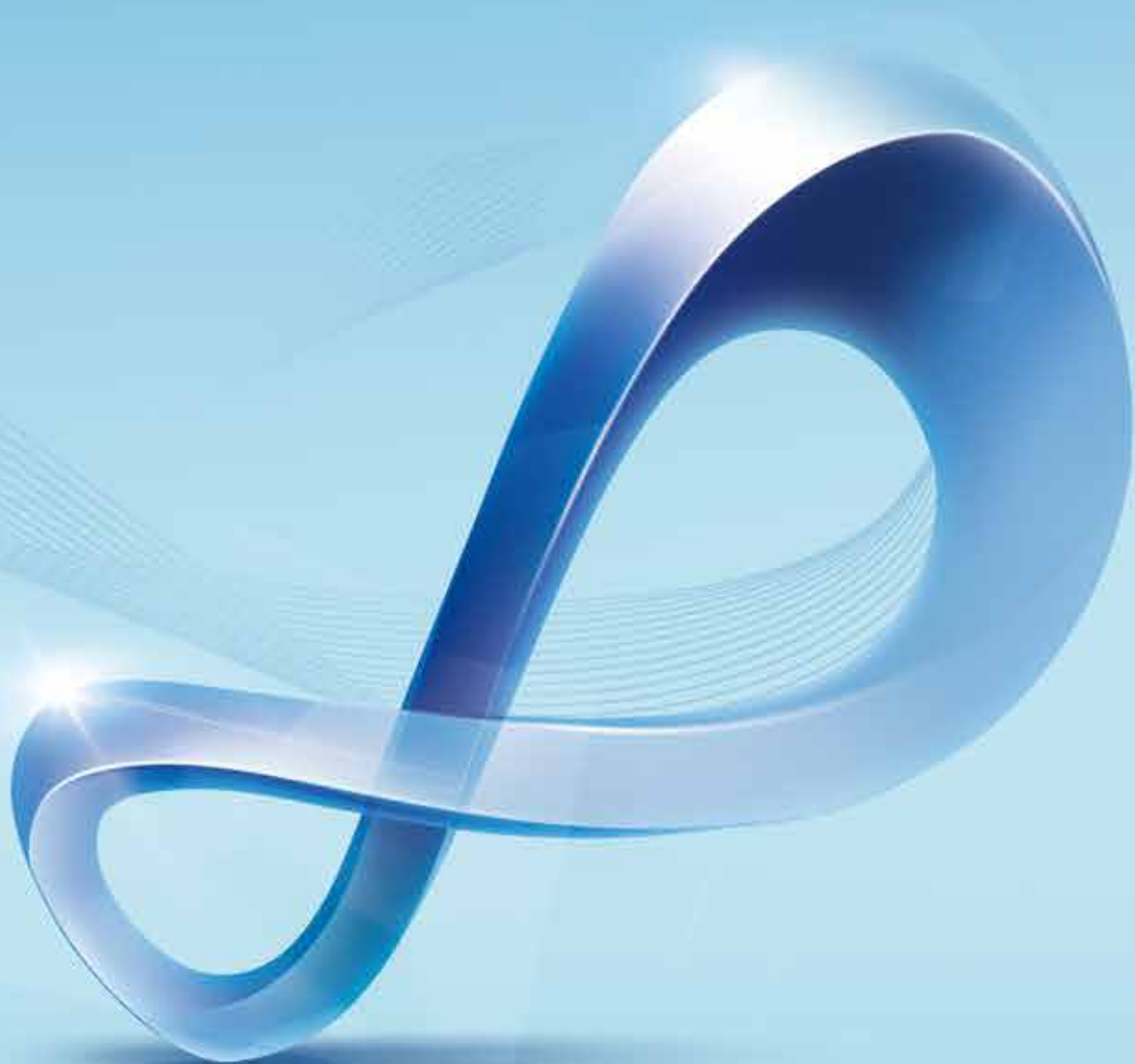


2016

ANNUAL REPORT

 **中国投资有限责任公司**
CHINA INVESTMENT CORPORATION



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Responsibility
Synergy
Professionalism
Aspiration



MESSAGES

“For the future, I believe that as CIC staff strive together, we will be writing more splendid chapters and accomplishing more glorious deeds.”

Ding Xuedong

Former Chairman and CEO



MESSAGE FROM FORMER CHAIRMAN AND CEO

China Investment Corporation was founded in September 2007 with a historic mission. For nearly ten years, it navigated market complexity and volatility and achieved impressive results.

In July 2013, I became CIC's second Chairman and CEO, a post that I felt most honored to take on. The responsibilities, however, were heavy. I built on the efforts of my predecessor and worked toward making CIC a world-class and respected sovereign wealth fund. For more than three years, the company's entire staff worked toward our goals in concert: we revised our management structure, improved our systems, optimized the asset allocation, focused on managing and controlling risks, groomed our investment teams and developed our research capabilities.

We believe that taking small steps will take us far and wide. The diligence of our CIC team has propelled the company to becoming the world's second largest sovereign wealth fund, an influential player with a sound voice that helps advance China's engagement in global governance. I have learned much and gained many insights in developing China's sovereign wealth fund.

First, as a financial investor, we should pursue reasonable commercial returns as a primary objective. CIC has always maintained a broad and diversified portfolio. We have pursued good investment opportunities by capitalizing on our extensive global network and professional platform to link local and foreign organizations and companies that are financially sound and in need of cross-border investment. We have sought cooperation with leading companies in key sectors to combine our financial strength and investment experience with their industrial advantage and management experience. And we have promoted the cooperation between the real economy and the financial sector.

Second, our long-term asset allocation and overall portfolio must reflect corporate values. Given the falling returns and aggregating investment risks, a rational response and sustainable approach for CIC would be to diversify away from the public market's stocks and bonds and grow our alternative investments. For more than three years, we have continued to work toward building a simple, transparent and resilient portfolio, and we have introduced the Reference Portfolio allocation framework to provide a clearer direction for

portfolio construction. We also optimized the rebalancing mechanism to ensure discipline in asset allocation and investment activities. To increase alternative investments, we established a direct investment platform called CIC Capital Corporation (CIC Capital), expanded our private equity investments, and launched multilateral or bilateral platforms to find investment projects with Chinese characteristics.

Finally, strengthening support for investments is essential to promoting the company's management. For institutional development, we have revised and improved our investment decision and management guidelines, established a sound accountability system for investment managers, and strengthened both pre- and post-investment management. For risk management and control, we believe in and practice comprehensive risk management. We have also developed our own risk performance system and set up the Three Lines of Defense for risk management. It helps control different potential sources of risk, such as market risks, credit risks, internal control and operation risks, and reputational risks. And for foreign investments, we have adhered to research-based investment by forming a research department to perform in-depth research on global economy, international market trends and sector developments.

Every small step comes from persistence and hard work. 2017 marks the 10th year of CIC's development. During our past journey, we have tried, we have progressed and we have accumulated experience and insight. We have also created material and spiritual wealth and embarked on a unique and sustainable course. For the future, I believe that as CIC staff strive together, we will be writing more splendid chapters and accomplishing more glorious deeds.





“Despite the new state of play in the global market, and despite China entering a ‘new normal’ phase with new responsibilities engendered by the state-owned enterprise reform, we succeeded in overcoming all the tests and trials in achieving the goals our Board of Directors set at the start of the year.”

Tu Guangshao

Vice Chairman and President

MESSAGE FROM VICE CHAIRMAN AND PRESIDENT

2016 was an extraordinary year for CIC. Despite the new state of play in the global market, and despite China entering a “new normal” phase with new responsibilities engendered by the state-owned enterprise reform, we succeeded in overcoming all the tests and trials in achieving the goals our Board of Directors set at the start of the year.

Complexities and uncertainties in the global economy again prevailed in the year under review, compounded by sluggish economic recoveries and persistently volatile financial markets. Growth in international trade continued to be lackadaisical, trailing the growth of GDP for years. Global foreign direct investments fell far below their peak. These point to the apparent slowing of economic globalization. The United States, Europe and Japan were plagued by high debt, languishing productivity growth and a serious demographic problem of an aging population. And the expansionary effects of their loose monetary policies were diminishing as trends began to diverge. Emerging economies continued to suffer from capital outflows, trade protectionism and

reduced direct investments, leading to weak growth. China’s economy grew at a slow and steady pace, with a promising economic outlook, as the country continued to optimize its economic structure and keep overall financial risks manageable. But the global political landscape and prospects for further economic recovery suffered from a widening income gap, the return of conservatism, rising geopolitical risks and bleak prospects for further recovery.

Given the dubious and complex global landscape, we approached our work with practical insight and unwavering enterprise. Internationalizing and aligning our operations with the market and fostering professionalism in our practice, we accumulated a wealth of experience and achieved encouraging results. CIC’s overseas investments generated a net return of 6.22% in 2016 and a net cumulative annualized return of 4.76% since its inception. By the end of 2016, CIC’s total assets had exceeded \$813.5 billion, and the annualized growth rate of state-owned capital had reached 14.08% since its inception.

Investment management

Based on the Reference Portfolio's asset allocation framework, we revised our rebalancing mechanism, developed our own quantitative approach in asset allocation, and formulated currency hedging policies to ensure transparency, timeliness and effectiveness in overall portfolio management. For investments in the public market, we continued streamlining and optimizing our strategy mix, revised the evaluation of asset managers, further refined investment management, and improved our capacity to achieve excess returns. For long-term asset investments, we improved investment effectiveness by strengthening allocation and strategy research and by standardizing processes for investment decisions and project supervision. Having a good grasp of the market opportunities ensured our ability to take appropriate action to reduce holdings of, or exit from, a project.

Investment support

We buttressed "research-driven investment" by setting up a research department for resource sharing, creating a more robust knowledge and research management platform. We established a risk factor system and improved the analytical framework for different risk factor models. We researched and refined the valuation model to standardize the valuation of assets. And we stepped up budget observance and monitoring, enforced the financial and accounting rules, and developed a financing mechanism for our businesses. The formation of the Information Technology Committee will ensure information security, smooth business continuity and general operations. Other sustained efforts included developing the professional system of human resources and optimizing the compensation and welfare system to recruit and retain people with strong professional skills.

Investment cooperation

The company leveraged its advantages in having a good brand reputation, financial strength, an extensive global network and a professional investment team to capitalize on the investment opportunities emanating from the Belt and Road Initiative. Focusing on special regions and industries from the China angle, we helped Chinese companies connect with foreign companies and facilitated investment cooperation. We also accelerated CIC's overseas institutional development, employing foreign investment and multilateral fund operations to complete high-profile direct investment projects in several major countries. This integrated our industrial resources, improved competitiveness and added value.

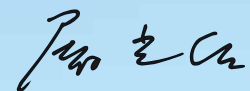


Indeed, challenges and difficulties have made CIC stronger and better. Today, CIC is a respected and responsible sovereign wealth fund.

Looking ahead, global growth for 2017 should pick up speed, but the downside risks cannot be overlooked. The multiple rounds of quantitative easing by key economies and the weak recovery in developed economies during the eight post-crisis years have led to keen competition for capital and to low returns. Overall, the global investment environment presents low growth and high volatility, and the potential risk factors lie mainly in rising uncertainties in global politics and policies.

In September 2017, CIC will celebrate its 10th anniversary, marking another milestone in its development. Unrelenting efforts and likeness of minds have produced hard-earned results. On behalf of the Board, I would like to thank Mr. Lou Jiwei, Mr. Ding Xuedong and all our staff for your assiduity and achievements.

As a poem goes, constant dripping wears away a stone, and persistence and hardship are but a way of life. Indeed, challenges and difficulties have made CIC stronger and better. Today, CIC is a respected and responsible sovereign wealth fund. We will continue to do better and to approach the ever-volatile international financial market with professionalism and zeal. We will also continue to improve our abilities in investment management, maximize our shareholder's interests and create a positive corporate image that speaks of a steady, professional, responsible and reputable institutional investor.



“Based on our terms of reference under the law, regulations and articles of association, the Board of Supervisors and I have closely followed the company’s development, improved accountability, fostered duty performance supervision, and ensured operational prudence and compliance.”

Guo Haoda

Chairman of the Board of Supervisors



MESSAGE FROM CHAIRMAN OF THE BOARD OF SUPERVISORS

In 2016, CIC took active steps to deal with swings in local and international economies and financial and capital markets, and to improve corporate governance and investment capacity. Based on our terms of reference under the law, regulations and articles of association, the Board of Supervisors and I have closely followed the company's development, improved accountability, fostered duty performance supervision, and ensured operational prudence and compliance.

The Board of Supervisors and special committees convene regular meetings (ad hoc sessions when necessary) to review the annual report, operations and management reports, and other major operations and management matters as required by law. They monitor and assess the company's operations and give specific recommendations to improve operations, with the Board of Directors and senior management responding positively.

