

# Financial Review

## Overview

### Profit attributable to ordinary shareholders

During 2016, the Group achieved net profit attributable to ordinary shareholders of HK\$43,119 million, an increase of HK\$1,307 million, or 3% from 2015. It included a gain of HK\$10,337 million from the transfer of interests in certain domestic residential real estate projects held respectively by CITIC Real Estate and CITIC Pacific to China Overseas Land & Investment Limited, and an after tax impairment charge of HK\$7,223 million taken on the Sino Iron Project. Excluding the impact of translation into Hong Kong dollars, the Company's reporting currency, resulting from the depreciation of Renminbi during the period given CITIC Limited's main operations and assets are in mainland China, an increase would have been HK\$3,718 million, or 9% from 2015.

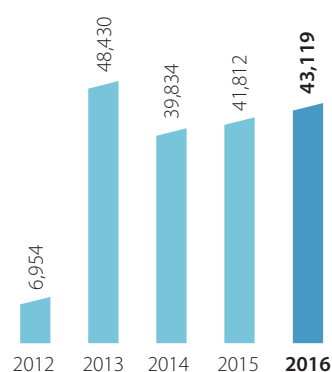
The financial services segment recorded net profit attributable to ordinary shareholders of HK\$38,406 million. Excluding the gains recognised for the same period last year as a result of the disposal of equity interest in CITIC Securities and the dilution of CITIC Limited following the placing of new shares by CITIC Securities, the decrease in percentage of the Group's shareholdings in CITIC Bank, as well as the impact of translation due to RMB depreciation, the decrease from 2015 would have been HK\$1.4 billion or 3%. The banking business experienced a slowdown in growth in net profit as a result of the increase in provision, but it remained the principal source of profit for the financial services segment. Following RMB depreciation and the introduction of China National Tobacco Corporation as a strategic investor of CITIC Bank, the percentage of the Group's shareholdings in CITIC Bank decreased as compared to the same period last year, resulting in a corresponding 8% decrease in net profit of CITIC Bank attributable to the Group. The trust business maintained stable performance, while the insurance business achieved rapid growth. The net profit increased 83% from 2015. The securities business experienced a significant decline in results in line with the overall conditions of China's securities market from 2015.

For the non-financial segments, the manufacturing business achieved net profit attributable to ordinary shareholders of HK\$1,740 million, a decrease of HK\$756 million, or 30% from 2015, mainly due to the weaker market demand in the heavy machinery business, and the increase in provision. The engineering contracting business recorded net profit attributable to ordinary shareholders of HK\$1,675 million, representing a year-on-year decrease of

HK\$926 million or 36%, mainly because the project was in the inception stage. The resources and energy business reported to reduce loss of HK\$10,352 million as a result of the improvements in the crude oil business and bulk commodity trade business, the Company's greater effort in cost reduction and efficiency enhancement, as well as the decrease in impairment loss of assets.

HK\$ million

■ Profit attributable to ordinary shareholders



### Earnings per share and dividends

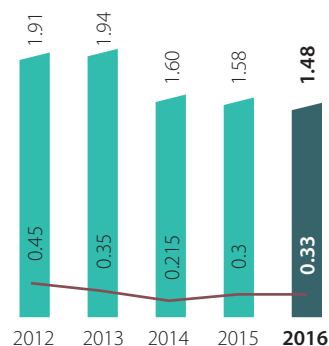
Earnings per share of profit attributable to ordinary shareholders was HK\$1.48 in 2016, a decrease of 6% from HK\$1.58 in 2015. As at 31 December 2016, the number of ordinary shares outstanding was 29,090,262,630.

At the forthcoming annual general meeting, the Board will recommend a final dividend of HK\$0.23 per share to ordinary shareholders. Together with the interim dividend of HK\$0.10 per share paid in September 2016, the total ordinary dividend will be HK\$0.33 (2015: HK\$0.30 per share). This equates to an aggregate cash distribution of HK\$9,600 million.

