



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 2020 was both extraordinary and challenging. The world struggled with new complexities as global norms were upended by the COVID-19 pandemic and resulting economic downturn. In China, however, effective pandemic management measures contributed to a swift recovery and the rapid resumption of domestic industrial, social and economic activities.

As such, CITIC Limited realised profit attributable to ordinary shareholders of HK\$56.6 billion in 2020, an increase of 5% year-on-year that was driven by 45% growth in profit in the second half. Our financial services business, the largest contributor to the bottom line, recorded an increase of 1.6% in net profit for the year, following the implementation of policies to support the real economy and an improvement in asset quality. Our non-financial business recorded profit growth of 15% by adjusting operational strategies in response to market challenges, rapidly resuming production and fully leveraging beneficial policies.

The board recommends a final dividend payment of HK\$0.388 per share, giving shareholders a total dividend of HK\$0.488 per share for the year 2020, 5% more than in 2019. As at the end of 2020, CITIC Limited had approximately HK\$50.68 billion in cash and available facilities.

To better prepare for continued change and uncertainty, China is accelerating its dual-circulation economic strategy, which prioritises the development of a dominant domestic economy supplemented by international trade. In alignment with China's 14th Five-Year Plan, and to adapt to the increasingly complex operating environment, CITIC has outlined an updated development strategy focused on comprehensive financial services, advanced intelligent manufacturing, advanced materials, new consumption and new-type urbanisation. These five segments will be matrixed with five platforms: the financial, industrial, capital investment, capital operations and strategic investment platforms. We will leverage integration, collaboration and expansion to build a lasting enterprise and solidify the CITIC brand's positioning as a leader in the fields in which we operate.

OPTIMISING ASSET ALLOCATION, FOCUSING ON FIVE BUSINESS SEGMENTS

To better capitalise on the advantages of operating both financial and non-financial businesses, we have optimised our business portfolio into five strategic segments for enhanced alignment and a sharpened focus.

Our comprehensive financial services segment aims to become a leader in integration, guided by the principle of “one CITIC, one account” and the objective to provide seamless services across banking, securities, trust and insurance. This segment recorded a profit of HK\$43.5 billion, an increase of 1.6% from 2019 as each business managed unique challenges. CITIC Bank’s profit was up 2%, while CITIC-Prudential Life outperformed the market with earnings growth of 40%. CITIC Securities and CITIC Trust maintained their market leading positions. To facilitate deeper connectivity and collaboration, we will establish a financial holding company, enabling us to better leverage information and technology, effectively prevent and control risks and provide more robust financial solutions for the real economy. This, in turn, will strengthen each of our individual businesses. We will continue to provide full support to CITIC Bank as it strives to become a premier joint-stock bank driven by technology. Our security and trust companies will also be positioned for continued industry leadership, while our insurance business will benefit from additional resources as a new driver of profit growth.

In 2020, the advanced intelligent manufacturing segment realised a net profit of HK\$450 million, a decrease of 60% year-on-year, primarily due to our reduced shareholding in CITIC Dicastal as well as a loss recorded at the company’s KSM production facility in Germany. During the year, CITIC Dicastal focused on expanding its domestic business to supplement international sales, which helped increase sales of aluminium wheels and castings by 17% and 19%, respectively, in the second half of 2020. Profit at CITIC Heavy Industries increased 67%, with solid performance in its heavy machinery business. New orders reached RMB10 billion, up by 48% year-on-year, a historical record. Looking ahead, we are positioning the businesses in this segment to become pioneers in smart manufacturing, able to deliver operational breakthroughs in critical technologies, such as specialty robotics, industrial software and microchips. Today, we are a leader in the production of lightweight auto parts, but we aim to build on our solid market position and transition from single components to modular and integrated manufacturing. As vehicle technology advances, we will explore opportunities in new energy vehicle manufacturing and the development of smart car solutions. Our special-purpose robots are currently used in firefighting and we will endeavour to extend these capabilities in support of emergency rescue, mining and underwater operations.

