

# Announcement of Results for the Year Ended 31 December 2006

# CITIC Pacific Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

## Chairman's Letter to Shareholders

I am pleased to report that CITIC Pacific achieved excellent results in 2006. Net profit for the year was a historic high of HK\$8,272 million, a 107% increase compared with 2005. Earnings per share were HK\$3.77. In light of this good performance, our sufficient financial resources, and at the same time considering the need to further expand our businesses in the future, the board has recommended paying a special dividend of HK\$0.30 per share in addition to a final dividend of HK\$0.80 per share. Including the regular (HK\$0.30) and special (HK\$0.30) dividend per share already paid at the interim, total dividend per share for the year is HK\$1.70.

All of CITIC Pacific's businesses performed well in 2006, in particular the three core businesses, which made outstanding profit contribution. The Special Steel business recorded an impressive growth in profit of 65% compared to last year. Benefiting from the sale of Festival Walk, profit contribution from our property business rose 84% compared with last year. Also, in accordance with accounting standards, fair value gains on revaluation of the Group's investment properties were HK\$1.08 billion. Infrastructure businesses such as Aviation, Power Generation, Tunnels, and Environmental businesses all recorded growth in recurrent earnings. These businesses provide stable and recurring cash flows to the Group. The restructuring of the aviation industry in 2006 provided CITIC Pacific's shareholders a satisfactory return on investment. Cash realized from this transaction further strengthened the Group's financial position for future new investments.

## Special Steel

CITIC Pacific's special steel business had excellent performance in 2006. Through both organic growth and acquisitions, a plan implemented a few years ago, the Group has expanded its operations rapidly. In just a few years, CITIC Pacific's production capacity has reached seven million tonnes, commanding a leading position in both product quantity and quality producing a variety of products such as bearing steel, gear steel, spring steel, and other alloy steel. Today, our special steel business has become a highlight in the Group's profit growth and is expected to continue its rapid development in the foreseeable future.

Jiangyin Xingcheng's new production line, in partnership with Sumitomo Metals of Japan, is near completion, with the steel smelting section of the production line already completed and profitable. The steel rolling section is scheduled to complete and become fully operational in 2007. This production line, equipped with the most advanced technologies of similar types both domestically and internationally, is the foundation for the production of high quality and highly energy efficient special steel products in the future.

Through effective management and integration, the businesses of Hubei Xin Yegang (95%) and Daye Special Steel (56.6%), which the Group acquired in 2004 and 2005, improved greatly with significant increases in profitability. A newly built 900,000 tonne coking plant will be completed and become fully operational in 2007. This plant will not only satisfy demand at Xin Yegang and Daye Special Steel, but it can also supply coke to other sister plants within the Group. This will reduce costs and increase the Group's investment return.

Shijiazhuang Steel Mill officially became a member of the CITIC Pacific group in July 2006. Today, CITIC Pacific has three special steel manufacturing bases that are ideally located in Eastern (Jiangyin Xingcheng), Central (Xin Yegang/Daye Special Steel) and Northern (Shijiazhuang Steel) China. Our plants are positioned to take advantage of the high demand in these three industrial centres. The plants can also utilize the well developed transportation networks nearby to supply products to all regions in China. At the same time, these strategic locations are also beneficial in facilitating product realignment and centralizing purchasing, transportation and sales functions among the plants.

In 2006, the Group's steel plants sold a total of 5.9 million tonnes of special steel, a 60% increase from 2005. Even though prices of raw materials stayed at high levels, profitability of the Group's steel business remained at a satisfactory level. CITIC Pacific is optimistic on the future development of this business. The above mentioned three locations will continue to support each other in the coming year to fully realize synergies, and to further strengthen our leading position in China's special steel industry.

## Iron Ore Mining

As previously reported, in March 2006, CITIC Pacific acquired mining rights to one billion tonnes of magnetite ore, and rights and options to a further five billion tonnes in the Western Pilbara region of Western Australia. Stage One, which includes the right to the first billion tonnes of reserves, received approval from the Australian government in June 2006. It will be capable of producing 12 million tonnes of concentrate annually once operational. Pre-construction design work is underway. We have signed a general construction contract with China Metallurgical Group Corporation ("MCC"). Work on the development of mining, beneficiation plant, pellet plant, desalination plant, power station and material handling system has begun. First shipment of product is expected to be in 2009.

