CITIC Limited
中國中信股份有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00267)

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

For the first six months of 2017, CITIC Limited recorded a profit attributable to ordinary shareholders of HK$32.3 billion, 60% more than the same period in 2016. This increase was mainly driven by improved earnings from our property business and the booking of HK$2.7 billion from Guoan Football Club bringing in a new investor. A revaluation gain on an investment also contributed to this profit increase. The board recommends an interim dividend of HK$0.11 per share payable to shareholders, 10% more than the same period last year.

In this letter, I'd first like to review the performance, results and activities of our businesses in the first half of the year, and then update you on what is happening at the company's Sino Iron mine in Australia.

Business Performance

The financial services business contributed HK$21.3 billion in the first half of 2017, 3% less than the same period last year. Excluding the Renminbi to HK Dollar conversion impact, contribution from this sector grew 2%. Profit at CITIC Bank increased slightly compared with the first half of 2016. The bank's continuing effort to improve its income mix led to a rise in net non-interest income, which for the first six months of this year contributed 35% of the bank's revenue. However, interest income was lower for the period due to the narrowing of net interest margin. CITIC Trust continued to outperform its peers. CITIC-Prudential recorded significant growth in net profit while CITIC Securities' profit declined.

Our manufacturing business experienced profit growth of 9%, mainly due to the better performance of our special steel business. In the first six months of the year, profit at our steel plants rose 33% as we sold a greater proportion of high-end products and the overall sales prices of our products increased.

In the resources and energy sector, CITIC Metal's profit rose sharply due mainly to the contribution from its 15%-held Las Bambas copper mine in Peru, which began commercial operation in July 2016. Profit at CITIC Resources improved in the period with better performance of its crude oil business due to the increase in oil selling prices. However, the overall sector incurred a loss. This is because beginning in the second half of 2016 as the Sino Iron magnetite iron ore mine entered commercial operation, the associated costs needed to be recorded in the income statement. As a result, losses in the first half of 2017 were higher compared with the same period in 2016.

Profit from our property business increased significantly as we recognised profit from the sale of two office buildings within our Shanghai Lujiazui project, when they were delivered to Industrial and Commercial Bank of China and China Life Insurance, respectively. The solid earnings also included our share of profits from our 10% interest in China Overseas Land and Investment.

Just last month, we completed the transaction whereby CITIC became the largest shareholder of a partnership to operate and manage McDonald's business in mainland China and Hong Kong. This partnership is McDonald's largest franchisee outside of the United States. We are very excited to be working with this iconic brand, as well as CITIC Capital and Carlyle, to drive growth and innovation at McDonald's and to offer Chinese consumers quality food and service. More importantly, McDonald's extensive network and consumer base will provide CITIC with invaluable insights into the consumer economy, which we will leverage to the benefit of our existing businesses.

Also in July, through the CITIC Agriculture Fund, we proposed to acquire a portion of Dow AgroSciences' corn seed business in Brazil, which has about 18% of the Brazilian corn seed market. While CITIC is already the largest shareholder in China's biggest crop seed company, Longping Hi-Tech, agriculture is a sector that we are focused on developing further.

Sino Iron Update

Ten years ago, we began constructing the Sino Iron project in the Pilbara region of Western Australia. It has been a long journey with challenges on many fronts. We have built from scratch a fully integrated, next generation pit-to-port mining, processing and export operation, and have been shipping quality iron ore concentrate since late 2013. It is exciting to see the mine, extensive processing and associated infrastructure — including the first greenfield port in the Pilbara in more than 40 years — emerge from the red earth. A new magnetite iron ore industry has been born for this famous mining region.

The economic benefits Sino Iron has created are already flowing strongly into the Australian community. We now directly employ more than 1,500 people, along with another 1,100 full-time contract workers. Directly and indirectly, we have created over 10,000 jobs.

The road we've travelled has not been a smooth one, to say the least. I have always been very frank with our shareholders and other stakeholders about CITIC's efforts to construct Sino Iron and the unexpected issues we've encountered. In my letter to you in 2013, I wrote about the challenges we faced and the lessons learned on the path to first production. These included the many difficulties associated with developing a greenfield project the size and scale of Sino Iron in a foreign land. We experienced labour shortages as well as high equipment and construction material costs. All the while, we've had to deal with a litigious tenement holder.

