

Financial Review

Overview

Profit Attributable to Ordinary Shareholders

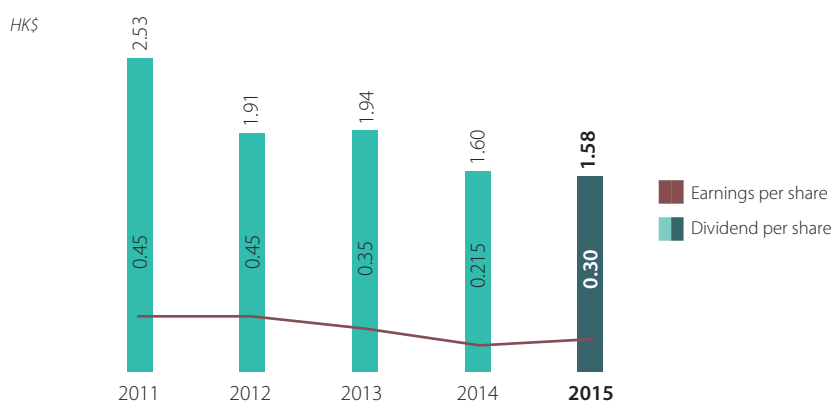
During 2015, the group achieved profit attributable to ordinary shareholders of HK\$41,812 million, an increase of HK\$1,978 million, or 5% year-on-year. The financial services segment recorded profit attributable to ordinary shareholders of HK\$52,753 million, an increase of HK\$11,486 million, or 28% above 2014. Excluding gains on the disposal of 3.16% equity interest and placing of new shares of CITIC Securities, profit from banking business grew slightly due to an increase in the impairment provisions on loans. Attributable profit from trust, insurance and securities business achieved growth.

For the non-financial segment, real estate business recorded profit attributable to ordinary shareholders of HK\$4,137 million, a decrease of HK\$557 million, or 12%, mainly due to a decrease in revaluation gain of investment properties and booking of completed properties. Attributable profit from engineering contracting business was HK\$2,601 million. As a result of weaker market demand, the manufacturing business profit attributable to ordinary shareholders of the manufacturing business decreased by 15% to HK\$2,496 million. The attributable loss of resources and energy business expanded HK\$4,238 million, or 33% compared with 2014, reflecting impairment loss provision on CITIC Resources' assets due to persistent depressed oil and commodities prices.

Earnings per Share and Dividends

Earnings per share of profit attributable to ordinary shareholders was HK\$1.58, a decrease of 1.3% from HK\$1.60 in 2014. As at 31 December 2015, the number of ordinary shares outstanding was 29,090,262,630.

At the forthcoming annual general meeting, the Board will recommend a final dividend of HK\$0.20 per share to ordinary shareholders. Together with the interim dividend of HK\$0.10 per share paid in October 2015, the total ordinary dividend will be HK\$0.30 per share (2014: HK\$0.215 per share). This equates to an aggregate cash distribution of HK\$8,727 million.



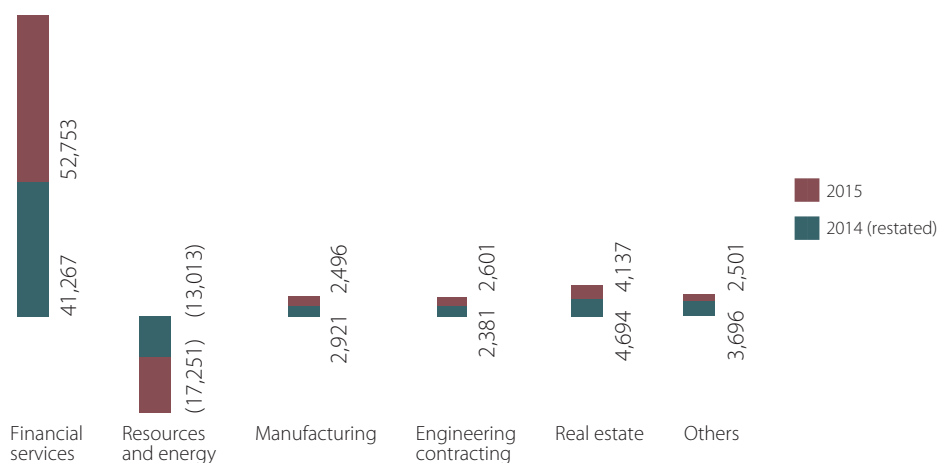
Profit/(loss) and assets by business

In HK\$ million	Profit/(loss)		Assets as at 31 December		Return on assets (note)	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Financial services	70,183	59,016	6,211,176	5,322,510	1%	1%
Resources and energy	(18,318)	(13,613)	141,693	147,903	(13%)	(9%)
Manufacturing	2,624	3,354	97,208	108,501	3%	3%
Engineering contracting	2,601	2,384	42,245	44,020	6%	5%
Real estate	4,292	5,107	232,809	215,095	2%	2%
Others	3,600	4,534	113,738	97,373	3%	5%
Underlying business operations	64,982	60,782	6,838,869	5,935,402		
Operation management	(5,072)	(2,504)				
Elimination	783	1,522				
Profit attributable to non-controlling interests and holders of perpetual capital securities	18,881	19,966				
Profit attributable to ordinary shareholders	41,812	39,834				

Note: Total earnings of the business divided by average total assets of the business.