Management and technical teams with Chinese, Australian and international experience have been assembled and will be strengthened step-by-step. The financing framework for the project has been signed, and the bank has undertaken to support the project by providing long-term project finance to shareholders and the project companies. Once completed, this mining project will provide a long-term stable supply of iron ore for the Group's steel plants.

## Property

Property development in mainland China is an important focus in the Group's businesses. We believe that with the rapid development of the Chinese economy and rising living standards, market demand for high quality commercial and residential properties will continue to be strong. From a long-term perspective, fundamentals of the Chinese property market remain positive. CITIC Pacific is confident in the long-term prospects of the property development business in China. We will continue to actively invest and increase our land bank in order to establish a solid foundation for the Group's property development in the long-term.

CITIC Pacific's property development in mainland China is mainly in the Yangtze River Delta area centered around Shanghai, and large scale development projects in the coastal city of Wanning in Hainan Province.

The Shanghai Lu Jiazui Financial District Project will be one of the Group's most important development projects in the coming years. The design for Phase I has been finalized comprising of a top grade hotel and two landmark office towers. Government review of Phase I building scheme is in progress, and foundation work will then begin. Meanwhile, preparation work is underway.

Construction of "CITIC Square" in Ningbo is progressing well and foundation work has been completed. Work has also begun on the Group's projects at Qingpu in Shanghai, Yangzhou, Wuxi and Jiangyin in Jiangsu Province. These development projects will be completed in the coming few years to provide the Group with satisfactory investment returns.

CITIC Pacific's large scale "Shenzhou Peninsula" project, in the city of Wanning in Hainan is progressing well. A master plan for the development of about 2.5 million square metres in gross floor area received government approval. Infrastructure development related to the project has commenced. Design and commercial negotiation for Phase I, which includes four grade A hotels and auxiliary facilities, are in progress. Site work is expected to commence shortly as well as work on a world class golf course and other related facilities.

Our investment properties in Shanghai, CITIC Square and Royal Pavilion, remain well let and are providing the Group with satisfactory returns. The Group now wholly owns CITIC Square, a well-known building in Shanghai after acquiring interests from two minority shareholders.

In 2006, the Hong Kong property market remained active with rentals rising steadily, in particular those of premium properties. As current market rates need to be paid by new tenants and renewals, returns on the Group's overall investment properties will continue to improve. Phase 13 (Chianti) of the Discovery Bay development was completed at the end of 2006 and to date, over half of the units have been sold and delivered. The remaining units will be sold gradually in 2007. The project company has submitted an application to the Government on the development of the next phase. CITIC Pacific's properties in Kowloon Bay and Yuen Long all have re-development potential and we are exploring opportunities and discussing with the Government



regarding the relevant approvals. We believe the re-development of these properties will increase their value and in turn bring better returns for the Group.

## Aviation

The restructuring of the aviation industry in the second half of 2006 resulted in a HK\$2 billion profit for CITIC Pacific, a satisfactory return on investment for our shareholders. At the same time, the Group realized over HK\$5 billion of cash from the transaction, further strengthening our financial position. After the restructuring, CITIC Pacific remains a major shareholder of Cathay Pacific, holding a 17.5% interest.

The business of HACTL performed well with an increase in annual profit.

## Power Generation

Ligang Phase III (2X600MW) passed testing and formally commenced commercial operation in the fourth quarter of 2006. Construction of Ligang Phase IV (2X600MW) is progressing well with commercial operation expected in 2007. As the flagship of CITIC Pacific's power generation business, the Ligang Power Station will have installed capacity of 3,800MW, making it one of the largest coal fired power stations in China.

Zhengzhou Phase III (2X200MW) also passed testing and entered commercial operation at the end of 2006. We anticipate that profit contribution from our power business will increase greatly in 2007. CITIC Pacific will continue to seek new investment opportunities to further expand the power business.

## Civil Infrastructure

The Group's environmental, water projects and tunnels also performed well in 2006. These infrastructure projects provide CITIC Pacific with stable income and cash contribution.

