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 2019, CITIC Limited achieved a profit attributable to ordinary shareholders of HK$33.5 billion, 9% more than the same period in 2018. This increase was mainly driven by the solid performance of CITIC Bank, a first time profit at Sino Iron and a substantial rise in profit in the special steel business. At the end of June, we had HK$26.7 billion in cash and available facilities.

The board recommends an interim dividend payment of HK$0.18 per share, which is HK$0.03 more than the same period last year.

Business Performance

The financial services segment recorded HK$25.5 billion in profit, 5% more than the corresponding period in 2018. The increase was primarily driven by the contribution from CITIC Bank. Benefiting from the easing of credit in the first half of the year, the bank's net interest income rose 15% year-on-year as assets grew and net interest margin widened. Non-interest income grew by 14% and now makes up 38.7% of total revenue. CITIC Bank continued to focus on managing asset quality, with a lower NPL ratio of 1.72% at the end of the review period. CITIC Trust's profit increased 35%, driven by growth in its proprietary business. Premiums at CITIC-Prudential Life grew substantially over the period; however, profit was flat owing to a provision made on an investment. CITIC Securities outperformed its peers and recorded a 16% higher profit than the first half of last year.

In the non-financial segment, the manufacturing business achieved a profit of HK$3.5 billion, a 46% rise over the same period in 2018, due to a substantial increase in profit at our special steel and heavy industry businesses. CITIC Pacific Special Steel saw a rise of 61% in profit, thanks to the strong performance of its four plants. This was particularly true of Qingdao Special Steel, which doubled its profit following comprehensive improvements to its operations—including raw material procurement, the product mix, quality and cost controls—since the acquisition of the plant in late 2017. CITIC Heavy Industries saw a substantial profit growth of 50%, supported by improvements in the heavy machinery and related businesses as well as the continuing contribution from its specialty robotics business. Profit at CITIC Dicastal decreased by 16%, mainly due to the slowdown in major automotive markets worldwide, especially in mainland China, and the impact of tariffs levied by the United States.

The resources and energy business recorded a 64% increase in profit to HK$2.1 billion, as our Australian magnetite iron ore mine, Sino Iron, recorded its first profit. This was made possible by a strong iron ore price and ongoing efforts to reduce operating costs. Nevertheless, threats to long-term viability remain, including the need to secure critical life-of-mine approvals as well as related tenure. CITIC Resources, on the other hand, recorded a 32% lower profit as a result of reduced oil, aluminium and coal prices. CITIC Metal's profit was 24% less than the same period last year, mainly due to the underperformance of the Peruvian copper mine in which it has a 15% interest.

In the engineering and contracting business, profit was HK$703 million, the same as the first half of last year. This was driven mainly by contributions from municipal and national network security projects in Wuhan, the Algerian East-West Expressway, and investment gains. New projects were signed during the period for the first time in Cambodia, including 12 rice processing and storage facilities in 10 provinces and cities. In China's domestic market, a number of sewage treatment projects were secured that leverage our expertise in this area.

Our property business recorded a profit of HK$3.5 billion, which was 25% lower than the same period last year. This profit was mainly derived from our 10% holding in China Overseas Land and Investment, contribution from our large integrated development in the Lu Jiazui financial district of Shanghai and the delivery of units at Kadooria, a luxury residential development in Hong Kong. Our other businesses continued to make contributions towards our profit and cash flow.

Building Resilience

The growth of our bottom line reflects the overall strength of our business as a diversified platform. But like any company operating on a global scale today, we are also exposed to various headwinds: a slowing Chinese economy, ongoing China-US trade tensions and persisting geopolitical uncertainties. Against this backdrop, it has become more important than ever to focus on building and sustaining our fundamentals and strategically positioning our businesses to be competitive over the long term. There are many examples of how we are applying this principle in our operations, but two stand out in particular: CITIC Dicastal and CITIC Pacific Special Steel.

In an effort to expand its global reach, CITIC Dicastal decided in 2015 to build a manufacturing plant in Michigan in the United States in order to geographically diversify its network of production facilities. The plant has since become a critical addition to the business's international assembly capacity. This year, the first phase of Dicastal's plant in Morocco became operational, further strengthening the company's ability to serve customers around the world. These plants are also helping to mitigate the impact of the China-US trade dispute on the business. Investments such as these, together with the company's diligent cost controls and commitment to intelligent manufacturing, are bolstering its long-term competitiveness in an increasingly complex and challenging global market.

Similarly, the acquisitions of Qingdao Special Steel and Jingjiang Special Steel have broadened our geographical and product coverage in the industry, enabling the business not only to sustain but further its leading position in the segment. Our expanded resources are also promoting synergies and economies of scale in special steel.

As a conglomerate, CITIC Limited manages a collection of businesses. We are keenly aware that the market pegs our valuation to their estimated values. Our goal is to achieve a value greater than the sum of our parts. Beyond our efforts to deepen our operating resilience and make shrewd investments, it is equally important that we continue to identify, nurture, manage and ultimately realise the value of our businesses by introducing the right ones to the capital markets or bringing in strategic partners during critical growth periods.

In terms of unlocking value through the capital markets, the restructuring of our steel business under Shenzhen-listed Daye Special Steel has received all relevant approvals and is expected to be completed before the year end. In early July, we also successfully listed CITIC Press Corporation on the ChiNext board of the Shenzhen Stock Exchange. Value-enhancing exercises such as these not only enable our businesses to gain greater access to the capital necessary for pursuing future growth opportunities. They will also raise the standards of corporate governance for our operating companies as they evolve their disclosure and transparency practices. We have had many similar experiences in the past. Many companies that we have listed have increased in value several times from their initial market valuation and can now raise capital more cheaply. This is as valuable to the operating companies as it is to CITIC Limited.

We also have many unlisted, wholly owned businesses with strong market positioning and long-term outlooks. We will be supporting their development by bringing in strategic partners who can uniquely contribute expertise, knowledge and networks. In doing so, we will also be realising the value of our investments in these businesses. CITIC Dicastal, as we just announced, will be doing exactly this.

In Conclusion

I am sure most of you have been watching the current situation in Hong Kong. I have been deeply concerned and saddened by the disruption and instability these events have caused and their impact on the city that we call home. Respect for the rule of law and adherence to the fundamental principle of 'one country, two systems' are key to Hong Kong's long-term prosperity. CITIC, as always, is fully committed to the development and stability of this vibrant city and world-class financial centre.

As we look ahead, we will continue to navigate an increasingly complex trading environment. I am proud of and grateful for all the people who have stayed focused on the work at hand. Our businesses remain solid, sustainably positioned and oriented for long-term success.

Chang Zhenming
Chairman
Hong Kong, 29 August 2019