Profit/(loss) Attributable to Ordinary Shareholders by Business

HK\$ million



Financial services

This segment remains a major contributor to the Group's profit and achieved attributable profit of HK\$52,753 million in 2015. Excluding the gains from the disposal of 3.16% equity interest and placing of new shares of CITIC Securities, the financial services business performed steadily, largely due to the growth of trust and securities businesses, as well as the continuous growth in banking business. The net interest income increased for interest-earning assets growth and net non-interest income increased 36.6% owing to the growth of bank handling charges from credit card, agency and wealth management services. But this was partly offset by an increase in the impairment provision on loans in the banking business. Profit from the trust business grew steadily owing to the income from equity investment. Securities maintained the lead of the market, and achieved significant growth in both revenue and profit.

Resources and energy

The resources and energy segment experienced an extremely difficult operating environment and recorded an attributable loss of HK\$17,251 million, which was HK\$4,238 million more than the loss in 2014, reflecting a HK\$12,480 million (after tax) impairment provision on the Sino Iron Project, primarily as a result of a decrease in the forecast iron ore price.

The Group's other resources and energy interests were also affected to varying degrees by weaker overall demand for commodities and commodity prices, including manganese, aluminium and coal, as well as oversupply of crude oil, which was primarily reflected by the prevailing low level of Brent crude oil prices during 2015 since the drop in the second half of 2014. In addition, a number of substantial impairments across its assets was recorded, which result in the sharp drop of CITIC Resources performance.

Against this backdrop, processing lines three and four of Sino Iron began producing in the last quarter of 2015. Construction of the final two lines is expected to be completed on schedule with lines five and six targeted to begin commissioning in the first half of 2016, which will mark the end of the main construction task of Sino Iron. The Group also successfully obtained government approval to extend its existing right to explore, develop, produce and sell oil at the Karazhanbas oil field. In addition, the group improved the oil production of 3 oilfields and discovered material gas at Seram Block in Indonesia.

Manufacturing

This business recorded a decrease in attributable profit to HK\$2,496 million. The continuing growth in sales volume of aluminium wheels has driven a steady growth in net revenue. Profit from special steel business decreased in 2015 due to a decline in price of steel weak market demand and an asset impairment loss, but the profitability of us was still leading the market. Heavy machinery business experienced a significant drop in profit due to the weaker demand for machinery from traditional industries, such as mining, construction materials and coal.

Engineering contracting

In 2015, attributable profit of the engineering contracting segment increased to HK\$2,601 million. It was due primarily to the contribution margin rate increase for Angola RED project. This was partially offset as Angola KK project has entered its final stage, while new projects have not yet begun contributing significantly to profit growth.

Real estate

Profit attributable to ordinary shareholders decreased HK\$557 million from the previous year, to HK\$4,137 million. The reduction was primarily due to a decrease in revaluation gain on investment properties and a decrease in the bookings of completed properties. The average occupancy rate for investment properties was approximately 95% on 31 December 2015, which was comparable with preceding years.

Others

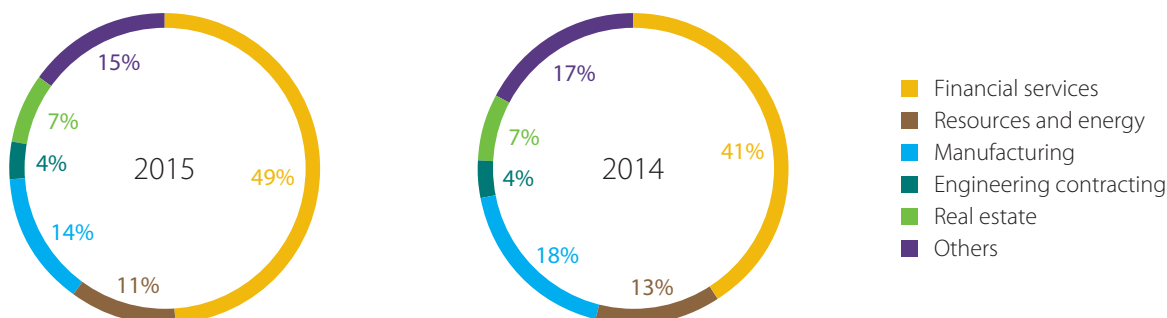
Profit attributable to ordinary shareholders of other businesses was HK\$2,501 million in 2015. The major profit contributors were infrastructure business, such as tunnels and expressways, international telecommunication services, and Dah Chong Hong. The Group gained control over CITIC Envirotech, a company listed the Mainboard of the Singapore Exchange Securities Trading Limited, on 24 April 2015. Attributable profit of expressways maintained stable, while tunnels and international telecommunication business kept growth, but contribution from Dah Chong Hong dropped due to a decline in selling price of new car and sales volume of commercial vehicles in the PRC.