## Marketing and Distribution

The businesses of Dah Chong Hong and Sims performed well with increased market share in Hong Kong motor vehicles sales, while the distribution networks in mainland China improved. Profit from our joint venture with Shiseido increased substantially to reach yet another high.

## Looking to the Future

Looking ahead, we are confident in the future development of the Group. The continuing rapid and healthy growth of the Chinese economy created excellent investment opportunities and a favorable operating environment for us. CITIC Pacific will continue to leverage our expertise and capture business opportunities. We will also focus more on our core businesses such as Steel, Mining, Property in mainland China and infrastructure projects to achieve higher returns for our shareholders.

On behalf of all the directors, I would like to express my sincere thanks to everyone at CITIC Pacific for their hard work, and to our investors, bankers and everyone else for their continuing support.

Let me also take this opportunity to welcome Mr. Chang Zhenming's return to CITIC Pacific's board as a Director, effective August 2006. Mr. Chang resigned from CITIC Pacific in June 2005 as an Executive Director when he was appointed as President of China Construction Bank. Mr. Chang returned to CITIC Group in 2006 as Vice Chairman and President. His return to the board is an important asset to CITIC Pacific. In January 2007, Mr. Yuen Kee Tong resigned as Deputy Managing Director of CITIC Pacific to take on the position of CEO at CITIC 1616 Holdings Limited which is to be listed. I would like to thank Mr. Yuen Kee Tong for his valuable contribution to our company.

Larry Yung Chi Kin

Chairman

Hong Kong, 15 March 2007

## Consolidated Profit and Loss Account

For the year ended 31 December 2006  
in HK\$ million

	Note	2006	2005
<b>Turnover</b>	2	<b>47,049</b>	26,564
<b>Cost of sales</b>		<b>(37,019)</b>	(21,226)
<b>Distribution and selling expenses</b>		<b>(995)</b>	(824)
<b>Other operating expenses</b>		<b>(2,845)</b>	(2,196)
<b>Change in fair value of investment properties</b>		<b>735</b>	520
<b>Profit from consolidated activities</b>	3	<b>6,925</b>	2,838
<b>Share of results of jointly controlled entities associated companies</b>		<b>1,033</b>	327
		<b>1,882</b>	1,984
<b>Profit before net finance charges and taxation</b>		<b>9,840</b>	5,149
<b>Finance charges</b>		<b>(640)</b>	(560)
<b>Finance income</b>		<b>159</b>	53
<b>Net finance charges</b>	4	<b>(481)</b>	(507)
<b>Profit before taxation</b>		<b>9,359</b>	4,642
<b>Taxation</b>	5	<b>(644)</b>	(345)
<b>Profit for the year</b>		<b>8,715</b>	4,297
<b>Attributable to:</b>			
Shareholders of the Company		<b>8,272</b>	3,989
Minority interests		<b>443</b>	308
		<b>8,715</b>	4,297
<b>Dividends</b>	6	<b>(3,731)</b>	(2,412)
<b>Earnings per share for profit attributable to shareholders of the Company during the year</b>	7		
<b>Basic</b>		<b>HK\$3.77</b>	HK\$1.82
<b>Diluted</b>		<b>HK\$3.77</b>	HK\$1.82