Duty performance supervision includes sending representatives to observe the meetings of the Board of Directors, Executive Committee and Risk Management Committee to supervise decision-making, highlight impending risks and provide supervisory opinion. It enables the company to improve governance and develop a sound operating mechanism underpinned by scientifically rigorous decisions and reliable implementation.

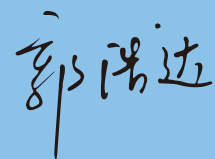
Financial supervision includes appointing external auditors to audit our annual report, reviewing and deliberating the preparation, examination and disclosure of the company's financial statements, and monitoring major financial revenues and expenditures. It also involves ensuring that the various departments study and implement management's recommendations.

Audit supervision includes reviewing and approving our audit plan, exit audits for department heads and investment managers. We also explore the creation of an interview and supervision procedures for high-risk projects to enable inspection and issue resolution.

State capital supervision includes improving the "three-in-one" supervision system for state-owned capital and driving the implementation of risk control and internal control management mechanisms. We readily discharged our representative duty as an investor, stepped up guidance for the Board of Supervisors of companies in which Central Huijin hold majority and minority shares to jointly prevent and mitigate financial risks, thus guarding against the loss of state-owned assets.

United efforts by members of the Board of Supervisors have enabled the Board to contribute significantly to the operation of functions, to improve corporate governance and to strengthen risk management and internal control. It has also helped ensure that operations are prudent and comply with regulatory requirements. The Board also made some personnel changes during the year, based on the company's articles of association and relevant procedures. I would like to thank our supervisors for their support and assistance and all those behind the Board's every endeavor.

We believe in complete dedication and an absolute sense of responsibility. CIC will enter its 10th year of incorporation in 2017. It's a critical year which the company will cross a major threshold and forge ahead. The Board of Supervisors will continue to fulfil its duties to strengthen bottom-line thinking, focus on the problem-based approach, and take positive action. We will also continue to improve ourselves, refine our work mechanism, and implement effective supervision and inspection to advance the company's standard of governance.



A decorative graphic consisting of multiple thin, light-colored lines that curve and flow from the left side of the page towards the center, creating a sense of movement and depth.

CORPORATE REVIEW





*China Investment Corporation
was established as a vehicle to
diversify China's foreign
exchange holdings and seek
maximum returns for its
shareholder within acceptable
risk tolerance.*

» Overview

China Investment Corporation was incorporated on September 29, 2007 with a registered capital of \$200 billion. By the end of 2016, the total assets of CIC had exceeded \$813.5 billion.



Headquartered in Beijing, China Investment Corporation (CIC) was incorporated on September 29, 2007, as a wholly state-owned company under the Company Law of China, with a registered capital of \$200 billion. The company was established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance. By the end of 2016, the total assets of CIC had exceeded \$813.5 billion.

CIC has three subsidiaries, CIC International Co., Ltd. (CIC International), CIC Capital Corporation (CIC Capital), and Central Huijin Investment Ltd. (Central Huijin).

CIC International was established in September 2011 with a mandate to invest and manage overseas assets. It took over the entire portfolio and the mandate for overseas investment from CIC then. Since CIC Capital was incorporated in January 2015, the overseas investment and management activities of CIC have been undertaken by CIC International and CIC Capital. CIC International conducts public market equity and bond investments, hedge fund, multi-asset and real estate investments, private equity (including private credit) fund investments, co-investments, and minority investments as a financial investor. CIC Capital is mandated to make direct investments and manage bilateral, multilateral and platform fund investments to maximize returns and promote international investment cooperation. Both CIC International and CIC Capital are market-oriented commercial entities with a specialized mandate and a global reach.

CIC International (Hong Kong) Co., Ltd. (CIC International (Hong Kong)) was established in November 2010. In January 2011, CIC opened the Representative Office in Toronto. In December 2015, CIC opened the Representative Office in New York and closed the Representative Office in Toronto.

Central Huijin undertakes equity investments in key state-owned financial institutions in China. Without interfering with the day-to-day operations of investee institutions, Central Huijin exercises its shareholder rights and performs its obligations to the extent of its capital contribution.

Strict operational firewalls exist among CIC International, CIC Capital and Central Huijin.

» Landmarks

2017

January, CIC launched the back-up data center in Shanghai.

2016

January, CIC adopted the Reference Portfolio framework for asset allocation.

2015

January, CIC Capital was established.

November, Central Huijin Asset Management Ltd. was incorporated.

December, CIC opened the Representative Office in New York.

2014

January, CIC launched the Risk and Performance Analysis System (the Fengye System).

2013

July, Mr. Ding Xuedong took office as CIC Chairman and CEO.

2012

February, CIC approved the 2012–2016 Strategic Plan of Development.

July, CIC launched CIC Culture Consensus.

2011

January, the Board extended the investment horizon to 10 years.

January, CIC opened the Representative Office in Toronto.

May, CIC hosted the 3rd annual meeting of the International Forum of Sovereign Wealth Funds and released the Beijing Declaration.

September, CIC International was established.

2010

November, CIC International (Hong Kong) was incorporated.

2009

July, CIC inaugurated the International Advisory Council.

July, CIC released its first annual report.

2008

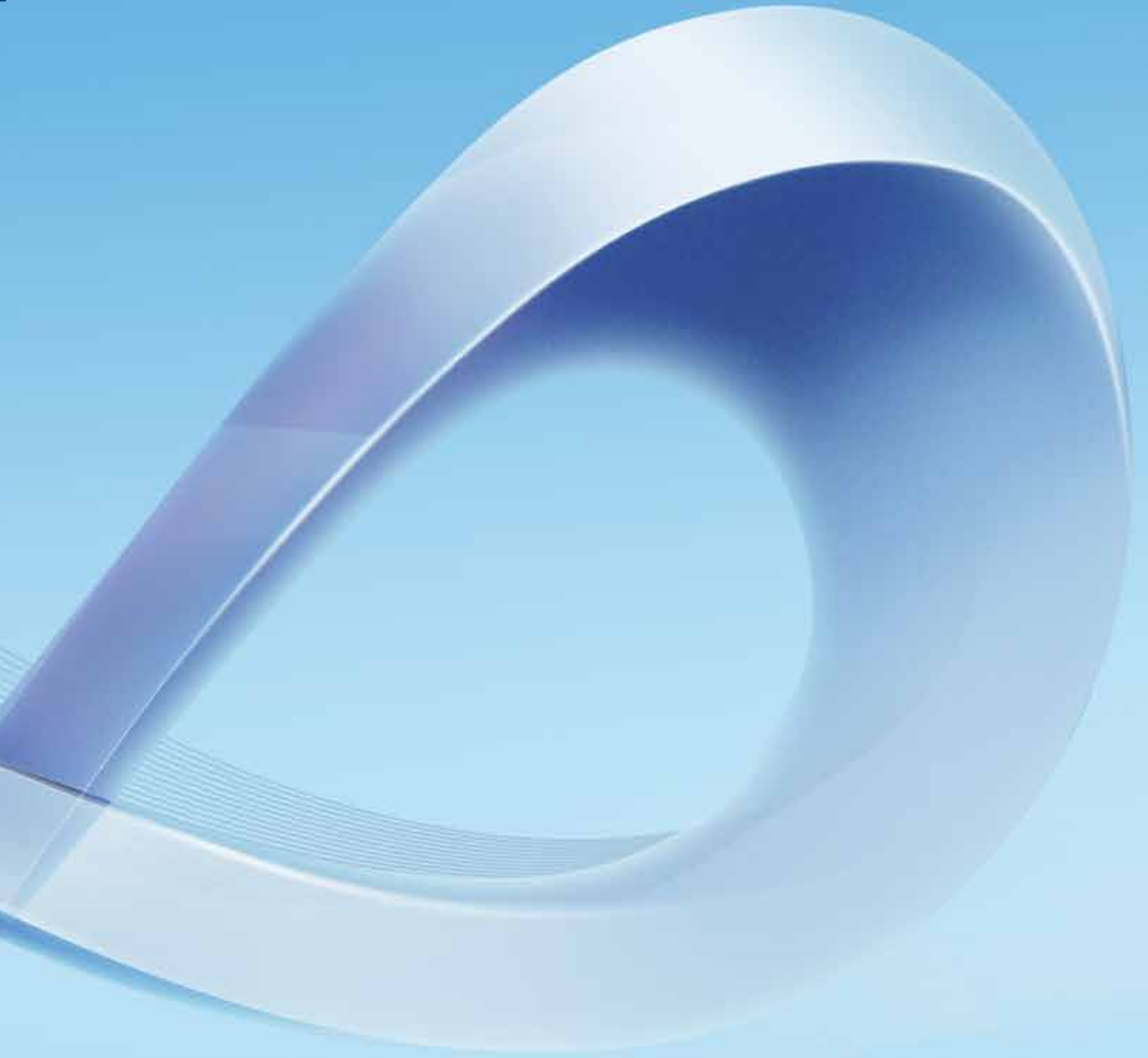
January, CIC set up the Investment Committee and the Risk Management Committee.

September, CIC launched its official website.

October, the Chinese government endorsed the Santiago Principles.

2007

September, CIC was established in Beijing, China, and set up its Board of Directors, Board of Supervisors and Executive Committee.



» Culture and Core Values

Building on its heritage and experience, CIC has developed a complete framework of corporate culture. Its mission, vision, and core values were crystallized in the CIC Culture Consensus released in 2012.

Mission: CIC is committed to diversifying China's foreign exchange investment portfolio and seeking maximum returns for its shareholder within acceptable risk tolerance.

Vision: We aim to grow into a world-class and respected sovereign wealth fund.

Core values: Responsibility, synergy, professionalism, and aspiration.

Responsibility: We are committed to fulfilling our mandate with a strong sense of conscientiousness. Fundamental to our responsibilities and the commitment of every member of the company is managing assets effectively and making every investment a success. We honor these responsibilities, follow the most rigorous work ethic, observe integrity and honesty, comply with applicable laws and regulations of China and recipient countries or regions, and strive for maximum returns within acceptable risk tolerance for our shareholder.

Synergy: Teamwork, guided by a common purpose and holistic thinking, is central to our sustainable development. We encourage cooperation and cohesion across departments to create synergies that spur ourselves forward to achieve our stated goals efficiently.

Professionalism: Professionalism and a rigorous work ethics are fundamental to our success. Our solid, prudent, and disciplined investment approach has been applied to every investment project with the greatest care and precision. Striving for excellence in performance, we adhere to the highest level of professionalism across the company.

Aspiration: Aspiring to excellence drives us forward and guarantees sustained and greater success. Committed to building a learning enterprise, we encourage best practices and constant self-improvement across the company for greater achievement.



Responsibility

Synergy

Professionalism

Aspiration

As a responsible investment firm, we remain committed to discharging our corporate social responsibilities. We also make sure when making investments that we comply with applicable laws and regulations of China and recipient countries or regions, and respect local social norms and public opinion (See Box 1 and Box 2).

We are committed to a zero-tolerance approach to corruption and bribery. We have issued and published on our website the Code of Conduct and Guidelines on Preventing Conflicts of Interest, which include anti-corruption and anti-bribery policies applicable to all CIC employees. We also expect our business partners, counterparties, service providers, and agents to acknowledge and implement our anti-corruption and anti-bribery policies in their dealings with us.

Since releasing the CIC Culture Consensus in 2012, we have taken steps to impart our corporate culture, starting with improving perceptions, fostering a common identity and adhering to corporate values. Our corporate culture helps mold the desired employee behavior, build cohesion and instill a sense of belonging among employees — the cultural buttress for sustaining CIC's development. Underpinning these goals are mechanisms to facilitate internal communication, information sharing, inter-department collaboration and cultural orientation. This enables the CIC culture to take root and be assimilated in the employees' conduct and professional ethics.

Many activities help develop a healthy corporate culture. The Corporate Culture Year, an annual event, has been held on various themes relating to synergy, compliance and cohesion, and a sense of mission and responsibility. Accolades include the Heartstrings CIC Employee (Team) award, the Outstanding Investment Team award and Outstanding Supporting Team award, as well as The CIC Culture: My Vision essay competition, the Our CIC photo exhibition, and the CIC Seminar.

At the CIC Seminar on Growth and Aspirations in 2016, staff shared their perceptions of our mission. Through this activity, we encouraged people to take charge and deliver their work with passion. Field trips under various themes such as the Belt and Road Initiative, Made in China 2025 and Mass Entrepreneurship and Innovation helped employees gain knowledge on the ground, hone their skills and expand their horizons. As part of our corporate social responsibility, we sponsored Mainland-Hong Kong youth exchange programs organized by the All-China Youth Federation. The programs allowed young representatives from Hong Kong to participate in the National Youth Financier Forum, enabling them to understand the economic and financial landscape in the mainland, and helped strengthen their national identity. The CIC Staff Sports Day, intra-department team-building and staff-care activities contributed to better mental and physical wellness among staff, and strengthened cohesion and the sense of identity.

