CITIC PACIFIC

CITIC Pacific Limited
中信泰富有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 267)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

CHAIRMAN'S LETTER TO SHAREHOLDERS

2009 First Half Results

CITIC Pacific recorded a profit attributable to shareholders of HK$2,468 million in the first six months of 2009 compared to HK$4,360 million for the same period in 2008.

We should remember that economic conditions in key markets were buoyant in the first half of 2008, and the subsequent rapid deterioration resulted in a most challenging operating environment for business. Beginning in the second quarter of 2009, we have seen encouraging signs of recovery, and this is reflected in the mixed results of our businesses.

In the first half of the year, the special steel business faced weaker demand for its products, in particular in overseas markets, but remained profitable. Property sales in many of our developments in mainland China have shown encouraging signs of recovery, in particular in the second quarter. Our power business did better than last year as the coal price dropped. Other businesses such as tunnels in Hong Kong, CITIC 1616 and Dah Chong Hong continue to provide us with stable profits and cash flow.

At the Annual General Meeting I said that paying a dividend again would be considered once our company returned to profitability. The Board recommends paying an interim dividend of HK$0.15 per share. When making this decision, we not only took into consideration the expectations of our investors, but also our company's need for capital to further develop our business, and our obligation to repay maturing debts.

Improving Corporate Governance

After I became Chairman in April, I identified the three things that impressed me the most about CITIC Pacific, and which I believe are central to the success of this company: the quality of our businesses and assets; the international standard of our management and employees; and the strong commitment to leadership in our approach to governance.

Looking at what this company has achieved since its formation has given me, and all of us at CITIC Pacific, the confidence and determination to work hard, and to return this company to strong and prosperous growth.

Besides running businesses and ensuring they generate profit and returns for our shareholders, we clearly recognize the importance of managing risks and strengthening our controls and central management. A lot has been achieved in this area.

We now have a much more formalized decision making process, which greatly facilitates our ability to manage the diverse nature of our company's activities, and effectively monitor their associated risks.

I chair a re-defined and re-invigorated executive committee, which serves as a medium for communicating our direction and priorities, and for sharing information about key developments and issues affecting our various businesses. This committee now includes the leaders of most of our businesses, with the participation of the heads of major functional departments in the head office.

Our newly established investment committee's role is to consider the strategy and planning of the company, and to review investment proposals. The committee consists of four executive directors including myself, and one non-executive director. Meetings are held regularly. Since its formation in April, we have reviewed and made decisions on a number of proposed investments and disposals.

The asset and liability management committee ("ALCO"), set up late last year, continues its important work. Chaired by the finance director and with representatives of different disciplines in the company, ALCO meets monthly to review the asset and liability balance of the company. It monitors and sets limits to our exposure in relation to asset and liability mismatches, counter parties, currencies, interest rates, commitments and commodities. It also establishes hedging policies, reviews and approves financing plans, and controls the use of any new financial products.

Throughout my career, I have learned and felt deeply that the running of a company depends very much on a well-established system and process and, most of all, on a cohesive management team. Like all organizations, having highly qualified people is essential to our operations. One of the central jobs of my chairmanship will be to ensure the recruitment of additional high quality and experienced personnel to our company. One example is the appointment of a new financial controller to further strengthen the effectiveness of financial controls throughout the company. Having spent 17 years with CITIC Group in various capacities in China and most recently in the United States, he brings to CITIC Pacific a wealth of knowledge and experience, not only in accounting and financial management, but also in his understanding of CITIC Group. We have also recruited a very experienced new treasurer, who will be joining us in the near future.

Businesses

Facing the challenging operating environment, our businesses, from special steel, to iron ore, to property, to tunnels, to power, and Dah Chong Hong and CITIC 1616, have proven that they are fundamentally strong.

Development of each of our businesses will be based on an assessment of its market position, competitiveness, future prospects, and the extent of our ability to influence its management. We are also studying and exploring potential opportunities and synergies between CITIC Pacific and CITIC Group. Our goal and responsibility is to increase investment returns for our shareholders, and we will achieve this by way of good management, co-operation, and where needed by the sale and restructuring of assets.

We intend to sell businesses over which CITIC Pacific is unable to exercise management control, which are not significant to the company's future or do not generate sufficient profit or cash. Examples are the disposals of our 20% interest in North United Power and our interests in Kaifeng Power and Weihai Power. These disposals do not indicate a disinterest in the power sector but a rationalization to concentrate on the important components such as Ligang Power Station.

On August 17, we agreed to sell 12.5% of Cathay Pacific to Air China and 2% to Swire Pacific. As a result, our interest in Cathay Pacific will be reduced to 3%. The sale will generate HK$7.3 billion of cash, which will strengthen CITIC Pacific's financial position and direct resources to the development of our major businesses.

Restructuring of certain assets is another way to generate returns for our shareholders. CITIC Capital, 50% owned by CITIC Pacific, recently signed an agreement with China Investment Corporation ("CIC"), China's sovereign wealth fund, under which CIC will become a 40% shareholder through subscribing to new shares. After completion of this transaction, our interest in CITIC Capital will be reduced to 27.5%. Through this restructuring, not only will CITIC Capital's capital base be enlarged, it will also result in a material increase in funds under management.