Group Financial Results

Revenue

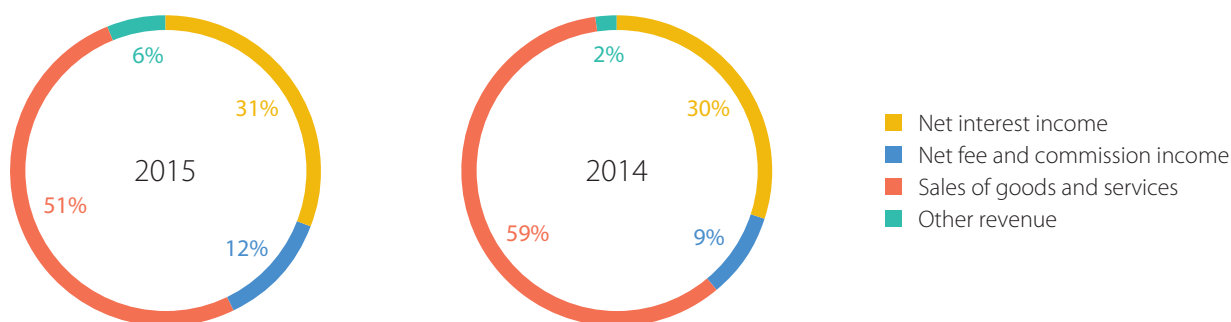
In 2015, CITIC Limited recorded revenue of HK\$416,813 million, an increase of HK\$14,689 million or 4%, as compared with 2014. Revenue from the financial services increased by HK\$40,529 million, largely due to the gains from the disposal of a 3.16% equity interest and placing of new shares of CITIC Securities, amounting to HK\$10,205 million and HK\$2,004 million, respectively. Along with an increase in net interest income from banking business driven by an increase in scale of interest-bearing assets, net non-interest revenue was growth as well, which was driven by rapid growth of bank handling charges from credit card, agency and wealth management services. The manufacturing business of the Group recorded a decrease in revenue of HK\$11,768 million, or 16% as a result of the fall in revenue from the special steel and heavy industries businesses owing to weaker market demand. This was partially compensated by the greater volume of aluminium wheels sold. Revenue from engineering contracting segment was HK\$2,451 million, or 14% less than the previous year, mainly due to the decrease in the number of projects undertaken. The Group's revenue was also impacted by a HK\$6,122 million fall in revenue in the resources and energy business, down by 12% year-on-year, a reflection of the declining demand for commodities such as crude oil. As a result of a decrease in bookings of completed properties, revenue from the real estate segment decreased by HK\$2,381 million or 8%.

In HK\$ million	2015	2014 (restated)	Increase/(decrease)	
			Amount	%
Financial services	205,378	164,849	40,529	25%
Resources and energy	45,664	51,786	(6,122)	(12%)
Manufacturing	60,077	71,845	(11,768)	(16%)
Engineering contracting	14,676	17,127	(2,451)	(14%)
Real estate	27,528	29,909	(2,381)	(8%)
Others	63,348	66,216	(2,868)	(4%)



By nature

In HK\$ million	2015	2014	Increase/(decrease)	
			Amount	%
Net interest income	131,883	121,078	10,805	9%
Net fee and commission income	48,899	37,620	11,279	30%
Sales of goods and services	211,383	237,189	(25,806)	(11%)
– Sales of goods	171,247	196,652	(25,405)	(13%)
– Services rendered to customers	27,254	25,796	1,458	6%
– Revenue from construction contracts	12,882	14,741	(1,859)	(13%)
Other revenue	24,648	6,237	18,411	295%



Impairment losses

In 2015, the Group recorded an asset impairment of HK\$79,004 million, an increase of HK\$23,984 million, 44% from 2014. Of the total impairment, CITIC Bank accounted for HK\$49,863 million, an increase of HK\$19,986 million, or 67% from 2014, which mainly includes HK\$43,739 million impairment on its loans and advances to customers. The other major impairment loss of HK\$17,807 million, was related to the Sino Iron Project in Australia, primarily as a result of a decrease in the forecast iron ore price.

Net finance charges

Finance costs in 2015 was almost equal to the previous year, which amounted to HK\$11,024 million, as a result of an decrease in borrowings both at operation management and subsidiaries in the non-financial segments, as well as a lower average cost of debt during the year.

Finance income from operation management and subsidiaries in the non-financial segments amounted to HK\$2,794 million, an increase of 24% from 2014. This increase mainly came from interest income on bank deposits.

Interest expense capitalised

In 2015, interest expense capitalised was mainly attributable to the Sino Iron Project and real estate projects. Capitalised interest expense decreased from HK\$5,874 million in 2014 to HK\$5,597 million in 2015.