Box 1: Supporting Green and Sustainable Development

Combating climate change and achieving green and sustainable development are closely linked to the well-being of a country's people, and sovereign wealth funds, including CIC, are paying more attention to both. As a member of the International Forum of Sovereign Wealth Funds (IFSWF), CIC works with other sovereign wealth funds to find ways to fulfil its corporate social responsibilities. Given its concern for global well-being, CIC has pledged support for IFSWF's climate change working group, contributing as a responsible investor to addressing climate change.

Box 2: Helping the Poor and Underprivileged

Based on its business portfolio, CIC capitalizes on its resources to work with the relevant government authorities in mobilizing private funding to help the poor and underprivileged. Through creative use of public-private partnerships, industry funds, bond issues and public listings, we have explored ways to alleviate poverty, and in doing so, accrued enormous corporate goodwill.

Support for Education

Viewing education as an important means of alleviating poverty and driving social and economic development, CIC has been supporting the construction of classrooms, laboratories and general office buildings of Shibing County Secondary Vocational School in Guizhou Province. Now completed and in use, the facilities have notably improved the school's teaching capacity.

Sustainable Development

CIC commits itself to adopting targeted poverty alleviation and reduction measures by studying the economic realities and actual development needs of the counties it supports. With Mount Yuntai officially recognized as a World Natural Heritage site, CIC has advised the local government to transform tourism into a pillar industry and provided funds to improve the service infrastructure in the Shanmu River area. By supporting different industries, CIC has helped Shibing County end poverty and achieve sustainable development.

» Corporate Governance

Pursuant to the Company Law of China, CIC established the Board of Directors and the Board of Supervisors, and it created the Executive Committee to enforce the resolutions of the Board of Directors. CIC assigned well-defined responsibilities and effective checks and balances among the three.

CIC improved its organizational and functional structure, as well as company rules and workflow standards. CIC also established a mechanism for scientific decision-making and authorization, put in place a comprehensive risk management system, and developed a sophisticated and diversified investment platform. CIC built on its governance model by adopting a scientific development outlook and improving its management and operational efficiency.

The Board of Directors is authorized to oversee the company's operations, evaluate its overall performance, and make decisions on important matters in accord with the Articles of Association. Based on objectives and principles stipulated by the State Council, the Board reviews and approves the company's development strategies, operational guidelines, and investment plans. It also decides on matters related to the implementation of corporate strategies, identifies major issues to report to the shareholder, appoints and removes senior executives, and decides on or authorizes the establishment of management bodies as necessary. The Remuneration Committee, which reviews the compensation policies for senior executives and oversees the execution of these policies, is organized under the Board of Directors. In 2016, the Board of Directors played a strategic and leading role by following the international macroeconomic landscape more closely, carefully formulating annual operation plans and budgets, improving the investment management framework, and revising rules on performance bonus. As a result, CIC's management and investment capabilities were continuously reinforced.

The Board of Supervisors is responsible for monitoring the performance of directors and executives in the execution of their duties as well as the effectiveness of supervisory procedures within the company. Also in charge of the Department of Internal Audits, the Board of Supervisors selects external auditors and monitors CIC's accounting and financial functions. In 2016, the Board of Supervisors enhanced the supervisory system and better monitored the fulfillment of duties of directors and senior executives. By conducting auditing investigations on investment management, economic responsibility, and shareholding, it improved overseas investment management and operations.

In association with the Board of Directors, CIC's Executive Committee translates the guidance of the Board of Directors into detailed strategies and oversees CIC's day-to-day operations. It has the authority to make required operating decisions, including decisions on basic rules, institutional adjustments, operating

mechanisms, performance evaluations, and remuneration. In 2016, the Executive Committee studied the company's major strategic development issues in 2016, refined its various systems and processes, and reviewed and improved the investment accountability system. It also conducted systematic reviews of past investment projects to strengthen our capabilities as an institutional investor, and observed financial and accounting policies and rules to hone our basic financial management operations. And it studied the establishment of a long-term incentive mechanism, intensified implementation of the incentive and obligation schemes, and created a professional human resource management system.

CIC's International Advisory Council (IAC), founded in 2009, is an internal advisory body consisting of world-renowned experts, entrepreneurs and academics. IAC's mandate is to advise CIC on its overall development strategy and planning and overseas investments. It also offers insights into financial markets, investment trends, and political and economic issues at the global level. Vice Premier of the State Council meets with IAC members every year to exchange views on the prevailing global economic and financial situation and China's economic reforms and development. By the end of 2016, CIC had convened eight IAC annual meetings and appointed the members of the 4th IAC. In total, 24 distinguished persons from 15 countries and regions of five continents have either served or are currently serving as IAC members.

IAC members share with CIC, through daily communication, mutual visits and the distribution of research findings, their insights into global political and economic trends and major events. To have first-hand knowledge on China's economic development, they have also participated in activities organized by the IAC secretariat, such as field trips to Dunhuang in Gansu Province and to Shenzhen in Guangdong Province in the context of the Belt and Road Initiative and Science and Technology-Driven Innovation. IAC members are goodwill ambassadors, communicating China's economic realities and showing the world their confidence in China's economy.

At the 8th IAC annual meeting in September 2016, IAC members shared their valuable perspectives of the macroeconomic and financial environment, the investment opportunities and risks, the asset allocations of long-term institutional investors and the major challenges.

Organization Chart



Board of Directors

Tu Guangshao

Vice Chairman and President

Mr. Tu Guangshao is Vice Chairman and President of CIC. Immediately prior to this, he served as Executive Vice Mayor and Vice Mayor of Shanghai. He held several positions in China Securities Regulatory Commission, including Vice Chairman, Secretary-General, General Manager of the Shanghai Stock Exchange, and Director General of the Department of Trading. He also worked as Deputy Director of the National Financial Market's Quotation and Trading Information System Center of People's Bank of China, and Director and Deputy General Manager of the China Securities Trading System Corporation.

Mr. Tu, born in 1959, holds a master's degree in economics from Peking University and is accorded Senior Economist by the Ministry of Human Resources and Social Security.



Jiang Weixin

Independent Director

Mr. Jiang Weixin is an Independent Director of CIC. Previously, He was Minister of Housing and Urban-Rural Development and Vice Chairman of the National Development and Reform Commission. He also served as Vice Chairman and Director General of the Department of Investment at the State Development and Planning Commission; Director General and Vice Director General of the Department of Key Construction, and Deputy Director of the Investment Research Institute at the State Planning Commission.

Mr. Jiang, born in 1949, holds a bachelor's degree in journalism from Peking University.



Zhang Xiaoqiang

Independent Director

Mr. Zhang Xiaoqiang, an Independent Director of CIC, was Vice Chairman of the National Development and Reform Commission (NDRC). He also served as Secretary General of the State Development & Planning Commission (SDPC), a predecessor to the NDRC, Director General of the Department of Foreign Investment at the State Planning Commission, a predecessor to the SDPC, and an Economic Counselor at the Chinese Embassy in the United States. He served as a Non-Executive Director of CIC from September 2007 to July 2014.

Mr. Zhang, born in 1952, holds a bachelor's degree in economics from Peking University.





Hu Zucai

Non-Executive Director

Mr. Hu Zucai, a Non-Executive Director of CIC, is Vice Chairman of the National Development and Reform Commission (NDRC). Previously, he served as Deputy Secretary General and Director General of the Social Development Department at NDRC and Deputy Director General of the Health Care Reform Office of the State Council. He also worked as Deputy Mayor of Guiyang City in Guizhou Province, and Deputy Director General of the Foreign Capital and Overseas Investment Department at the State Development and Planning Commission, a predecessor to the NDRC.

Mr. Hu, born in 1961, holds a bachelor's degree in engineering from Zhejiang University.



Shi Yaobin

Non-Executive Director

Mr. Shi Yaobin, a Non-Executive Director of CIC, is Vice Minister of Finance. Previously, he served as Director General of Hunan Provincial Finance Department, Mayor of Xiangtan City in Hunan Province and Director General and Deputy Director General of the Department of Tax Policy at the Ministry of Finance.

Mr. Shi, born in 1958, holds a Ph.D. in economics from Research Institute for Fiscal Science, the Ministry of Finance.



Zhang Xiangchen

Non-Executive Director

Mr. Zhang Xiangchen is a Non-Executive Director of CIC. Previously, he served as Deputy China International Trade Representative, Assistant Minister of the Ministry of Commerce (MOFCOM), Director General of the Department of Policy Research of MOFCOM, Deputy Representative and Minister (DG-level) of China's Permanent Mission to the WTO, Director General of the Department of WTO Affairs and the China WTO Notification and Inquiry Center, Deputy Director General at the Department of International Trade and Economic Affairs of the Ministry of Foreign Trade and Economic Cooperation.

Mr. Zhang, born in 1965, holds a Ph.D. in international politics from Peking University.

Pan Gongsheng

Non-Executive Director

Mr. Pan Gongsheng, a Non-Executive Director of CIC, is Deputy Governor of People's Bank of China and Administrator of State Administration of Foreign Exchange. Previously, He served as Executive Director and Vice President of the Agricultural Bank of China Ltd., and Vice President of the Agricultural Bank of China. Prior to that, Mr. Pan held several positions in the Industrial and Commercial Bank of China Ltd., including General Manager of Corporate Strategy and Investor Relations, Director of General Office of the Board of Directors, General Manager of Financial Planning, the Joint-Stock Reform Office, Secretary of the Board of Directors; and several positions in Industrial and Commercial Bank of China, including General Manager and Deputy General Manager of Financial Planning, Vice President of Shenzhen Branch and Deputy General Manager of Human Resources.

Mr. Pan, born in 1963, holds a Ph.D. in economics from Renmin University of China.



Fang Shangpu

Non-Executive Director

Mr. Fang Shangpu, a Non-Executive Director of CIC, is Deputy Administrator of the State Administration of Foreign Exchange (SAFE). He previously served as Chief Accountant of SAFE and Deputy Administrator of SAFE Shanghai Branch, Vice President of People's Bank of China Shanghai Branch and Vice President of Fujian Industrial Bank.

Mr. Fang, born in 1956, holds a master's degree in economics from Xiamen University.

Fan Yong

Employee Director

Mr. Fan Yong, an Employee Director, is Head of Human Resources of CIC. Immediately prior to this, he served as Director of Human Resources, Deputy Head and Head of Institutional Integrity of CIC. In his earlier career, Mr. Fan served as Deputy General Manager of Human Resources of China Galaxy Securities Co., Ltd., Deputy General Manager of Investment Management, Deputy Director General of President's Office and Head of Human Resources of China Economic Development Trust & Investment Company, and Principal Staff of Fiscal and Financial Department at the State Planning Commission.

Mr. Fan, born in 1961, holds a bachelor's degree in economics from Zhongnan University of Economics and Law.



Former Directors (leaving office from July 2016 to June 2017):

Ding Xuedong (Chairman and CEO, July 2013-February 2017)

Li Keping (Executive Director, Vice President and Chief Investment Officer, July 2011-February 2014; Vice Chairman, President and Chief Investment Officer, February 2014-June 2016)

Hu Xiaolian (Non-Executive Director, September 2007-July 2016)

Board of Supervisors

Guo Haoda

Chairman of the Board of Supervisors

Mr. Guo Haoda is Chairman of the Board of Supervisors of CIC. Previously, he served as Executive Director and Executive Vice President of Agricultural Bank of China Ltd. (ABC). He held several positions during his career at ABC, including Executive Vice President of ABC and Head of Beijing Branch, Head of Jiangsu Branch, Head of Shenzhen Branch and Head of Suzhou Branch in Jiangsu Province.

Mr. Guo, born in 1957, holds a bachelor's degree and is accorded a Senior Economist by the Ministry of Human Resources and Social Security. He is an awardee of the State Council Expert Special Allowance.



Zhang Tong

Supervisor

Mr. Zhang Tong, Supervisor of CIC, is a member of the CPC Leadership Group at National Audit Office and Director of Central Economic Responsibility Auditing Joint Conference's Office. Prior to this, he was Vice Governor of Hubei Province and held several positions at Ministry of Finance, including Assistant Minister, Director of the General Office, Director General of the Treasury Department, Deputy Director General of the Treasury Department, and Deputy Director General of the Department of Local Affairs.

Mr. Zhang, born in 1956, holds a Ph.D. in economics from Xiamen University.



