

Chairman's letter to shareholders



Dear Shareholders,

As we reflect on 2016 and events such as the Brexit vote, the US presidential election and continued political and economic tensions across the world, global companies are grappling with pronounced uncertainty and volatility. At home, China's economy is in the midst of a structural transition, as industrial output and double digit growth moderate but consumption, services, and higher value-added manufacturing increase. The world is changing, and companies need to stay nimble and prepare to adapt, while striking a balance between reacting to outside factors and navigating steadily through rough waters to achieve their business goals.

We live in an increasingly interconnected world, where one nation's interests can easily converge with another's. Countries, and indeed companies, have become interdependent. At CITIC, we know from our own transformation over the last 38 years that we have become more dependent than ever on our global customers and partners, and they on us. Economic globalisation has brought all of us closer.

These days, CITIC and its subsidiaries employ people of different nationalities across many countries. We're involved in cross-border capital flows as well as the sharing of ideas and best practices. We have not only absorbed technology from abroad but exported technology to the world, such as magnetite iron ore mining and processing to Western Australia's mineral-rich Pilbara region. When we operate in other countries, we seek to harness local expertise. Likewise, when our business partners work with us in China, we offer them our "Chinese DNA" and the knowledge we've accumulated over many decades. Our new partnership with McDonald's is a case in point.

I remember in 1992 when the world's largest McDonald's at the time opened in the centre of Beijing, and I can vividly recall the novelty of eating a Big Mac in China. Fast-forward to 2017, and I am again struck by the changing times, as this year CITIC announced plans to acquire a majority stake in McDonald's business in mainland China and Hong Kong, where it already serves over one billion people annually in its more than 2,600 restaurants.

McDonald's is ubiquitous here now, but it was not always so. Such is the deep-rooted impact of globalisation that there's now a generation of Chinese citizens who have never known a China devoid of the golden arches on the main streets of their towns and cities. There are many more examples of popular international brands that have become a part of Chinese consumers' everyday lives. As the world and China evolve, so does CITIC.

Our 2016 Results

Profit attributable to ordinary shareholders for 2016 was HK\$43.1 billion. Although this was a modest 3% increase from last year, there is no doubt that the challenging operating environment continued to affect our businesses. Other factors affecting the result included our reduced interest in CITIC Bank and the depreciation of the Renminbi given that our reporting currency is the Hong Kong dollar. Breaking down the result further, a non-cash impairment charge of HK\$7.2 billion (after tax) was made on our Sino Iron mine, mainly due to lower forecasts for the long-term price of iron ore. On the other hand, a gain of HK\$10.3 billion was recorded when the sale of residential property assets in mainland China to China Overseas Land and Investment was completed.

The board recommends a final dividend payment of HK\$0.23 per share, thus giving shareholders a total dividend of HK\$0.33 per share for the year 2016, 10% more than last year.

In the financial services sector, CITIC Bank's profit grew slightly, dampened by a higher impairment for non-performing loans. Non-interest income improved, as CITIC Bank continued to diversify its revenue streams. Due to a lacklustre A share market, CITIC Securities saw its profit decrease significantly. CITIC-Prudential, on the other hand, saw its premium income grow, leading to an

increase in its net profit. CITIC Trust profit for the year remained stable. In our 2016 annual report we will spotlight CITIC Trust, a market leader in the growing Chinese trust sector.

In the non-financial sector, CITIC Pacific Special Steel and CITIC Dicastal continued to impress. Net profit from our steel business rose significantly due to an optimal product mix and lower raw material cost, the result of an effective procurement strategy. Strong demand for CITIC Dicastal's products, particularly wheels, delivered double digit growth in revenue and net profit. However, CITIC Heavy Industries suffered a considerable loss due to factors that included continuing weak demand from downstream industries for heavy machinery and equipment, and an impairment charge. Going forward, in addition to further strengthening its core competencies, CITIC Heavy Industries will accelerate the development and application of products in new areas such as special purpose robots, which are seeing increasing demand.

In the engineering and construction area, although profits were lower in 2016, we are encouraged to see new projects coming on board, such as a road rehabilitation project in Kazakhstan and the KK Phase II municipal infrastructure project in Angola.

For the property business, our focus is on developing large integrated projects in cities with strong development potential. I am glad to report that we recently acquired four mixed-use commercial projects in Wuhan with a total gross floor area of approximately 2.7 million m².