Income tax

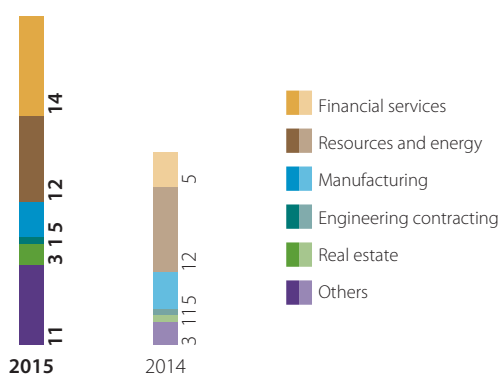
Income tax of the Group in 2015 was HK\$20,613 million, a increase of HK\$2,613 million compared with 2014. This was in line with the increase in profit before taxation.

Group Cash Flows

In HK\$ million	CITIC Limited				CITIC Bank			
	2015	2014	Increase/ (Decrease)	%	2015	2014	Increase/ (Decrease)	%
Net cash generated from/(used in) operating activities	309	58,937	(58,628)	(99%)	(25,948)	43,100	(69,048)	(160%)
Net cash used in investing activities	(143,528)	(107,591)	35,937	33%	(177,540)	(60,939)	116,601	191%
Including: Proceeds from disposal and redemption of financial investments	887,424	564,404	323,020	57%	795,726	516,738	278,988	54%
Payments for purchase of financial investments	(1,021,956)	(653,689)	368,267	56%	(965,341)	(563,452)	401,889	71%
Net cash generated from financing activities	162,486	59,518	102,968	173%	192,080	56,028	136,052	243%
Including: Proceeds from new bank and other loans and new debt instruments issued	506,183	264,747	241,436	91%	387,284	123,463	263,821	214%
Repayment of bank and other loans and debt instruments issued	(372,928)	(180,174)	192,754	107%	(190,918)	(50,161)	140,757	281%
Interest paid on bank and other loans and debt instruments issued	(26,874)	(19,286)	7,588	39%	(10,486)	(4,637)	5,849	126%
Dividends paid to ordinary shareholders	(7,890)	(22,741)	(14,851)	(65%)	-	(9,962)	(9,962)	(100%)
Dividends/distribution paid to non-controlling interests/holders of perpetual capital securities	(3,206)	(7,121)	(3,915)	(55%)	(171)	(5,002)	(4,831)	(97%)
Net increase/(decrease) in cash and cash equivalents	19,267	10,864	8,403	77%	(11,408)	38,189	(49,597)	(130%)
Cash and cash equivalents at 1 January	347,891	337,894	9,997	3%	289,496	253,924	35,572	14%
Effect of exchange rate changes	(13,047)	(867)	(12,180)	(1,405%)	(7,893)	(2,617)	(5,276)	(202%)
Cash and cash equivalents at 31 December	354,111	347,891	6,220	2%	270,195	289,496	(19,301)	(7%)

Capital Expenditures

HK\$ billion



<i>In HK\$ million</i>	2015	2014 (Restated)	Increase/(Decrease)	
			Amount	%
Financial services	13,820	5,046	8,774	174%
Resources and energy	12,059	12,257	(198)	(2%)
Manufacturing	4,937	4,619	318	7%
Engineering contracting	508	541	(33)	(6%)
Real estate	3,013	642	2,371	370%
Others	11,367	3,540	7,827	221%
Subtotal	45,704	26,645	19,059	72%
Real estate development	30,470	33,590	(3,120)	(9%)
Total	76,174	60,235	15,939	26%

Capital Commitments

As at 31 December 2015, the contracted capital commitments of the Group amounted to approximately HK\$30,888 million. Details are disclosed in note 46 to the financial statements.

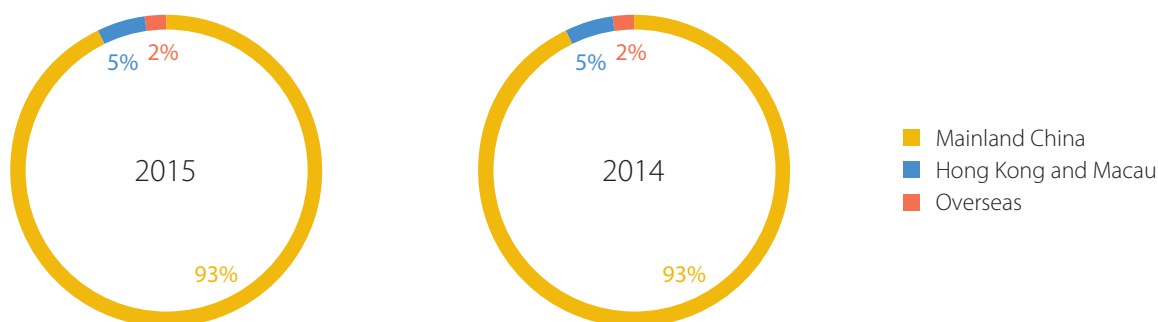
Group Financial Position

<i>In HK\$ million</i>	As at	As at	Increase/(Decrease)		Note to the Financial Statements
	31 December 2015	31 December 2014	Amount	%	
Total assets	6,803,309	5,947,831	855,478	14%	
Loans and advances to customers and other parties	2,947,798	2,711,851	235,947	9%	25
Investments classified as receivables	1,331,281	834,652	496,629	60%	28
Fixed assets	183,740	179,303	4,437	2%	32
Financial assets held under resale agreements	165,391	172,100	(6,709)	(4%)	24
Inventories	130,447	133,258	(2,811)	(2%)	23
Total liabilities	6,140,140	5,372,324	767,816	14%	
Deposits from customers	3,766,848	3,586,508	180,340	5%	40
Deposits from banks and non-bank financial institutions	1,275,421	871,213	404,208	46%	36
Debt instruments issued	449,772	273,126	176,646	65%	42
Bank and other loans	147,221	218,993	(71,772)	(33%)	41
Total ordinary shareholders' funds and perpetual capital securities	492,902	431,960	60,942	14%	

