

Financial Review

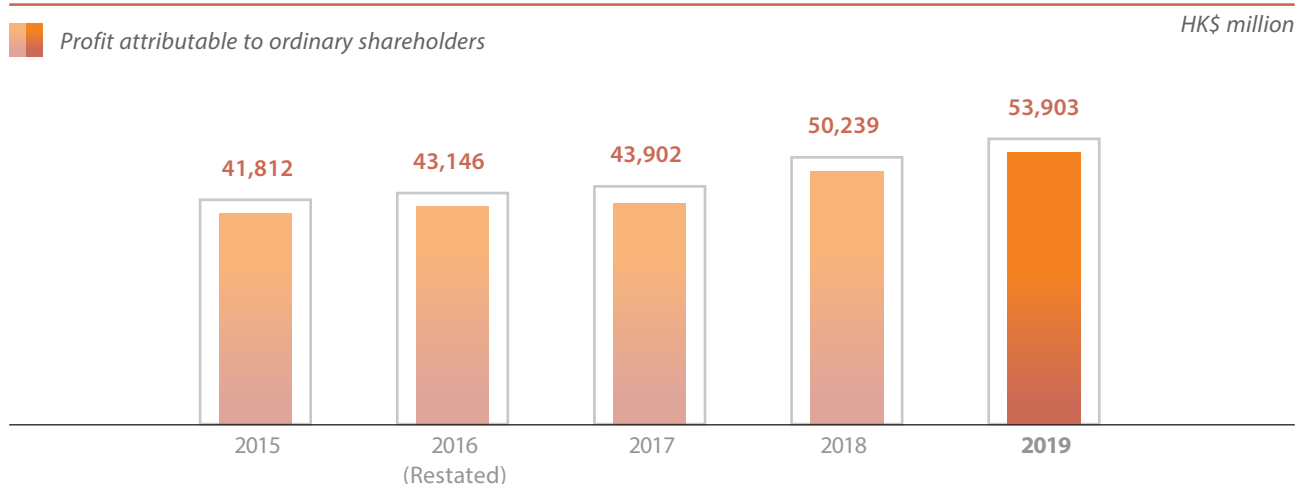
Overview

Profit attributable to ordinary shareholders

In 2019, the Group achieved a net profit attributable to ordinary shareholders of HK\$53,903 million, an increase of HK\$3,664 million, or 7.3%. Excluding the effect of currency translation arising from the depreciation of the RMB exchange rate, the year-on-year increase would be 12%.

The financial services business recorded net profit attributable to ordinary shareholders of HK\$42,845 million, an increase of 2.7%. Excluding the currency translation effect, the corresponding increase would be 6.9%. Our banking business showed rapid growth with a year-on-year increase in net profit attributable to the bank's shareholders of 7.9%. Benefiting from the recovery of the capital market, our securities and insurance businesses recorded significant increases in investment income. Our trust business continued to maintain a leading position in the market.

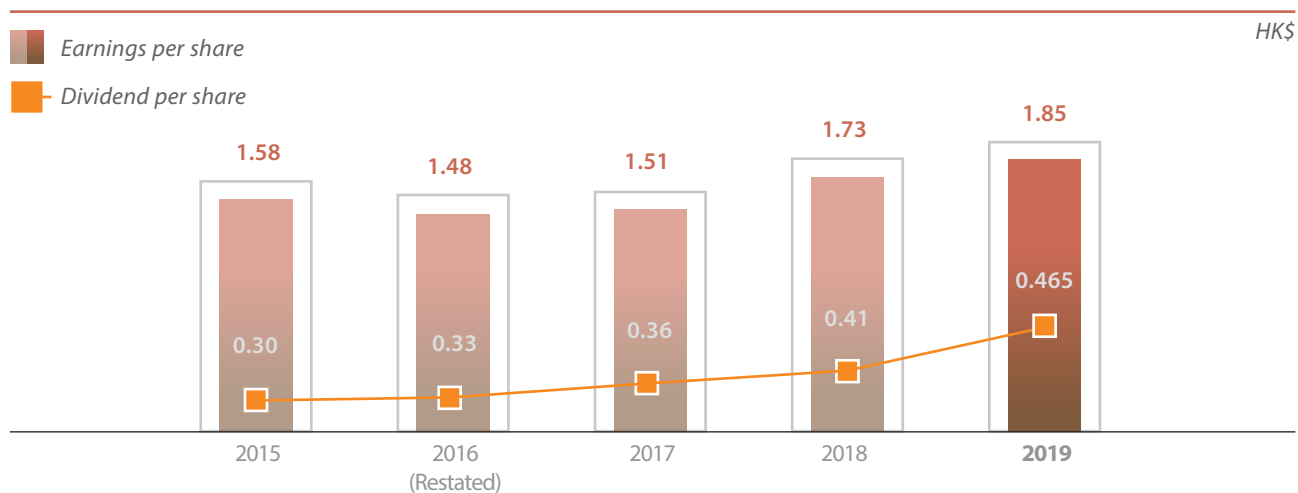
In the non-financial businesses, Sino Iron Project achieved a turn from loss to profit driven by higher average iron ore prices and on-going cost control measures. Our resources and energy business recorded a net profit attributable to ordinary shareholders of HK\$ 3,015 million, with an increase of 43%. The manufacturing business recorded a net profit attributable to ordinary shareholders of HK\$7,553 million, an increase of 26%, mainly due to the gains from the CITIC Dicastal's introduction of strategic investors and the increase in profit of the special steel business significantly driven by its higher production volumes and lower costs. The engineering contracting business recorded a net profit attributable to ordinary shareholders of HK\$1,867 million, a decrease of 9.1%, which was mainly due to a tax gain following the adjustment in the PRC's income tax policy on overseas projects in previous year. In the real estate business, a net profit attributable to ordinary shareholders of HK\$4,347 million was recorded, representing a year-on-year decrease of 19%. Considering the factors such as the performance of the share price of COLI, the company made a provision for impairment of the investment. The profit of other businesses, such as international telecommunications and publishing maintained steady growth during the year.