We are increasing investment in our major businesses. At a time when most steel mills in China were incurring losses, our three special steel plants remained profitable, and CITIC Pacific Special Steel continues to be a leader in the special steel industry in China. We are committed to further developing and investing in special steel, a major business of CITIC Pacific. This is reflected in the building of new production lines, as well as our purchase of the 20% interest in Jiangyin Xingcheng Special Steel currently held by its management, bringing CITIC Pacific's ownership in this steel mill to 100%.

Our iron ore mine in Australia continues to make progress. Given the complexity and the sheer size of this project, it is amazing to see how much has been accomplished, but there is still much to do to achieve production, and this is receiving the full attention of the management and our contracting partners.

Property development in mainland China is another major business. CITIC Pacific has signed a co-operation agreement with CITIC Real Estate Co. Ltd., a subsidiary of CITIC Group, and a well-known property developer in China with a significant land bank in many cities. Under the agreement, CITIC Real Estate will recommend projects to CITIC Pacific that it believes to have good potential. After its own evaluation, CITIC Pacific may take a 20% stake in these projects. The two companies will share knowledge, market information and other resources, and CITIC Pacific can also leverage off CITIC Real Estate's vast sales network. We are now evaluating several projects. At the same time, construction of CITIC Pacific's property developments in mainland China are progressing to plan, and sales of commercial and residential properties have picked up in recent months with an improvement in market sentiment. With hard work, many of our development projects will be ready for sale in the coming few years, and we expect they will bring significant profit contribution to CITIC Pacific.

When formulating CITIC Pacific's future development strategy, one thing is clear: having multiple businesses in diversified industries is beneficial to CITIC Pacific, in particular as our businesses are positioned to capture the fast growing demand of mainland China. As an example, special steel as a percentage of total steel produced in China is still quite low compared to that of industrialized countries. China's demand for special steel will continue to grow as the country becomes industrialised. For iron ore, our story is also very compelling. CITIC Pacific, will in due course, become Australia's largest exporter of magnetite concentrate. The concentrate we will be producing is of higher quality than most of China's imported ore. This high quality ore will not only satisfy the increasing need from Chinese steel mills it will also serve Chinese society's demand for a greener approach to business.

Financial Position

At the end of the half year, shareholders' funds were HK$55 billion, an increase of 11% compared with the end of 2008. Cash and available committed facilities stood at HK$30 billion. We do recognize that we need to manage our on-going financing requirements and we have already begun to work on this. New loans of HK$10 billion were signed or are in process in the last few months. Our mainland China property sales are expected to rise in 2010 and thereafter provide significant cash flow. In addition, sales of smaller or non-managed businesses will bring cash to the company.

I should mention that all of the Australian dollar leveraged foreign exchange contracts outstanding at December 31, 2008, were restructured into plain forward contracts, which qualify for treatment as accounting hedges. As a result, volatility in the cost of the iron ore project due to exchange rate fluctuations will be reduced.

Conclusion

Challenged by the unprecedented global financial crisis, the Chinese government has taken proactive and timely measures, and implemented plans to stimulate its economy, which have brought initial success. As China's basic infrastructure and supporting pillar industries continue to improve, household income continues to grow, and the country continues to industrialize and urbanize, underlying consumption and demand will no doubt continue to grow. To be successful, the strategy we formulate, and the businesses and assets we invest in, should capture the growing demand in China.

CITIC Pacific's achievements in the last 20 years have been considerable. I have full confidence and resolve to take this company to greater success.

Let me take this opportunity to thank our Board and our employees for their continued support and their enormous hard work in a difficult period. I would also like to express my gratitude to our investors for standing by us and continuing to believe in CITIC Pacific.

Chang Zhenming
Chairman
Hong Kong, 26 August 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Note	2009 HK$m	As restated 2008 HK$m
Turnover	2	18,098	26,672
Cost of sales		(14,616)	(22,074)
Gross profit		3,482	4,598
Other income and net gains	3	1,118	1,685
Distribution and selling expenses		(671)	(626)
Other operating expenses		(1,186)	(1,327)
Change in fair value of investment properties		(54)	410
Profit from consolidated activities	2	2,689	4,740
Share of results of			
Jointly controlled entities	2	753	641
Associated companies	2	353	26
Profit before net finance charges and taxation		3,795	5,407
Finance charges		(540)	(253)
Finance income		114	272
Net finance (charges) / income	5	(426)	19
Profit before taxation		3,369	5,426
Taxation	6	(522)	(496)
Profit for the period		2,847	4,930
Profit attributable to:			
Shareholders of the Company	2	2,468	4,360
Minority interests		379	570
		2,847	4,930
Dividends			
Proposed dividends	7	(547)	(658)
Earnings per share for profit attributable to shareholders of the Company during the period (HK$)			
Basic	8	0.68	1.98
Diluted	8	0.68	1.98

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	2009 HK$m	As restated 2008 HK$m
Profit for the period	2,847	4,930
Other comprehensive income, net of tax		
Cash flow hedging reserves movement from interest rate swap and foreign exchange contracts	3,173	20
Transfer from investment revaluation reserve to profit and loss account on disposal of other financial assets	(66)	(1,453)
Fair value changes from other financial assets	84	(1,444)
Share of other comprehensive income of associated companies and jointly controlled entities	49	222
Exchange translation differences	37	2,211
Revaluation gain recognised upon transfer from property held for own use to investment properties	22	-
Reserve released on disposal of jointly controlled entities	-	(72)
Total comprehensive income for the period	6,146	4,414
Total comprehensive income for the period attributable to		
Shareholders of the Company	5,755	3,656
Minority interests	391	758
	6,146	4,414