Total assets

Total assets increased from HK\$5,947,831 million as at 31 December 2014 to HK\$6,803,309 million as at 31 December 2015, mainly attributable to an increase in Investments classified as receivables and Loans and advances to customers and other parties by CITIC Bank.

By geography



Loans and advances to customers and other parties

As at 31 December 2015, the loans and advances to customers and other parties of the Group was HK\$2,947,798 million, an increase of HK\$235,947 million, 9% from 2014. The proportion of loans and advances to customers and other parties to total assets was 43%, a decrease of 3% compared to 31 December 2014.

<i>In HK\$ million</i>	As at 31 December 2015	As at 31 December 2014	Increase/(Decrease) Amount	%
Corporate loans	2,115,285	1,991,735	123,550	6%
Discounted bills	110,721	86,254	24,467	28%
Personal loans	798,078	702,963	95,115	14%
Total loans and advances to customers and other parties	3,024,084	2,780,952	243,132	9%
Impairment allowances	(76,286)	(69,101)	7,185	10%
Net loans and advances to customers and other parties	2,947,798	2,711,851	235,947	9%

Deposits from customers

As at 31 December 2015, deposits from customers of the financial institutions under the Group were HK\$3,766,848 million, an increase of HK\$180,340 million, 5% compared to 31 December 2014. The proportion of deposits from customers to total liabilities was 61%, a decrease of 6% compared to 31 December 2014.

<i>In HK\$ million</i>	As at 31 December 2015	As at 31 December 2014	Increase/(Decrease)	
			Amount	%
Corporate deposits				
Time deposits	1,727,112	1,729,747	(2,635)	(0.2%)
Demand deposits	1,393,564	1,205,007	188,557	16%
Subtotal	3,120,676	2,934,754	185,922	6%
Personal deposits				
Time deposits	432,611	464,578	(31,967)	(7%)
Demand deposits	213,561	187,176	26,385	14%
Subtotal	646,172	651,754	(5,582)	(1%)
Total	3,766,848	3,586,508	180,340	5%

Bank and other loans

<i>In HK\$ million</i>	As at 31 December 2015	As at 31 December 2014 (Restated)	Increase/(Decrease)	
			Amount	%
Financial services	1,339	–	1,339	100%
Resources and energy	42,562	42,798	(236)	(1%)
Manufacturing	16,521	19,130	(2,609)	(14%)
Engineering contracting	1,282	2,142	(860)	(40%)
Real estate	85,618	75,875	9,743	13%
Others	37,672	32,493	5,179	16%
Operation management	12,586	85,754	(73,168)	(85%)
Elimination	(50,359)	(39,199)	(11,160)	28%
Total	147,221	218,993	(71,772)	(33%)

Debt instruments issued

<i>In HK\$ million</i>	As at	As at	Increase/(Decrease)	
	31 December 2015	31 December 2014 (Restated)	Amount	%
Financial services	345,120	169,215	175,905	104%
Resources and energy	446	–	446	100%
Manufacturing	5,033	5,054	(21)	(0.4%)
Engineering contracting	–	–	–	–
Real estate	4,750	–	4,750	100%
Others	5,283	3,477	1,806	52%
Operation management	89,804	95,660	(5,856)	(6%)
Elimination	(664)	(280)	(384)	137%
Total	449,772	273,126	176,646	65%

Total ordinary shareholders' funds and perpetual capital securities

Total ordinary shareholders' funds and perpetual capital securities increased from HK\$431,960 million as at 31 December 2014 to HK\$492,902 million as at 31 December 2015, mainly attributable to an increase in profit, issue of shares and other comprehensive income for the year.

Risk Management

In accordance with the Group's development strategy, CITIC Limited has established a risk management system covering all business segments to identify, assess and manage various risks in the Group's business activities.

The risk management system of CITIC Limited is established along the core concepts of risk management and internal control released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the Basic Standard for Enterprise Internal Control jointly issued by five ministries and commissions (Ministry of Finance, CSRC, National Audit Office, CBRC and CIRC) in 2008, as well as relevant guidelines and governmental policies.

The risk management system of CITIC Limited comprises "Four Levels" and "Three Lines of Defence" based on the corporate governance structure. The "Four Levels" are the (i) board of directors, (ii) management and several committees, (iii) risk management functions of CITIC Limited, and (iv) member companies. The "Three Lines of Defence" are the (i) first line of defence comprised by business units of each level of CITIC Limited, (ii) second line of defence comprised by the risk management functions of each level of CITIC Limited, and (iii) third line of defence comprised by the internal audit departments or functions of each level of CITIC Limited.