Earnings per share and dividends

Earnings per share of profit attributable to ordinary shareholders was HK\$1.85 in 2019, an increase of 7.3% from HK\$1.73 in 2018. As at 31 December 2019, 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\$0.285 per share to ordinary shareholders. Together with the interim dividend of HK\$0.18 per share paid in September 2019, the total ordinary dividend will be HK\$0.465 (2018: HK\$0.41 per share). This equates to an aggregate cash distribution of HK\$13,527 million.

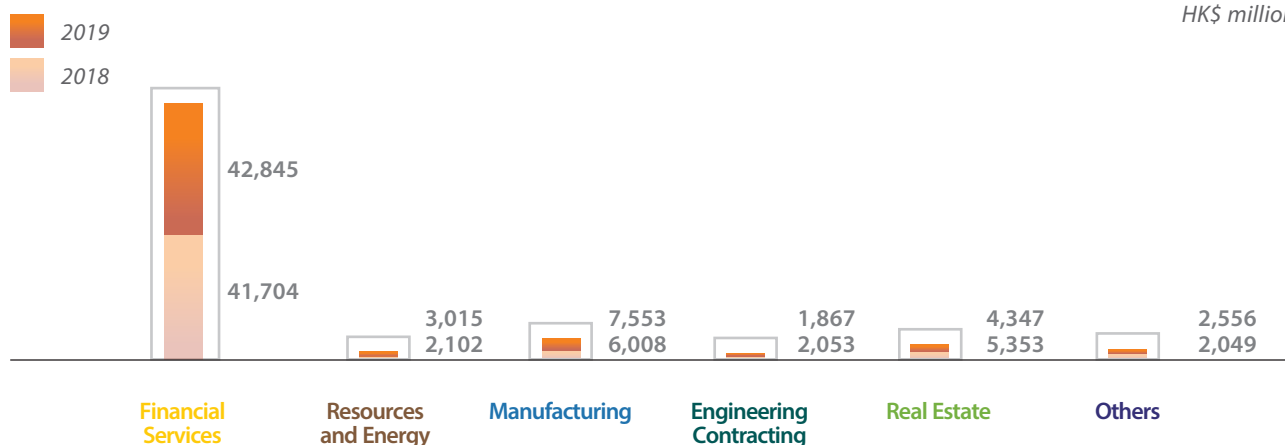


Profit/(loss) and assets by segment

HK\$ million	Profit/(loss) Year ended 31 December		Assets as at 31 December	
	2019	2018	2019	2018
Financial services	63,533	61,695	7,703,980	7,067,565
Resources and energy	3,716	2,972	134,304	131,842
Manufacturing	8,613	6,686	117,240	134,882
Engineering contracting	1,851	2,057	59,030	55,432
Real estate	4,441	5,937	166,404	154,631
Others	4,314	4,097	162,893	151,071
Total	86,468	83,444	8,343,851	7,695,423
Operation management	(8,098)	(7,564)		
Elimination	(182)	(855)		
Net profit attributable to non-controlling interests and holders of perpetual capital securities	24,285	24,786		
Net profit attributable to ordinary shareholders	53,903	50,239		

Net profit/(loss) attributable to ordinary shareholders

HK\$ million



Financial services

In 2019, the financial services business recorded a net profit attributable to ordinary shareholders of HK\$42,845 million, a year-on-year increase of HK\$1,141 million, or 2.7%. Excluding the effect of currency translation, the year-on-year increase was 6.9%.

