



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 year 2017, CITIC Limited recorded a profit attributable to ordinary shareholders of HK\$43.9 billion compared with HK\$43.1 billion in 2016. A non-cash impairment charge of HK\$7.2 billion on the Sino Iron project in Western Australia negatively impacted the company's profit.

The board recommends a final dividend payment of HK\$0.25 per share, giving shareholders a total dividend of HK\$0.36 per share for the year 2017, 9% more than the year 2016.

Review of Business Results

Our financial services segment registered HK\$39.5 billion in profit, 3% more than 2016. CITIC Bank's profit rose 2% compared with 2016. Over the last year, the bank focused on asset and liability management. The interbank business was reduced while more resources were allocated to the bank's traditional lending business. During the year, the bank further enhanced its fintech offerings with innovative products and services, such as its Eco-Financial Cloud platform and a blockchain-based letter of credit system. CITIC-Prudential's profit increased 50%, driven by growth in premium income. CITIC Trust and CITIC Securities also registered double digit profit growth in 2017.

In the non-financial sector, profit from our manufacturing business grew substantially as a result of continued strong performance at CITIC Pacific Special Steel and CITIC Dicastal. In 2017, our special steel business achieved a record profit of HK\$2.1 billion, a 9% year-on-year increase. During the year, the quality of our special steel products continued to improve, with 47% of total production now being in the high-end category and increasingly chosen for import substitution. In October, we completed the acquisition of Qingdao Special Steel which took our total annual production capacity to 12 million tonnes. This also expanded our special steel manufacturing footprint in Northern China, enabling us to serve our customers there more efficiently.

CITIC Dicastal's profit grew 17% to RMB1.0 billion due to strong demand for both its aluminium wheels and casting products. Dicastal's success rests on its ability to continually improve its operating efficiency through technology innovation. Its smart production system significantly reduced manufacturing costs and improved productivity. CITIC Heavy Industries recorded a profit in 2017, driven by the strong performance of its specialty robotics business and improvement in its heavy machinery business.

Higher commodity prices benefited our energy and resources businesses. At CITIC Resources profit rose 43%, driven by rising oil prices and management's continued focus on cost control and productivity enhancement. CITIC Metal's earnings grew 70%, compared with 2016.

However, the whole energy and resources division recorded a loss, attributable to the Sino Iron magnetite project, which was subject to a non-cash impairment charge.

Operationally, we are making good progress at Sino Iron, lowering costs and improving project efficiencies. This is critical as Sino Iron is an inherently higher-cost producer, compared to traditional "dig-it-up and ship-it-out" hematite mines. In 2017, Sino Iron shipped just under 17 million wet metric tonnes of magnetite concentrate to steel mills in China – a significant increase over the previous 12 months.

Our high-grade product continues to gain favour due to its low-impurity, exothermic characteristics. This is evident in the higher premium our product commands in the market. Sino Iron is now the largest seaborne supplier of magnetite concentrate into China. We expect demand to grow as national efforts to curb carbon emissions and reduce pollution take hold.

However, as I wrote in my mid-2017 letter to you, we face other issues that are threatening Sino Iron's future viability. In late January, we commenced an appeal against the Supreme Court of Western Australia's judgment concerning Royalty Component B. The financial implications of the judgment as it currently stands, along with the need for cooperation to secure vital life-of-mine approvals and land access, are serious. The risks to the long-term future of the project remain real.

The performance of our engineering and contracting business division remained stable. CITIC Construction continued to make inroads securing projects, both domestically and internationally, particularly along the Belt and Road corridor.

Our property business recorded a substantial increase in profit as we delivered two office buildings at our Shanghai Lujiazui project. The full year contribution from our 10% interest in China Overseas Land and Investment was another contributing factor to the profit increase.

On the consumer side, our team has been working closely with McDonald's and our partners to drive growth and innovation throughout the mainland China and Hong Kong business. Digital and personalised dining experiences have been rolled out to 70% of the restaurants in mainland China, and McDonald's delivery service continued to grow, setting new records.