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2009 HK$m	As restated 31 December 2008 HK$m
Non-current assets			
Fixed assets			
- Property, plant and equipment		30,458	23,028
- Investment properties		11,139	11,230
- Properties under development		10,998	9,848
- Leasehold land		2,359	2,320
		54,954	46,426
Jointly controlled entities		22,077	21,140
Associated companies		13,337	14,801
Other financial assets		600	1,063
Intangible assets		9,799	8,979
Deferred tax assets		939	1,967
Derivative financial instruments	11	212	235
Non-current deposits		7,177	8,709
		109,095	103,320
Current assets			
Properties held for sale		525	733
Other assets held for sale		1,766	-
Inventories		5,453	5,605
Derivative financial instruments	11	113	1,016
Debtors, accounts receivable, deposits and prepayments	9	11,133	9,931
Cash and bank deposits		20,946	18,296
		39,936	35,581
Current liabilities			
Bank loans, other loans and overdrafts			
- secured		546	490
- unsecured		7,031	8,892
Creditors, accounts payable, deposits and accruals	10	16,808	13,500
Derivative financial instruments	11	308	3,043
Provision for taxation		322	274
Liabilities held for sale		57	-
		25,072	26,199
Net current assets		14,864	9,382
Total assets less current liabilities		123,959	112,702
Non-current liabilities			
Long term borrowings		56,823	47,852
Deferred tax liabilities		1,751	1,710
Derivative financial instruments	11	2,891	6,682
Provisions		809	734
		62,274	56,978
Net assets		61,685	55,724

CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)

	Note	30 June 2009 HK$m	As restated 31 December 2008 HK$m
Equity			
Share capital		1,458	1,458
Reserves		53,438	48,230
Proposed dividend	7	547	-
Equity attributable to shareholders of the Company		55,443	49,688
Minority interests in equity		6,242	6,036
Total equity		61,685	55,724

NOTES TO THE FINANCIAL STATEMENTS

1 Significant accounting policies

These condensed unaudited consolidated interim accounts ("the Accounts") are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Listing Rules of the Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2008 other than the adoption of certain new or revised Hong Kong Financial Reporting Standards ("HKFRS") in 2009 as set out below. The following standards, amendments or interpretations are effective in 2009 and considered to be relevant to the Group.

- HKAS 1 (Revised) – Presentation of financial statements
- HKAS 16 (Amendment) – Property, plant and equipment
- HKAS 23 (Revised) – Borrowing costs
- HKAS 28 (Amendment) – Investments in associates
- HKAS 32 (Amendment) – Financial instruments: presentation
- HKAS 36 (Amendment) – Impairment of assets
- HKAS 39 (Amendment) – Financial instruments: Recognition and measurement
- HKAS 40 (Amendment) – Investment property
- HKFRS 7 (Amendment) – Financial instruments: disclosures
- HKFRS 8 – Operating segments
- HK (IFRIC) Interpretation13 – Customer loyalty programmes

Adoption of the above standards did not have significant impact on the Accounts except as stated below.

HK(IFRIC) Interpretation 13 "Customer loyalty programmes". The part of revenue from initial sales transactions equal to the fair value of customer loyalty awards granted is deferred until the awards are redeemed and the related service is provided. This change in accounting treatment has had a material impact on Cathay Pacific Airways Limited, an associated company and reduces the Group's share of the retained profits of that company by HK$258 million and HK$283 million as at 1 January 2008 and 2009 respectively and reduces the Group's share of its results for the six months period ended 30 June 2008 by HK$ 17 million.

Under HKAS 1(Revised), entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two performance statements (the profit and loss account and statement of comprehensive income). The interim financial statements have been prepared under these revised requirements.

1 Significant accounting policies (Continued)

HKFRS 8, ‘Operating segments’ replaces HKAS 14, ‘Segment reporting’. It requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. Adoption of this standard did not have any effect on the Group’s results of operation or financial position . The Group has determined that its operating segments are substantially the same as the business segments previously identified under HKAS 14.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s executive committee. The adoption of HKFRS 8 has resulted in the change of presentation in segment information. Comparatives for 2008 segment disclosures have been restated.

Goodwill is allocated by management to groups of cash-generating units at a segment level. The change in reportable segments has not resulted in any goodwill impairment. There has been no further impact on the measurement of the Group’s assets and liabilities.