As CITIC Bank actively expanded customer channels, the scale of deposits and loans recorded steady growth, which contributed to a year-on-year increase of 7.9% to RMB48,015 million in net profit attributable to the bank's shareholders. Moreover, its retail business showed effects of transformation with the proportion of its profit contribution increasing by 4.1 percentage points year-on-year to 34.7%. Besides, the quality of assets was improved with the non-performing loan ratio decreasing by 0.12 percentage points from the beginning of the year to 1.65% and the allowance coverage ratio increasing by 17 percentage points to 175%. Benefiting from the recovery of the capital market and the increase in investment income, CITIC Securities' net profit recorded a year-on-year increase of 30% to about RMB12,229 million and each of its main businesses continued to lead the industry. CITIC-Prudential's expansion into the bancassurance channel promoted the growth of its sales of insurance. And the rapid rise in premium income, the size of invested assets and investment returns contributed to a year-on-year increase in net profit of 63% to RMB1,794 million. As CITIC Trust continued to strengthen its abilities in active management, its net profit recorded a year-on-year increase of 7% to RMB3,593 million, and indicators such as assets under management, net profit, revenue and trust fee income still ranked first in the industry.

Resources and energy

In 2019, the resources and energy business recorded net profit attributable to ordinary shareholders of HK\$3,015 million, with a year-on-year increase of HK\$913 million, or 43%.

The increase in earnings was mainly contributed by the Sino Iron Project. Due to the increase in average iron ore prices and continuous cost control measures, the Sino Iron Project achieved an annual profit for the first time after it commenced operation with both its annual production and sales volume of iron ore concentrate exceeding 20 million wet metric tonnes, which both hit record highs. The average iron ore grade remained above 65%.

Net profit of CITIC Metal Group decreased by 43% on a year-on-year basis to HK\$963 million, which was mainly due to the decline in earnings of the metal trade business caused by significant fluctuations in commodity prices in 2019 and the decrease in profits contributed by the Las Bambas copper mine in Peru, as the mine's product deliveries were frequently interrupted by road blockages. Owing to the drop in crude oil prices and a decrease in sales volume, the crude oil business of CITIC Resources recorded a decrease of 12% in earnings. As for CITIC Pacific Energy, its net profit was decreased by 6.9% to approximately HK\$1,500 million, as its power generation business recorded a decrease in earnings resulting from decreases in both volumes and prices, while Xin Julong coal mine invested recorded a year-on-year increase of 24% in net profits resulting from increases in both sales volume and prices of coal.

Manufacturing

In 2019, the manufacturing business recorded a net profit attributable to ordinary shareholders of HK\$7,553 million, representing a year-on-year increase of HK\$1,545 million, or 26%. Of this, HK\$1.4 billion was after-tax gains on a 57.89% equity transfer of CITIC Dicastal to introduced strategic investors.

In the face of double pressures from prices of steels and iron ore raw materials, CITIC Pacific Special Steel focused on cost control and adjustments to product and customer structures, increasing the sales of special steel by 10% to over 13 million tonnes and its net profit increased to approximately RMB5,400 million, creating its best performance in history. As for CITIC Dicastal, due to its reinforced expansion efforts in the market of mainland China, sales volumes of aluminium wheels and castings both recorded year-on-year increases. Affected by the imposition of tariffs by the United States and the downturn in the automobile market, sales prices of CITIC Dicastal's aluminium wheels and castings decreased by 2% and 7.4%, respectively, leading to a decrease of net profit of 20% to RMB968 million. With new order increasing by 35% during the year, the performance of CITIC Heavy Industries' heavy machinery and auxiliary engineering businesses improved, and its main profit was still contributed by the robotics and intelligent equipment business.

Engineering contracting

The engineering contracting business recorded a net profit attributable to ordinary shareholders of HK\$1,867 million in 2019, a decrease of HK\$186 million, or 9.1%, over 2018.

The net profit of CITIC Construction decreased by 9.4% from 2018 to RMB1,232 million, which was mainly due to a tax gain following the adjustment in the PRC's income tax policy on overseas projects in the previous year. The net profit of CITIC Engineering increased by 2.5% on a year-on-year basis to RMB616 million due to the sustained growth of both its EPC projects and survey and design business.