HK\$

■ Earnings per share

■ Dividend per share

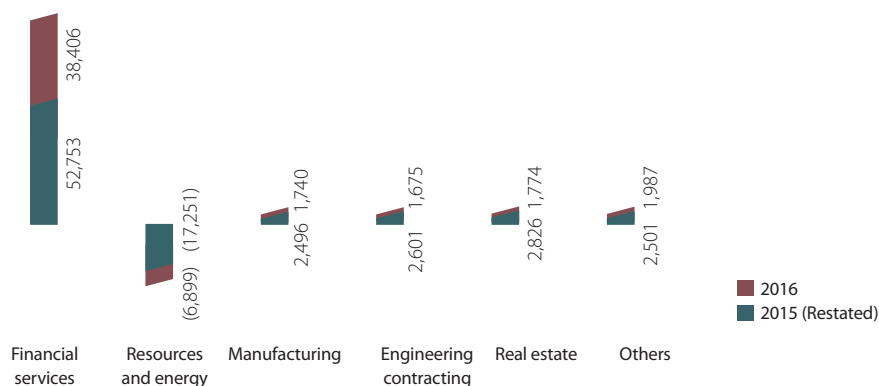


## Profit/(loss) and assets by business

HK\$ million	Profit/(loss) For the year ended 31 December		Assets as at 31 December	
	2016	2015 (Restated)	2016	2015 (Restated)
<b>Financial services</b>	<b>55,498</b>	70,183	<b>6,729,902</b>	6,211,176
<b>Resources and energy</b>	<b>(6,522)</b>	(18,318)	<b>135,784</b>	141,693
<b>Manufacturing</b>	<b>1,310</b>	2,624	<b>96,112</b>	97,208
<b>Engineering contracting</b>	<b>1,673</b>	2,601	<b>36,796</b>	42,245
<b>Real estate</b>	<b>2,264</b>	2,820	<b>143,596</b>	232,809
<b>Others</b>	<b>3,218</b>	3,600	<b>113,090</b>	113,738
<b>Total</b>	<b>57,441</b>	63,510	<b>7,255,280</b>	6,838,869
Operation management	<b>(4,698)</b>	(5,072)		
Discontinued operations	<b>10,309</b>	1,472		
Elimination	<b>(413)</b>	783		
Profit attributable to non-controlling interests and holders of perpetual capital securities	<b>19,520</b>	18,881		
Profit attributable to ordinary shareholders	<b>43,119</b>	41,812		

## Profit/(loss) attributable to ordinary shareholders from continuing operations by business

HK\$ million



### Financial services:

In 2016, the financial services segment recorded net profit attributable to ordinary shareholders of HK\$38,406 million. Excluding the gains recognised for the same period last year as a result of the disposal of equity interests in CITIC Securities, the dilution of CITIC Limited's equity interests following the placing of new shares by CITIC Securities and the decrease in shareholding in CITIC Bank by the Group, as well as the impact of translation due to RMB depreciation, the decrease from 2015 would have been HK\$1.4 billion or 3%.

The banking business reported growth in net profit and remained the principal source of profit for the financial services segment. CITIC Bank continued to optimize its revenue mix and percentage share of the non-interest income increasingly expanded, and the increase in size of the non-interest income and the interest-bearing assets led to an increase in net profit over 2015. Following the impact of translation due to RMB depreciation, the introduction of China National Tobacco Corporation as a strategic investor of CITIC Bank, the percentage of the Group's shareholdings in CITIC Bank decreased as compared to last year, resulting in a corresponding 8% decrease in net profit of CITIC Bank attributable to the Group. The trust business reported stable performance in 2016, the size of its asset management has been ranked no. 1 in the industry for consecutive 10 years. The securities business has been affected by the general securities market in China, reporting a decrease in profit by 48%. The insurance business has grown rapidly with an increase in profit by 83%.

### Resources and energy:

International demand for bulk commodities and energy has been increasing in 2016. Price of crude oil was still at a historical low even though it rose in 2016, having greater impact on the Group's crude oil business. The rise in coal price and the decline of the on-grid electricity price have made adverse impact on the Group's power generation business.