In 2020, the advanced materials segment realised a net profit of HK\$10.1 billion, an increase of 28% year-on-year, driven by favourable commodity prices and the solid performance of CITIC Pacific Special Steel. Profit at our Sino Iron project grew substantially to HK\$3.4 billion, reflecting the strong price of iron ore as well as enhanced operating efficiency and cost management. Profit at CITIC Metal increased by 80%. At CITIC Pacific Special Steel, the rapid adjustment of operating strategies led to an increase in sales volume and profit growth of 12%. In our specialty raw materials businesses, we will continue to leverage CITIC’s investment in mineral resources such as iron ore, copper and aluminium to further develop our commodity trading operations and contribute to the stability of domestic supply chains. In special new materials, we will promote integration and broaden our competitive strengths with continued innovation in key technologies. This segment, together with advanced intelligent manufacturing, will establish advantageous vertical industrial value chains.

Driven by the principle of putting customers first, our new consumption segment will embrace opportunities catalysed by the increase in domestic digital and lifestyle consumption. In 2020, this segment realised a net profit of HK\$890 million, a decline of 21% year-on-year, mainly reflecting our divestment of 22% of the McDonald's China business as well as the operational impact of the pandemic. Our publishing business, CITIC Press, achieved 12% growth in profit by quickly deploying resources to strengthen online channels. Our telecommunications business remained steady and generated stable cash flow, while the agricultural seeds business delivered a turnaround profit, realising the value of this investment. As part of our development strategy, we will continue to explore opportunities created by the transition to 5G technology, trends in the digital, cultural, lifestyle and agricultural industries. Big data, collected through our many consumer touchpoints, will empower us to serve our customers holistically and facilitate further business expansion.

In the new-type urbanisation segment, we are positioning ourselves as builders of smart cities. In 2020, this segment realised a profit of HK\$9.4 billion, an increase of 17% over 2019, when an impairment was made on our equity investment in China Overseas Land and Investment. Our property business achieved 50% growth in profit while earnings from the engineering and construction business were heavily affected by the pandemic, resulting in a 10% decline in profit. However, project activities in China resumed quickly, and in the second half of 2020 profit increased by 7% against the same period in 2019. Other urban operations businesses such as water treatment and aviation services also made positive contributions. In the years ahead, we will continue to implement China's regional development strategies by focusing on the Beijing and Tianjin municipalities, Hebei province, the Guangdong-Hong Kong-Macau Greater Bay Area, the Yangtze River Delta, and the Chengdu-Chongqing economic circle, providing smart-city solutions that integrate engineering contracting, wastewater treatment, and property development and operation. We will also invest additional resources in the healthcare industry to promote longer, healthier living.

Our five business segments create a virtuous circle. The production-oriented segments, advanced intelligent manufacturing and advanced materials, serve to stabilise the industrial value chain and strengthen our reputation as a manufacturer. In our consumer-focused segments, new consumption and new-type urbanisation, we will establish CITIC as a trusted consumer brand that is data-driven and service-oriented. At the same time, our comprehensive financial services segment supports the other four segments with financial resources and a wide, well-established customer base.

BUILDING FIVE PLATFORMS, VITALISING OUR BUSINESSES

In addition to the five business segments, CITIC will also establish five platforms – financial, industrial, capital investment, capital operations and strategic investment – embracing integration, collaboration and expansion to drive future development.

The financial platform will be founded on the formation of a financial holding company, which will unleash the advantage of our full range of operating licences and enhance the competitiveness of each individual business through a centralised structure, effective risk management and stronger governance.

The industrial platform will focus on building our existing businesses into leaders of their respective fields. Specifically, we will integrate and develop synergies among the four non-financial segments to maintain the stability of domestic supply, build vertical value chains and solidify CITIC's reputational leadership.