Real Estate

The real estate business recorded a net profit attributable to ordinary shareholders of HK\$4,347 million in 2019, a year-on-year decrease of HK\$1,006 million, or 19%.

In addition to the shared profit from COLI, the net profit for the current year came mainly from the Chengdu Tianfu New Area project, and Shanghai Lujiazui Harbour City Project. Moreover, considering factors such as the performance of the share price of COLI, the company made a provision for impairment of the investment.

Others

The net profit attributable to ordinary shareholders in 2019 amounted to HK\$2,556 million, an increase of HK\$507 million, or 25%, as compared with the previous year. This was mainly due to profit growth from CITIC Telecom International, CITIC Press and CITIC Offshore Helicopter.

The net profit of CITIC Press increased by 22% to RMB250 million as compared with the previous year. While maintaining its leading position in the traditional publication business in relation to economy and management, academy and culture-related books, CITIC Press maintained rapid growth in the children's book publication business. CITIC Environment recorded a decrease in the settlement of EPC projects and an increase in finance expense, leading to a decrease in operating profit of 33% as compared with the previous year. McDonald's recorded a decrease in net profit as a result of the adoption of new lease standards.

Group Financial Results

Revenue

In 2019, CITIC Limited recorded revenue of HK\$566,497 million, representing a year-on-year increase of HK\$33,212 million, or 6.2%. Excluding the effect of currency translation due to the depreciation of the RMB exchange rate, the year-on-year increase would have been 9.3%.

The financial services business recorded revenue of HK\$222,316 million, representing a year-on-year increase of 9.5%. Excluding the effect of currency translation, the year-on-year increase would have been 14%. In addition to the stable growth of CITIC Bank's asset size and the net interest margin, the bank card and agency businesses also rapidly developed with an increase in net interest income and non-interest income of 13% and 15%, respectively. And the proportion of non-interest income was continually increasing.

The resources and energy business recorded revenue of HK\$94,951 million, representing a year-on-year increase of HK\$16,229 million, or 21%. Benefiting from the increase in prices of commodities (including iron ore and niobium) and active expansion of sales channels, revenue for CITIC Metal Group and the Sino Iron Project increased by 34% and 15% as compared with last year, respectively. Revenue of CITIC Pacific Energy and CITIC Resources both recorded a year-on-year decrease respectively due to declines in the volume and prices of the power generation and crude oil businesses.

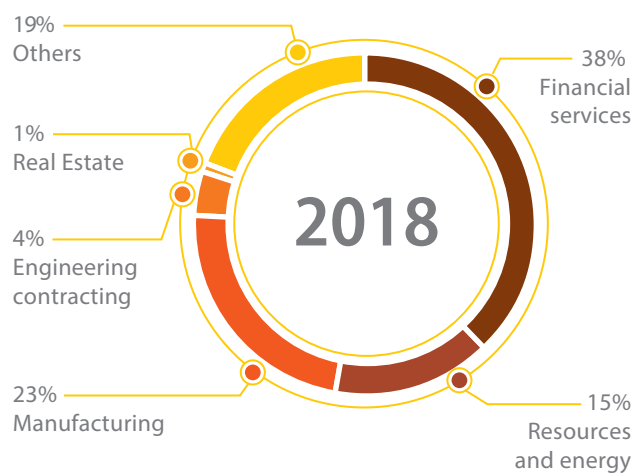
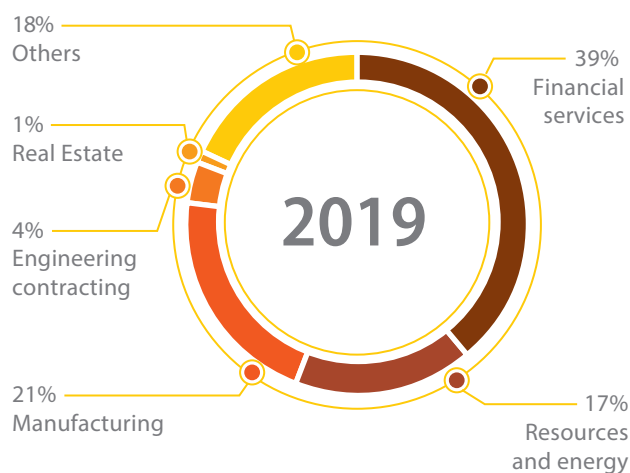
The manufacturing business reported revenue of HK\$119,328 million, representing a year-on-year decrease of HK\$2,611 million or 2.1%. Excluding the effect of currency translation, the year-on-year increase would have been 1.9%. As it intensified efforts to explore potential production capacities, CITIC Pacific Special Steel recorded an increase in sales and revenue. While revenue of CITIC Dicastal decreased by 6.8% on a year-on-year basis due to a decline in product prices, the sales volume of its aluminium wheels and castings obtained growth instead, and its aluminium wheels have remained the world's No.1 in terms of production and sales volume for 11 consecutive years.