2 Segment information

(a) Turnover and profit attributable to shareholders of the Company

Six months ended 30 June 2009	Turnover HK$m	Profit from consolidated activities HK$m	Share of results of jointly controlled entities HK$m	Share of results of associated companies HK$m	Net Finance income/ (charges) HK$m	Group total HK$m	Segment allocations HK$m	Segment Profit/ (loss) HK$m	Taxation HK$m	Minority Interests HK$m	Profit attributable to shareholders of the Company HK$m
Special steel	6,027	663	114	13	(51)	739	-	739	(104)	(111)	524
Iron ore mining	9	360	-	-	-	360	-	360	(76)	-	284
Property											
Mainland China	752	362	-	-	14	376	-	376	(96)	5	285
Hong Kong	128	93	-	66	5	164	45	209	(11)	-	198
Power	-	13	372	(16)	-	369	-	369	(17)	-	352
Civil infrastructure	348	238	84	18	-	340	-	340	(37)	(59)	244
Aviation	-	-	-	168	3	171	-	171	-	-	171
CITIC 1616	1,333	212	-	(1)	3	214	-	214	(36)	(85)	93
Dah Chong Hong	9,470	496	32	15	(60)	483	(45)	438	(156)	(129)	153
Other investments	31	63	151	52	-	266	-	266	3	-	269
Change in fair value of Investment Properties	-	(54)	-	38	-	(16)	-	(16)	25	-	9
Corporate											
General and administration expenses	-	(204)	-	-	-	(204)	-	(204)	19	-	(185)
Gain from leveraged foreign exchange contracts	-	285	-	-	-	285	-	285	(88)	-	197
Exchange gain	-	162	-	-	-	162	-	162	-	-	162
Net finance charges	-	-	-	-	(340)	(340)	-	(340)	52	-	(288)
Totals	18,098	2,689	753	353	(426)	3,369	-	3,369	(522)	(379)	2,468

2 Segment information (Continued)

(a) Turnover and profit attributable to shareholders of the Company (Continued)

Six months ended 30 June 2008 (as restated)	Turnover * HK$m	Profit from consolidated activities HK$m	Share of results of jointly controlled entities HK$m	Share of results of associated companies HK$m	Net Finance income/ (charges) HK$m	Group total HK$m	Segment allocations HK$m	Segment (loss)/ profit HK$m	Taxation HK$m	Minority Interests HK$m	Profit attributable to shareholders of the Company HK$m
Special steel	15,212	1,835	405	-	115	2,355	-	2,355	(214)	(302)	1,839
Iron ore mining	-	(11)	-	-	-	(11)	-	(11)	(3)	-	(14)
Property											
Mainland China	261	211	(9)	-	21	223	-	223	(66)	2	159
Hong Kong	115	244	-	(5)	5	244	46	290	4	-	294
Power	-	7	3	(79)	13	(56)	-	(56)	18	-	(38)
Civil infrastructure	366	256	94	26	-	376	-	376	(34)	(65)	277
Aviation	-	403	-	(93)	5	315	-	315	-	-	315
CITIC 1616	1,128	179	-	-	10	189	-	189	(31)	(75)	83
Dah Chong Hong	9,519	448	29	(29)	(40)	408	(46)	362	(91)	(120)	151
Other investments	71	914	119	46	-	1,079	-	1,079	5	-	1,084
Change in fair value of Investment Properties	-	410	-	160	-	570	-	570	(70)	(10)	490
Corporate											
General and administration expenses	-	(228)	-	-	-	(228)	-	(228)	(4)	-	(232)
Gain from leveraged foreign exchange contracts	-	34	-	-	-	34	-	34	(10)	-	24
Exchange gain	-	38	-	-	-	38	-	38	-	-	38
Net finance charges	-	-	-	-	(110)	(110)	-	(110)	-	-	(110)
Totals	26,672	4,740	641	26	19	5,426	-	5,426	(496)	(570)	4,360

* With effect from the year ended 31 December 2008, the Group changed the presentation of turnover by not including the proceeds from sale of investments. Amounts included in turnover and cost of sales for the six months period ended 30 June 2008 of approximately HK$1,441 million and HK$868 million respectively have been reclassified.

2 Segment information (Continued)

(a) Segment turnover and profit (Continued)

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

	Six months ended 30 June 2009 HK$m	2008 HK$m
By geographical area		
Mainland China	12,572	20,226
Hong Kong	4,628	5,357
Overseas	898	1,089
	18,098	26,672

(b) Assets and liabilities

An analysis of the Group's assets and liabilities by segment is as follows:

	Segment assets		Investments in jointly controlled entities		Investments in associated companies		Segment liabilities		Total	
	30 June 2009 HK$m	31 Dec 2008 HK$m	30 June 2009 HK$m	31 Dec 2008 HK$m	30 June 2009 HK$m	31 Dec 2008 HK$m	30 June 2009 HK$m	31 Dec 2008 HK$m	30 June 2009 HK$m	31 Dec 2008 HK$m
By principal activities										
Special steel	33,686	27,938	4,433	4,444	131	118	(19,301)	(14,572)	18,949	17,928
Iron ore mining	30,979	24,187	-	-	-	-	(21,847)	(16,112)	9,132	8,075
Property										
Mainland China	21,762	20,323	5,959	5,650	-	-	(4,915)	(4,391)	22,806	21,582
Hong Kong	6,429	6,425	-	-	4,745	4,696	(474)	(492)	10,700	10,629
Power	2,069	358	6,003	5,632	-	1,775	(23)	(8)	8,049	7,757
Civil infrastructure	994	983	1,530	1,429	105	104	(212)	(193)	2,417	2,323
Aviation	-	-	-	-	7,882	7,699	-	-	7,882	7,699
CITIC 1616	2,472	2,397	-	-	-	5	(840)	(819)	1,632	1,583
Dah Chong Hong	10,187	10,781	262	234	172	148	(5,207)	(5,994)	5,414	5,169
Other investments	304	862	3,890	3,751	302	256	(186)	(129)	4,310	4,740
Segment assets/ (liabilities)	108,882	94,254	22,077	21,140	13,337	14,801	(53,005)	(42,710)	91,291	87,485
Corporate	4,735	8,706					(34,341)	(40,467)	(29,606)	(31,761)
Net assets									61,685	55,724