A capital investment platform with a focus on industrial development and transformation will be established to make strategic investments that promote industrial enhancement and improve our long-term competitiveness, serving the company's overall strategy. This platform aims to incubate businesses in strategic areas to drive industrial integration, transformation and upgrading, ultimately increasing our scale and influence.

Our capital operations platform will help us increase capital efficiency and maximise capital returns. Through the careful management of equity investment, funds and value management, as well as project investment and divestment, this platform will drive strong capital flows, value creation, preservation and appreciation.

Finally, our strategic investment platform will leverage the synergy between our financial and non-financial segments, enabling us to cultivate capabilities in core industries, incubate start-ups and facilitate advancements in critical technologies.

Together, these five platforms will help us maintain a clear focus on our major businesses, solidify leading positions in the industries in which we operate and ensure the highest level of corporate governance and management efficiency. Emphasising integration, collaboration and expansion as strategic drivers, the five segments and platforms create an innovative management matrix to vitalise our business with broadened management perspective and higher operational efficiency.

MAKING A DIFFERENCE IN OUR COMMUNITIES

In addition to delivering business performance, CITIC also invests in the well-being of our communities. In 2020, we made concrete contributions to the fight against the COVID-19 pandemic, poverty alleviation, environmental protection and social development.

During the height of the pandemic, CITIC leveraged the capabilities of its diverse businesses to offer rapid and substantial support, which included designing Huoshenshan Hospital within 60 hours, donating over RMB100 million and providing financing of more than RMB800 billion to those in need.

The year 2020 was particularly decisive in China's efforts to alleviate poverty. CITIC provided financial support and other resources to partner districts and counties with the aim of assisting the development of specialised industries and enabling our communities to support themselves. During the year, we also invested in nine special projects that included drone applications for agriculture, sericulture workshops and new production lines for red rice in terraced paddy fields in poverty-stricken areas, such as Yuanyang County, Pingbian County, and Qianjiang District.

As we believe that caring for the environment is critical for our future, we continued to develop green management and green finance initiatives during the year. Our non-financial subsidiaries focused their efforts on upgrading operations to be cleaner and more energy

efficient with innovation in production techniques. CITIC is also actively involved in serving society and performing charitable work. We strive to be a responsible corporate citizen and to give back to the communities in which we operate.

ACHIEVING EXCELLENCE AND HIGH-QUALITY DEVELOPMENT

Marking the commencement of the 14th Five-Year Plan, 2021 will be pivotal in CITIC's continued growth and development.

On the one hand, we will continue to optimise our business structure and the allocation of resources by disposing of under-performing assets and nurturing new businesses, particularly in emerging industries. On the other hand, CITIC will continue to focus on becoming a leaner, more efficient and risk-resilient organisation. As a conglomerate operating in both the financial and non-financial industries, CITIC has unique strengths and can unlock vast potential through the development of deep synergies across our many businesses. In this way, we will be greater as a whole than the sum of our parts.

At the same time, digitalisation is reshaping industry development and redefining competitive advantages. CITIC, with its unique business architecture, has accumulated an enormous bank of information over decades of operations in diverse sectors. Technological innovation and application must remain at the heart of our continued development and will be crucial to achieving our objectives. Accordingly, we will optimise the allocation of our technology resources, promote cooperation with external parties, enhance our technology training programmes and continually strengthen our ability to innovate. Ultimately, we must build an adaptable and synergy-generating ecosystem. As a pioneering spirit has always been a part of our DNA, I fully believe that our combined efforts will enable us to deliver against our full potential.

As CITIC enters a new phase of development, we will focus on enhancing our capabilities, cultivating the unique opportunities afforded to a conglomerate of our size and diversity, ever mindful of risk management and compliance. By adhering to our strategy and operating at the highest level of excellence, we will continue to create value for our shareholders.

Zhu Hexin

Chairman

Beijing, 30 March 2021