The resources and energy business recorded a loss of HK\$6,899 million in 2016, representing a decrease in loss of HK\$10,352 million as compared to last year. In particular, the Company made an impairment provision of approximately HK\$7,223 million (net of tax) following a valuation appraisal conducted for the Sino Iron Project principally due to downward adjustment of forward price forecast of iron ore by independent institutions regardless of recent increase in iron ore spot price. Loss recorded in the crude oil

business has significantly reduced as compared to last year due to decrease in taxes and dues as well as costs control. The power generation business continued to generate stable cash flow to the Company. The Las Bambas copper mine project in Peru, in which CITIC Metal holds a 15% interest, has made profit contribution to the Group upon the commencement of commercial production.

CITIC Limited carried out a merger combining its two principal subsidiaries engaging resources and energy business, namely CITIC Metal and CITIC United Asia, by setting up CITIC Metal Group Limited in order to strengthen its competitiveness and investment return in mining investment and bulk commodities trading. The Sino Iron Project passed an important milestone in 2016 that all six production lines of the Sino Iron Project have been in operation with approximately 11 million wet metric tonnes of concentrate produced for export in 2016.

### Manufacturing:

The manufacturing business recorded net profit attributable to ordinary shareholders of HK\$1,740 million in 2016, representing a decrease of HK\$756 million or 30% from 2015. Owing to the focus on higher margin products, and an optimised procurement strategy to manage raw material cost, net profit of special steel business increased over 20% compared with 2015, excluding the impairment recorded in 2015. CITIC Dicastal recorded an increase in net profit by 21% over 2015 due to relatively rapid growth in sales of aluminium wheels and castings encouraged by increase in global and domestic demand for automobiles. However, the heavy equipment recorded a significant loss in 2016 due to reduction of demand from downstream sector, resulting in limited effectiveness achieved from new business investment, as well as the effect of impairment provision for inventory.

### Engineering contracting:

The engineering contracting segment recorded net profit attributable to ordinary shareholders of HK\$1,675 million, a decrease of HK\$926 million from 2015. Such decrease was principally due to all new projects at initial stage or in phase of contract negotiation, but was partially offset by collection of amounts due from the Algerian expressway project.

### Real Estate:

The Group recorded a gain of HK\$10.3 billion from the disposal of interest in certain residential real estate projects in the PRC held by CITIC Corporation and CITIC Pacific respectively to China Overseas Land & Investment Limited, and the operating results and cash flow of the items were presented under the discontinued operations of the Group. For details, please refer to notes 17(a) and 50 to the financial statements.

For continued operations of the Group, the real estate business recorded a decline in profit due to the gains from the sales of Royal Pavilion (華山公寓) in 2015 and a decrease in gains from the revaluation of investment properties in 2016. The average occupancy rate for investment properties was approximately 95% as at 31 December 2016, which was comparable with preceding years.

### Others:

Others segment recorded net profit attributable to ordinary shareholders of HK\$1,987 million in 2016, a decrease of HK\$514 million from 2015. The infrastructure business, such as expressways and ports, and the international telecommunications service business continued to generate stable profit and cash flow. Dah Chong Hong recorded a decline in profit due to weak performance of food business and consumer goods in China.

CITIC Envirotech, a company listed on the Mainboard of the Singapore Exchange Securities Trading Limited of which controlling stakes were acquired by the Group on 24 April 2015, reported substantial year-on-year growth in net profit in 2016 after expanding its EPC, water treatment and membrane product businesses.