In December 2017, the CITIC Agriculture Fund completed its acquisition of Dow AgroSciences' corn seed business in Brazil. Also through this fund, together with Beijing Capital Agribusiness Group we invested in the world's leading duck breeder – Cherry Valley Farms in the UK. These investments are small today but we see significant growth opportunities for them in coming years.

Road to Transformation

At our annual management off-site strategy meeting early this year, the focus was on re-energising the company to make it ever more relevant in today's fast-changing world. Our businesses are highly aligned with China's development, and our conglomerate model has been successful in enabling growth over the decades. It continues to serve us well. However, I know that the conglomerate model is not necessarily championed by investors, and it is true that our share price has been underperforming the market. One criticism is that conglomerates have been slow to embrace new economy businesses and technological change, and another challenge can be institutionalising synergies among businesses. I believe that technology is the key to address these issues and to take us into a new era of growth.

A major advantage of our diversified business model is that we have an impressive data bank with a huge amount of information on customer and economic trends. In August 2016, I told you that we had formed a task force to find ways to better connect our data points in order to unleash the potential of the CITIC ecosystem. I am glad to report that we have made material progress towards connecting and digitising our company. Our blueprint calls for achieving synergies within the CITIC family first, then inviting business partners for deeper collaboration and, ultimately, driving cost efficiencies, profitability, new projects and business growth.

Let me tell you what we have done and where we are heading.

We have launched an extensive cloud network for our 120,000+ employees, our businesses and our partners. At the grass roots level, by connecting all our staff we are encouraging an open and collaborative culture. More importantly, we are pooling resources and sharing intelligence, which will enable us to mine our data to identify new growth opportunities, while reducing costs and inefficiency. This is about more than a channel for knowledge-sharing; we are building our own open platform within CITIC to cultivate creativity and innovations from the ground up that will take our business to the next level. In the future, we will expand the user base to include our partners, further advancing this platform's applications and expanding its scale.

We have set up an online community to enable hundreds of millions of our customers to interact directly with the range of our businesses, initially including banking, brokerage, wealth management, insurance, publishing, retail, and fast-food. The appeal of this community is to have one unified account and login, therefore, offering a one-stop shopping experience for customers. Users can each indicate their personal interests, and the alliance can then offer them tailored services. This is an open platform that welcomes outside partners.

We have also built an ecosystem around warehousing, financing, and commodities trading. Traditionally, it was difficult for bulk commodity dealers to pledge their inventory to get working capital, because verifying collateral was onerous and expensive. This occasionally led to the insolvency of commodity dealers and even carried a certain amount of systemic risk. As such, the volume of warehouse financing in China has remained low, while the demand is huge.

Having identified this barrier to large scale warehouse financing, we brought our metal and financial teams together, including CITIC Bank, CITIC Securities, and Tianjin Precious Metal Exchange, to establish a new credit system. We now offer intelligent warehousing for dealers and risk managers to easily trace the stock in real time. Each and every transaction is stored on distributed ledger, in which the crypto-receipt cannot be altered or duplicated. Blockchain enables transparency and trust between commodity dealers and lenders.

These are just examples of the many projects we're working on. Our ultimate goal is to achieve digital transformation. This will take time. It is no easy task, especially for a company as large and broad as CITIC. We need to move beyond our customary way of thinking and ensure we are at the forefront of this new era. I am confident that as long as we remain focused, stay disciplined and maintain an inquisitive mind, success is well within reach.

In Closing

China is transitioning into a modern technology-enabled society, and so is CITIC. We have evolved and developed "CITIC characteristics" and ways that shape the actions, behaviours and ideas among our employees. One key characteristic is our innovative spirit. This spirit will be critical to our continued survival and success.

CITIC Limited is committed to good governance and to considering and serving the interests of all shareholders, employees, customers, suppliers and society at large. Thank you again for your faith, support, and attention throughout the year.

Chang Zhenming

Chairman

Hong Kong, 28 March 2018