The engineering contracting business reported revenue of HK\$23,373 million, representing a year-on-year increase of HK\$3,673 million, or 19%. CITIC Construction and CITIC Engineering both grew rapidly in terms of their EPC business. CITIC Construction recorded a year-on-year increase in revenue of 26%, and its domestic business has accounted for over 45%. CITIC Engineering recorded a year-on-year increase in revenue of 19%, and its EPC projects and survey and design business achieved a growth rate of 21% and 15%, respectively.

The real estate business reported revenue of HK\$5,943 million, representing a year-on-year decrease of HK\$3,025 million, or 34%, mainly due to the Kadooria project owned by CITIC Pacific Properties entering into the last period of sales and the decrease in settlement of CITIC Coast New Town project in Shantou.

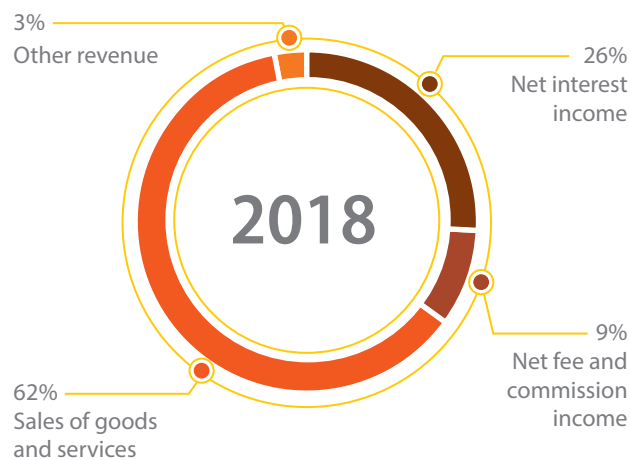
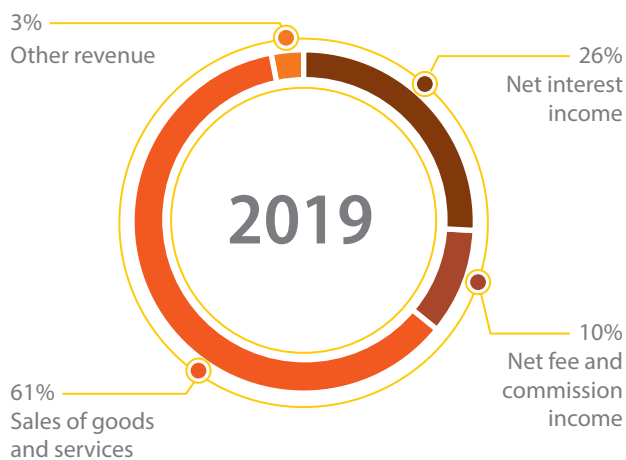
Revenue from other businesses amounted to HK\$100,546 million, which was basically the same as last year. Revenue from the McDonald's business increased as the number of McDonald's outlets in mainland China and Hong Kong increased. Revenue of CITIC Press continued to maintain rapid growth. Revenue of CITIC Environment and Dah Chong Hong decreased by 28% and 2.4% respectively influenced by decreases in settlement of EPC projects and sales of consumer goods respectively.

HK\$ million	Year ended 31 December		Increase/(Decrease)		
	2019	2018	Amount	%	% (excluding the effect of currency translation)
Financial services	222,316	202,949	19,367	9.5%	14%
Resources and energy	94,951	78,722	16,229	21%	21%
Manufacturing	119,328	121,939	(2,611)	(2.1%)	1.9%
Engineering contracting	23,373	19,700	3,673	19%	24%
Real Estate	5,943	8,968	(3,025)	(34%)	(31%)
Others	100,546	100,920	(374)	(0.4%)	0.2%



By nature

HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2019	2018	Amount	%
Net interest income	147,788	135,889	11,899	8.8%
Net fee and commission income	58,317	50,393	7,924	16%
Sales of goods and services	344,076	330,288	13,788	4.2%
– Sales of goods	293,731	281,911	11,820	4.2%
– Revenue from construction contracts	22,853	19,906	2,947	15%
– Revenue from other services	27,492	28,471	(979)	(3.4%)
Other revenue	16,316	16,715	(399)	(2.4%)



Note: CITIC Bank has reclassified the instalment income of credit card from fee income to interest income since 2019, and the financial indicators relating to net interest and net fee and commission income have been restated.