3 Other income and net gains

	Six months ended 30 June 2009 HK$m	2008 HK$m
Other income		
Commission income, subsidy income and rebates	222	112
Dividend income from other financial assets		
Listed shares	3	86
Co-operative joint ventures	-	7
	225	205
Gain from leveraged foreign exchange contracts (note (i))	285	34
Realised and unrealised exchange gain (note (ii))	563	30
Other net gains		
Net gain from disposal of subsidiary company	2	170
Net gain from disposal of jointly controlled entities	-	403
Net gain from disposal of other financial assets	43	843
	893	1,480
	1,118	1,685

note:

(i) As at 31 December 2008, three unrestructured AUD leveraged foreign exchange contracts with a maximum deliverable amount of AUD 2 billion were outstanding. These leveraged foreign exchange contracts were restructured into a series of plain vanilla forward contracts from March 2009 to May 2009. Currently no leveraged AUD foreign exchange contracts remain.

As of 30 June 2009 the AUD plain vanilla forward contracts had a notional amount of AUD 2,334 million compared with AUD 911 million at 31 December 2008.

One Euro leveraged foreign exchange contract with a maximum deliverable amount of Euro 66 million was terminated in January 2009. Currently no leveraged Euro foreign exchange contracts remain.

As at 30 June 2009, three RMB non-deliverable forward contracts with maximum notional amount of RMB 3,102 million are held by the Group to hedge its RMB exposures. These non-deliverable forward contracts are not eligible for hedge accounting and gains and losses in the fair value of these contracts are reflected in the profit and loss account. A HK$46 million profit was recognised in the first 6 months of 2009.

A net realised gain of HK$239 million was recognised for the period ended 30 June 2009 (2008 : HK$34 million). This was comprised of the gains upon termination and restructuring of the leveraged contracts mentioned above, and realised gains and losses on taking delivery of foreign currencies under the above leveraged contracts.

(ii) The realised and unrealised exchange gain of HK$563 million above mainly represents the net exchange gain on Australian dollars bank balances arising from deliveries under the leveraged and plain vanilla contracts subsequent to their delivery date.

4 Profit from consolidated activities

	Six months ended 30 June 2009 HK$m	2008 HK$m
The profit from consolidated activities is arrived at after charging:		
Cost of inventories sold	13,056	20,738
Depreciation and amortisation	596	508
Impairment losses on other financial assets	3	21
Impairment losses on trade and other receivables	32	-
Impairment losses on fixed assets	2	14

5 Net finance charges / (income)

	(Income) / Charges Six months ended 30 June 2009 HK$m	2008 HK$m
Finance charges		
Interest expense	1,091	709
Amount capitalised	(745)	(388)
	346	321
Other finance charges	19	28
Other financial instruments		
- net realised loss, mainly on interest rate swaptions	155	-
- fair value loss / (gain)	20	(96)
	540	253
Finance income		
Interest income	(114)	(272)
	426	(19)

6 Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (Six months ended 30 June 2008: 16.5%) on the estimated assessable profit for the period. Overseas taxation is calculated on the estimated assessable profit for the period 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. Details are as follows:

	Six months ended 30 June	
	2009	2008
	HK$m	HK$m
Current taxation		
Hong Kong profits tax	102	114
Overseas taxation	231	367
Deferred taxation		
Changes in fair value of investment properties	(26)	76
Origination and reversal of other temporary differences	215	(29)
Effect of tax rate change	-	(32)
	522	496

7 Dividends

	Six months ended 30 June	
	2009	2008
	HK$m	HK$m
2008 Final dividend paid : Nil (2007 : HK$0.80) per share	-	1,757
2009 Interim dividend proposed : HK$0.15 (2008 : HK$0.30) per share	547	658

8 Earnings per share

The calculation of earnings per share is based on the consolidated profit attributable to shareholders of HK$2,468 million (six months ended 30 June 2008: profit of HK$4,360 million).

The basic earnings per share is based on the weighted average number of 3,646,274,160 shares in issue during the period (six months ended 30 June 2008: 2,198,430,092 shares in issue). The diluted earnings per share for the six months ended 30 June 2008 is based on 2,203,728,977 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 5,298,885 shares deemed to be issued at no consideration if all outstanding options had been exercised. Diluted earnings per share for 2009 is the same as the basic earnings per share as it is deemed that no potential additional ordinary shares would be issued at no consideration from the exercise of options because the exercise price was above the average market price of the Company’s shares for the period ended 30 June 2009.