## Consolidated Balance Sheet

As at 31 December 2006  
in HK\$ million

	Note	2006	2005
<b>Non-current assets</b>			
Fixed Assets			
– Property, plant and equipment		<b>10,593</b>	10,063
– Investment properties		<b>9,604</b>	8,645
– Properties under development		<b>2,712</b>	1,849
– Leasehold land		<b>1,712</b>	1,618
		<b>24,621</b>	22,175
Jointly controlled entities		<b>15,051</b>	10,583
Associated companies		<b>16,506</b>	23,300
Other financial assets		<b>2,819</b>	929
Intangible assets		<b>2,986</b>	603
Deferred tax assets		<b>103</b>	158
Derivative financial instruments		<b>117</b>	168
		<b>62,203</b>	57,916
<b>Current assets</b>			
Properties held for sale		<b>705</b>	1,055
Inventories		<b>3,920</b>	3,427
Debtors, accounts receivable, deposits and prepayments	8	<b>6,153</b>	5,691
Cash and bank deposits		<b>3,679</b>	2,579
		<b>14,457</b>	12,752
<b>Current liabilities</b>			
Bank loans, other loans and overdrafts			
– secured		<b>285</b>	183
– unsecured		<b>1,404</b>	2,223
Creditors, accounts payable, deposits and accruals	8	<b>8,030</b>	6,628
Provision for taxation		<b>319</b>	199
		<b>10,038</b>	9,233
<b>Net current assets</b>		<b>4,419</b>	3,519
<b>Total assets less current liabilities</b>		<b>66,622</b>	61,435
<b>Non-current liabilities</b>			
Long term borrowings		<b>16,604</b>	18,812
Deferred tax liabilities		<b>1,954</b>	1,387
Derivative financial instruments		<b>55</b>	40
		<b>18,613</b>	20,239
<b>Net assets</b>		<b>48,009</b>	41,196
<b>Equity</b>			
Share capital		<b>878</b>	877
Reserves		<b>43,217</b>	36,472
Proposed dividend		<b>2,415</b>	1,754
Equity attributable to shareholders of the Company		<b>46,510</b>	39,103
Minority interests		<b>1,499</b>	2,093
<b>Total equity</b>		<b>48,009</b>	41,196

## Notes to the Accounts

### 1 Significant accounting policies

The accounting policies used in preparation of the Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2005 except for the adoption of certain new standards and amendments of Hong Kong Financial Reporting Standards which were issued and became effective during the year ended 31 December 2006.

The adoption of such standards or amendments does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the year ended 31 December 2006.

The Group has not early adopted the amendments, new standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants that are not yet effective for the year ended 31 December 2006, and is in the process of assessing their impact on future accounting periods.

### 2 Turnover and segment information

An analysis of the Group's turnover and profit from consolidated activities and share of results of jointly controlled entities and associated companies by business are as follows:

Year ended 31 December 2006	Turnover HK\$ million	Share of results of jointly controlled entities		Share of results of associated companies HK\$ million	Group total HK\$ million	Segment allocations HK\$ million	Segment Profit HK\$ million
		Profit from consolidated activities HK\$ million	Profit from jointly controlled entities HK\$ million				
Special steel	15,278	1,809	119	-	1,928	-	1,928
Property	8,320	1,942	-	276	2,218	84	2,302
Aviation	7,731	2,236	(1)	1,037	3,272	-	3,272
Power generation	2	(151)	425	(7)	267	-	267
Civil infrastructure	717	501	120	55	676	-	676
Marketing & distribution	13,222	437	36	(23)	450	(84)	366
Communications	1,731	78	215	105	398	-	398
Others	48	(93)	119	-	26	-	26
Change in fair value of investment properties	-	735	-	439	1,174	-	1,174
Less: General and administration expenses	-	(569)	-	-	(569)	-	(569)
	<b>47,049</b>	<b>6,925</b>	<b>1,033</b>	<b>1,882</b>	<b>9,840</b>	<b>-</b>	<b>9,840</b>
Net finance charges							(481)
Taxation							(644)
Profit for the year							<b>8,715</b>

Year ended 31 December 2005	Turnover HK\$ million	Share of results of jointly controlled entities		Share of results of associated companies HK\$ million	Group total HK\$ million	Segment allocations HK\$ million	Segment Profit HK\$ million
		Profit from consolidated activities HK\$ million	Profit from jointly controlled entities HK\$ million				
Special steel	12,160	1,083	-	-	1,083	-	1,083
Property	1,409	675	-	495	1,170	78	1,248
Aviation	-	-	44	1,006	1,050	-	1,050
Power generation	155	121	245	(2)	364	-	364
Civil infrastructure	637	427	114	50	591	-	591
Marketing & distribution	10,984	377	28	(8)	397	(78)	319
Communications	1,219	4	(140)	110	(26)	-	(26)
Others	-	-	36	-	36	-	36
Change in fair value of investment properties	-	520	-	333	853	-	853
Less: General and administration expenses	-	(369)	-	-	(369)	-	(369)
	<b>26,564</b>	<b>2,838</b>	<b>327</b>	<b>1,984</b>	<b>5,149</b>	<b>-</b>	<b>5,149</b>
Net finance charges							(507)
Taxation							(345)
Profit for the year							<b>4,297</b>

An analysis of the Group's turnover by geographical area is as follows:

