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,

For the first six months of 2018, CITIC Limited recorded a profit attributable to ordinary shareholders of HK$30.7 billion, 5% less than the same period in 2017, which included revaluation gains of HK$5.4 billion. When excluding the 2017 gains as well as the RMB to HK dollar exchange rate effect, profit grew 6%. The growth in earnings was driven by the solid performance of our businesses, particularly contributions from the investments we have made in recent years.

The board has decided to raise the interim dividend by HK$0.04 to HK$0.15 per share. Our intention is to increase the dividend steadily over time.

Business Performance

Our financial services segment recorded HK$24.3 billion in profit for the first six months of 2018. Excluding the RMB to HK dollar exchange rate effect, this is 5% more than the corresponding period in 2017. The increase came primarily from CITIC Bank and CITIC Securities.

CITIC Bank's profit rose 7% to RMB25.7 billion compared with the same period in 2017. Non-interest income continued its upward trend, contributing 39% of revenue compared with 35% a year ago as a result of the bank's ongoing efforts to improve its income mix. During the period, CITIC Bank remained focused on optimising its asset structure. The low-yielding interbank business was further reduced, while more resources were allocated to its lending business. Net interest margin improved 12 basis points to 1.89%.

CITIC Trust's core business remained stable, but its overall profit declined 24% due to mark-to-market loss recognised from its investment in China Hongqiao Group. CITIC-Prudential's premium and investment income experienced double-digit growth; however, its net profit declined 5% as a result of higher income tax. During the reporting period, CITIC Securities outperformed the market with a 13% increase in net profit to RMB5.6 billion.

Profit from our manufacturing business rose by 37% to HK$2.4 billion, driven by strong results at CITIC Pacific Special Steel and CITIC Dicastal. Special steel profit grew 31% to HK$1.6 billion. In the first half of 2018, a total of 5.7 million tonnes of special steel products were sold by our three plants, 34% more than last year. The increase in tonnage sold was primarily due to the contribution from newly-acquired Qingdao Special Steel. In June, we acquired Hualing Special Steel, which has been renamed Jingjiang Special Steel. Strategically located by the Yangtze River in Jiangsu province, Jingjiang Special Steel adds 600,000 tonnes of annual seamless steel tube production capacity and another 600,000 tonnes of bar steel capacity each year.

Driven by strong demand for its aluminium wheels and casting products, CITIC Dicastal's strong performance continued in the first half of 2018, with profit climbing 30% to RMB597 million. A total of 27 million aluminium wheels and 40,000 tonnes of castings were sold during the period, up 10% and 3.4% respectively year-on-year. To meet increasing demand, CITIC Dicastal has been expanding its production facilities at its Qinhuangdao headquarters as well as in Chengdu and Wuxi. It is also improving the production utilisation rate at its plant in the United States.

CITIC Heavy Industries recorded a profit of RMB63 million for the first six months of 2018, mainly from its specialty robotics business, which has seen tremendous demand for its products. Its heavy machinery business also showed an improvement.

Our resources and energy business recorded a profit of HK$1.3 billion for the first six months of 2018, as higher commodity prices and a reduced loss at Sino Iron benefited the sector. CITIC Resources achieved a profit of HK$529 million, a growth of 186% driven primarily by higher oil prices and stringent ongoing cost control. CITIC Metal's profit also registered an impressive expansion of 41% to HK$776 million for the same period. In June this year, CITIC Metal signed an agreement to acquire a 19.5% stake in Canadian company Ivanhoe Mines. Upon completion of the transaction, CITIC Metal will become the single-largest shareholder in Ivanhoe Mines, which is developing projects in Southern Africa.

At our Sino Iron mine in Western Australia, the operational focus has been on increasing production and improving efficiencies. I am glad to report that for the first six months of this year, we achieved record production of magnetite concentrate with more than 9.4 million wet metric tonnes exported, 20% higher than the same period a year ago. The number of shipments also increased by 18% due to greater landside automation at the port and the introduction of a self-unloading vessel, which complements our existing transshipment operations. The mine's operating costs continue to trend downwards as a result of rising production across all six processing lines and ongoing cost-reduction measures, which include optimisation of processes and technology.