9 Debtors, accounts receivable, deposits and prepayments

	30 June 2009 HK$m	31 December 2008 HK$m
Trade debtors and bills receivable aged:		
- Within 1 year	6,473	5,281
- Over 1 year	211	56
	6,684	5,337
Accounts receivable, deposits and prepayments	4,449	4,594
	11,133	9,931

Note:
(i) Trade debtors are net of provisions and the ageing is classified based on invoice date.
(ii) Each business unit has its own defined credit policy.
(iii) The carrying amounts of debtors, accounts receivable, deposits and prepayments approximates their fair value.
(iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK$144 million (31 December 2008: HK$181 million), which are unsecured, interest free and recoverable on demand, except for an amount of HK$4 million (31 December 2008: HK$1.3 million) which is interest bearing, and amounts due from associated companies of HK$58 million (31 December 2008: HK$27 million) which are unsecured, interest free and recoverable on demand.

10 Creditors, accounts payable, deposits and accruals

	30 June 2009 HK$m	31 December 2008 HK$m
Trade creditors and bills payable aged:		
- Within 1 year	7,411	5,517
- Over 1 year	500	424
	7,911	5,941
Accounts payable, deposits and accruals	8,897	7,559
	16,808	13,500

Note: The carrying amounts of creditors, accounts payable, deposits and accruals approximate their fair value.

11 Derivative financial instruments

	30 June 2009		31 December 2008	
	Assets	Liabilities	Assets	Liabilities
	HK$m	HK$m	HK$m	HK$m
Qualified for hedge accounting – cash flow hedge				
- Interest-rate instruments	-	1,833	-	4,150
- Forward foreign exchange instruments	56	947	21	990
	56	2,780	21	5,140
Not qualified for hedge accounting				
- Interest-rate instruments	195	157	222	458
- Forward foreign exchange instruments	74	262	1,008	4,127
	269	419	1,230	4,585
	325	3,199	1,251	9,725
Less: current portion				
- Interest-rate instruments	48	44	50	63
- Forward foreign exchange instruments	65	264	966	2,980
	113	308	1,016	3,043
	212	2,891	235	6,682

12 Comparative figures

Certain comparative figures for 2008 have been adjusted to conform with the current accounting standards described in note 1 to the Accounts.

FINANCIAL REVIEW

Group Debt and Liquidity

The net debt of the Group as of 30 June 2009 as compared to 31 December 2008 and 30 June 2008 is as follows:

HK$ million	**30 June 2009**	31 December 2008	30 June 2008
Total debt	**64,400**	57,234	41,906
Cash and bank deposits	**20,946**	18,296	10,695
Net debt	**43,454**	38,938	31,211

Leverage (Net debt to Total capital *)	**44%**	44%	34%

* Total capital = Shareholders' funds + Net debt

The denomination of the Group's borrowings as well as cash and deposit balances by currency as at 30 June 2009 is summarised as follows:

	denomination					
HK$ million equivalent	HK$	US$	RMB	JPY	other	**total**
Total debt in original currency	13,691	36,066	13,263	1,314	66	**64,400**
Total debt after hedging	20,982	29,281	13,263	808	66	**64,400**
Cash and bank deposits	2,204	8,573	8,859	212	1,098	**20,946**
Net debt / (cash) after hedging	18,778	20,708	4,404	596	(1,032)	**43,454**

As at 30 June 2009, assets of HK$1,071 million (31 December 2008: HK$746 million) were pledged to secure banking facilities, which mainly related to Dah Chong Hong's overseas business and to a property subsidiary in mainland China. In addition, assets of HK$18.5 billion of the iron ore mining project were pledged under its project finance arrangement. Contracts for building 12 ships (HK$5.1 billion in aggregate) to transport iron ore from the mine to steel plants in mainland China were pledged as security for the ships' financing.

Maturity Profile of Outstanding Debt

The Group emphasizes raising long term debt over short term debt and actively manages its debt portfolio to ensure that the debt maturing in each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

HK$ million	2009	2010	2011	2012	2013	2014 and beyond	total	percentage
Parent company [1]	560	2,967	9,394 [1]	7,350	4,595	7,675 [1]	32,541	51%
Subsidiaries	3,446	2,950	4,864	2,675	1,616	16,308	31,859	49%
Total maturing debt	4,006	5,917	14,258	10,025	6,211	23,983	64,400	100%

1 Includes financing raised by wholly owned special purpose vehicles.

Available Sources of Financing

In addition to the cash and deposits balance of HK$20.9 billion as at 30 June 2009, the Group had available loan and trade facilities totalling HK$11.3 billion and HK$3.1 billion respectively. Borrowings by source of financing as at 30 June 2009 are summarised as follows:

HK$ million	total facilities	amount utilised	available unutilised facilities
Committed Facilities			
Term loans	65,950	56,905	9,045
Global bonds (USD Bond)	3,510	3,510	-
Private placement (JPY Bond)	506	506	-
Total Committed	69,966	60,921	9,045
Uncommitted Facilities			
Money market lines and short term facilities	5,722	3,469	2,253
Trade facilities	4,693	1,638	3,055

As at 30 June 2009, total committed facilities amounted to HK$69,966 million, of which HK$9,045 million (13%) remain undrawn. In addition to the above facilities, CITIC Pacific has established cooperative agreements with major banks in mainland China. Under these cooperative agreements, CITIC Pacific's projects in mainland China can apply for credit facilities subject to the banks' approval on a project-by-project basis in accordance with banking regulations in the Mainland.

Treasury Risk Management

Responsibilities

The Group's overall risk management program seeks to minimise the impact of fluctuations in exchange rates, interest rates and various input cost fluctuations on the Group's financial performance. The Asset and Liability Management Committee ("ALCO"), set up by the board in October 2008, meets monthly to set out the policies and procedures of the Group and monitor its exposures.