Wang Zhaoxing

Supervisor

Mr. Wang Zhaoxing, Supervisor of CIC, is Vice Chairman of the China Banking Regulatory Commission (CBRC). Previously, he served as Assistant Chairman and Director General of Banking Supervision Department III of CBRC, as well as Head of China Banking Supervision Group (Director-General-level) and Deputy Director General of Bank Supervision Department I of the People's Bank of China.

Mr. Wang, born in 1959, holds a Ph.D. in economic from Shaanxi University of Finance and Economics.





Jiang Yang

Supervisor

Mr. Jiang Yang, Supervisor of CIC, is Vice Chairman of China Security Regulatory Commission (CSRC). Previously, he served as Assistant Chairman of CSRC, President of the Shanghai Futures Exchange, Director of Intermediary Supervision Department of CSRC, Deputy Director General of the Non-banking Financial Institutions Regulation Department and Deputy Director of the General Office at People's Bank of China.

Mr. Jiang, born in 1956, holds a Ph.D. in economics.

Cui Guangqing

Employee Supervisor

Mr. Cui Guangqing, an Employee Supervisor, is Deputy Head of the Discipline Inspection Commission and Head of the Supervisory Board Office/Internal Audit Department of CIC. Before joining CIC, he served at the National Audit Office, where he held various positions, including Director General of the Information and Postal Audit Office and Deputy Director General of the Department of Monetary Audit.

Mr. Cui, born in 1964, holds a Ph.D. in economics from Xi'an Jiaotong University.



Former Supervisors (leaving office from July 2016 to June 2017):

Dong Dasheng (Supervisor, May 2011-July 2016)

Zhou Mubing (Supervisor, May 2011-July 2016)

Zhuang Xinyi (Supervisor, May 2011-July 2016)

Executive Committee

Tu Guangshao Vice Chairman and President

Guo Haoda Chairman of the Board of Supervisors

Ju Weimin Executive Vice President

Bai Tao Executive Vice President

Liu Jun Executive Vice President

Guo Xiangjun Executive Vice President

Yang Wenqing Secretary of the Discipline Inspection Commission

Qi Bin Executive Vice President

Zhao Haiying Chief Risk Officer



From left to right

Qi Bin, Guo Xiangjun, Bai Tao, Guo Haoda, Tu Guangshao, Ju Weimin, Liu Jun, Yang Wenqing, Zhao Haiying



Former Members (leaving office from July 2016 to June 2017):

Ding Xuedong (Chairman and CEO, July 2013-February 2017)

Li Keping (Executive Director, Vice President and Chief Investment Officer, July 2011-February 2014; Vice Chairman, President and Chief Investment Officer, February 2014-July 2016)

Liu Guiping (Executive Vice President, June 2014-July 2016)

International Advisory Council

Asia

Member	From	Title
Zeng Peiyan	China	Chairman, China Center for International Economic Exchanges; former Vice Premier of the State Council, China
Shaukat Aziz	Pakistan	Former Prime Minister of Pakistan; former Executive Vice President, Citibank
Justin Yifu Lin	China	Honorary Dean and Professor, National School of Development, Peking University; former Chief Economist and Senior Vice President, World Bank
Frederick Ma	Hong Kong, China	Chairman, MTR Corporation Ltd.; Honorary Professor, School of Economics and Finance, University of Hong Kong; former Secretary of Commerce and Economic Development, the Government of the Hong Kong Special Administrative Region, China
Yingyi Qian	China	Dean and Professor, School of Economics and Management, Tsinghua University
Andrew Sheng	Malaysia	Chief Advisor to the China Banking Regulatory Commission; former Chairman, Securities and Futures Commission of Hong Kong
Joseph Yam	Hong Kong, China	Executive Vice President of the China Society for Finance and Banking; Distinguished Research Fellow of the Lau Chor Tak Institute of Global Economics and Finance; former Chief Executive of the Hong Kong Monetary Authority

Africa

Member	From	Title
Omari Issa	Tanzania	CEO, Jakaya Mrisho Kikwete Foundation; Chairman, International Board, AMREF Health Africa
John H. Maree	South Africa	Chairman, Liberty Group; Deputy Chairman and former CEO, Standard Bank Group

Americas

Member	From	Title
David Denison	Canada	Chairman, Hydro One Ltd.; former CEO, Canada Pension Plan Investment Board
Merit E. Janow	United States	Dean, School of International and Public Affairs, and Professor of Practice, International Economic Law and International Affairs, Columbia University; former member of the Appellate Body of the World Trade Organization
Jorge Paulo Lemann	Brazil	Director, Kraft Heinz Company
John L. Thornton	United States	Chairman, Board of Trustees of the Brookings Institution; Chairman, Barrick Gold Corporation; former President, Goldman Sachs Group

Europe

Member	From	Title
Dame DeAnne Julius	United Kingdom	Chair, University College London ; former Chair, Chatham House
Knut N. Kjaer	Norway	Chairman, FSN Capital Partners and Sector Asset Management, Norway; former CEO, Norges Bank Investment Management
Jean Lemierre	France	Chairman, BNP Paribas; former President, European Bank for Reconstruction and Development

Oceania

Member	From	Title
Paul Costello	Australia	Member, Payments System Board, Reserve Bank of Australia; former General Manager, Australian Future Fund; former CEO, New Zealand Superannuation Fund

Secretary-General

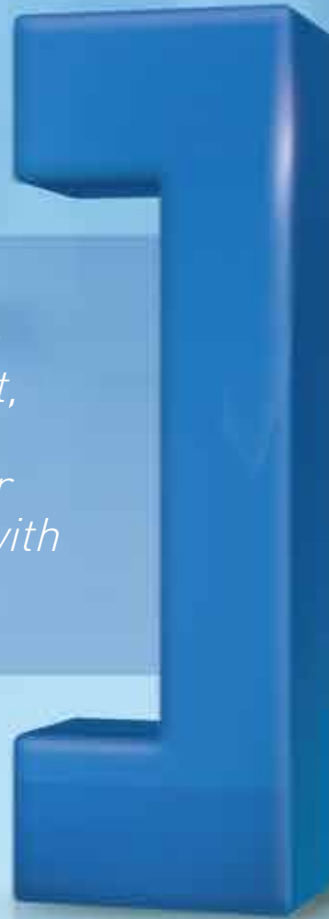
Liu Fangyu	China	Head, Department of Public Relations and International Cooperation, CIC
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**INVESTMENT AND
MANAGEMENT
REVIEW**



*CIC is committed to
its role as a prudent,
professional, and
responsible investor
operating globally with
a good reputation.*



» Investment Strategy and Management

Investment Principles and Philosophies

CIC is committed to its role as a prudent, professional, and responsible investor operating globally with a good reputation.

Four principles underlie CIC's investment activities:

- CIC invests on a commercial basis. Its objective is to seek maximum returns for its shareholder within acceptable risk tolerance.
- CIC is a financial investor and does not seek control of the companies in its portfolio.
- CIC is a responsible investor, abiding by the laws and regulations of China and of recipient countries or regions and conscientiously fulfilling its corporate social responsibilities.
- CIC pursues investments based on in-depth research within an asset allocation framework to ensure a prudent and disciplined approach in both decision-making and investment activities.

CIC follows a set of investment philosophies based on its own characteristics and understanding of investment management:

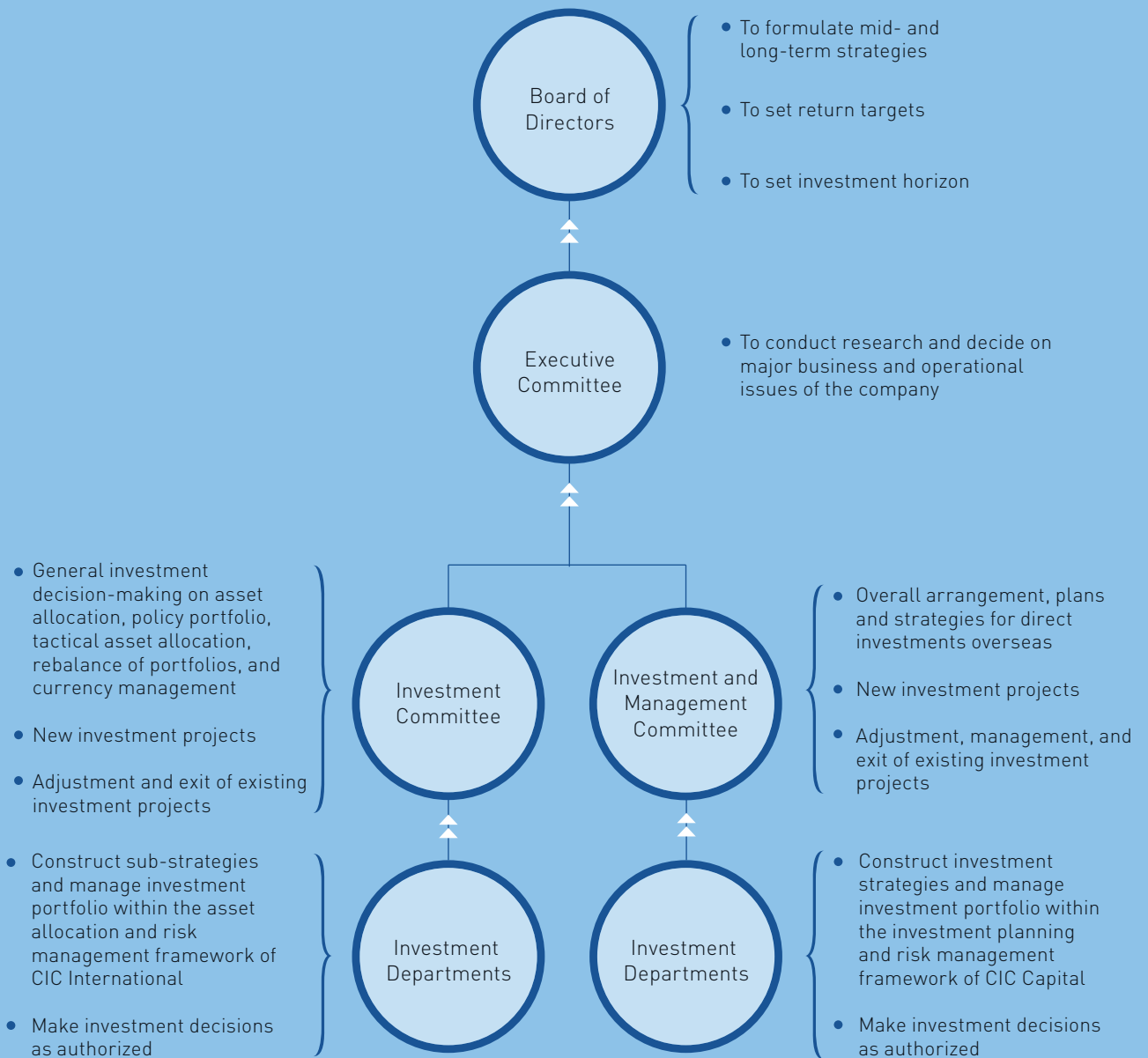
- CIC takes a holistic and disciplined approach to strategy design and portfolio construction, analysis, and management to ensure a well-disciplined portfolio with integrity and stability.
- As a long-term investor, CIC is well positioned to withstand short-term market volatilities and capture illiquidity premiums.
- CIC continues to pursue risk diversification by spreading risk factor allocation in a bid to reduce portfolio volatility and curb downside risks.

Investment Decision-Making

Since its inception, CIC has established a scientific, disciplined, and effective decision-making framework. The Investment Committee of CIC International (the Investment Committee) and the Investment and Management Committee of CIC Capital (the Investment and Management Committee) make investment decisions separately. In addition, to enhance the efficiency and quality of investment decision-making and to clarify project management responsibilities, investment authorization plans are formulated to grant discretionary authority to investment teams.

Formulating investment policies, strategies, and performance and risk targets in line with the guidelines defined by the Board of Directors and the Executive Committee, the Investment Committee and the Investment and Management Committee also formulate their own investment policies and processes, regularly hold meetings (ad hoc sessions when necessary) to review investment proposals and make their decisions, which are implemented by related senior executives and investment departments and teams.

