



CITIC Limited
中國中信股份有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00267)

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

It is an honour to be appointed the Chairman of CITIC Limited. CITIC is a company that has been at the forefront of China's development. From modest beginnings four decades ago, CITIC has grown into one of the largest conglomerates in the country today.

I feel privileged for the opportunity to join CITIC and to build upon the leadership of my predecessor, Mr Chang Zhenming, and those who came before him. Under his stewardship, CITIC has solidified itself into a formidable, unique and increasingly international platform operating both financial and non-financial businesses, many of which are leaders in their fields. I look forward to carrying his mantle as we continue to generate value for you.

CITIC has consistently focused on solidifying its businesses. In 2019, the company registered a profit attributable to ordinary shareholders of HK\$53.9 billion, up 7%. Excluding the Renminbi to HK Dollar conversion effect, profit from operations grew 12% year-on-year. The financial services segment delivered strong performance, while the growth of our non-financial segment was largely the result of the contribution from Sino Iron, a considerable profit rise in the special steel business and profit from the sale of a 58% stake in CITIC Dicastal. At the end of December 2019, CITIC Limited had approximately HK\$30 billion in cash and available facilities.

The board recommends a final dividend payment of HK\$0.285 per share, giving shareholders a total dividend of HK\$0.465 per share for the year, 13% more than in 2018.

BUSINESS RESULTS

Benefitting mainly from a lift in liquidity by the central bank in China, especially over the first half of 2019, the financial services segment performed strongly, recording HK\$42.8 billion in profit, a 3% rise. Excluding the effect of currency translation, this is an increase of 7% compared with 2018.

CITIC Bank remains the largest profit contributor to the company, registering a bottom line of RMB48 billion, a rise of 8%, supported by double-digit growth in both net interest income and non-interest income. Net interest income rose 13% as assets grew and net interest margin

widened, while non-interest income increased 15% as a result of the bank's capital-light strategy. Over the year, CITIC Bank continued to focus on integrating fintech solutions. Only two years after its launch, CITIC AiBank registered a profit of RMB20 million.

CITIC Trust's profit rose 7% to RMB3.6 billion, driven by interest income and investment gains. During the period under review, CITIC-Prudential Life achieved a substantial profit increase of 63% to RMB1.8 billion, spurred by growth in both premium income and investment gains. Riding on revived activity in the capital market, CITIC Securities' profit in 2019 grew 30% to RMB12.2 billion, led by its trading and investment banking businesses.

In the non-financial segment, the manufacturing business realised a profit of HK\$7.6 billion for 2019, a 26% year-on-year increase, with significant profit growth in the special steel business as well as the booking of HK\$1.4 billion from the sale of a 58% stake in CITIC Dicastal. CITIC Heavy Industries also performed well.

Against a market that saw the price of steel decline and prices for raw materials, particularly iron ore, rise, CITIC Pacific Special Steel delivered a 23% greater profit year-on-year to achieve a total profit of RMB5.4 billion. Its strong performance was driven by increased production and improved margins resulting from continued efficiency enhancements and greater cost control throughout its operating cycle. Aiming to further solidify its leading position, CITIC Pacific Special Steel has acquired two downstream processing plants, enabling the company to provide a comprehensive range of seamless steel tubes as well as automotive springs.

Impacted by US export tariffs, CITIC Dicastal's profit declined 20% to RMB968 million. To better serve its customers internationally, CITIC Dicastal continued to diversify its production capacity beyond China. The first phase of its plant in Morocco is now operational, while construction of the second phase is on track to be completed by the end of 2020, taking total production capacity in Morocco to 6 million wheels per annum. This will further strengthen Dicastal's long-term competitiveness.

In 2019, CITIC Heavy Industries' profit was RMB117 million, a rise of 10% compared with 2018. In part, this was attributable to the company's push to grow its business of providing total solutions to customers, which has yielded favourable results. Ongoing efforts to drive cost savings and enhance efficiency together with the strong performance of the specialty robotics division also contributed to the bottom line.

In resources and energy, profit grew 43% in 2019 to HK\$3 billion, primarily as a result of a maiden profit at Sino Iron.

In 2019, the mine exported more than 20 million tonnes of concentrate, making it the largest seaborne supplier of magnetite concentrate to China today. The project's profitability was mainly the result of a strong iron ore price in the first half of 2019, as well as ongoing efforts to drive greater efficiency and reduce operating costs. Despite solid operational progress, Sino Iron continues to face challenges to long-term financial sustainability. We have yet to secure the approvals necessary to ensure the project has sufficient space to store waste rock and tailings for life-of-mine operations, as well as to mine the ore body in the most efficient manner. Overall project planning is also compromised. These approvals are a vital issue, and it is in everyone's interest to resolve this situation as soon as possible.