Expected credit losses and other impairment losses

In 2019, expected credit losses and other impairment losses of HK\$95,746 million were recorded, an increase of 27% from the year before. CITIC Bank accounted for HK\$87,869 million of these losses, including HK\$78,244 million expected credited losses in its loans and advances to customers.

Net finance charges

The finance costs of the Group in 2019 amounted to HK\$12,703 million, a year-on-year increase of HK\$409 million, or 3.3%, mainly due to the implementation of new lease standards which caused the increase in interest expenses related to lease liabilities of HK\$684 million.

In 2019, the finance income of the Group amounted to HK\$2,264 million, a year-on-year decrease of HK\$465 million, or 17%, mainly due to the decrease in interest income from bank deposits.

Income tax

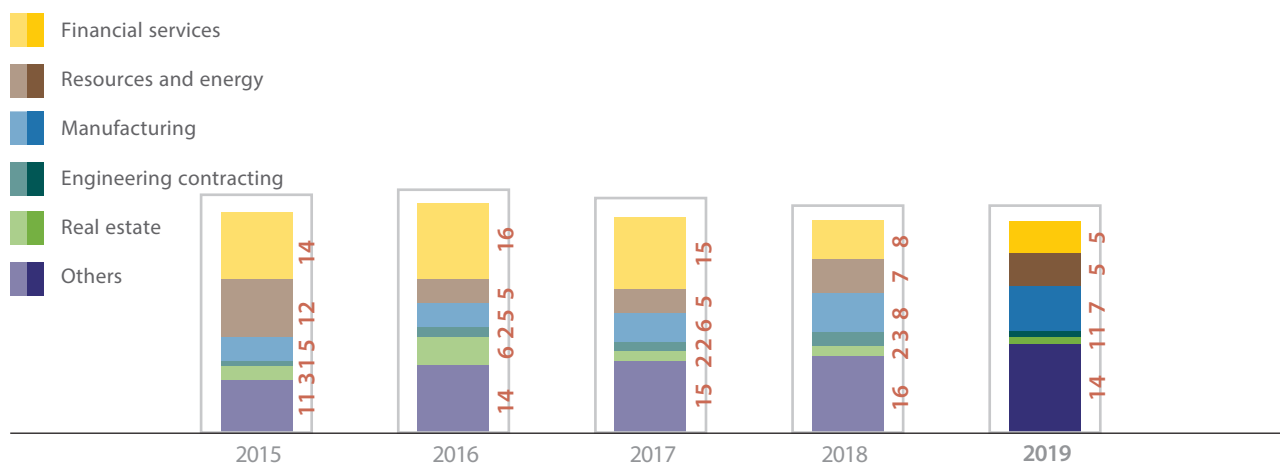
In 2019, income tax of the Group was HK\$17,827 million, a decrease of HK\$1,117 million as compared with last year, mainly due to the increase in tax-free income from CITIC Bank and other subsidiaries.

Group Cash Flows

HK\$ million	CITIC Limited Year ended 31 December				CITIC Bank Year ended 31 December			
	2019	2018	Increase/ (Decrease)	%	2019	2018	Increase/ (Decrease)	%
Net cash generated from operating activities	160,082	151,899	8,183	5.4%	133,039	121,123	11,916	9.8%
Net cash used in investing activities	(296,511)	(177,691)	(118,820)	(67%)	(287,831)	(171,147)	(116,684)	(68%)
Including: Proceeds from disposal and redemption of financial investments	2,239,189	1,691,875	547,314	32%	2,207,127	1,652,604	554,523	34%
Payments for purchase of financial investments	(2,519,759)	(1,845,989)	(673,770)	(36%)	(2,491,588)	(1,817,692)	(673,896)	(37%)
Net cash generated from financing activities	84,080	79,014	5,066	6.4%	114,397	87,652	26,745	31%
Including: Proceeds from new bank and other loans and new debt instruments issued	788,417	1,229,775	(441,358)	(36%)	666,815	1,091,664	(424,849)	(39%)
Repayment of bank and other loans and debt instruments issued	(685,251)	(1,088,334)	403,083	37%	(553,670)	(965,078)	411,408	43%
Interest paid on bank and other loans and debt instruments issued	(37,043)	(38,103)	1,060	2.8%	(25,965)	(25,850)	(115)	(0.4%)
Dividends paid to ordinary shareholders	(12,799)	(11,637)	(1,162)	(10%)	(14,845)	(17,042)	2,197	13%
Dividends/distribution paid to non-controlling interests/holders of perpetual capital securities	(8,369)	(9,738)	1,369	14%	-	-		
Net (decrease)/increase in cash and cash equivalents	(52,349)	53,222	(105,571)	(198%)	(40,395)	37,628	(78,023)	(207%)
Cash and cash equivalents at 1 January	522,808	491,363	31,445	6.4%	429,136	404,248	24,888	6.2%
Effect of exchange rate changes	(7,421)	(21,777)	14,356	66%	(6,450)	(12,740)	6,290	49%
Cash and cash equivalents at 31 December	463,038	522,808	(59,770)	(11%)	382,291	429,136	(46,845)	(11%)