Decision-Making Flow Chart



Investment Departments of CIC International

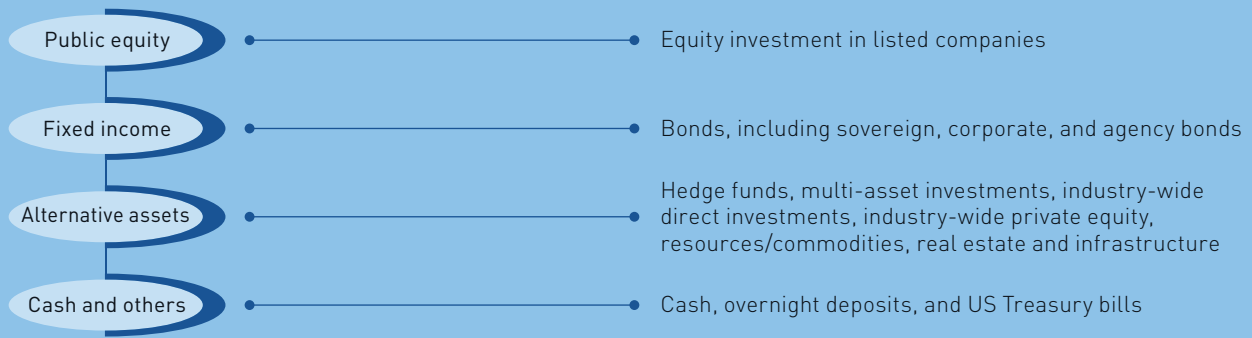
- The **Department of Asset Allocation** is responsible for developing investment policies, proposing strategic asset allocation plans, managing exposures of the CIC overall portfolio. It functions as the Secretariat for the Investment Committee. It manages the trading room as well.
- The **Department of Public Equity** is responsible for actively managing public equity investments globally.
- The **Department of Fixed Income and Absolute Return** is responsible for actively managing fixed income, absolute return, and multi-asset portfolio.
- The **Department of Private Equity** is responsible for industrywide private equity investment through direct investments or funds in industries other than energy, resources, agriculture, forestry, husbandry, fisheries, and infrastructure. It conducts credit opportunity investment as well.
- The **Department of Real Estate** is responsible for constructing direct investment portfolio in the global real estate market and selecting and managing private equity real estate funds and co-investments. It conducts investment in real estate in public markets as well.
- **CIC International (Hong Kong)** is responsible for the entrusted global investment-grade corporate bond strategy portfolio, China-Hong Kong equity strategy portfolio, the sub-strategy portfolio focusing on special credit opportunities among Chinese enterprises and the US high-yield bond portfolio.

Investment Departments of CIC Capital

- **Investment Department I** is responsible for direct investments in infrastructure, mining, and energy (oil and gas) and for managing related bilateral, multilateral, and platform fund investments, and co-investments.
- **Investment Department II** is responsible for direct investments in sectors other than agriculture and the three sectors managed by Investment Department I and for managing related bilateral, multilateral, and platform fund investments, and co-investments.

Portfolio Construction

CIC's global portfolio consists of public equity, fixed income, alternative assets (See Box 3) and cash and others.



Box 3: Alternative Assets

The past four decades saw the gradual emergence of sovereign wealth funds, pension funds, endowment funds and other large institutional investors, whose asset-allocation models evolved with the development of finance theories and global financial markets. Initially, investments by pension funds and endowment funds were highly constrained to public equity and fixed income. Over time, some US endowment funds ventured into alternative investments such as private equity and hedge funds, yielding satisfactory returns and enabling asset allocation frameworks to evolve further. Today, alternative assets are an important component of large institutional investors' portfolio.

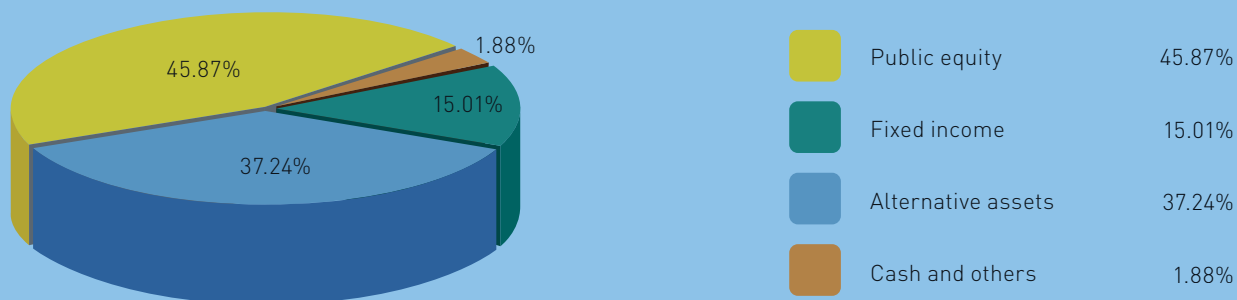
Different from traditional asset classes such as public equity and fixed income, alternative assets typically refer to hedge funds, multi-asset investments, private equity, private credit, real assets, etc. Alternative assets offer benefits for asset allocation in many ways. First, they can enhance diversification because of the low correlation with traditional assets. Second, the expected excess return of private assets is higher since private market is less efficient and has lower transaction valuation than public market. Therefore, allocating a reasonable portion of capital to alternative assets can generate higher expected return than a traditional portfolio comprising only public equity and fixed income, while maintaining the same risk level. Since alternative asset exposure cannot be obtained passively, institutional investors must evaluate their own investment capabilities, internal decision-making

process and execution cost to ensure that the net returns could meet their expectations.

In CIC's early days, CIC learnt from US endowment model and the target weight of alternative assets was relatively high. Then CIC steadily invested in alternative assets based on the allocation plan. The portfolio construction process was a combination of top-down and bottom-up approaches. CIC optimized its portfolio based on the risk-return profile of asset classes and market capacity. And for each specific asset class, the investment strategy considered CIC's competitive advantages and investment objectives. Under current Reference Portfolio framework, CIC has defined the funding mix rule for each alternative asset based on the risk-matching principle. Then alternative assets investments could be evaluated from the perspectives of risk contribution and opportunity cost which could strengthen discipline in portfolio construction process.

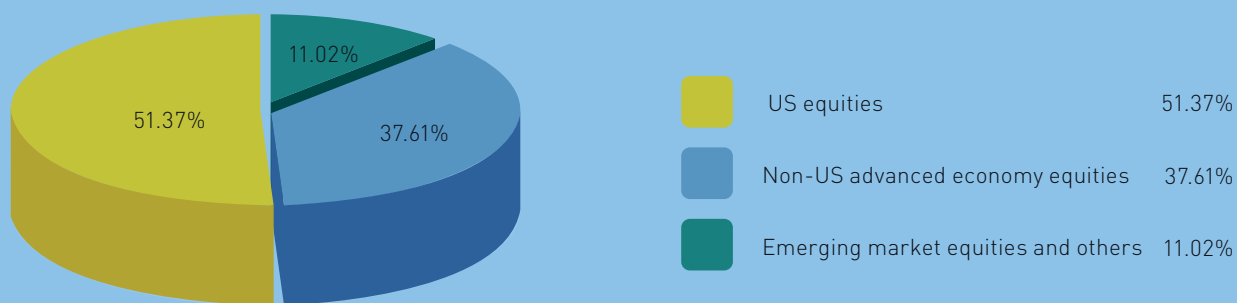
By the end of 2016, alternative assets accounted for 37.24% of the CIC overall portfolio and generated satisfactory diversification effect and higher long-term expected returns.

Global Investment Portfolio Distribution (as of December 31, 2016)

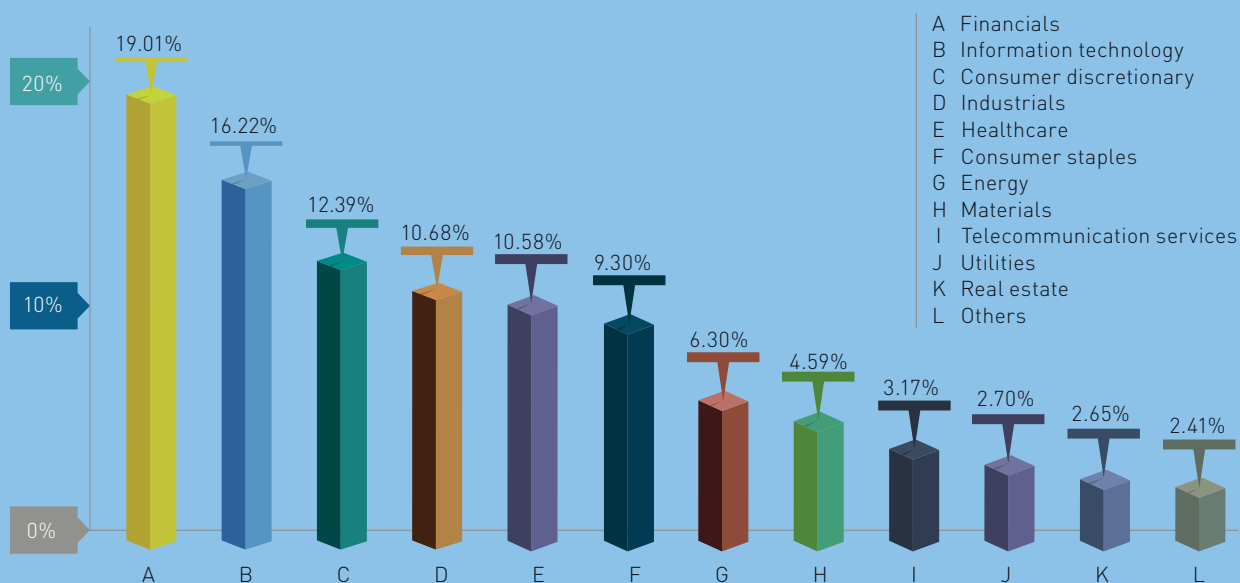


Public Equity in the Global Portfolio (as of December 31, 2016)

- Distribution by region

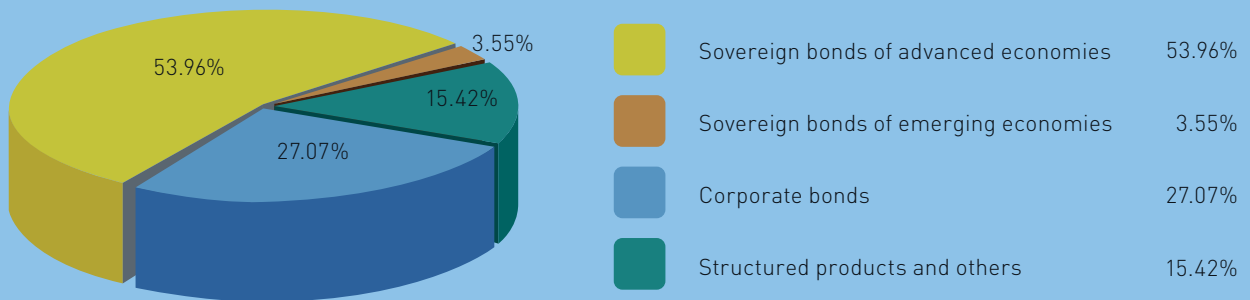


- Distribution by sector



Fixed Income in the Global Portfolio

(as of December 31, 2016)



Internally Managed Assets versus Externally Managed Assets in the Global Portfolio

(as of December 31, 2016)



Investment Activities

In 2016, the global economy continued to recover softly and financial markets became increasingly volatile.

In the United States, a strong labor market helped generate a steady increase in consumption, and the economy rebounded with modest inflation. The Eurozone introduced unconventional monetary policies and a minor fiscal stimulus and produced a weak recovery, though debt risks and structural problems continued to linger. Japan's economy remained sluggish as the downside of negative interest rates became increasingly notable, with persistent deflation and anemic investments and consumption.

The economic recovery in the developed world and commodity rebound benefited the emerging markets, which showed signs of recovery but were still plagued by capital outflow pressures caused by expectations that the Federal Reserve would raise interest rates. China's economy grew slowly but steadily, and efforts were made to advance supply-side reforms and find the new dynamic balance between supply and demand. Recurrent global "black swan" incidents, the Brexit referendum, the perennially troubled European banking industry, and refugee crises and terrorist attacks in the war-torn Middle East provoked turbulence in global financial markets and obscured assessments of their direction.

Against the backdrop of complex and fluid situations at home and abroad, CIC managed its investments actively and prudently, and was able to achieve satisfactory results.



Investment Management Activities of CIC International

Asset allocation

In 2016, the CIC overall portfolio was well-managed under the Reference Portfolio framework. We successfully accomplished asset mix adjustment, benchmark selection and strategy optimization. In addition, we improved exposure management methodology, updated portfolio rebalancing mechanism, and formulated currency hedging policies. In order to strengthen asset allocation capabilities, we also developed the Strategic Partner Network program as well as internal quantitative asset allocation strategy (see Box 4), seeking to explore the dynamic asset allocation on the adjustment of the CIC overall portfolio.

Public market investment

CIC continued to refine its management of public market investments, optimize its organization structure of strategies and improve its capacity to generate excess returns.

Public market equities. We strengthened research on macroeconomic conditions and changes in market dynamics, improved the adaptability of the investment strategy to the evolving market environment and actively controlled downside risks. We also adjusted and optimized the strategy structure, formulated thematic global equity strategies and expanded the sources of excess returns. Various instruments were used to analyze the profiles of external managers and to assess external managers and adjust as necessary.