Profit at CITIC Resources, meanwhile, declined 34% year-on-year in 2019 to HK\$600 million as a result of lower oil prices. CITIC Metal's profit decreased 43% to HK\$963 million, due primarily to the weaker performance of its commodities trading business.

Engineering contracting registered a profit of HK\$1.9 billion, a 9% reduction compared with the previous year, which included a one-time tax saving. Major projects that contributed towards the 2019 bottom line included the construction of a national network security centre in Wuhan, Hubei province, a new industrial town in China's Sichuan province and an agricultural and industrial complex development in Belarus. New projects signed in 2019 reached RMB51.2 billion, which included a national forest reserve development in China's Henan province, a water treatment plant in Guangdong province, a social housing project in Mozambique and highway project in Kazakhstan.

In real estate, the company's developed and managed businesses continued to generate a solid profit. However, the overall profit of HK\$4.3 billion of the property business in 2019 was HK\$1 billion lower than in 2018. This was the result of a HK\$2.6 billion impairment made on our 10% equity investment in China Overseas Land and Investment, due mainly to its lower stock price against our higher book value.

Aside from stable rental income from investment properties in both mainland China and Hong Kong, major development projects that contributed to the bottom line included our large integrated development in the Lujiazui financial district of Shanghai, the delivery of the remaining units at Kadooria, a luxury residential development in Hong Kong and the sale of an 80% interest in an urban development project in Chengdu in Sichuan province. CITIC Tower in Beijing, the tallest building in China's capital city, was completed in 2019 and is now serving as CITIC's new headquarters.

CORPORATE DEVELOPMENTS

In 2019, several transactions were initiated to enhance the dynamism of the businesses. Most recently, CITIC Limited divested 22% of its holding in McDonald's mainland China and Hong Kong business to CITIC Capital. Since the formation of the strategic partnership with CITIC Capital, Carlyle Group and McDonald's, CITIC's name recognition, unique platform and extensive resources have been instrumental in advancing McDonald's operations in this market. Over the last three years, more than 1,000 new restaurants were opened, driving significant growth in both revenue and profit. This sale realised part of CITIC's investment, and through our remaining 10% shareholding we will continue to participate in McDonald's future growth.

Over the course of 2019, the company continued to take steps to unlock value by listing both the publishing and special steel businesses on the Shenzhen Stock Exchange in July and October respectively. It is worth noting that both companies' market value has since grown substantially and that CITIC Pacific Special Steel's market capitalisation is now the second largest of all publicly listed steel companies in mainland China.

In December, the sale of a 58% stake in CITIC Dicastal was completed, realising HK\$1.4 billion in profit. This business began some thirty years ago when the use of aluminium alloy was uncommon for car wheels. With foresight, commitment and hard work,

CITIC Dicastal became the world's largest producer and exporter of automotive aluminium wheels. The company also accelerated the development of the lightweight components and integrated processes that will drive the future of transportation in the automotive sector. Crystallising its valuation by bringing in new investors was a key step towards unlocking its long-term potential and growth. CITIC also benefited from this transaction by realising some of its initial investment, while continuing to manage the business and participate in Dicastal's future growth.

During the year under review, Dah Chong Hong, AsiaSat and CITIC Envirotech were taken private. These are valuable businesses to CITIC with long-term potential, but in the short-term they are facing challenges on a number of fronts. For example, following the privatisation of Dah Chong Hong, CITIC will be able to fully control the company's strategies and provide the financial and operational resources to re-invent it for a sustainable future.

OUTLOOK

The results in 2019 were solid. The year 2020, however, will be difficult. On top of ongoing macro challenges, CITIC will have to contend with the COVID-19 outbreak and the shadow it has cast on productivity and economic activity. We have been doing our best to keep our people safe and healthy, while also working to guide our businesses back to normal. Nevertheless, our 2020 performance is certain to be impacted, and it is more important than ever that we take a prudent approach to investment and focus on strong cash flow generation.

During this extraordinary period, CITIC has demonstrated its commitment to social responsibility and corporate citizenship through volunteerism and donations at every level, from employees to businesses and the wider group. Of particular note is a unit of our engineering contracting business, which completed the design for Wuhan's Huoshenshan Hospital for emergency patients. From Hubei province, where CITIC has a major presence, to our operations throughout China, and overseas, everyone at CITIC has been united as one team to overcome the unexpected challenges that confront us today.

The year ahead will test the tenacity and agility of our organisation. I believe we are ready for the challenge, and CITIC's businesses remain solid and sustainably positioned. We are resolute in our focus to ensure CITIC's continued growth and development, and I am grateful for everyone's hard work and dedication.

I look forward to working together with all of CITIC's stakeholders in the years to come.

Zhu Hexin

Chairman

Beijing, 31 March 2020