## Group Financial Results

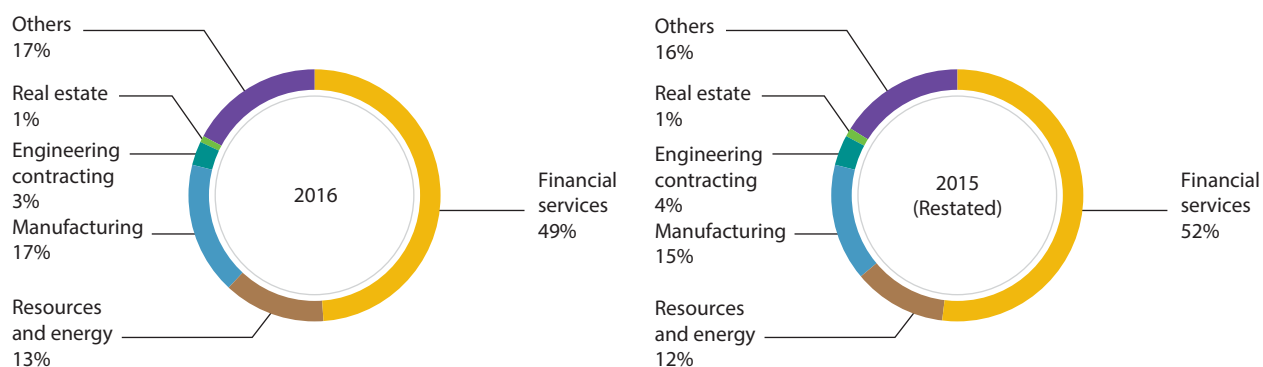
### Revenue

For 2016, CITIC Limited recorded revenue of HK\$380,822 million from continuous operations, a decrease of HK\$14,488 million or 4%, as compared with the same period last year. Excluding gains of HK\$12.2 billion recognised for the same period last year as a result of the disposal of 3.16% equity interests in CITIC Securities and the dilution of CITIC Limited's equity interests following the placing of new shares by CITIC Securities, as well as the impact of translation due to RMB depreciation for the current period, the increase amounted to HK\$14 billion or 4%. Revenue from financial services was decreased by HK\$17,841 million or 9% to HK\$187,537 million. Excluding gains recognised for the same period last year as a result of the disposal of 3.16% equity interests in CITIC Securities and the dilution of CITIC Limited's equity interests following the placing of new shares by CITIC Securities, as well as the impact of translation due to RMB depreciation for the current period, the increase amounted to HK\$6.4 billion or 3%, mainly attributable to the revenue contribution from banking business. The gradual increase in the international demand for bulk commodities and energy drove the increase in revenue from iron ore and copper trade. The Sino Iron project were in full operation in the second half of the year, recording revenue of approximately HK\$3.6 billion. Revenue contributions from the power generation and platinum operations decreased year-on-year due to factors including lower prices, partially offsetting the aforesaid growth. The manufacturing segment recorded revenue of HK\$62,350 million, an increase of HK\$2,273 million or 4%, due to the sales of aluminum wheels and castings grew, but the escalating competition in the heavy machinery industry and the decline in order prices partially offset the aforesaid growth, in addition, even though the prices of special steel products keeping declining, the sales volume grew, revenue from special steel business maintained stable. The engineering contracting business recorded revenue of HK\$11,023

million, a year-on-year decrease of HK\$3,653 million or 25%, as its new projects were at initial stage or in phase of contract negotiation. Revenue from continuous operations of the real estate segment amounted to HK\$4,900 million. Revenue from other businesses amounted to HK\$64,723 million, an increase of HK\$1,375 million or 2%, mainly attributable