Bonds and absolute returns. We reviewed and optimized the portfolio composition, developed optimization plans for various strategies and sub-strategies, and intensified post-investment monitoring and management. Quarterly reviews examined managers' positions, performance attributes and market opinions. The dynamic global bond allocation strategy was added during the year, with a dynamic emerging market bond sub-strategy. For hedge funds, we continued to optimize the sub-strategy structure and allocation proportion, and actively sought Alpha sources to increase returns. Multi-asset strategy saw greater optimization of managers for risk-parity, and reduced the concentration of managers.

Internal management capabilities. We took steps to develop in-house investments, carefully constituting the global select internally managed portfolio, constantly improving the internal investment procedures, and strengthening capabilities for researching of fundamentals to increase efficiency in investment analysis. We developed two internally managed quantitative portfolios — based on Sharpe Ratio optimization and Information Ratio optimization — and we continued to study and implement new quantitative investment strategies. Our internally managed investment capabilities better complemented and

supported the externally managed investment capabilities. Several internally managed portfolios had significantly out-performed the benchmarks since inception.

Long-term asset management

We strengthened long-term asset allocation strategies to improve the effectiveness of long-term investments. Standardizing investment decision-making and project monitoring procedures helped improve long-term asset management. In 2016, we signed or approved 48 contracts for investment in private equity, real estate, and private credit. We partially or fully exited several direct investments with satisfactory results.

Private equity. We improved internal investment decision-making, hired new top-tier managers and renewed our commitment to high-performing managers in order to optimize the industry-wide portfolio. We also increased investment commitments to managers with a strong track record to deepen long-term cooperation, and we collaborated with managers to increase the proportion of co-investments and co-sponsorship (see Box 5).

Real estate. We created a multi-tiered structure of managers, continued to optimize external management and revamped the co-investment model. Believing in investing in the best, we invested in several high-quality and resilient core assets in major real estate markets in the world that could generate stable long-term returns.

Post-investment management. We clearly defined responsibilities, and further standardized post-investment processes. We introduced strict controls to guard against operational risks, fostering awareness of compliance. To mitigate risks, we monitored investment portfolios, closely tracked major events, and put precautionary measures in place. Ever alert to potential opportunities in the market, we reduced or exited certain investments as appropriate.

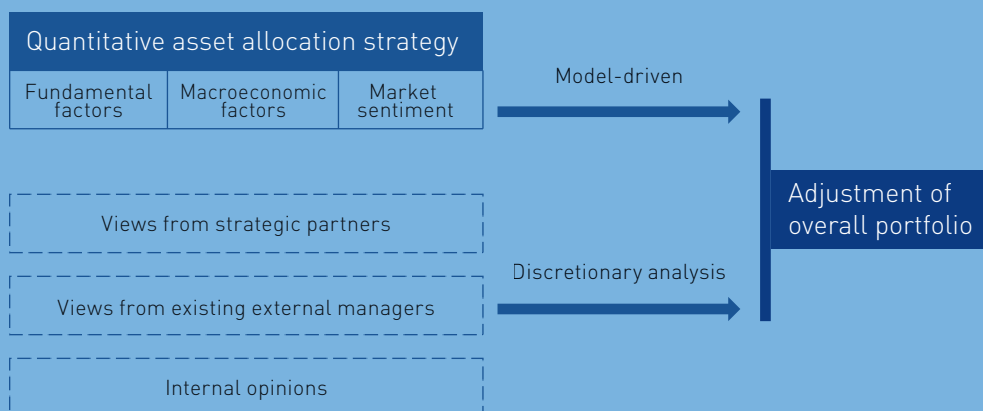
CIC International (Hong Kong) adhered to CIC's existing investment and research discipline in actively and prudently managing four portfolios: the entrusted global investment-grade corporate bond strategy portfolio, China-Hong Kong equity strategy portfolio, the sub-strategy portfolio focusing on special credit opportunities among Chinese enterprises and the US high-yield bond portfolio. The total assets under management by CIC International (Hong Kong) stood at around \$12 billion, and had been well performing. CIC International (Hong Kong) also leveraged its geographical advantage to conduct active exchanges and interactions with peer institutions and to closely monitor regional and global market dynamics. This provided strong support for our investment research, networking, and post-investment management.

Box 4: Quantitative Asset Allocation Strategy

CIC has a three-level allocation framework: Reference Portfolio, Policy Portfolio and Actual Portfolio. Through dynamic allocations of assets and factors, we hope to obtain excess returns above the Reference Portfolio in the Actual Portfolio. Our multi-asset dynamic allocation strategy includes two complementary sub-strategies: externally managed investment and internally managed quantitative investment.

The internally managed quantitative portfolio captures extensive market opportunities by performing rigorous analysis on the market information with solid economic theories. The investment decisions and executions are highly disciplined. With this systematic approach, the asset allocation decisions can be made satisfying the requirements of scientific rigor. Specifically, it consists of the following characteristics:

- The investment models are based on modern portfolio and risk management theories. It focuses on fundamental values as well as macroeconomic forecasts and market sentiment changes.
- The investment universe of this portfolio covers most of public market asset classes in the CIC overall portfolio, including stock index futures, bond futures and foreign exchange futures. It can generate returns from multiple Alpha sources.
- The investment decisions are driven by multi-asset quantitative models which are developed internally. It also serves as a reference for overall portfolio adjustment decisions as well as a tool in connection with research, asset allocation and market.



Box 5: Private Equity Investment Strategy

By accepting the illiquidity of long-term assets and discovering the inefficiency of the private market, private equity can generate relatively high expected excess returns and help diversify risks in the overall portfolio. It is an important part of the diversified investment portfolios of large institutional investors, including CIC.

Since 2008, CIC has started to build its private equity portfolio, which currently consists of three main types: fund investment, co-investment and co-sponsorship. For fund investment, we have established extensive cooperation with the world's major fund managers since inception. We have gradually formed a global manager network spanning major regions, strategies and industries and hired around 80 external managers across the globe. For co-investments and co-sponsorship, we have relied on external managers and our own network and platform resources to close more than 30 deals, encompassing such key areas as TMT, healthcare, consumption and commercial services.

Over the past decade, CIC's private equity (including private credit) investment has entered a relatively mature stage, with a portfolio market value exceeding \$20 billion and cumulative returns exceeding \$10 billion. The steady and satisfactory investment returns are strong underpinnings of CIC's overall performance. Capacity building is based on practical investment needs, whereby decision-making process and mechanism of private equity investment are constantly improved and optimized. We have nurtured a private equity investment team with extensive expertise and experience.

Private equity is a key area for CIC's investments in long-term assets, and investments in private equity will increase in the future. Given that the current market is marked by rising valuation and fierce competition, we will, based on holistic evaluations of managers in various categories, continue to optimize our portfolio structure, and deepen collaboration with capable fund managers. We will also broaden the sources of co-investment and co-sponsorship, and ensure diligent post-investment management of existing projects. Leveraging both internal and external resources and working with all types of partners to tap good investment opportunities, we will also maximize our competitive advantages in long-term capital, international platforms and the China angle. We strive to achieve win-win outcomes that benefit all parties through active and pragmatic cooperation.

Investment and Management Activities of CIC Capital

In 2016, CIC Capital pressed ahead with its top-down strategic design, and formulated the Outline of CIC Capital's Business Development Plan (2017-2026). It optimized the organization of its investment departments, adopted innovative approaches to revamp its incentive scheme, and improved the efficiency of its human resource management. By considering the characteristics of direct investment projects, it also explored new ways to improve its investment decision-making for speedy and effective investment decisions. Rules and policies for operational support, legal compliance and risk management were revised and upgraded.

CIC Capital established long-term strategic collaborations with international institutions and conducted joint projects with several Chinese companies. In 2016, CIC Capital made decisions to invest in 16 projects, with a total commitment of about \$5 billion.

Also in 2016, CIC Capital increased investments in infrastructure, particularly high-quality core infrastructure assets. It collaborated with peer institutions, asset managers, sector investors and other like-minded partners, and carried out landmark projects in ports, railway, pipeline and

telecommunications in Europe, Oceania and Latin America. These projects included UK National Grid's gas distribution network, Nova Transportadora do Sudeste S.A. (NTS, a system of natural gas transmission assets in the southeast of Brazil), Port of Melbourne in Australia (see Box 6), and the Australian rail and port operator Asciano. CIC Capital also sought market opportunities and invested in internet, financials, services and other industries. It adopted a value investing strategy, and closely followed the energy and other resource sectors actively to find investment opportunities.

For existing investments, CIC Capital reviewed its investment projects extensively and, based on the market environment and project conditions, tailored a post-investment management plan for each project. It also tightened communication with portfolio companies and other shareholders to add management value. And it tracked some of its high-quality assets and explored opportunities for increasing investments or for cashing out and exiting at the right time to harvest returns.

Box 6: CIC Capital invested in Port of Melbourne

In November 2016, CIC teamed with Australia's Future Fund, the Queensland Investment Corporation, Global Infrastructure Partners from the United States and the Ontario Municipal Employees Retirement System from Canada to form a consortium and acquired the Port of Melbourne in Australia on a 50-year lease for 9.7 billion Australian dollars.

Home to Australia's largest container and vehicle cargo facility, the port is well located near Melbourne's Central Business District. As an important part of Australia's national transport system, it is a premier infrastructure asset with promising long-term investment value.

CIC's investment in the Port of Melbourne increases the proportion of assets generating stable returns within its diversified portfolio. It has also expanded CIC's global infrastructure investment platform and deepened CIC's cooperation with other like-minded investors.

Investment Management and Support

First, CIC improved the investment decision mechanism and management rules. Rules for project monitoring and deployed personnel were amended to improve post-investment management. The investment decision-making system was reviewed regularly and the effectiveness of decisions evaluated to pave the way for further optimization and adjustment.

Second, CIC strengthened the “research-driven” investment principle. In-house research capabilities were consolidated to form a dedicated research department, which studied the macroenvironment, strategic directions, industry developments, market trends and investment strategies. A research platform was being created to share resources and improve the knowledge management system.

Third, CIC optimized the investment operation framework. The evaluation system for external service providers was improved and data platforms were optimized to ensure smooth operations. The support system for public market operations was also standardized and digitized, with alternative investment operations given more professional and customized support. We also upgraded our support services, such as payment settlement and financial accounting.

Fourth, CIC adopted stricter budget implementation and monitoring. We enhanced cost-apportionment based on cost-efficiency analysis, and better enforced the accounting rules to engender higher quality financial reporting. Under the new Reference Portfolio asset allocation framework, the mechanism for managing investment liquidity was refined to achieve cash value preservation and appreciation. A financing mechanism for overseas investment was also developed.

Fifth, CIC formed an Information Technology Committee. The new committee developed a strategic plan (2017-2021) for IT development. The plan requires

biennial IT risk evaluations to ensure information security and the proper functioning of general operations and the maintenance of the application systems and IT infrastructure. The back-up data center was launched in Shanghai and disaster recovery drills will now be held to ensure business continuity.

Sixth, CIC provided all-round legal, compliance and tax support. Major regulatory developments were monitored around the world, and their implications for our businesses assessed. We also upgraded the compliance monitoring system, implementing an information barrier system so that legal and compliance risks can be promptly and properly identified, assessed and controlled.

Seventh, CIC strengthened efforts in anti-corruption and prevention of conflicts of interest and supervision of governance and audit. Conversations with department heads were held about their discharge of responsibilities, areas highly exposed to the risk of corruption were inspected, and employees were educated on compliance. The directors’ and senior executives’ discharge of duties were also supervised. The company assessed the accounting and financial situations and audited the investment businesses and economic responsibilities.

Investment Performance

In 2016, CIC's overseas portfolio posted a net annual return of 6.22%. Its net cumulative annualized return since inception was 4.76%.

Investment performance of the global portfolio

Year	Net cumulative annualized return	Net annual return
2008	-2.1%	-2.1%
2009	4.1%	11.7%
2010	6.4%	11.7%
2011	3.8%	-4.3%
2012	5.02%	10.60%
2013	5.70%	9.33%
2014	5.66%	5.47%
2015	4.58%	-2.96%
2016	4.76%	6.22%

*Net cumulative annualized returns and the net annual return for 2008 are calculated since inception on September 29, 2007

Created in the midst of China's financial reform, Central Huijin was initially mandated to inject capital into the four major state-owned commercial banks : Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank. It then went on to facilitate the reform and development of major state-owned financial institutions in securities and insurance industry. It drove the creation of a modern corporate system in its holding companies, and helped establish a standardized system of exercising shareholder rights and performing shareholder obligations. By consolidating and listing some of those institutions, Central Huijin has developed a unique approach to managing state-owned financial capital.