Financial Risk

Governance structure

As a sub-committee of the Executive Committee, the Asset and Liability Management Committee ("ALCO") has been established to monitor financial risks of the Group in accordance with the relevant treasury and financial risk management policies ("management policies"). Relevant departments of CITIC Limited are responsible for communicating and implementing the decisions of ALCO, monitoring the adherence of the management policies and preparing relevant reports. All member companies have the responsibility for identifying and effectively managing their financial risk positions and reporting to the corresponding departments of CITIC Limited on a timely basis, in accordance with the overall risk framework under the management policies and within the scope of authorisation.

Based on the annual budget, ALCO shall review CITIC Limited's financing plan and instruments, oversee fund management and cash flow positions, and manage risks relating to counterparties, interest rates, currencies, commodities, commitments and contingent liabilities, and is responsible for formulating hedging policy and approving the use of new risk management tools.

Asset and liability management

One of the main functions of ALCO is asset and liability management. CITIC Limited's sources of funds for different businesses include long-term and short-term debt and equity, of which ordinary shares, preferred shares and perpetual securities are the alternative forms of equity financing instruments. CITIC Limited manages its capital structure to finance its overall operations and growth by using different sources of funds. The type of funding is targeted to match the characteristics of our underlying business.

1. Debt

ALCO centrally manages and regularly monitors the existing and projected debt levels of CITIC Limited and its major non-financial subsidiaries to ensure that the Group's debt size, structure and cost are at reasonable levels.

As at 31 December 2015, consolidated debt of CITIC Limited⁽¹⁾ was HK\$596,993 million, including loans of HK\$147,221 million and debt instruments issued⁽²⁾ of HK\$449,772 million. Debt of the head office of CITIC Limited⁽³⁾ accounted for HK\$47,669 million and debt of CITIC Bank⁽⁴⁾ HK\$345,121 million. In addition, the head office of CITIC Limited had cash and deposits of HK\$10,869 million and available committed facilities from banks and subsidiaries of HK\$21,255 million.

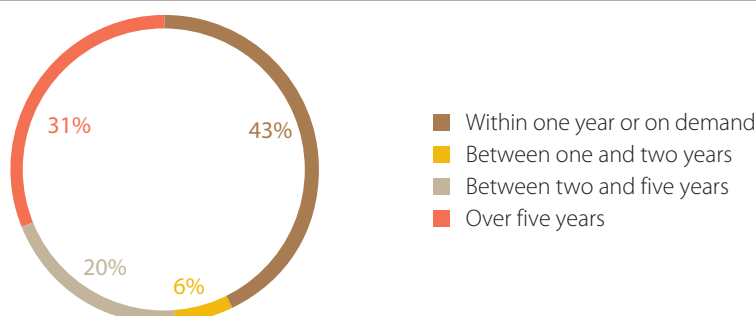
The details of debt are as follows:

As at 31 December 2015	<i>HK\$ million</i>
Consolidated debt of CITIC Limited	596,993
Among which: Debt of the head office of CITIC Limited	47,669
Debt of CITIC Bank	345,121

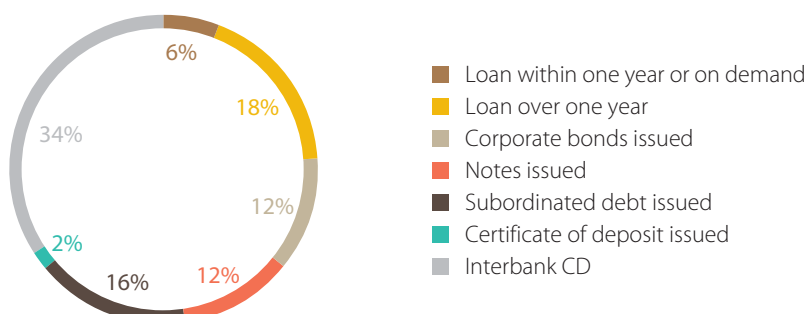
Note:

- (1) Consolidated debt of CITIC Limited is the sum of "bank and other loans" and "debt instruments issued" in the Consolidated Balance Sheet of CITIC Limited;
- (2) Debt instruments issued include corporate bonds, notes, subordinated bonds, certificates of deposit and certificates of interbank deposit issued;
- (3) Debt of the head office of CITIC Limited is the sum of "bank and other loans", "long-term borrowings" and "debt instruments issued" in the Balance Sheet of CITIC Limited;
- (4) Debt of CITIC Bank refers to CITIC Bank's consolidated debt certificates issued, including debt securities, subordinated bonds, certificates of deposit and certificates of interbank deposit issued.

Consolidated debt by maturity as at 31 December 2015



Consolidated debt by type as at 31 December 2015



The debt to equity ratio of CITIC Limited as at 31 December 2015 is as follows:

<i>In HK\$ million</i>	Consolidated	Head office
Debt	596,993	47,669
Total equity ⁽⁵⁾	663,169	403,444
Debt to equity ratio	90%	12%

Note:

(5) Total consolidated equity is based on the "total equity" in the Consolidated Balance Sheet; Total equity of head office is based on the "total ordinary shareholders' funds and perpetual capital securities" in the Balance Sheet.