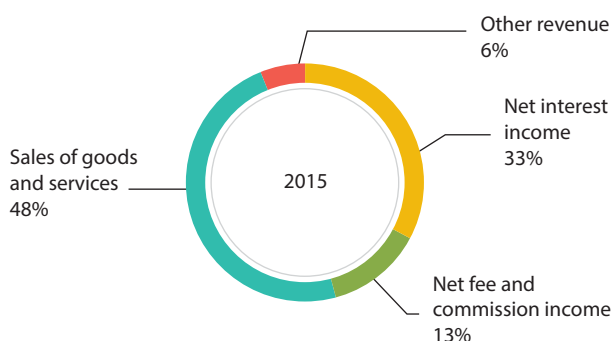
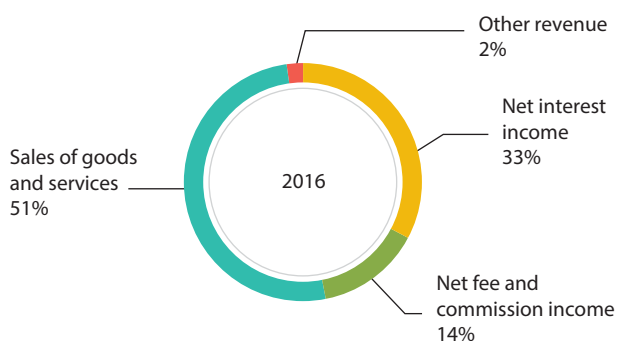
to the increase in revenue from Dah Chong Hong's acquisition of LF Asia's food and healthcare business and the notable year-on-year increase in the business scale of CITIC Envirotech, but the decline in traditional telecommunications services and international automobile sales partially offset the growth impact.

Continuing operations <i>HK\$ million</i>	Year ended 31 December		Increase/(decrease)	
	2016	2015 (restated)	Amount	%
<b>Financial services</b>	<b>187,537</b>	205,378	(17,841)	(9%)
<b>Resources and energy</b>	<b>50,254</b>	45,664	4,590	10%
<b>Manufacturing</b>	<b>62,350</b>	60,077	2,273	4%
<b>Engineering contracting</b>	<b>11,023</b>	14,676	(3,653)	(25%)
<b>Real estate</b>	<b>4,900</b>	6,025	(1,125)	(19%)
<b>Others</b>	<b>64,723</b>	63,348	1,375	2%



## By nature

Continuing operations HK\$ million	Year ended 31 December		Increase/(decrease)	
	2016	2015 (restated)	Amount	%
Net interest income	<b>125,923</b>	131,883	(5,960)	(5%)
Net fee and commission income	<b>54,578</b>	48,899	5,679	12%
Sales of goods and services	<b>193,292</b>	189,880	3,412	2%
– Sales of goods	<b>156,528</b>	149,628	6,900	5%
– Services rendered to customers	<b>26,895</b>	27,370	(475)	(2%)
– Revenue from construction contracts	<b>9,869</b>	12,882	(3,013)	(23%)
Other revenue	<b>7,029</b>	24,648	(17,619)	(71%)



## Impairment losses

In 2016, the Group recorded an asset impairment of HK\$73,590 million, a year-on-year decrease of HK\$5,598 million or 7%. Of the total impairment, CITIC Bank accounted for HK\$61,171 million, which mainly includes HK\$53,481 million impairment on its loans and advances to customers. The other major impairment loss of HK\$10,152 million was related to the Sino Iron Project in Australia.

## Net finance charges

In 2016, finance costs amounted to HK\$8,688 million, a decrease of HK\$551 million or 6% compared with the same period last year, mainly attributable to a year-on-year decrease in debt size both at operation management and subsidiaries in the non-financial segments.

In 2016, finance income from operation management and subsidiaries in the non-financial segments amounted to HK\$1,552 million, a year-on-year decrease of HK\$806 million or 34%. This increase mainly came from interest income on bank deposits.

## Interest expense capitalised

In 2016, interest expense capitalised amounted to HK\$576 million, a year-on-year decrease of HK\$1,562 million or 73%. This was mainly because that the 6 production lines of Sino Iron were in full operation, interest expense capitalised decreased correspondingly.

## Income tax

In 2016, income tax of the Group was HK\$18,393 million, a decrease of HK\$1,031 million compared with the same period last year. This was in line with the change in profit before taxation.

