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,

The global economic uncertainty and volatility I discussed in my last letter has persisted. Fluctuations in the price of oil are a case in point. In January, oil fell to under US$30 a barrel, but by June the price had climbed to over US$50, and since then prices have dipped and recovered. The economies of the United States, Europe and Japan grew in the first half, but slowly. The unexpected outcome of the Brexit referendum created further economic uncertainty but so far Brexit's effects on countries outside the United Kingdom, including China and other Asian nations, have been minimal. We are also keenly watching the outcome of the US presidential election.

By comparison, the Chinese economy has been relatively stable as China continued its transition to a more consumption-led economy. In the first half of 2016, we seized the opportunity to strengthen our existing consumer business — our majority-owned subsidiary Dah Chong Hong — by buying Li & Fung's consumer and healthcare business covering both China and Southeast Asia.

We also proceeded with the sale of our mainland China residential property development business to China Overseas Land & Investment. In March, I said this transaction would allow us to focus on what we do best, which is the development of large integrated projects. Tax and expenses associated with this sale were charged to the profits of the first half of 2016, whereas a profit on the sale will be recorded upon completion in the second half of this year.

Our company's profit attributable to ordinary shareholders for the first six months of 2016 was HK$20.2 billion, compared with HK$37.7 billion in the same period last year. Apart from the expenses related to the property transaction just mentioned, the year-on-year comparison should be considered in the context of a gain recognised in 2015 from the sale of a 3% interest in CITIC Securities, as well as a reduced shareholding in CITIC Bank. A lower profit contribution from CITIC Securities also affected our profitability. In addition, as the vast majority of our assets are in mainland China the depreciation of the Renminbi had a carry-over effect on our reporting currency, which is the Hong Kong dollar.

In June, we raised US$1.25 billion in long-term US dollar debt in the capital market, thus further improving our balance sheet. This also lowered our overall funding cost and optimised our debt maturity profile. At the end of June, CITIC Limited had more than HK$21.8 billion in cash and committed facilities, leaving us with sufficient financial resources and flexibility to capture business opportunities as they arise.

The board recommends an interim dividend of HK$0.10 per share to shareholders.

Business Performance

The financial services segment contributed HK$21.9 billion to our profit during the review period, with CITIC Bank accounting for 83% of the total. This compares with the HK$33.3 billion achieved in the same period last year. The profit of our 16.7% owned associate company, CITIC Securities, declined significantly due to a lacklustre A share market. At CITIC-Prudential, premium income grew but investment income declined, affecting its profitability. CITIC Trust, on the other hand, performed well.

CITIC Bank recorded revenue growth of 12% while profit grew more slowly, reflecting increased provisions made for non-performing loans. In recent years, CITIC Bank has done well focusing on growing non-interest income, which increased by more than 20% in the first half of 2016 compared with the same period last year. With the new normal of slower economic growth in China, the asset quality of Chinese banks is under pressure as they face growing non-performing loans. We are likely to see continued erosion of banks' profitability and capital in the near term. Improving asset quality is a painful process, but in the longer term this process will result in a healthier banking system. In this environment, CITIC Bank continues to work on ensuring that its asset quality and overall risk management systems are best-in-class.

As for our non-financial businesses, the resources and energy sector remained challenged by low commodity prices. Sino Iron, our magnetite iron ore project in Western Australia, made great strides with the commissioning of the last two of its six concentrator lines in late May. Of course, these remain testing times for Sino Iron and the sector in general, as commodity prices are still low. It will be some time before we reach full capacity, but we are encouraged by recent progress. To place the project on a sustainable footing, our focus will be on increasing production rates, reducing operating costs, driving greater efficiencies and resolving outstanding legal issues to protect the interest of all stakeholders.

In manufacturing, overall demand for steel remained weak; however, our special steel business continued to outperform the market. Profit for the half year rose 14% compared with the same period in 2015. CITIC Pacific Special Steel's achievement can be attributed simply to good management. Its procurement strategy, for example, ensured that the overall cost of raw materials was much lower than the market, enhancing our margin. Export volume also rose by 17% as a result of increased marketing efforts.

In the first six months of 2016, increased demand for Dicastal's products together with stronger marketing efforts contributed to higher sales growth, with a 17% rise in the number of wheels sold over the same period in 2015. Profit margin improved as a result of greater production efficiencies made possible by its highly automated facilities, better product mix as well as a decline in production costs such as gas. CITIC Dicastal registered an impressive 48% increase in profit as compared with the same period last year. To meet the rising demand in China for its casting products, Dicastal is working to have its KSM Chengdu plant up and running in early 2017.

