



# 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 last half year has been extraordinary. The worldwide outbreak of COVID-19 triggered one of the greatest economic shocks in decades. Consumer and business activity has been brought to a halt, and six months later, many countries remain in the grip of the pandemic. The scale and nature of the disruption confronting us and others in so many industries is simply unprecedented.

As I discussed earlier this year, we anticipated a very tough 2020 and our results reflect the challenges we are facing across our operations. For the first six months of the year, CITIC Limited's profit attributable to ordinary shareholders was HK\$27 billion, including HK\$2.4 billion from the sale of our 22% stake in the McDonald's business in mainland China and Hong Kong. The profit was down 19% against the same period in 2019. Excluding the Renminbi to HK Dollar conversion effect, profit fell 16%. At the end of June, CITIC Limited had HK\$38 billion in cash and available facilities.

The board recommends an interim dividend payment of HK\$0.10 per share, which is HK\$0.08 less than the same period last year. The reduction in dividend reflects the lower profit for the period and the challenging outlook for the remainder of 2020.

### **BUSINESS PERFORMANCE**

The financial services segment recorded HK\$21.9 billion in profit contribution, 14% less than the corresponding period in 2019. Higher provisions made at CITIC Bank and CITIC Trust were a key factor in the profit decline, reflecting the impact of the pandemic and slower economic growth. Profits at CITIC Bank and CITIC Trust were RMB25.5 billion and RMB1.1 billion, a respective decrease of 9.8% and 35% year-on-year.

Operationally, CITIC Bank's net interest income grew 5.6% as total assets increased during the period. However, net interest margin narrowed as the bank transitioned to a loan prime rate that reflects lower prevailing market rates. The bank also lowered lending rates to provide support to corporate customers impacted by the pandemic and the overall macroeconomic environment. Conversely, non-interest income increased by 18% mainly due to higher gain on investments. CITIC-Prudential Life achieved a profit growth of 67% to RMB777 million,

driven by a rise in premium income as well as higher investment income. CITIC Securities' profit rose 38% to RMB8.9 billion.

In the non-financial segment, profit contribution from the manufacturing business was HK\$2.8 billion. The 20% decline from a year ago is largely attributable to CITIC Limited's reduced shareholdings in CITIC Pacific Special Steel and CITIC Dicastal. Operationally, unanticipated supply chain disruptions negatively impacted this segment, particularly CITIC Dicastal. However, CITIC Pacific Special Steel delivered a stable performance and CITIC Heavy Industries recorded a profit increase.

CITIC Pacific Special Steel was able to achieve a profit of RMB2.75 billion, on par with the same period last year, despite the rising cost of raw materials, particularly iron ore and coke, as well as reduced demand from overseas markets and lower product prices. The business increased sales by successfully cultivating new customers in the domestic market, rapidly adjusting the product mix to reduce reliance on underperforming industries and executing ground-level controls to reduce operating costs, all of which contributed to its solid performance.

Profit at CITIC Dicastal declined 45% to RMB276 million in the first half of the year. Sales of aluminium wheels fell 15% to 21.48 million units, primarily due to a sharp decline in sales to international markets where the product mix is weighted towards the premium segment. The company's profitability was also negatively affected by a loss from its casting business, mainly as a result of temporary production suspensions at the KSM facility in Germany during the COVID-19 outbreak.

At CITIC Heavy Industries, profit increased by 77% to RMB169 million driven by the solid performance of the heavy machinery and its related services businesses. The company's special robotics business also contributed to the bottom line.

The resources and energy business contributed HK\$706 million, a decrease of 66%. This was mainly due to a HK\$431 million loss recorded at CITIC Resources resulting from the sharp decline in the price of crude oil. CITIC Metal's operational performance was also impacted by lower commodity prices, particularly copper and ferroniobium; profit, however, increased by 18% to HK\$695 million as a result of higher investment income. Our Australian magnetite iron ore mine maintained its profitability for the reporting period due to a buoyant iron ore price, consistent production and ongoing efforts to reduce operating costs. Securing timely and necessary life-of-mine approvals remains a priority and is critical to the long-term sustainability of the project.

In engineering contracting, profit was HK\$380 million, 46% lower year-on-year as COVID-19 affected project development. In the first half of 2020, new contracts signed by both operating companies totalled RMB15 billion, with about half in the domestic market. The largest is a CITIC Construction contract to build a fertiliser processing facility and related infrastructure, including a power station, in Belarus.

Profit contribution from the property business was HK\$3.5 billion, matching the result in the same period last year. Profit included our 10% holding in China Overseas Land and Investment, rental income from mainland China and Hong Kong investment properties,

and the booking of residential units sold and delivered in the Kadooria and Discovery Bay developments in Hong Kong. Additionally, there was a revaluation gain from an increased shareholding in a property in Shanghai.

## **PREPARING FOR A NEW NORMAL**

The last six months were a singularly challenging period, and we continue to contend with a great deal of uncertainty. Whole business sectors have been upended and, in some, the impetus for structural change is accelerating. While our grounding in fundamental industries shelters us from some of the most radical forces of disruption, we must prepare for a period of sustained turbulence and lasting transformation. It is therefore essential that we focus on enhancing operational discipline and mitigating risks as we strengthen our ability to quickly act on emerging opportunities.

As such, we are redoubling our efforts to economise our operations and drive stringent cost controls across the entire organisation. I am also leading an initiative to elevate our risk assessment and management practices at every level of the company. Our objective is to make our businesses leaner and more agile, capable of thriving in even the toughest business environment.

At the same time, we will continue to monitor the competitive landscape, assessing ways to build the business and enhance our position across our many supply chains. Now, more than ever, we need to unlock the unique advantages of the CITIC platform and drive greater synergy among our businesses. Volatility can create opportunities; we must be ready for them.

As global trade remains constricted in the face of the ongoing spread of the novel coronavirus, the path to recovery is likely to be long and arduous. We conduct business globally, and our full-year results will reflect this reality. However, we are cautiously optimistic that we will be well-served by our operations in China, since the majority of our business is driven by the strength of the domestic economy. As China recovers, so will we. We are especially encouraged by the country's 3.2% GDP growth in the second quarter, as well as improvements in investment, consumption and industrial output, following successful efforts to contain COVID-19.

This year has been a test of the true mettle of our people and organisation. I am proud of our efforts and grateful for everyone's dedication. Our businesses remain sustainably positioned, and we are as focused as ever on delivering long-term value for you.

Thank you for your continued trust and support.

**Zhu Hexin**

*Chairman*

Beijing, 28 August 2020