## Group Cash Flows

HK\$ million	CITIC Limited Year ended 31 December				CITIC Bank Year ended 31 December			
	2016	2015 (restated)	Increase/ (Decrease)	%	2016	2015	Increase/ (Decrease)	%
<b>Net cash generated from operating activities</b>	<b>280,465</b>	309	280,156	90665%	<b>255,982</b>	(25,948)	281,930	(1087%)
– Continuing operations	<b>274,809</b>	(451)	275,260	(61033%)	<b>255,982</b>	(25,948)	281,930	(1087%)
– Discontinued operations	<b>5,656</b>	760	4,896	644%	–	–	–	–
<b>Net cash used in investing activities</b>	<b>(211,586)</b>	(143,528)	(68,058)	47%	<b>(206,426)</b>	(177,540)	(28,886)	16%
– Continuing operations	<b>(196,699)</b>	(142,570)	(54,129)	38%	<b>(206,426)</b>	(177,540)	(28,886)	16%
Including: Proceeds from disposal and redemption of financial investments	<b>681,246</b>	884,132	(202,886)	(23%)	<b>638,353</b>	795,726	(157,373)	(20%)
Payments for purchase of financial investments	<b>(855,582)</b>	(1,018,145)	162,563	(16%)	<b>(835,866)</b>	(965,341)	129,475	(13%)
– Discontinued operations	<b>(14,887)</b>	(958)	(13,929)	1454%	–	–	–	–
<b>Net cash generated from/(used in) financing activities</b>	<b>94,155</b>	162,486	(68,331)	(42%)	<b>128,830</b>	192,080	(63,250)	(33%)
– Continuing operations	<b>105,958</b>	164,846	(58,888)	(36%)	<b>128,830</b>	192,080	(63,250)	(33%)
Including: Proceeds from new bank and other loans and new debt instruments issued	<b>96,264</b>	91,972	4,292	5%	<b>707,081</b>	387,284	319,797	83%
Repayment of bank and other loans and debt instruments issued	<b>(706,253)</b>	(359,657)	(346,596)	96%	<b>(594,111)</b>	(190,918)	(403,193)	211%
Interest paid on bank and other loans and debt instruments issued	<b>(28,920)</b>	(21,853)	(7,067)	32%	<b>(16,603)</b>	(10,486)	(6,117)	58%
Dividends paid to ordinary shareholders	<b>(8,727)</b>	(7,890)	(837)	11%	<b>(12,136)</b>	–	(12,136)	100%
Dividends/distribution paid to non-controlling interests/holders of perpetual capital securities	<b>(7,141)</b>	(3,119)	(4,022)	129%	<b>(183)</b>	(171)	(12)	7%
– Discontinued operations	<b>(11,803)</b>	(2,360)	(9,443)	400%	–	–	–	–
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>163,034</b>	19,267	143,767	746%	<b>178,387</b>	(11,408)	189,795	(1664%)
<b>Cash and cash equivalents at 1 January</b>	<b>354,111</b>	347,891	6,220	2%	<b>270,195</b>	289,496	(19,301)	(7%)
<b>Effect of exchange rate changes</b>	<b>(23,007)</b>	(13,047)	(9,960)	76%	<b>(17,781)</b>	(7,893)	(9,888)	125%
<b>Cash and cash equivalents at 31 December</b>	<b>494,138</b>	354,111	140,027	40%	<b>430,801</b>	270,195	160,606	59%

## Capital Expenditures

HK\$ billion



HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2016	2015	Amount	%
<b>Financial services</b>	<b>16,350</b>	13,819	2,531	18%
<b>Resources and energy</b>	<b>4,874</b>	12,059	(7,185)	(60%)
<b>Manufacturing</b>	<b>5,405</b>	4,937	468	9%
<b>Engineering contracting</b>	<b>1,564</b>	508	1,056	208%
<b>Real estate</b>	<b>5,979</b>	3,013	2,966	98%
<b>Others</b>	<b>14,092</b>	11,368	2,724	24%
<b>Total</b>	<b>48,264</b>	45,704	2,560	6%

## Capital Commitments

As at 31 December 2016, the contracted capital commitments of the Group amounted to approximately HK\$18,004 million. Details are disclosed in note 46(f) to the financial statements.