In 2016, Central Huijin's holding companies achieved a stable and organic growth in serving the real economy and supporting the adjustment of domestic economic structure. Central Huijin helped its holding companies in exploring multiple types of capital replenishments, including the merger of China International Capital Limited and China Investment Securities Co., Ltd. and the H-share listing of China Securities Co., Ltd. Central Huijin further enhanced its equity management capacity with a market-oriented approach, well-defined responsibility, detailed operational procedures and robust management. Central Huijin conducted comprehensive assessment on its holding companies and played an active role in directing them to take precautionary measures to mitigate financial risks.

Portfolio Holdings of Central Huijin (as of December 31, 2016)

Company Name	Percentage
China Development Bank	34.68%
Industrial and Commercial Bank of China Limited	34.71%
Agricultural Bank of China Limited	40.03%
Bank of China Limited	64.02%
China Construction Bank Corporation	57.11%
China Everbright Group Ltd.	55.67%
China Everbright Bank Co., Ltd.	21.96%
China Export & Credit Insurance Corporation	73.63%
China Reinsurance (Group) Corporation	71.56%
New China Life Insurance Co., Ltd.	31.34%
China Jiayin Investment Limited	100.00%
China Galaxy Financial Holdings Co., Ltd.	78.57%
Shenwan Hongyuan Group Co., Ltd.	25.03%
China International Capital Corporation Limited	28.45%
China Securities Co., Ltd.	33.29%
China Investment Securities Co., Ltd.	100.00%
Jiantou Zhongxin Assets Management Co., Ltd.	70.00%
Guotai Junan Investment Management Co., Ltd.	14.54%

» Risk Management

Objective and Approach

The objective of risk management is to put in place effective policies, mechanisms, systems, and processes for investment and operations to maximize the returns for the shareholder within an acceptable risk tolerance.

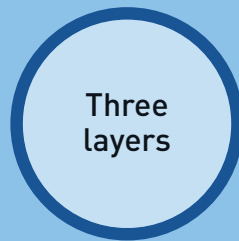
Risk management is a company-wide effort involving every business line, department, and individual. It is embedded throughout the investment life cycle, from the overall portfolio to general asset classes and to specific investment strategies and sub-strategies.

System and Mechanism

CIC has a comprehensive risk classification and management system involving the Executive Committee, Risk Management Committee, and relevant departments to manage all kinds of risks: market, credit, operational, liquidity, strategy, legal, reputational, and country risks.

In line with policies set by the Board of Directors and the Executive Committee, the Risk Management Committee oversees CIC's risk management strategies and approaches. Its key responsibilities include the following: Reviewing risk management strategies, policies and procedures; Determining the risk budgeting and allocation plan; Reviewing risk management and assessment reports; Reviewing assessment standards, management schemes, and internal control mechanisms for major risk drivers and events as well as key business processes; Conducting periodic reviews of the risk profile of asset allocations and the execution of the allocated risk budgets; Reviewing the risk management strategy and contingency plans for major risk events; Reviewing other risk-related issues under the authorization of the Executive Committee.

The Risk Management Committee, which oversees the risks in CIC's investment and operation activities, is comprised of the Chairman and CEO, President, related Executive Vice Presidents, Chief Risk Officer, and the Heads of the Department of Risk Management, the Department of Law and Compliance, the Department of Public Relations and International Cooperation, the Department of Asset Allocation, the Department of Investment Operations, the Department of Finance and Accounting, the Department of Internal Audit, the General Office, and the Department of Research. Other members of senior management and the heads of the investment departments attend Risk Management Committee meetings as needed. The Operational Risk Management Committee and the Valuation Committee are two subcommittees established under the Risk Management Committee.



Three-layered system

It includes basic procedures and management approaches designated according to different types of risks and risk management guidelines.

It provides institutional guarantees for scientific, well-defined, and orderly risk management.



Three-tiered system

It is a company-wide, inter-department, and intra-department management system.

It standardizes risk management across various operations, including investment, management, and supervision, thereby enhancing efficiency and standardization in operations and management.



Three lines of defense

The first line of defense: investment departments remain well informed of the risks associated with the investment products within their mandate and follow CIC's risk management rules in their investment activities.

The second line of defense: the Department of Risk Management sets risk limits on various asset classes based on the risk budget; formulates the risk management framework, mechanism and processes; works with the Department of Law and Compliance and the Department of Public Relations and International Cooperation to monitor and manage risks across the Committee.

The third line of defense: the Department of Internal Audit and the Department of Institutional Integrity audit, supervise, and evaluate company-wide risk management to ensure procedural compliance and effectiveness in risk management and internal controls and make recommendations to redress inadequacies if these arise.

Management of Multiple Types of Risks

In 2016, CIC intensified its comprehensive risk management, improved its risk management system, and enhanced the identification and assessment of pre-investment risks and the monitoring and early warning of post-investment risks. A risk factor system was implemented as part of continuing efforts to buttress its factor model analytical framework (see Box 7) and the various risk management tools. Existing Level II and Level III assets were promptly valued using scientifically rigorous methods, and valuation models and past practices were reviewed and studied to facilitate standardizing asset valuations. Under the new management and asset allocation structure, we changed the format of the performance report and relied on a self-developed model to conduct regular attribution analysis of the overall portfolio, major asset categories and investment strategies. Recommendations were proposed for improving incidents concerning operational risks and other unusual events, and implementation of the recommended solutions was closely supervised and monitored.

Market Risk Management

CIC invests according to an underlying principle of gaining investment returns within acceptable risk tolerance as set out in its overall business objectives.

We continued to enhance market risk monitoring and management and remain informed of the performance of major capital markets. We also studied and enhanced application of the Volatility Index to improve the Index's predictability and continuity. The business management processes of public market projects were also optimized and regular meetings and briefings on market risk were organized to analyze the strategies and its active returns.

To manage the overall portfolio risk, the risk factor perspective was introduced, and Phase II of the Fengye System (the Risk and Performance Analysis System) is under development for risk factor analysis.

Credit Risk Management

The major credit risks faced by CIC's investments include sovereign credit risk, counterparty credit risk, and the risk associated with invested assets.

Based on the risk exposure of our portfolio, we regularly publish the Sovereign Credit Risk Report covering 110 countries and regions and produce occasional thematic reports on market movements. We also conduct stress tests on sovereign credit risks. We deepened research on the early warning system for country exposure, using a comprehensive methodology based on expected loss, exposure and concentration. And we continued to hone the counterparty monitoring and management system, employing a dynamic approach to managing the counterparty list.

CIC constantly tracked the credit risk profile of the invested assets and improved early warning and response. It urged investment departments to enhance post-investment management and adjust or exit projects in a timely manner.

Internal Control and Operational Risk Management

We improved our policies and procedures and refined our operational risk management capabilities by setting up a tailored internal control and operational risk management framework to support business. We improved the risk management and internal control systems, and long-term mechanisms for resolving different risk categories have become more robust. The efforts include issuing 11 new risk management guidelines and revising 6 existing investment-related risk management guidelines, such as Guidelines on the Investment Manager Accountability, Guidelines on Due Diligence for Investment Projects and Guidelines on Early Warning and Mitigation of Investment Risks.

We regularly assessed operational risks, and continued to improve the information collection mechanism for operational risks. Operational risk events were investigated and analyzed, and solutions recommended. We also stepped up the monitoring of transactions and investment processes, launched business continuity initiatives, and looked into developing administration guidelines relating to business continuity.

CIC values the prevention and management of reputational risks, and has continued to do well in information disclosure and tracking public opinion to assess reputational risks. In selecting investment projects and partners, CIC always considers reputational risk as a major factor in decision-making. CIC also seeks to fulfill its corporate social responsibility and create a favorable image of a responsible corporate citizen and respectable partner.

Box 7: The Risk Factor System

Risk factors are the forces that shape financial products and changes in market contours, and reflect market participants' summarization of market patterns. Compared with the profusely complex products transacted in the marketplace, risk factors are limited in number and simpler in structure, better representing the essence of risk premium. With more stable risk-return profiles, risk factors can serve as effective analytical tools for investment decisions.

The traditional portfolio analysis approach was seriously challenged during the financial crisis, increasing attention to the risk factor method. Globally, many peer

institutions including sovereign wealth funds and pension funds have adopted risk factor analysis to varying degrees and reshaped their investment and risk management accordingly. CIC has a multi-tiered risk-factor framework with different granularities to provide comprehensive support and perspectives for decision-making by various levels of investment teams.

CIC will continue to enhance the risk factor framework based on its business development needs, the market environment and the latest research in the investment industry.

Below is CIC's current top-down risk factor framework:

	Overview	Application
Macro	Macro factors are long-term driving forces behind the macroeconomy. Through distribution analysis and tail risk assessment, they help in analyzing the portfolio's risk-return profile under different economic scenarios. Macro factors form the basis of the test-based risk allocation approach.	Guides long-term growth of the overall portfolio.
Portfolio	Portfolio factors drive the value changes across different asset classes. They are usually used for analysis on the level of multi-asset portfolios to capture market changes and price deviations in the mid- to long-term.	Helps construct the overall portfolio and overall asset allocation.
Strategy	Strategy factors influence asset value changes within a certain asset class. They are usually used for analysis on the level of investment portfolios to capture market changes and price deviations in the short- to mid-term.	Helps the portfolio managers with mid-term market views and their own asset allocation.
Market	Market factors are parameters for securities pricing. They are usually used for analysis on the level of a single type of security to capture market changes and price deviations in the short-term.	Helps the portfolio managers with short-term trading and security selection.

Specific factors include:

Macro	Economic growth	Inflation	Market pressure
Portfolio	Equity	Interest rate	Credit
	Real asset	Hedge fund	Multi-asset allocation
Strategy	Country	Industry	Style
	Interest spread	Currency	Commodities
Market	Stock price	Exchange rate	Commodities
	Interest rate	Credit spread	Volatility

» Human Resources

Review

Outstanding talent accounts for the core competitiveness of CIC and its main driving force for development. CIC adheres to a people-oriented human resource management philosophy. It attracts talent because of its success, gives full play to the abilities of talented individuals through sound mechanisms, evaluates these individuals based on scientific standards, and retains them by giving them market-based incentives. Its pool of strong talent has expanded because of its scientific, market-based, international and refined management philosophy.

CIC has fostered a suitable human resource management model to recruit, cultivate, and retain talent.

Recruiting Talent

As an international institution undergoing rapid growth and possessing a large overseas portfolio, CIC recruits experienced professionals with international investment management experience and a good knowledge of Chinese culture and perspectives.

As China's sovereign wealth fund, CIC is highly attractive to professionals at home and abroad. CIC welcomes talented individuals with the following qualifications:

- Integrity, honesty, and a strong sense of professional ethics and morality.
- Identification with CIC's corporate culture and a strong desire to grow with the company.
- Extraordinary business competence and professional expertise.
- Passionate and innovative, ready to take on responsibilities and challenges.
- Good communication and teamwork skills.

CIC places great emphasis on recruiting high-caliber talents from overseas. It is committed to creating an environment that respects, cares for, and supports employees so that they can realize their worth, reach their potential and contribute to our growth. In 2011, we were designated as an Innovation and Start-up Business Base for Overseas High-level Talents, now vital for attracting high-end talent.

CIC operates a fair, rigorous, and transparent global recruitment process. All candidates must apply through its online recruitment system. After initial screening, candidates are invited to take an online test. Those who pass the online test are shortlisted for interviews. To enhance the rigor and fairness of the selection process, CIC applies a multidimensional assessment methodology and asks external human resource experts to participate in the interviews. Candidates applying for positions of managing director or above are interviewed by relevant senior executives.

CIC has a talent database to keep potential candidates in reserve for mid-level and senior executive positions. This allows CIC to respond quickly to demands for more targeted and professional recruitment. CIC also uses external human resource agents to search for the talent it needs.

In 2016, CIC expanded its pool of professionals by recruiting talented individuals to operation and management positions through its global recruitment and campus recruitment procedures.

As of June 30, 2017, CIC's overall staff strength was 626, including global investment staff of 195. Among global investment staff, more than 83% have overseas education or working experiences.