	2006	2005
<i>in HK\$ million</i>		
Hong Kong	<b>23,106</b>	8,756
Mainland China	<b>22,278</b>	16,452
Overseas	<b>1,665</b>	1,356
	<b>47,049</b>	26,564

### 3 Profit from consolidated activities

The profit from consolidated activities is arrived at after crediting and charging:

	2006	2005
<i>in HK\$ million</i>		
<b>Crediting</b>		
Dividend income from other financial assets	<b>9</b>	155
Change in fair value of investment properties	<b>735</b>	520
Profit on disposal of subsidiary companies and associated companies	<b>3,507</b>	362
<b>Charging</b>		
Cost of inventories sold	<b>23,458</b>	19,261
Depreciation of property, plant and equipment	<b>1,034</b>	774
Amortisation of leasehold land	<b>47</b>	38
Impairment losses on other financial assets	<b>105</b>	19
Impairment losses on fixed assets	<b>120</b>	-
Impairment losses on jointly controlled entities	<b>152</b>	-
Impairment loss on properties held for sale	<b>-</b>	77

### 4 Net finance charges

<i>in HK\$ million</i>	2006	2005
<b>Finance charges</b>		
Interest expense	<b>913</b>	707
Exchange gain	<b>(5)</b>	(10)
Other finance charges	<b>63</b>	36
Amount capitalised	<b>(323)</b>	(111)
Fair value gains on financial instruments	<b>(8)</b>	(62)
	<b>640</b>	560
<b>Finance income</b>		
Interest income	<b>(159)</b>	(53)
	<b>481</b>	507

### 5 Taxation

Hong Kong profits tax has been calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

<i>in HK\$ million</i>	2006	2005
<b>Current income tax</b>		
Hong Kong profits tax	<b>188</b>	165
Overseas taxation	<b>309</b>	105
<b>Deferred taxation</b>		
Change in fair value of investment properties	<b>123</b>	70
Origination and reversal of other temporary difference	<b>24</b>	5
	<b>644</b>	345

### 6 Dividends

<i>in HK\$ million</i>	2006	2005
<b>Interim</b>		
2006 Interim dividend paid: HK\$0.30 (2005: HK\$0.30) per share	<b>658</b>	658
<b>2006 Special dividend paid: HK\$0.30 (2005: Nil) per share</b>	<b>658</b>	-
<b>Final</b>		
2006 Final dividend proposed: HK\$0.80 (2005: HK\$0.80) per share	<b>1,756</b>	1,754
<b>2006 Special dividend proposed: HK\$0.30 (2005: Nil) per share</b>	<b>659</b>	-

### 7 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$8,272 million (2005: HK\$3,989 million).

The basic earnings per share is based on the weighted average number of 2,193,921,689 shares in issue during the year (2005: 2,192,532,243 shares in issue). The diluted earnings per share is based on 2,198,341,170 shares (2005: 2,195,068,005 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 4,419,481 shares (2005: 2,535,762 shares) deemed to be issued at no consideration if all outstanding options had been exercised.

### 8.1 Debtors, accounts receivable, deposits and prepayments

<i>in HK\$ million</i>	2006	2005
<b>Trade debtors</b>		
– Within 1 year	<b>2,150</b>	1,649
– Over 1 year	<b>24</b>	45
	<b>2,174</b>	1,694
Accounts receivable, deposits and prepayments	<b>3,979</b>	3,997
	<b>6,153</b>	5,691

Note:

- Trade debtors are net of provision and the ageing is classified based on invoice date.
- The Group has a defined credit policy for the respective business units.
- The carrying amounts of debtors, accounts receivables, deposits and prepayments approximates their fair value.
- Accounts receivables, deposits and prepayments included derivative financial assets of HK\$14 million (2005: HK\$12 million).

### 8.2 Creditors, accounts payable, deposits and accruals

<i>in HK\$ million</i>	2006	2005
<b>Trade creditors</b>		
– Within 1 year	<b>2,553</b>	2,464
– Over 1 year	<b>314</b>	214
	<b>2,867</b>	2,678
Accounts payable, deposits and accruals	<b>5,163</b>	3,950
	<b>8,030</b>	6,628

Note:

- Accounts payable, deposits and accruals included derivative financial liabilities of HK\$9 million (2005: HK\$17 million).
- The carrying amounts of creditors, accounts payable, deposits and accruals approximates their fair value.