2. Liquidity risk management

The objective of liquidity risk management is to ensure that CITIC Limited always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

CITIC Limited's liquidity management involves the regular cash flow forecast for the next three years and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

CITIC Limited centrally manages its own liquidity and that of its major non-financial subsidiaries and improves the efficiency of fund utilisation. With flexible access to domestic and overseas markets, CITIC Limited seeks to diversify sources of funding through different financing instruments, in order to raise low-cost funding of medium and long terms, maintain a mix of staggered maturities and minimise refinancing risk.

Details of liquidity risk management are set out in Note 47(b) to the consolidated financial statements.

3. Contingent liabilities and commitments

Details of contingent liabilities and commitments of CITIC limited as at 31 December 2015 are set out in Note 46 to the consolidated financial statements.

4. Pledged loan

Details of cash and bank deposits, inventories and fixed assets pledged as security for CITIC Limited's loan as at 31 December 2015 are set out in 41(d) to the consolidated financial statements.

5. Credit ratings

	Standard & Poor's	Moody's
31 Dec 2015	A-/Stable	A3/Stable

On 2 March 2016, Moody's changed CITIC Limited's rating outlook from stable to negative following its decision to change China's sovereign rating outlook to negative.

Treasury risk management

Treasury risk management essentially covers the following financial risks inherent in CITIC Limited's businesses:

- Interest rate risk
- Currency risk
- Counterparty risk for financial products
- Commodity risk
- Market price risk

CITIC Limited manages the above risks by using appropriate financial derivatives or other means, and priority will be given to simple, cost-efficient and effective hedge instruments which meet the HKAS 39 in performing treasury risk management responsibilities. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged.

CITIC Limited is committed to establishing a comprehensive and uniform treasury risk management system. Within the group-wide treasury risk management framework, member companies are required to, according to their respective business characteristics and regulatory requirements, implement suitable treasury risk management strategies and procedures and submit reports on a regular and ad hoc basis.

1. Interest rate risk

CITIC Limited regularly monitors current and projected interest rate changes, with each of the operating entities of the Group implementing its own interest rate risk management system covering identification, measurement, monitoring and control of market risks. Interest rate risk is managed by taking into account market conditions and controlled at a reasonable level.

For our financial subsidiaries, repricing risk and benchmark risk are the main sources of interest rate risk. Observing the principle of prudent risk appetite, they closely track changes in the macroeconomic situation and internal business structure, continue to optimise the maturity structure of deposits, make timely adjustments to the loan repricing lifecycle, and take the initiative to manage sensitive gaps in interest rates for the overall objective of achieving steady growth both in net interest income and economic value within a tolerable level of interest rate risk.

For our head office and non-financial subsidiaries, the interest rate risk arises primarily from debt. Borrowings at floating rates expose CITIC Limited to cash flow interest rate risk, while borrowings at fixed rates expose CITIC Limited to fair value interest rate risk. Based on its balance sheet and market conditions, CITIC Limited and its non-financial subsidiaries will conduct analysis and sensitivity testing on interest rate risk, adopt a flexible approach in choosing financing instruments at floating and fixed rates, or choose to employ, at the suitable time, the interest rate swaps and other derivative instruments approved for use by the ALCO to manage interest rate risk.

Details of interest rate risk management are set out in Note 47(c) to the consolidated financial statements.

2. Currency risk

CITIC Limited has major operations in mainland China, Hong Kong and Australia, with Renminbi (“RMB”), Hong Kong dollar (“HKD”) and United States dollar (“USD”) as functional currencies respectively. The Group’s member companies are exposed to currency risk from gaps between financial assets and liabilities, future commercial transactions and net investments in foreign operations that are denominated in a currency that is not the member company’s functional currency. The reporting currency of the consolidated financial statements of CITIC Limited is HKD. Translation exposures from the consolidation of subsidiaries, whose functional currency is not HKD, are not hedged by using derivative instruments as no cash exposures are involved.

CITIC Limited measures its currency risk mainly by currency gap analysis. Where it is appropriate, the Group seeks to lower its currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currency or using forward contracts and cross currency swaps, provided that hedging is only considered for firm commitments and highly probable forecast transactions.

Details of currency risk management are set out in Note 47(d) to the consolidated financial statements.

3. Counterparty risk for financial products

CITIC Limited has business with various financial institutions, including deposits, interbank lending, financial investment products and derivative financial instruments. To mitigate the risk of non-recovery of deposited funds or financial instrument gains, member companies of CITIC Limited approve and adjust the list of counterparties and credit limits of approved financial institutions through internal credit extension processes. Regular report is required.

4. Commodity risk

Some businesses of CITIC Limited involve the production, procurement, and trading of commodities, and they face exposure to price risks of commodities such as iron ore, crude oil, gas and coal.