Profit at CITIC Heavy Industries declined significantly in this reporting period as the company continued to experience a slowdown in its traditional customer segments of construction materials, mining and coal. In this challenging environment, CITIC Heavy Industries has been redoubling efforts to transform itself from a pure equipment manufacturer to a total solutions provider. This is paying off as close to 50% of the new contracts signed in the first half of the year were Engineering, Procurement and Construction contracts. In addition, demand has increased for the special purpose robots built by newly-acquired Tangshan Kaicheng, which are being used in firefighting, rescue operations and other emergencies.

Our engineering contracting business recorded profit of HK$1.1 billion, which included the reversal of a provision taken previously on a project in Algeria. Although most of CITIC Construction's contracts are signed in US dollar, the project in Venezuela was contracted to receive a small portion of the payment in the country's local currency. Therefore, the depreciation of the Venezuelan bolivar in the first half of the year affected CITIC Construction's profit. During the period, four major contracts were signed including a US$936 million contract for a Kazakhstan highway reconstruction project.

Capturing Consumer-related Opportunities

The continued rise of China's middle class is leading to increased sales of a wide range of consumer goods and services, from cars and box office tickets to healthcare products. CITIC has long been in the consumer-facing businesses. Our bank offers financial services to retail customers, and our insurance company tailors products to consumers as well. On the non-financial front, we have a publishing business and also cater to the increasing desire of consumers to travel. As we observe the continuing growth of China's consumer economy, Dah Chong Hong represents a valuable platform for capitalising on consumer trends.

Dah Chong Hong, a company listed in Hong Kong with a history of nearly 70 years, distributes motor vehicles and a host of consumer products, ranging from frozen chicken to coffee beans and imported packaged foods. The company operates across Asia with a focus on Greater China. At the moment, the profit contribution from mainland China is quite small but has good potential for growth. Dah Chong Hong's purchase of Li & Fung's consumer and healthcare distribution business this year is a good example of how we are deliberately deepening our exposure to promising consumer growth areas. Dah Chong Hong's enlarged consumer products portfolio will boast a range of leading food, personal care and healthcare brands, giving it an immediate position in Asia's rapidly-growing healthcare market.

The Power of Data

As you know, I have faith in our conglomerate business model as it provides diversification for our long-term stability. To investors, one of the greatest attractions of the CITIC platform is that our businesses mirror the Chinese economy. How can we continue to leverage this unique platform, particularly in today's era of big data?

Some may know that I am the president of the International Go Federation. Go is a complex game of strategy played in Asia for thousands of years. The year 2016 was particularly interesting for Go fans because a computer program called AlphaGo beat one of the world's best Go players. Although it is common knowledge that machines can calculate faster than even the smartest humans, it was still a big surprise that AlphaGo was able to formulate such strong playing strategies, spot patterns and make winning moves.

There are two key reasons why AlphaGo was able to accomplish what we thought would not be possible for years to come. First, AlphaGo collected and tested a huge number of Go moves and, second, it was backed by a farsighted company — Google. Both the data and the supporting platform were responsible for AlphaGo's subsequent success.

I can see parallels with CITIC. Through our diversified businesses, we already have an impressive data bank with a huge amount of information about customers and economic trends. The CITIC platform is essentially an incubator for our franchises, not unlike Google's backing of AlphaGo. Some investors are not yet convinced of the intrinsic value of our platform and view us simply as a collection of subsidiaries. Yet, if all of our data points can be better and more effectively connected, I believe we will have much greater insights and opportunities as well as the ability to make our businesses more efficient. These can transform CITIC into an enterprise whose value is not merely its access to capital, nor one based on a well-established brand, but an ecosystem that will touch almost every aspect of China's market economy and beyond.

These ideas have potential, and I have gathered a group of experts to further explore the practical applications of the data we have collected.

Conclusion

Success does not happen overnight — a winning company is the result of persistence, determination and constant effort. It also demands a long-term view. There is no end to competition from others with energy and ideas. It is up to CITIC's management to identify the next move and win in highly competitive markets.

On behalf of the directors, I would like to express my sincere appreciation and gratitude for the dedication and commitment of our employees. I also thank you, our shareholders, for taking a long-term view of our company and prospects, and for having faith in your board and management team to win over time. We will continue to evolve, reform, and create value for you.

Chang Zhenming
Chairman
Hong Kong, 26 August 2016