Capital Expenditure

HK\$ billion



HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2019	2018	Amount	%
Financial services	4,975	7,651	(2,676)	(35%)
Resources and energy	4,593	7,001	(2,408)	(34%)
Manufacturing	7,180	7,832	(652)	(8.3%)
Engineering contracting	1,221	2,952	(1,731)	(59%)
Real estate	842	2,318	(1,476)	(64%)
Others	13,507	16,048	(2,541)	(16%)
Total	32,318	43,802	(11,484)	(26%)

Capital Commitments

As at 31 December 2019, the contracted capital commitments of the Group amounted to approximately HK\$33,183 million. Details are disclosed in note 47(f) to the financial statements.

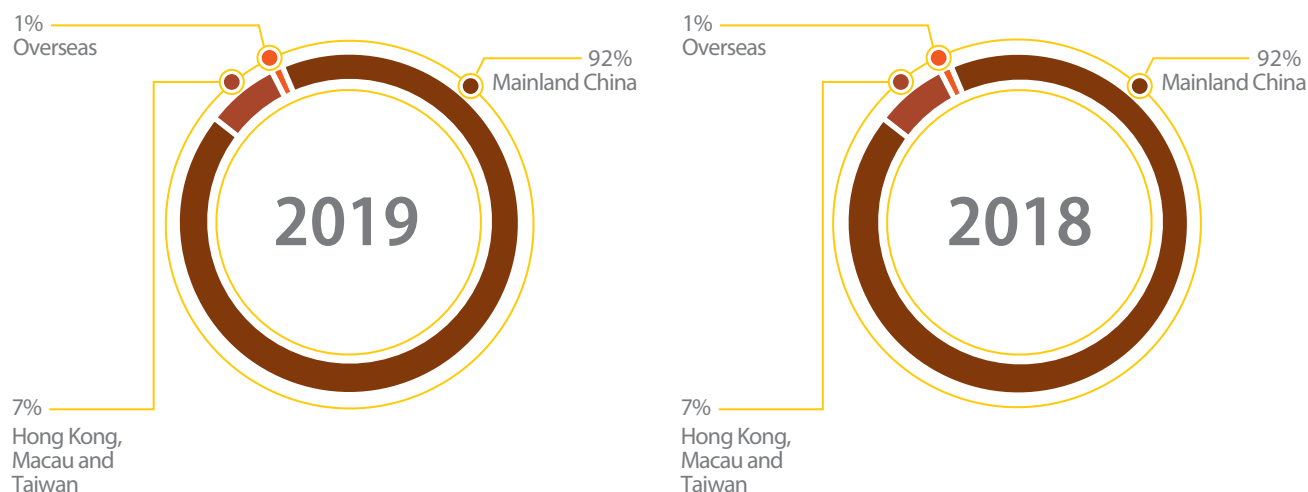
Group Financial Position

<i>HK\$ million</i>	As at 31 December 2019	As at 31 December 2018	Increase/(Decrease) Amount	%
Total assets	8,289,924	7,660,713	629,211	8.2%
Loans and advances to customers and other parties	4,366,639	4,024,401	342,238	8.5%
Investments in financial assets	2,153,729	1,884,427	269,302	14%
Cash and deposits	740,434	832,968	(92,534)	(11%)
Placement with banks and non-bank financial institutions	226,686	200,030	26,656	13%
Trade and other receivables	167,427	111,057	56,370	51%
Fixed assets	150,075	189,647	(39,572)	(21%)
Total liabilities	7,395,433	6,850,053	545,380	8.0%
Deposits from customers	4,541,841	4,159,924	381,917	9.2%
Deposits from banks and non-bank financial institutions	1,061,380	888,966	172,414	19%
Debt instruments issued	823,964	745,031	78,933	11%
Borrowing from central banks	268,256	327,629	(59,373)	(18%)
Bank and other loans	151,312	156,678	(5,366)	(3.4%)
Trade and other payables	148,908	171,093	(22,185)	(13%)
Total ordinary shareholders' funds	591,526	558,545	32,981	5.9%

Total assets

Total assets increased from HK\$7,660,713 million as at 31 December 2018 to HK\$8,289,924 million as at 31 December 2019, mainly attributable to an increase in loans and advances to customers and other parties as well as Investments in financial assets.