To manage some of its raw material exposures such as supply shortages and price volatility, CITIC Limited has entered into long-term supply contracts for certain inputs or used plain vanilla futures or forward contracts for hedging. While CITIC Limited views that natural offsetting is being achieved to a certain extent across its different business sectors, it performs continual risk management review to ensure commodity risks are well understood and controlled within its business strategies.

5. Market price risk

CITIC Limited holds investments in financial assets classified as available-for-sale financial assets or financial assets at fair value through profit or loss in the consolidated balance sheet. To control price risks arising from such investments, the Group actively monitors the price changes and diversifies the relevant investment risks through appropriate asset allocation.

Economic Environment

CITIC Limited operates diversified businesses globally in various countries and regions. As a result, its financial condition, operational results and business prospects are, to a significant degree, subject to the development of both international and domestic economies, as well as the political and legislative environment.

As China's economy is undergoing structural changes, the formation of new growth drivers involves further reforms in a variety of areas, including politics, economy, technology, culture and society. With the sluggish global economic recovery, growth remains soft in the developed economies and tends to be more divergent across regions due to significant differences in inherent structures. In emerging markets, economic growth continues to slow down. The economic rebound is still vulnerable due to the lowering of potential market growth as well as the decline in commodity prices and capital outflows. If negative economic factors appear in countries and regions in which CITIC Limited operates, there might be an adverse impact on its operational results, financial condition and profitability.

Operational Risk

The financial services segment of the Group covers various sectors, including banking, securities, trust, insurance and asset management. As information technology is widely applied in the modern financial services industry, the reliability of computer systems, computer networks and information management software is essential to both traditional financial and innovative businesses. Unreliable information technology systems or underdeveloped network technologies may result in inefficient trading systems, business interruption, or loss of important information, thus affecting the reputation and service quality of financial institutions and even incurring economic losses and legal disputes.

CITIC Limited carries out resources and energy, manufacturing, engineering contracting, real estate and other businesses in countries and regions across the world, and these businesses might continue to encounter a diversity of operational difficulties. Certain difficulties, if beyond the control of CITIC Limited, might result in production delays or increases in production costs. These operational risks include delay of government payments, deterioration of tax policies, labour disputes, unforeseen technical failures, various disasters and emergencies, unexpected changes in mineral, geological or mining conditions, pollution and other environmental damage, as well as potential disputes with foreign partners, customers, subcontractors, suppliers or local residents or communities. Such risks would cause damage or loss to the relevant businesses of CITIC Limited, which in turn could adversely affect its operations, financial condition and profitability.

Credit Risk

With the proliferation of new market entities, innovative business models, new products, businesses and counterparties, credit risks could increase in both width and complexity. In this unpredictable economic climate, with extensive business operations and counterparties, the Group pays close attention to market developments and credit risks arising from business partners. If the Group fails to investigate and prevent such risks, they may have an adverse impact on its operations, financial condition and profitability.

Competitive Markets

CITIC Limited operates in highly competitive markets. Failure to compete in terms of product specifications, service quality, reliability or price may have an adverse impact on the Group.

- The financial services business faces fierce competition from domestic and international commercial banks and other financial institutions.
- The engineering contracting business is challenged by global peers as well as China's large state-owned enterprises and private companies.
- Resources and energy, manufacturing, real estate, and other businesses in different sectors also face severe competition over resources, technologies, prices and services.

Intensification of competition might result in lower product prices, narrower profit margins as well as loss of market share for CITIC Limited.

Other External Risks and Uncertainties

Impact of local, national and international laws and regulations

CITIC Limited faces local business risks in different countries and regions. Such risks might have a significant impact on the financial condition, operations and business prospects of CITIC Limited in the relevant markets. The investments of CITIC Limited in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time. In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investment of CITIC Limited, and delay or impede its business operations and hence adversely affect revenue and profit.

Impact of new accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issues new and revised Hong Kong Financial Reporting Standards ("HKFRSs") from time to time. As the accounting standards continue to evolve, HKICPA might further issue new and revised HKFRSs in the future. The new accounting policies, if required to be adopted by CITIC Limited, could have a significant impact on its financial condition and operations.

Natural disasters or events, terrorism and diseases

The business of CITIC Limited could be affected by events such as earthquakes, typhoons, tropical cyclones, inclement weather, acts or threats of terrorism, or outbreaks of highly contagious diseases, which would directly or indirectly reduce the supply of essential goods or services or reduce economic activities on a local, regional or global scale. Any of these disasters might damage the businesses of CITIC Limited, which would have a material adverse impact on the financial condition and operations of CITIC Limited.

The entire Group is committed to constantly improving its risk monitoring and management mechanism in order to promote risk identification and assessment at all levels; strengthen risk assessment and monitoring of major projects and key businesses; and manage counterparty credit risks. CITIC Limited stays fully informed of the operations, financial condition and major business progress of its subsidiaries through off-site monitoring, on-site inspections and other means to assess the risks that may arise. Through risk reports on weaknesses and potential risks, CITIC Limited supervises and implements risk management and control measures to improve its comprehensive risk management practices and initiatives across the Group.