## Group Financial Position

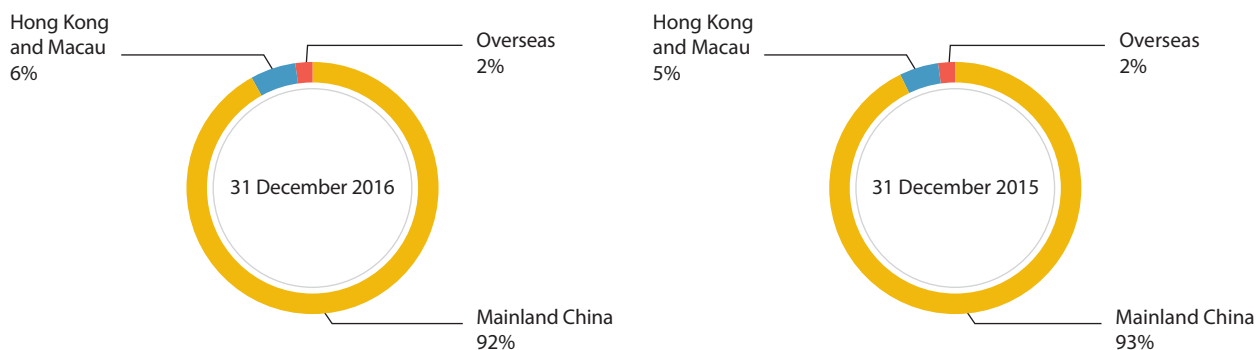
<i>HK\$ million</i>	As at 31 December 2016	As at 31 December 2015	Increase/(Decrease) Amount	%	Note to the Financial Statements
<b>Total assets</b>	<b>7,237,995</b>	6,803,309	434,686	6%	
Loans and advances to customers and other parties	<b>3,137,906</b>	2,947,798	190,108	6%	25
Investments classified as receivables	<b>1,166,325</b>	1,331,281	(164,956)	(12%)	28
Cash and deposit	<b>927,259</b>	801,615	125,644	16%	18
Available-for-sale financial assets	<b>642,477</b>	494,786	147,691	30%	26
Held-to-maturity investments	<b>244,151</b>	216,267	27,884	13%	27
Fixed assets	<b>172,236</b>	183,740	(11,504)	(6%)	32
Inventories	<b>48,905</b>	130,447	(81,542)	(63%)	23
<b>Total liabilities</b>	<b>6,542,144</b>	6,140,140	402,004	7%	
Deposits from customers	<b>4,031,522</b>	3,766,848	264,674	7%	40
Deposits from banks and non-bank financial institutions	<b>1,097,164</b>	1,275,421	(178,257)	(14%)	36
Debt instruments issued	<b>543,893</b>	449,772	94,121	21%	42
Borrowing from central banks	<b>205,755</b>	44,761	160,994	360%	
Financial assets sold under repurchase agreements	<b>134,534</b>	84,949	49,585	58%	39
Bank and other loans	<b>112,819</b>	147,221	(34,402)	(23%)	41
<b>Total ordinary shareholders' funds and perpetual capital securities</b>	<b>490,633</b>	492,902	(2,269)	(0.5%)	

### Total assets

Total assets increased from HK\$6,803,309 million as at 31 December 2015 to HK\$7,237,995 million as at 31

December 2016, mainly attributable to an increase in loans and advances to customers and other parties, available-for-sale financial assets and cash and deposits.

### By geography



## Loans and advances to customers and other parties

As at 31 December 2016, the loans and advances to customers and other parties of the Group was HK\$3,137,906 million, an increase of HK\$190,108 million or 6% compared to 31 December 2015. The

proportion of loans and advances to customers and other parties to total assets was 43.35%, an increase of 0.02 percentage point compared to 31 December 2015.