In the resources area, the performance of CITIC Resources improved compared with 2015. At our Sino Iron mine in Western Australia, construction of all six processing lines was completed, and our

operational focus is now on ramping up production, improving efficiency and lowering operating cost. While progress has been significant, we face ongoing challenges that go beyond the usual operational issues associated with such a massive industrial undertaking. To place Sino Iron on a long-term sustainable footing, the cooperation of other parties is critically important. As we reported last month, resolution of matters involving Mineralogy will have a major bearing on the future viability of Sino Iron.

Embracing the Consumer Economy

When we announced the McDonald's transaction, I was asked by many friends and colleagues why CITIC made this investment and how we can help this successful global brand grow further in China.

The fact that China's economy is now the second largest in the world is well known, and its shift to consumption and services is one of the defining stories of the early 21st century. However, the country's consumption as a proportion of GDP is still very low in comparison with more developed markets. Continued urbanisation, an expanding middle class and increasing discretionary household income should translate into further spending. Against this backdrop, we believe that there is still huge growth potential for McDonald's, particularly in Tier 3 and 4 cities.

Our investment and partnership with McDonald's gives CITIC direct exposure to this exciting growth dynamic. CITIC's rich resources and local knowledge can help this fast food giant reach its full potential in China. In return, McDonald's extensive network and consumer base will provide us with invaluable insights, which we will leverage to the benefit of our existing businesses.

CITIC's participation in the consumer space was already broad before the McDonald's deal and will continue to expand. We have a range of businesses that are serving this growing sector. Our subsidiary Dah Chong Hong has been distributing motor vehicles, food and consumer products in Asia for decades and has recently secured a foothold in healthcare through the acquisition of LF Asia. International brands come to Dah Chong Hong to understand the complex market landscape in China and other Asian countries and ensure that their products are skillfully distributed to their target consumers.

Our banking and financial services businesses have been competing in the consumer space for many years. The innovative financial products we design and offer are rooted in our understanding of customers' needs. Our venture into fintech is the latest example. CITIC Bank has joined forces with Baidu to form Baixin Bank, a direct banking service provider. CITIC Bank owns 70% of the Beijing-based lender, and Baidu holds the remainder. Competing in this area further extends our reach to an even wider community, in particular a new breed of internet-savvy consumers.

Another very interesting example of our consumer-facing businesses is CITIC Press. This is a relatively small but growing business in our large CITIC family. In 2016, it generated a net profit of RMB128 million, which was 28% more than the previous year. By anticipating and adapting to readers' changing needs, CITIC Press has evolved from a traditional publisher to an intellectual property hub and a content curator. Through both its digital and brick-and-mortar channels, CITIC Press influences millions of Chinese readers. Today, people like to link a company's survival to its "e-power". For CITIC Press, success rests on its passion for knowledge and ability to inspire, from *enlightening* children

via educational and learning series to *equipping* executives with professional training and *enriching* people from all walks of life.

Not that long ago in China, big companies had all the power in determining what products would be made available to the market. That era is long gone, and consumption models have changed to reflect the primacy of customer desires and demands. With greater mobile penetration, people have never been more informed when it comes to making their purchasing decisions. Choice is at their fingertips, and only the companies that observe closely and respond appropriately will endure.

At CITIC, we know well that old business models are being disrupted by technological advancement. We are determined to stay on the front foot and challenge ourselves to view our businesses through the lens of customers. Underpinned by the inherent strength of our existing businesses, we're well positioned to capture emerging opportunities both in China's maturing economy and abroad. We're guided by an investment strategy that is customer-centric, commercially-driven and supported by a disciplined approach to ensure the wise and timely allocation of capital and resources.

Conclusion

In President Xi Jinping's recent keynote speech at Davos, he referenced Charles Dickens' famous line, "It was the best of times, it was the worst of times", to describe the contradictions of the period we are living through. I believe that it is up to us as companies and individual managers to embrace the opportunities presented by this period of uncertainty, turning them to our advantage. In order to flourish and create long-term value for our shareholders, we will have to be market leaders

and prudent planners, looking inside and outside the company today to identify the businesses of tomorrow.

CITIC Limited is committed to good governance and serving the interests of all shareholders and the society at large. As we take steps to reshape our business, your continued support, patience and understanding are appreciated. Thank you for your faith in us.



Chang Zhenming

Chairman

Hong Kong, 23 March 2017