Our ongoing legal disputes with Mineralogy have attracted much attention. We've tried not to let the litigation distract us from constructing the project, improving its operating efficiency and raising its overall reliability. It's no secret that producing magnetite product is more expensive than direct shipping ore because it involves extensive processing. Therefore, driving down costs in all aspects of our operation is very important. In this regard, we have a continuous programme in place that has already reduced the overall costs of production. This effort will not end, and we expect to achieve further cost reductions as we implement new initiatives. We have set goals, stayed focused on priorities and persevered, recognising the long-term value Sino Iron will bring to our company and shareholders. The result has been good as we exported eleven million tonnes of quality iron ore concentrate in 2016. Fifteen million tonnes is our target for 2017, and we remain on track to achieve it.

However, Sino Iron's future could still be affected by factors that are beyond our control.

The first of these is the price of iron ore. As an inherently higher cost producer, the profitability of Sino Iron is particularly susceptible to price movements. Sustained low iron ore prices could make the project uneconomic.

Secondly, we have unique challenges with Mineralogy, to which we paid US$415 million for the right to mine magnetite ore and continue to pay an ongoing royalty (known as "Royalty A") on every tonne of unprocessed ore taken.

When we embarked on this journey, we expected to have the support and cooperation of Mineralogy. Unfortunately, this has not been the case, and it is our firm view that Mineralogy's uncooperative and adversarial approach poses a threat to the future of Sino Iron.

As a magnetite project, Sino Iron requires vast areas for the storage of waste and tailings generated by mining and processing activities. For several years now, we have been seeking Mineralogy's assistance to obtain the necessary government approvals required for the whole life of the project. However, Mineralogy's refusal to cooperate means that we will run out of space for waste and tailings storage in the near future. This will severely constrain operations and impact Sino Iron's sustainability.

Another issue relates to whether CITIC is required to make certain ongoing royalty payments (known as "Royalty B") on the iron ore concentrate produced and, if so, the amount we have to pay.

In June, a two-week hearing on the Royalty B matter was held in the Supreme Court of Western Australia. The Royalty B dispute arose because the iron ore annual benchmark pricing system, which was central to the agreed formula for the calculation of Royalty B, ceased in 2010. The benchmark price was negotiated annually, for many decades, between major iron ore producers and steel mills. It took into account factors such as anticipated supply and demand, investment needs, and a fair return to both buyers and sellers. Since the cessation of this pricing system, it has not been possible to identify a substitute.

CITIC argued that any royalty determined by the court to be payable should be fair and reasonable and should reflect the original intention of the parties at the time of the negotiation — that Royalty B should be based on the principle of profit sharing.

An adverse development in any one, or a combination of, the above matters could jeopardise Sino Iron's viability and, in the worst case, lead to suspension of our operations. We are doing everything within our power to avoid this undesirable outcome. However, the potential risk is real.

There's a misperception that companies with a state background or ownership are not commercially driven and our resources are assumed to be unlimited. This is not true. Chinese companies all have individual characteristics. I can assure you that CITIC is very much its own corporate commercial entity, with its own approach and very clear commercial objectives and constraints.

While CITIC has its roots as one of China's largest state-owned enterprises, we are a listed company accountable to an increasingly diverse shareholder base. Any investment we make has to be economically viable and provide our shareholders with a return on their investment. For Sino Iron to be sustainable, it must be able to demonstrate long-term commercial viability now. This means that we not only need to operate efficiently but, most importantly, operate profitably.

Conclusion

The board is pleased with our first half results and confident that the company is moving in the right direction. As we continue to grow our existing businesses and make them more efficient, we are also focused on exploring new investment opportunities. I would like to thank all of our employees for their hard work, and I express my appreciation to all shareholders, lenders and the board for their ongoing support.

Chang Zhenming
Chairman
Hong Kong, 29 August 2017