## Financial Review and Analysis

### Group Debt and Liquidity

The financial position of the Group as at 31 December 2006, as compared to 31 December 2005, is summarised as follows:

HK\$ million	2006	2005
Total debt	<b>18,293</b>	21,218
Cash and bank deposits	<b>3,679</b>	2,579
Net debt	<b>14,614</b>	18,639
Leverage (Net debt to Total capital)	<b>24%</b>	32%

The original denomination of the Group's borrowings as well as cash and deposit balances by currencies as at 31 December 2006 is summarised as follows:

Denomination HK\$ million equivalent	HK\$	US\$	Renminbi	Yen	Other	Total
Total debt in original currency	8,147	5,348	3,684	1,016	98	<b>18,293</b>
Total debt after hedging	13,901	0	3,684	610	98	<b>18,293</b>
Cash and bank deposits	162	1,021	2,269	112	115	<b>3,679</b>
Net debt / (cash) after hedging	13,739	(1,021)	1,415	498	(17)	<b>14,614</b>

As at 31 December 2006, subsidiaries' assets of HK\$696 million (2005: HK\$585 million) were pledged to secure banking facilities, these arrangements mainly related to Daye Special Steel Co., Ltd. and Dah Chong Hong's business overseas.

### Maturity Profile of Outstanding Debt

The Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

HK\$ million	2007	2008	2009	2010	2011	2012 and Beyond	Total	Percentage
Parent Company	27	8	624	3,052	3,510 <sup>1</sup>	6,294 <sup>2</sup>	13,515	74%
Subsidiaries	1,662	1,351	958	249	558	0	4,778	26%
Total Maturing Debt	1,689	1,359	1,582	3,301	4,068	6,294	18,293	100%
Percentage	9%	7%	9%	18%	23%	34%	100%	
Available Facilities	78	892	759	175	5,023	7,765	14,692	

- Including a US\$450 million global bond due in 2011 which was issued by a wholly owned special purposes vehicle.
- Including a JPY8.1 billion floating rate note due in 2035 which was issued by a wholly owned special purposes vehicle.

### Available Sources of Financing

In addition to cash and deposits balance of HK\$3.7 billion as at 31 December 2006, the Group had undrawn available loan facilities totaling HK\$16.8 billion, of which HK\$14.7 billion was in committed long term loans and HK\$2.1 billion of money market lines. Besides, available trade facilities amounted to HK\$2.2 billion. Borrowings by sources of financing as at 31 December 2006 is summarised as follows:

HK\$ million	Total Facilities	Outstandings	Available Facilities
<b>Committed Facilities</b>			
Term Loans	28,020	13,328	14,692
Global Bonds	3,510	3,510	0
Private Placement	406	406	0
<b>Total Committed</b>	<b>31,936</b>	<b>17,244</b>	<b>14,692</b>
<b>Uncommitted Facilities</b>			
Money Market Lines and Short Term Facilities	3,134	1,027	2,107
Trade Facilities	2,766	591	2,175

In addition to the above summarised facilities, the Company established Cooperative Agreements with major PRC banks. Under such agreements, general credit limits have been granted to us to support the Group's funding requirements. Utilisation of these facilities will be subject to the banks' approval on a project-by-project basis in accordance with PRC banking regulations. As at 31 December 2006, total of around RMB66 billion credit limit under such arrangements remained available, of which RMB30 billion have been specifically allocated to Iron Ore Mining, Special Steel, Hainan property projects, and various other projects in the mainland.

### Treasury Policy and Risk Management

#### Foreign Currency Exposure

CITIC Pacific conducts business mainly in Hong Kong and mainland China, therefore it is subject to the market risk of foreign exchange rates of the HK Dollar, US Dollar and Renminbi. To minimise currency exposure, non Hong Kong dollar assets are usually financed in the same currency as the asset or cash flow from it, either by borrowing or using foreign exchange contracts. Achieving this objective is not always possible due to limitation in financial markets and regulatory constraints, particularly on investment into mainland China as the Renminbi is currently not a free convertible currency and thus the RMB exchange swap market is not readily available or efficient at this time. In addition, 'Registered Capital', which usually accounts for no less than 25% of the total investment amount for projects in mainland China, is required to be paid in US dollars. As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi. As at 31 December 2006, around HK\$35 billion or 52% of the Group's total assets were based in mainland China (2005: HK\$23 billion, or 38%).

