



# **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,

The year 2018 marked the 40th anniversary of the beginning of Chinese economic liberalisation. Even closer to home, in 2019 we will be celebrating the 40th anniversary of the establishment of CITIC Group, the majority shareholder of CITIC Limited. To provide context, most of our assets today trace their heritage to CITIC Group: Its history is very much our history. So in the spirit of renewal, I would like in this letter to reflect on the path we've taken and provide a framework for placing our performance not only in an annual, but also a historical and future, context.

First, let me share with you CITIC Limited's performance in the past year. In 2018, CITIC Limited recorded a profit attributable to ordinary shareholders of HK\$50.2 billion, our highest ever and 14% more than 2017. Financial services registered a 6% profit growth to HK\$41.7 billion while profit from our non-financial businesses rose 43% from 2017 to HK\$17.6 billion, with the largest increase from the resources and energy area as well as our manufacturing business.

Three years ago, we set ourselves a task to better balance the growth between our financial and non-financial arms. I am pleased to report that for 2018, the contribution from the non-financial segment reached 30%, and we are working to raise that number further. At the end of last year, we had HK\$31.6 billion in cash and available facilities, positioning us well for our future development. You can find a more detailed account of our 2018 results and a comprehensive review of our business performance in the annual report.

The board recommends a final dividend payment of HK\$0.26 per share, giving shareholders a total dividend of HK\$0.41 per share for the year, 14% more than last year.

### **THE FOUNDATIONS OF OUR GROWTH**

The world is a very different place from what it was four decades ago. China today is the second largest economy in the world, global commerce is more interconnected, and digital technologies permeate nearly every aspect of our lives. CITIC too has grown in transformative ways. But how did our story begin? What were the foundations for our evolution?

We had very entrepreneurial and modest beginnings, not all that different from any other start up. In 1979, when Mr Rong Yiren founded China International Trust and Investment Corporation (now known as CITIC Group) at the direction of Deng Xiaoping, the goal was to tap international capital markets to catalyse China's modernisation. But save for the determination to succeed and insights into China and its opportunities, the fact is that CITIC had neither meaningful experience running a market-driven enterprise nor substantial cash to bankroll its ambitions. Operating out of just a few guest rooms at the Peace Guest House with limited funds, the company had to more or less just "run with it." That is why, from an early age, innovation and a can-do spirit were part of our DNA.

CITIC has achieved many firsts over the decades. Among them, in 1982, CITIC became the first Chinese corporate to participate in the overseas bond markets with an issue in Japan. Then in 1993, CITIC was again the first Chinese corporate to issue a Yankee bond in the US capital markets. We were also the first to invest in commercial property with Beijing's CITIC Building, affectionately referred to as the Chocolate Building for its distinct colour. Then in 1986, we began what would become our successful long-term partnership with Alcoa when we acquired a 10% interest in the Portland Aluminium Smelter in Australia, making us the first Chinese enterprise to complete a direct overseas investment.

Despite its modest start, CITIC became a key force in the modern investment and venture ecosystem connecting China and the world. It also became a partner of choice for both domestic and foreign companies. In 1987, CITIC invested in Hong Kong's flagship airline, Cathay Pacific, then went on to co-develop with the Swire Group a number of property projects across Hong Kong. Most recently, we partnered with McDonald's alongside Carlyle to operate and expand the brand's network throughout mainland China, Hong Kong and Macau.

There are many other such examples. Through disciplined investing, a global outlook and an emphasis on partnership, CITIC evolved from a company with only RMB200 million as registered capital to CITIC Limited's total assets of close to RMB7 trillion.

This is not just history – it is the story of our lives. I see this most clearly when I reflect on my own journey. Thirty-six years ago, I started with CITIC as a fresh-faced graduate, one of around 200 employees. Every few years since, as the vignettes I just shared show, we have stepped out a little further onto the world stage. Today, CITIC Limited has businesses ranging from financial services to manufacturing, resources and energy, and consumer goods and services with over 200,000 employees worldwide.

## **THE PILLARS OF OUR MODEL AS A 21ST CENTURY CONGLOMERATE**

Ten years ago in 2009 when I became chairman of Hong Kong listed CITIC Pacific, a subsidiary of CITIC Group, the company was just emerging from the shadow of its foreign exchange currency crisis. In 2014, we made a bold move to acquire substantially all of the assets of CITIC Group and transform it into today's CITIC Limited. This historic and innovative transaction essentially thrust CITIC forward as a public company. I have been honoured to lead this now much larger and more global business.

It was no small task to integrate a large portfolio of previously non-listed assets. But through hard work and determination, we have matured into a 21st century conglomerate built upon four pillars: building and operating businesses, value generation, good governance, and a culture that cultivates both entrepreneurialism and continuity. These are the basics that, despite our scale, have enabled us to remain a dynamic platform for innovation. To that end, I want to speak frankly about how we grew into each and what challenges we overcame.

**1) We have proven our capacity to build and operate businesses at home and abroad – and have the battle scars to prove it.**

Through both trial and error and effective management, we have created a portfolio of remarkable businesses. Some, like CITIC Dicastal, our aluminium wheel business, were built from scratch and have since grown into world leaders. Today, Dicastal is the largest supplier of its type, with manufacturing facilities in the US and Europe supplying top automakers around the globe. Others, like CITIC Pacific Special Steel, stand tall above crowded domestic markets. We are now the largest dedicated special steel manufacturer in China with over 13 million tonnes of annual capacity and high quality products prized by users, both at home and abroad.