Derivatives Policy

Financial derivatives are used to assist in the management of interest rate and exchange rate risks. To the extent possible, gains and losses of the derivatives offset the losses and gains on the assets, liabilities or transactions being hedged.

In June 2009 the Group signed a contract with Reval Inc. ("Reval"), a derivative risk management and hedge accounting solutions firm, to provide software and consulting services to better monitor its derivative portfolio and ensure compliance with accounting standards. Valuations provided by Reval were used in compilation of the Half-Year Report.

The use of financial instruments has currently been restricted to loans, deposits, interest rate swaps and plain vanilla foreign exchange contracts. The use of structured derivatives and instruments or contracts that contain embedded options would require presentation to and the approval of ALCO.

It is the Group's policy not to enter into financial transactions, derivative or otherwise, for speculative purposes.

Foreign Exchange Risk

The Company's functional currency is HKD. The Group has major operations in Hong Kong, mainland China and Australia and is subject to market risk due to changes in United States dollars ("USD"), Renminbi ("RMB") and Australian dollars ("AUD") exchange rates. There are also exposures to the Japanese Yen ("JPY") (operations and assets related to DCH), Euro ("EUR") and Swedish Krona ("SEK") (equipment purchases).

The Group strives to reduce currency exposure by matching assets with borrowings in the same currency to the extent possible. It is the Group's policy to hedge transactions where value or time to execution will give rise to material currency exposure, provided that the cost of the hedging instrument is not prohibitively expensive in comparison to the underlying exposure.

The Group's major foreign currency exposures arise from:

(1) its capital expenditures relating to its iron ore mining operations in Australia;
(2) the Group's steel and property operations in mainland China;
(3) USD denominated debt; and
(4) purchases of finished products for sale by DCH.

The Group does not hedge currency translational exposures from the consolidation of subsidiaries whose functional currency is not HKD, as this is a non-cash exposure.

Australian Dollars (AUD) – The Australian mining operations' functional currency is USD as the future revenues from its iron ore business are denominated in USD. However, a substantial portion of its developmental and operating expenditures are denominated in AUD. USD/ AUD forward contracts are currently employed to hedge these currency exposures.

Renminbi (RMB) – The Group's businesses in mainland China had RMB gross assets of approximately HK$82.5 billion as at 30 June 2009, offset by debts and other liabilities of HK$27 billion, giving a RMB net asset exposure of HK$55.5 billion (31 December 2008: RMB net asset exposure of HK$52.3 billion). As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi.

US Dollars (USD) – The Group seeks to diversify its funding sources and also match funding requirements to subsidiaries whose functional currency and revenues are in US dollars through USD denominated borrowings. As at 30 June 2009, the Group had HK$10.7 billion equivalent of net US dollar debt exposure.

Interest Rate Risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rate expose the Group to fair value interest rate risk.

The group finance department manages this risk by considering the portfolio of all of the Group's interest bearing assets and liabilities. The net desired position is then managed by borrowing fixed rate and through the use of interest rate swaps which have the economic effect of converting floating rate borrowings into fixed rates.

The appropriate ratio of fixed / floating risk for the Group is reviewed periodically. The level of fixed rate debt is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and cash flow cycles of the Group's business and investments.

As at 30 June 2009, the Group's portfolio of floating to fixed interest rate derivative contracts had a notional amount of HK$17 billion. After hedging, 67% of the borrowings of the Group was floating rate. The ratio of fixed rate to the total borrowings of the portfolio is projected to be 38% on 31 December 2009.

The Group's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) as of 30 June 2009 was approximately 3.7% compared with 4.8% for the same period last year.

Credit Risk

To manage counterparty risk, the Group deals with international financial institutions with a credit rating of investment grade A- (S&P) or A2 (Moody's) and above. For mainland Chinese institutions, a maximum deposit limit is set that does not exceed the amount borrowed from those institutions. Deposits are liquid, interest-bearing and consistent with treasury and business purpose needs.

The group finance department is responsible for monitoring the limits and the list of approved financial institutions. Management does not expect any losses from non-performance by these counterparties.

Liquidity Risk

The Group takes liquidity risk into consideration when deciding its source of funds and their respective tenors. It manages its liquidity risk by maintaining substantial undrawn committed credit facilities, money market lines and cash deposits so as to avoid over reliance on any one source of funds, and to minimise substantial refinancing in any one period. In addition, the Company has established co-operative agreements with major PRC banks.

Management monitors rolling forecasts of the Group's liquidity reserve (comprised of undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows). In addition the Group's liquidity management procedures involves projecting cashflows in major currencies, and considering the level of liquid assets necessary to meet these cash flow requirements. Group finance also monitors balance sheet liquidity ratios against internal requirements and maintains debt financing plans.

Capital Commitment and Contingent Liabilities

As at 30 June 2009, the Group's contracted capital commitment was approximately HK$21 billion and the Group's contingent liabilities had not significantly changed from the position as of 31 December 2008.

HUMAN RESOURCES

As at the end of June 2009, CITIC Pacific and its subsidiaries employed a total of 28,471 staff worldwide. We have 4,376 employees in Hong Kong and 23,321 in mainland China. Our remaining 774 colleagues are employed in Taiwan, Japan, Singapore, US, Canada and Australia.