The underlying cash flow of the Group's businesses is mainly in HK dollars or in Renminbi. CITIC Pacific entered into foreign currency forward contracts to minimise potential exposure to US dollar denominated debt principal and interest payments. As at 31 December 2006, such contracts

outstanding amounted to US\$747 million (2005: US\$641 million). In addition, foreign exchange forward contracts were employed by our trading business to hedge currency fluctuations. As at 31 December 2006, such contracts outstanding amounted to HK\$707 million (2005: HK\$657 million).

#### Interest Rate Exposure

The Group aims to maintain a suitable mixture of fixed and floating rate borrowings in order to stabilise interest costs despite rate movements. Interest rate hedging ratio is determined after taking into consideration of the general market trend, the Group's cash flow pattern, interest coverage ratio and etc.

The Group uses interest rate swaps, forward rate agreements, interest rate option contracts and other instruments to hedge exposures or to modify the interest rate characteristics of its borrowings. As at 31 December 2006, CITIC Pacific had outstanding interest rate swap/forward rate contracts with a notional amount of HK\$11.1 billion. After the swaps, HK\$7.4 billion or 40% of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying floating rate of interest. During the current interest cycle, the US Federal Reserve increased interest rate 17 times from 1% in June 2004 to 5.25% as at end of June 2006 and since then, the Fed maintained the Fed funds rate unchanged. Due to active hedging program, the Group's cost of borrowings increased at a slower pace relative to the market rate of increase. For the year ended 31 December 2006, the Group's overall weighted average all-in cost of borrowings (including fees and hedging costs) was about 5.2%, compared with 4.3% for the last year.

#### Employment of Derivative Products

The Group employs a combination of financial instruments, including derivative products, to manage its exposure to fluctuations in interest and currency rates. Derivative transactions are only used for interest rate and currency hedging purposes, speculative trading is prohibited. Counterparties' credit risks are carefully reviewed and in general, the Group only deals with financial institutions with investment grade credit rating. The amount of counterparties' lending exposure to the Group is also an important consideration as a means to control credit risk.

Following the adoption of HKAS32 and HKAS39 as described under "Significant accounting policies", all derivatives are stated at fair market value. Certain derivative transactions, while the objective is for hedging purposes under the Group's risk management strategies, may not qualify for hedge accounting treatment under the specific rules of the accounting standards. The changes in the fair value of such kind of derivative transactions are recognised in the profit and loss account. The fair market value of outstanding derivative transactions is calculated at least semi-annually based on the price quotations obtained from major financial institutions or the Group's own calculation where applicable.

### Capital Commitments and Contingent Liabilities

As at 31 December 2006, the Group's contracted capital commitments were HK\$4.4 billion and the Group's contingent liabilities had not changed significantly from the last year.

## Human Resources

As at the end of December 2006, the Group employed 23,822 staff (2005: 19,174) in its headquarters in Hong Kong and its principal subsidiary companies worldwide. The two main areas of concentration are in Hong Kong employing 3,846 and in the mainland of China employing 19,720. With the newly established iron ore mining business in Australia, the number of employees in other countries including Japan, Singapore, Canada and Australia increased to 256.

The recovery of economy in Hong Kong continued in 2006. It has led to significant positive improvements in the employment environment motivating staff to operate effectively and efficiently to attain better level of performance.

CITIC Pacific is an equal opportunity employer and adheres to a fair and consistent human resources management policy to the mutual benefit of its employees and the Group. It also upholds a high standard of business ethics and personal conduct of its employees. To ensure the proper enforcement of the Code of Conduct Policy, the Group requires all business units to report the compliance status of the Policy on a bi-annual basis.

The Group's compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. On an annual basis, the Group reviews the cash compensation and benefit programs provided for its employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy. Towards this end, Group companies are largely in conformity with this policy.