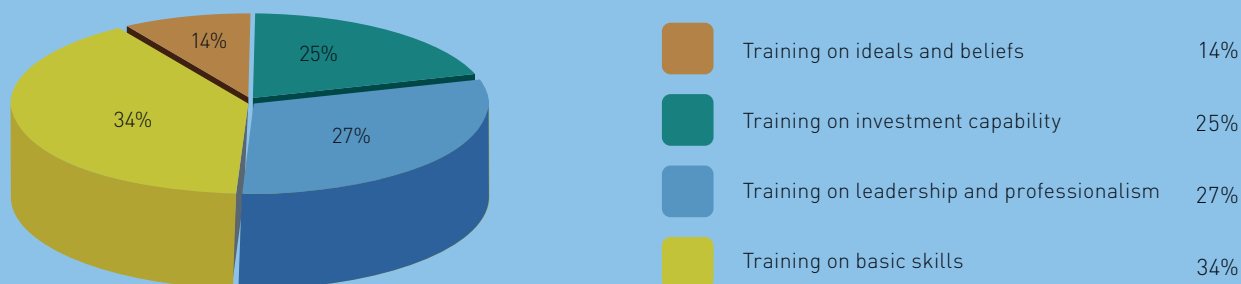
Team Development

Training and developing talent are essential for sustaining corporate development. We are people-oriented and value staff education and training. Our employees are encouraged to pursue their dreams and improve their capabilities to enable both personal and corporate development (See Box 8).

Based on our development strategies and team-building needs, we have constantly enriched and refined our employee training system. The training curriculum covers corporate values, investment capabilities, leadership and professionalism, basic skills, and ideals and beliefs. Training is delivered through lectures, practical exercises, online programs and exchanges and discussions. Partner institutions include local and foreign universities, professional organizations and industry associations. We also have in-house training courses to crystallize and share knowledge and experience.

In 2016, CIC organized 81 training programs, totaling 40,939 hours and benefiting 1,958 participants.

Corporate Training Participation in 2016



Department Training Programs in 2016

Training on investment capability	Basic investment skills series Business simulation series Professional qualification examinations
Training on leadership and professionalism	Team-building and management series Individual and team effectiveness series Corporate governance series
Training on basic skills	New employee orientation and onboarding Business languages

Box 8: Training to Enhance Junior-Level Employees' Investment Capability

We offered opportunities for junior-level employees to develop and improve themselves and seek to elevate their investment capability by tailoring training programs for them. For example, the public market teams were trained on portfolio-building to improve their ability to avert risks in a volatile market and to generate returns. The overseas direct investment teams were trained on valuation of M&A deals and business

simulations to deepen their understanding of the real economy and of business operations and management. Employees seeking to improve their basic skills were given training on financial analysis, valuation modeling, negotiation skills, professional qualifications and business languages. We also hosted a lecture series on China's economy and online micro-lectures on hotspot issues.

Basic skills	<ul style="list-style-type: none"> Financial analysis Valuation modeling/M&A valuation Professional qualification exams Business languages
Practical exercises and simulations	<ul style="list-style-type: none"> Business practice Business negotiation Exchange programs with external institutions
Experience sharing	<ul style="list-style-type: none"> Developing in-house courses Sharing in-house cases In-house lectures and tutorials

Incentives and Constraints

Observing market norms and international practices, CIC continually optimized its remuneration system towards a market-oriented incentive scheme that suits its development strategy and culture. The system features compatible, fair and performance-oriented incentives in both tangible and intangible forms. CIC also implemented government guidance on reforming the remuneration system for senior executives of central state-owned enterprises and managed the remuneration of senior executives in strict accord with the regulations.

» Global Outreach

As a charter member of the IFSWF, CIC has implemented Generally Accepted Principles and Practices — the Santiago Principles in good faith and actively participated in the IFSWF. CIC is committed to facilitating the wider acceptance of the Santiago Principles, engaging in investment and risk management cooperation among sovereign wealth funds, and contributing to the improvement of the global investment environment (See Box 9).

From the outset, CIC has fostered a high degree of transparency, a practice appreciated by recipient countries or regions and business partners. Through its official website, annual reports, spokesperson, press releases, and other channels, CIC discloses key operational and management information on corporate governance, investment strategies and philosophies, major investment activities, executive personnel changes, investment performance, and so on.

As its investments expand, CIC has accumulated a huge pool of external managers and partners from almost all the leading financial, investment and brokerage institutions worldwide. Together, they constitute a broad and high-level cooperation network.

CIC is committed to mitigating the negative impact of investment protectionism and fostering an open, fair and nondiscriminatory environment for international investment through open and honest dialogues. In 2016, senior executives of CIC visited government agencies and business partners in many countries and regions. They were invited to attend multilateral and bilateral meetings and dialogues, including the China-US Strategic and Economic Dialogue, the China-UK Business Summit, the China-Russia Investment

Cooperation Committee meeting, the French Strategic Attractiveness Council meeting, the China-Japan CEO and Former Senior Officials' Dialogue, and the B20 Summit. At these meetings, CIC bridged communication and cooperation between governments and businesses. In the meantime, CIC received visits by foreign political leaders, officials of international organizations, senior executives of business partners, representatives of peer institutions and scholars in research institutes. Through these activities, CIC expounded its philosophy of long-term financial investment, introduced its investment strategies and consolidated relationships with its partners.

Out of its needs for international exchange and business expansion, CIC hosted the opening ceremony and investment seminar of the Representative Office in New York on May 19th, 2017. Heads of Consulate General of the People's Republic of China in New York and local Chinese institutions, representatives of CIC's partners, and CIC IAC members were invited to attend the event. The Representative Office in New York will fully leverage New York's position as an international financial center to conduct research on regional economy and financial market, and further enhance exchange and cooperation with local institutions.

Going forward, CIC will remain committed to expanding global outreach through active and effective dialogues and cooperation. It will continue to observe in good faith the Santiago Principles and prove to be a reliable, professional, responsible and respected world-class institutional investor.

Box 9: CIC and IFSWF

The 21st century saw the global mushrooming of sovereign wealth funds, a focus of much attention in global capital markets. To assure countries and markets that sovereign wealth funds were well-organized to invest as economic and financial entities, sovereign wealth funds with over \$500 billion of assets came together and established the International Working Group on Sovereign Wealth Funds in April 2008. With the support of the International Monetary Fund (IMF), they drafted the Santiago Principles. As one of the drafters, CIC was involved in all the discussions and revisions of the Santiago Principles. The Santiago Principles were released in October 2008, and the International Working Group was renamed the International Forum of Sovereign Wealth Funds in April 2009. CIC was a charter member and then-CIC Chairman of the Board of Supervisors. Jin Liqun was elected as the IFSWF's First Deputy Chair. Together with other sovereign wealth funds, CIC has worked hard promoting public understanding of sovereign wealth funds and their investment activities, implementing the Santiago Principles, and buttressing the IFSWF. CIC's contribution to the IFSWF is well-recognized by its members.

2011 marked the IFSWF's transition from the start-up phase to growth phase. Its governance structure was in place, and the global investment environment for sovereign wealth funds improved significantly. In May, CIC hosted the IFSWF's 3rd annual meeting. The Beijing Declaration released after the meeting urged countries

to work together for global economic recovery and stabilization of the financial market, and to help develop an open, fair and non-discriminatory investment environment for sovereign wealth funds. At the meeting, Mr. Jin Liqun was elected Chair of the IFSWF. Since then, the IFSWF's global influence and membership have expanded.

By 2015, the IFSWF had more than 30 members, representing about 70% of the total assets of sovereign wealth funds worldwide. The Santiago Principles had gained global influence, and the IFSWF had blossomed into a major international organization representing sovereign wealth funds' interests. In the same year, then-CIC President Li Keping was elected as a Forum board member representing CIC and leading the IFSWF from the growth phase to the maturity phase.

CIC's support for the IFSWF continued in 2016. In March, CIC representatives attended the IFSWF's workshop in Baku. Participants designed working guidelines on knowledge-sharing and on improving the IFSWF's research capability. They also exchanged views on risk management, asset allocation strategies and the implementation of the Santiago Principles. In November, CIC representatives attended the IFSWF's annual meeting in Auckland, where they helped formulate the IFSWF's development and reform plans and shared CIC's experience in dealing with financial market fluctuations and various risks.



2016 FINANCIALS



CIC pursues overseas investments through CIC International and CIC Capital and domestic investments through Central Huijin.



» Basis of Presentation

CIC pursues overseas investments through CIC International and CIC Capital and domestic investments through Central Huijin. The consolidated financial statements of CIC have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

These accounting standards have substantially converged with the International Financial Reporting Standards. Because it is audited by independent auditors, CIC's consolidated financial statements represent a true and impartial view of the company's financial position, operating results, and cash flows for the year that ended on December 31, 2016.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying CIC's policies. These judgments, assumptions, and estimates are applied to financial asset valuation and income tax recognition.

CIC's accounting period runs from January 1 to December 31. The reporting and functional currency of CIC and CIC International is the US dollar. The reporting and functional currency of Central Huijin is the RMB.

Central Huijin does not consolidate any financials on its long-term equity investees. It accounts for its long-term equity investments mainly using the equity method.

» Summary of Accounting

Classification of Financial Instruments

CIC financial assets are classified into financial assets at fair value through profit or loss (FVTPL) and available-for-sale (AFS) investments, loans, and receivables. CIC financial liabilities are classified into one of two categories: financial liabilities at FVTPL and other financial liabilities. Financial assets and liabilities at FVTPL include trading financial assets and liabilities and those initially designated as financial assets and liabilities at FVTPL. AFS investments are any nonderivative financial assets designated by the company on initial recognition as available for sale. Loans and receivables refer to nonderivative financial assets on an active market that are unquoted and with fixed or determinable recovery cost. Other financial liabilities are financial liabilities other than those that are designated initially at FVTPL. Other financial liabilities mainly include bonds payable and investments payable.

Measurement of Income Tax

Income tax is measured through the balance sheet approach. It includes current and deferred taxes. Current tax refers to taxes payable for transactions and items during the past fiscal year measured in accordance with applicable tax rules. Deferred tax assets and deferred tax liabilities occur as recognition of the difference between tax value and book value.

Measurement of Financial Instruments

Financial instruments are initially measured at fair value. Subsequently, loans and receivables are measured at amortized cost by using the effective interest method. Other financial instruments are measured at fair value, and the future trade expense will not be deducted. For financial instruments at FVTPL, gains or losses from a change in fair value are recognized in profit or loss. Changes in the fair value of AFS investments are recognized directly in equity through other comprehensive income, except for impairment losses and foreign exchange gains or losses, which are recognized directly in profit or loss. The cumulative gain or loss recorded in equity is transferred to profit or loss if an AFS investment is derecognized. For financial assets and liabilities measured at amortized cost, the gains or losses on derecognition or arising from impairment are recognized in profit or loss.

Fair value is the rational and unbiased estimate during an accounting day of an asset's price or the cost of repaying a debt. As for financial instruments for which there is an active market, the quoted prices in the active market are used to determine the fair value. For financial instruments that do not have a quoted market price in an active market, the fair value is determined through the use of valuation techniques. The valuation techniques include the market-based method, the return-based method, and the cost-based method. In the application of the valuation techniques, observable inputs — data that can be directly obtained from the market, which can reflect the estimated prices of assets and liabilities of market participants — should be chosen over unobservable ones, except when the observable inputs cannot be obtained. The company periodically evaluates its valuation techniques to ensure their reasonableness.

» Financial Statements

Consolidated Balance Sheet

(as of December 31, 2016)

(Amount in millions of US dollars)

	2016	2015
Assets		
Cash and deposits	8,814	19,337
Financial assets at fair value through profit or loss	219,775	209,325
Receivables and prepayments	3,782	2,211
Available-for-sale investments	730	1,209
Long-term equity investments	515,959	513,397
Deferred tax assets	860	2,743
Other assets	63,593	65,540
Total assets	813,513	813,762
Liabilities		
Bank borrowing	12,121	–
Financial liabilities at fair value through profit or loss	43	1,515
Bonds payable	15,874	16,952
Deferred tax liabilities	3,295	4,081
Other liabilities	47,224	66,472
Total liabilities	78,557	89,020
Owner's equity		
Owner's capital	200,000	200,000
Capital reserves and others	534,956	524,742
Total owner's equity	734,956	724,742
Total liabilities and owner's equity	813,513	813,762

Consolidated Income Statement

(for the year ended December 31, 2016)

(Amount in millions of US dollars)

	2016	2015
Investment income		
Interest income	4,133	3,150
Dividend income	2,955	2,847
Net realized gains on investments	3,497	12,155
Unrealized gains (losses) from changes in fair value of investments	5,835	(17,645)
Investment income from long-term equity investments	68,029	79,899
Foreign exchange gains (losses)	(1,529)	(3,769)
Other income	109	100
Total investment income	83,029	76,737
Expenses		
Investment expense	(304)	(429)
General and administrative expense	(171)	(185)
Finance expense	(2,865)	(1,649)
Total expense	(3,340)	(2,263)
Operating income	79,689	74,474
Others, net	(3)	(1)
Income before taxes	79,686	74,473
Income taxes	(4,350)	(529)
Net income	75,336	73,944

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CIC Annual Report 2016



CIC official account on WeChat



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