A uniquely representative case is our Sino Iron mine in Australia. We transformed this once greenfield location into one of the world's largest magnetite operations with mining, processing and dedicated infrastructure facilities that includes a power station, a desalination plant and a large scale port. I have often been asked whether, after inheriting Sino Iron in 2009, I considered exiting the business, particularly given the uncertainty caused by the global financial crisis around that time. Although we faced many challenges, I believe that it was the right decision to press forward.

Today, there is growing demand from steel mills in China and beyond for our high-grade magnetite concentrate product, which is low in impurities and is a premium feedstock ideal for low-emission steel making. In 2018 we achieved record production, shipping more than 19 million tonnes of concentrate, cementing our position as the single largest seaborne supplier of magnetite concentrate to China. Moreover, we are creating a new downstream processing industry with major economic benefits for Australia.

While we celebrate our achievements, the reality is that we still have real hurdles to overcome to put Sino Iron on a long-term sustainable footing.

**2) We have internalised a fundamental focus on value generation.**

Beyond building and operating businesses, it is equally important that we generate value by identifying and making shrewd investments, by bringing in partners to further our existing businesses and by knowing when and how best to divest.

We work hard to optimise our exposure to secular trends, developing positions within the industries we expect to grow alongside the economy over a long horizon. Sometimes, that means we also need to incubate ventures in promising sectors, as we are doing today through our CITIC Agriculture platform. Other times, we opt for partnerships. Among our wholly-owned subsidiaries, we have many good businesses, and we are open to bringing in partners who can add value and further their development.

Value generation also means we divest to return shareholder value. One of the best examples of this is CITIC Securities. Over many years, we have built the company into China's largest and most successful securities business and listed it in both the mainland China and Hong Kong markets. At the right point, we substantially reduced our interest to our present minority stake. Likewise, the recent restructuring and listing of our special steel assets will enable capital markets to unlock value from this business for the benefit of all shareholders.

### **3) We have embraced international standards of governance.**

Since the founding of CITIC, our basic tenets have been respect for the rule of law, open-mindedness, and continuous learning. In today's globalised era, each of these principles has become even more important to our sustainability as a public company. Consistency not only in policy but also in practice is paramount to meeting the expectations of our investors, the regulators, employees and all stakeholders in the communities where we operate. That is why we maintain open engagement, transparency and full disclosure across all our companies. It is how we have shaped CITIC Limited into a company that is resilient, innovative and well-governed.

### **4) We have promoted both innovation and continuity.**

To me, the defining elements of the CITIC experience are the continuity of our traditions, our belief in the importance of innovation and our perseverance even during periods of great change. These characteristics descend from the direction set by Mr Rong and each of my predecessors, and reflect the culture in which I was trained and studied closely as I moved up CITIC's ranks.

Neither innovation nor traditions can be sustained without people. The real test of our staying power as a 21st century business will be whether smart and talented people continue to choose us as a place to work and pursue their careers. How can CITIC become a destination and remain a home, as it has been for me, for the young, the bold and the ambitious? How can we equip the people already among us to carry on our traditions while still embracing the new? These are big questions, and they demand our constant attention. We strive every day to answer them through the decisions we make. They guide us in how we develop, manage and reward our people. And they will continue to shape our culture through the generations, regardless of function, geography or leadership.

## **THE OPPORTUNITIES AHEAD**

We have built a formidable business. But let there be no doubt about the critical context to our historical growth: the rise and modernisation of China. Being proud of an organisation's past is not enough to ensure its future prosperity. As China's economy transitions to mature growth, we need to recalibrate our business model to capture the new opportunities in our changing business environment. Just as business acumen, active experimentation and engagement with free markets defined our early development, I believe that so too will we be defined in this age by how effectively we embrace digital transformation.

We have already made good progress. I wrote about a number of initial successes in my last annual letter to you. Our future hinges on unlocking the next stage in our growth by applying analytics to and mining insights from the enormous bank of information we have accumulated over decades of operating across diverse sectors. My vision also extends to CITIC playing a leading role in the digitalisation and upgrading of industries in China.

This will not be easy. It can only be achieved by applying the same fundamentals as today: a global mindset, outlook and ambition, as well as a commitment to operating efficiency, strong cash flow and, for you our shareholders, healthy dividends.

CITIC's future will be bigger than any single individual, company or period. But that promise also depends upon our continued institutionalisation of leadership, strategy, governance and culture.

As we prepare for the decades ahead, I am optimistic. We are better prepared than ever for global competition, and we have honed our skills and strengthened our resolve to succeed. We have learned to thrive amidst uncertainty, better navigate complexity, and focus on managing what we can, not what we cannot. Our North Star is as true today as when Deng Xiaoping first inscribed it on a plaque at the fifth anniversary of CITIC in 1984: "Dare to innovate and contribute more."

Thank you for your steadfast support as we continue daring to innovate and contribute more.

**Chang Zhenming**

*Chairman*

Hong Kong, 29 March 2019