CITIC Pacific is committed to providing a healthy organizational environment conducive to each individual's development. Employees are encouraged to commit to continuous improvement by taking responsibility for their own learning and self-development with financial sponsorship by the Group whilst in-house training for different level of employees is organized regularly on product knowledge and skill training. Moreover, with the growing cross-border business activities between Hong Kong and the mainland China, the Group continues to strengthen business integration, knowledge sharing and skill transfer between staff in the two territories.

As in the past many years, the Group supports charitable work and the promotion of education, culture and the arts by sponsoring many activities in Hong Kong, the mainland and overseas.

Under the CITIC Pacific Share Incentive Plan 2000 ("the Plan") adopted on 31 May 2000, the Board may invite any director, executive or employee of the Company or any of its subsidiaries to subscribe for options over the Company's shares ("Shares"). Since the adoption of the Plan, the Company has granted three lots of share options:-

Date of grant	Number of share options	Exercise price HK\$
28 May 2002	11,550,000	18.20
1 November 2004	12,780,000	19.90
20 June 2006	15,930,000	22.10

All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant. None of the share options granted under the Plan were cancelled or lapsed during the year.

## Corporate Governance

CITIC Pacific is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. A full description of the Company's corporate governance will be set out in the Corporate Governance Report contained in the 2006 Annual Report.

Throughout the year of 2006, CITIC Pacific has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Audit Committee of the Board, consisting of three non-executive directors of whom two are independent, has reviewed the 2006 financial statements with management and the Company's internal and external auditors and recommended its adoption by the Board.

## Dividend and Closure of Register

The Directors have resolved to recommend to shareholders the payment of a final dividend of HK\$0.80 (2005: HK\$0.80) per share and a special dividend of HK\$0.30 (2005: Nil) per share, which together with the interim dividend of HK\$0.30 per share (2005: HK\$0.30) and the special dividend of HK\$0.30 per share (2005: Nil) already paid makes a total dividend of HK\$1.70 per share (2005: HK\$1.10) for the year ended 31 December 2006. The total dividend of HK\$1.70 per share will amount to HK\$3,731 million of the Company's profit for the year ended 31 December 2006 (2005: HK\$2,412 million).

The proposed final dividend of HK\$0.80 per share and the proposed special dividend of HK\$0.30 per share, the payment of which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 16 May 2007, are to be payable on Friday, 18 May 2007 to shareholders whose names appear on the Register of Members of the Company on 16 May 2007.

The Register of Members of the Company will be closed from Thursday, 10 May 2007 to Wednesday, 16 May 2007, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend and the proposed special dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 9 May 2007.

## Share Capital

During the year ended 31 December 2006, the Company made the following repurchases of its own shares on the Stock Exchange for purpose of enhancing its earnings per share:

Month/Year	Number of Shares Repurchased	Price Per Share Highest (HK\$)	Price Per Share Lowest (HK\$)	Aggregate Price Paid (HK\$)
June 2006	1,627,000	22.00	21.50	35,402,100

These repurchased shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against retained profit. An amount equivalent to the nominal value of the shares cancelled of approximately HK\$1 million was transferred from retained profit to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2006 and the Company has not redeemed any of its shares during the year ended 31 December 2006.

## Forward-looking Statements

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

## Annual Report and Further Information

A copy of the announcement will be found on the Company's website (www.citicpacific.com) and the Stock Exchange's website (www.hkex.com.hk). The additional information including a full financial analysis will be posted on the Company's website as soon as possible and the full Annual Report will be made available on the website of the Company and the Stock Exchange around 11 April 2007.

By Order of the Board  
**Alice Tso Mun Wai**  
Company Secretary  
Hong Kong, 15 March 2007

As at the date of this announcement, the executive directors of the Company are Messrs Larry Yung Chi Kin (Chairman), Henry Fan Hung Ling, Peter Lee Chung Hing, Carl Yung Ming Jie, Leslie Chang Li Hsien, Vernon Francis Moore, Li Shilin, Liu Jifu, Chau Chi Yin, Milton Law Ming To and Wang Ande; the non-executive directors of the Company are Messrs Willie Chang, André Desmarais, Chang Zhenming and Peter Kruyt (alternate director to Mr André Desmarais); and the independent non-executive directors of the Company are Messrs Hamilton Ho Hau Hay, Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong.

“Please also refer to the published version of this announcement in **The Standard and Wen Wei Po.**”