We are experiencing strong demand for Sino Iron's magnetite concentrate product, which has around 65% iron content, as steel mills seek out quality feedstock in an effort to lower carbon emissions and enhance plant efficiency. The spread in price between high grade and low grade iron ore products continues to increase and, as a producer of premium concentrate, Sino Iron is benefiting from this shift in the market.

Despite improvements in price and our operational achievements, Sino Iron must still overcome distinct challenges to become financially viable. Our costs have increased as a result of last year's judgment in the Supreme Court of Western Australia, related to the payment of Royalty Component B to tenement-holder Mineralogy. We have appealed this decision. Another matter is Mineralogy's refusal to submit to the Government vital approval requests that are required for the continuation of operations, including for storage of waste material and tailings. This situation has resulted in costly and suboptimal workarounds, which are temporary in nature. As I've said previously, the cooperation, understanding and support of all stakeholders is vital to secure the future of Sino Iron. This is in everyone's interests.

The engineering contracting business division recorded a profit of over HK$700 million, mainly due to solid results at CITIC Engineering Design, but also from tax savings and investment gains at CITIC Construction. Both companies continued to make inroads securing new projects. New contracts signed at CITIC Construction in the first half of 2018 included a road project in Kazakhstan, a social housing development project in the Maldives and an integrated resort in Korea, totalling over RMB15 billion. Leveraging its strong design capabilities, CITIC Engineering Design won its largest design contract ever to build a logistics centre in Hubei province for RMB700 million.

Profit contribution from our property business was HK$4.7 billion, a 17% reduction from the same period in 2017, which was higher than 2018 owing to the booking of two office buildings in Shanghai. The profit for the first six months of 2018 was principally attributable to our 10% interest in China Overseas Land and Investment (COLI) and the delivery of units at Kadooria, a luxury residential development in Hong Kong.

Seizing Opportunities for Value Accretion

The improved performance of our businesses drove our earnings growth in this period, and our results reflect sound management and operations across the board. We've invested and expanded strategically in businesses that can leverage CITIC's resources and expertise, and these investments are now making a meaningful contribution to our bottom line. Let me give you two examples.

McDonald's mainland China and Hong Kong business became part of the CITIC family a little over a year ago. Together with our partners, we've achieved tangible operational progress in terms of the number of stores opened, as well as improved profitability. McDonald's has benefited from CITIC's knowledge of the real estate market and its relationships with major property developers, having signed agreements with Evergrande, COLI, Country Garden and Sunac that have enabled McDonald's to secure prime locations. More than 300 new McDonald's restaurants were opened in mainland China in the last twelve months, bringing the new total to more than 3,000 nationwide. CITIC also assisted McDonald's in securing cooperation agreements with Tencent and SF Express, which have enabled McDonald's to further digitise the dining experience and food delivery.

The other example is special steel. Since the acquisition of Qingdao Special Steel last year, we've leveraged our existing special steel production expertise across multiple areas, both technical and managerial. Enhanced production efficiency, product quality, centralised raw material procurement, and better sales team incentives have collectively contributed to a profitable Qingdao Special Steel. The recently acquired Jingjiang Special Steel, whose thin-to-medium walled seamless steel tubes complement our existing medium-to-thick walled product, gives us a full steel tube product offering. All of the above solidify the leading position of our special steel business.

Our strategies have also included the disposal of assets that are not essential to our future development. Early this year, we sold three toll roads in mainland China, generating a total of HK$1.3 billion in profit. Partnering with industry leaders to realise better returns on assets led to the divestment of our mainland China residential property assets to COLI which in turn gave us a 10% stake in that business. Over 9% of our profit in the first half of 2018 can be credited to the COLI transaction and recent investment decisions.

In Conclusion

I am pleased with the results we have achieved. We pride ourselves on being good managers and solid operators, and I would like to thank all the employees who contributed to our results. We hope we've demonstrated to you that our businesses are sound and well-positioned. Our board and management team will remain vigilant in identifying additional opportunities to create value for shareholders.

Chang Zhenming
Chairman
Hong Kong, 29 August 2018