By geography



Loans and advances to customers and other parties

As at 31 December 2019, the loans and advances to customers and other parties of the Group were HK\$4,366,639 million, an increase of HK\$342,238 million or 8.5% compared with 31 December 2018. The proportion of loans and advances to customers and other parties to total assets was 52.67%, an increase of 0.14 percentage point compared with 31 December 2018.

<i>HK\$ million</i>	As at 31 December 2019	As at 31 December 2018	Increase/(decrease) Amount	%
Loans and advances to customers and other parties at amortised cost				
Corporate loans	2,201,477	2,160,645	40,832	1.9%
Discounted bills	7,995	169,204	(161,209)	(95%)
Personal loans	1,927,346	1,694,236	233,110	14%
Accrued interest	11,388	10,016	1,372	14%
Total loans and advances to customers and other parties at amortised cost	4,148,206	4,034,101	114,105	2.8%
Impairment allowances	(134,001)	(119,857)	(14,144)	(12%)
Carrying amount of loans and advances to customers and other parties at amortised cost	4,014,205	3,914,244	99,961	2.6%
Loans and advances to customers and other parties at fair value through profit or loss				
Personal loans	7,719	–	7,719	–
Loans and advances to customers and other parties at fair value through other comprehensive income				
Corporate loans	1,029	156	873	560%
Discounted bills	343,686	110,001	233,685	212%
Carrying amount of loans and advances to customers and other parties measured at fair value through other comprehensive income	344,715	110,157	234,558	213%
Net loans and advances to customers and other parties	4,366,639	4,024,401	342,238	8.5%

Deposits from customers

As at 31 December 2019, deposits from customers of the financial institutions under the Group were HK\$4,541,841 million, an increase of HK\$381,917 million or 9.2% compared with 31 December 2018. The proportion of deposits from customers to total liabilities was 61.41%, an increase of 0.69 percentage point compared with 31 December 2018.

<i>HK\$ million</i>	As at 31 December 2019	As at 31 December 2018	Increase/(decrease) Amount	%
Corporate deposits				
Time deposits	1,653,630	1,577,529	76,101	4.8%
Demand deposits	1,862,591	1,725,834	136,757	7.9%
Subtotal	3,516,221	3,303,363	212,858	6.4%
Personal deposits				
Time deposits	672,759	513,066	159,693	31%
Demand deposits	307,582	300,114	7,468	2.5%
Subtotal	980,341	813,180	167,161	21%
Outward remittance and remittance payables	7,227	5,504	1,723	31%
Accrued interest	38,052	37,877	175	0.5%
Total	4,541,841	4,159,924	381,917	9.2%

Bank and other loans

<i>HK\$ million</i>	As at 31 December 2019	As at 31 December 2018	Increase/(Decrease) Amount	%
Financial services	3,927	5,898	(1,971)	(33%)
Resources and energy	39,055	40,885	(1,830)	(4.5%)
Manufacturing	20,070	31,923	(11,853)	(37%)
Engineering contracting	3,021	2,657	364	14%
Real estate	11,190	9,402	1,788	19%
Others	30,817	34,825	(4,008)	(12%)
Operation management	83,783	67,778	16,005	24%
Elimination	(41,185)	(37,778)	(3,407)	(9.0%)
Sub-total	150,678	155,590	(4,912)	(3.2%)
Accrued interest	634	1,088	(454)	(42%)
Total	151,312	156,678	(5,366)	(3.4%)

Debt instruments issued

<i>HK\$ million</i>	As at	As at	Increase/(Decrease)	
	31 December 2019	31 December 2018	Amount	%
Financial services	725,589	628,169	97,420	16%
Resources and energy	670	–	670	–
Manufacturing	141	144	(3)	(2.1%)
Engineering contracting	–	–	–	–
Real estate	–	–	–	–
Others	3,845	3,849	(4)	(0.1%)
Operation management	115,644	106,561	9,083	8.5%
Elimination	(27,860)	–	(27,860)	–
Sub-total	818,029	738,723	79,306	11%
Accrued interest	5,935	6,308	(373)	(5.9%)
Total	823,964	745,031	78,933	11%

Total ordinary shareholders' funds

As at 31 December 2019, total ordinary shareholders' funds of the Group amounted to HK\$591,526 million, an increase of HK\$32,981 million as compared with 31 December 2018. This was mainly attributable to the growth in net profits.