<i>HK\$ million</i>	<b>As at 31 December 2016</b>	As at 31 December 2015	<b>Increase/(Decrease) Amount</b>	%
Corporate loans	<b>2,073,150</b>	2,115,285	(42,135)	(2%)
Discounted bills	<b>83,949</b>	110,721	(26,772)	(24%)
Personal loans	<b>1,069,417</b>	798,078	271,339	34%
<b>Total loans and advances to customers and other parties</b>	<b>3,226,516</b>	3,024,084	202,432	7%
<b>Impairment allowances</b>	<b>(88,610)</b>	(76,286)	(12,324)	16%
<b>Net loans and advances to customers and other parties</b>	<b>3,137,906</b>	2,947,798	190,108	6%

## Deposits from customers

As at 31 December 2016, deposits from customers of the financial institutions under the Group were

HK\$4,031,522 million, an increase of HK\$264,674 million or 7% compared to 31 December 2015. The proportion of deposits from customers to total liabilities was 61.62%, a decrease of 0.27 percentage point compared to 31 December 2015.

<i>HK\$ million</i>	<b>As at 31 December 2016</b>	As at 31 December 2015	<b>Increase/(Decrease) Amount</b>	%
Corporate deposits				
Time deposits	<b>1,554,160</b>	1,727,112	(172,952)	(10%)
Demand deposits	<b>1,845,451</b>	1,385,738	459,713	33%
<b>Subtotal</b>	<b>3,399,611</b>	3,112,850	286,761	9%
Personal deposits				
Time deposits	<b>363,387</b>	432,611	(69,224)	(16%)
Demand deposits	<b>260,433</b>	213,561	46,872	22%
<b>Subtotal</b>	<b>623,820</b>	646,172	(22,352)	(3%)
<b>Outward remittance and remittance payables</b>	<b>8,091</b>	7,826	265	3%
<b>Total</b>	<b>4,031,522</b>	3,766,848	264,674	7%

## Bank and other loans

<i>HK\$ million</i>	As at 31 December 2016	As at 31 December 2015	Increase/(Decrease) Amount	%
<b>Financial services</b>	<b>2,964</b>	1,339	1,625	121%
<b>Resources and energy</b>	<b>41,398</b>	42,562	(1,164)	(3%)
<b>Manufacturing</b>	<b>15,088</b>	16,521	(1,433)	(9%)
<b>Engineering contracting</b>	<b>1,276</b>	1,282	(6)	(0.5%)
<b>Real estate</b>	<b>10,721</b>	85,618	(74,897)	(87%)
<b>Others</b>	<b>32,863</b>	37,672	(4,809)	(13%)
Operation management	<b>21,749</b>	12,586	9,163	73%
Elimination	<b>(13,240)</b>	(50,359)	37,119	(74%)
<b>Total</b>	<b>112,819</b>	147,221	(34,402)	(23%)

## Debt instruments issued

<i>HK\$ million</i>	As at 31 December 2016	As at 31 December 2015	Increase/(Decrease) Amount	%
<b>Financial services</b>	<b>432,579</b>	345,120	87,459	25%
<b>Resources and energy</b>	<b>1,453</b>	446	1,007	226%
<b>Manufacturing</b>	<b>4,242</b>	5,033	(791)	(16%)
<b>Engineering contracting</b>	–	–	–	–
<b>Real estate</b>	–	4,750	(4,750)	(100%)
<b>Others</b>	<b>4,682</b>	5,283	(601)	(11%)
Operation management	<b>100,937</b>	89,804	11,133	12%
Elimination	–	(664)	664	(100%)
<b>Total</b>	<b>543,893</b>	449,772	94,121	21%

## Total ordinary shareholders' funds and perpetual capital securities

As at 31 December 2016, total ordinary shareholders' funds and perpetual capital securities amounted to HK\$490,633 million, a decrease of HK\$2,269 million compared to 31 December 2015. In addition to the redemption of the perpetual capital securities of

US\$750 million (HK\$5,850 million) on 15 April 2016 by the Company, the decrease mainly was attributable to other comprehensive loss, such as exchange differences on translation of financial statements resulted from RMB depreciation in the currency period.