The Group strives to attract and retain talented employees to help us grow and expand our business, and to strengthen our internal control and risk management mechanisms. To ensure that our overall remuneration policy is competitive, equitable, and in line with our business strategy the Group regularly conducts reviews of our compensation and benefits program. Over the last six months, there has been no major change to our Human Resources Management policy.

CITIC Pacific understands that our staff are our most important asset and is committed to providing a healthy working environment that supports each individual's progression. Employees are encouraged to engage in continuous skills development through further studies: we provide internal training opportunities and subsidies for external training courses. The Group also aims to maintain good staff relations by actively promoting an open dialogue between staff and the management.

CITIC Pacific supports investing in training our younger generation. The Group has implemented various management trainee and apprentice training programs. It also provides training opportunities to young school leavers and college students, and continues to participate in the Youth Pre-employment Training Programme of the Hong Kong Labour Department and internship programs of universities in Hong Kong and mainland China.

As socially responsible corporate citizens, CITIC Pacific and its employees contribute to local communities through charitable work and donations. The Group maintains its long-term support of the Community Chest of Hong Kong and also sponsored the performance of the Beijing Opera at the 2009 Hong Kong Arts Festival.

CORPORATE GOVERNANCE

CITIC Pacific is committed to practising international standards of corporate governance. Details of our corporate governance practices can be found on page 72 of the 2008 annual report and the company's website www.citicpacific.com. The board has:

- Re-defined and re-invigorated the executive committee, which serves as a medium for communicating the direction and priorities of CITIC Pacific, and for sharing information about key developments and issues affecting the various businesses of CITIC Pacific. This committee now includes the leaders of most of the businesses of CITIC Pacific, with the participation of the heads of major functional departments in the head office and is chaired by Mr. Chang Zhenming.

- Established an investment committee to consider the strategy and planning of CITIC Pacific, and to review investment proposals. The committee consists of four executive directors (including the chairman) and one non-executive director.

- Established the asset and liability management committee ("ALCO") late last year. Chaired by the group finance director and with representatives of different disciplines in CITIC Pacific, ALCO meets monthly to review the asset and liability balance of CITIC Pacific. It monitors and sets limits to exposure in relation to asset and liability mismatches, counter parties, currencies, interest rates, commitments and commodities. It also establishes hedging policies, reviews and approves financing plans, and controls the use of any new financial products.

- Updated the terms of reference of the audit committee (following changes to the Listing Rules), as part of its oversight function in relation to internal control, to include a responsibility to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the CITIC Pacific group's accounting and financial reporting function, and their training programmes and budget.

Throughout the six months ended 30 June 2009, CITIC Pacific has complied with all code provisions in the code on corporate governance practices contained in appendix 14 of the Listing Rules, except that the roles of the chairman and the managing director of the company have not been segregated as required by code provision A.2.1.

Following the resignation of Messrs. Larry Yung Chi Kin and Henry Fan Hung Ling as directors on 8 April 2009, Mr. Chang Zhenming was appointed as chairman and managing director. The chairman expects to appoint a new managing director in due course. The audit committee of the board reviewed the Half-Year Report with management and the company's internal and external auditors and recommended its adoption by the board. The committee consists of three non-executive directors of whom two are independent.

The Half-Year Report is prepared in accordance with HKAS 34 "Interim Financial Reporting". It has been reviewed by CITIC Pacific's independent auditors PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

DIVIDEND AND CLOSURE OF REGISTER

The directors have declared an interim dividend of HK$0.15 per share (2008: HK$0.30 per share) for the year ending 31 December 2009 payable on Thursday, 24 September 2009 to shareholders whose names appear on CITIC Pacific's register of members on Friday, 18 September 2009. CITIC Pacific's register of members will be closed from Monday, 14 September 2009 to Friday, 18 September 2009, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the company's Share Registrars, Tricor 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 Friday, 11 September 2009.

SHARE CAPITAL

CITIC Pacific has not redeemed any of its shares during the six months ended 30 June 2009. Neither the company nor any of its subsidiary companies has purchased or sold any of the company's shares during the six months ended 30 June 2009.

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 CITIC Pacific'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.

HALF-YEAR REPORT AND FURTHER INFORMATION

A copy of the announcement will be found on CITIC Pacific's website (www.citicpacific.com) and the Hong Kong Stock Exchange's website (www.hkex.com.hk). The full Half-Year Report will be made available on the website of CITIC Pacific and the Hong Kong Stock Exchange around 7 September 2009.

By Order of the Board
Stella Chan Chui Sheung
Company Secretary

Hong Kong, 26 August 2009

As at the date of this announcement, the executive directors of CITIC Pacific are Messrs Chang Zhenming (Chairman), Peter Lee Chung Hing, Carl Yung Ming Jie, Vernon Francis Moore, Li Shilin, Liu Jifu, Milton Law Ming To, Wang Ande and Kwok Man Leung; the non-executive directors of CITIC Pacific are Messrs Willie Chang, André Desmarais, Zhang Jijing, Ju Weimin and Peter Kruyt (alternate director to Mr André Desmarais); and the independent non-executive directors of CITIC Pacific are Messrs Hamilton Ho Hau Hay, Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong.