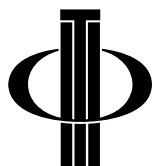


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CITIC PACIFIC

## **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 YEAR ENDED 31 DECEMBER 2009**

## **CHAIRMAN'S LETTER TO SHAREHOLDERS**

Dear Shareholders,

I am pleased to report that CITIC Pacific recorded a profit attributable to shareholders of HK\$5,950 million for the year 2009. This was achieved in a complex and difficult environment.

The conditions under which our businesses operate improved steadily throughout 2009 as major markets in the world began to recover from the economic crisis that began in 2008. Our special steel business was profitable in 2009 despite market challenges. The construction of our iron ore mine in Australia is progressing apace, and our property projects in mainland China were well received by the market when put up for sale.

Our balance sheet remains strong with HK\$36 billion of bank deposits and available committed facilities at the end of 2009, which are sufficient to fund our planned investments. Long-term financing is in place in many of our projects, such as the iron ore mine and properties, and at the corporate level. As we invest in expanded special steel manufacturing capacity, build our iron ore mine and develop our properties, I take note that our net debt to total capital ratio of 42% is higher than ideal. However, as more property projects are completed and sold, and once the iron ore mine begins production, a significant amount of cash will be generated which will reduce our leverage naturally.

The return generated on shareholder's equity for 2009 was 11%. My goal is to see the return increase over time.

We fully appreciate that our investors would like to receive steady dividend payments. After taking into consideration factors including our investment needs and our obligation to repay debts as they mature, your board has recommended paying a final dividend of HK\$0.25 per share, giving you a full year dividend of HK\$0.40 per share.

## **Our Businesses and Development Strategies**

There is no doubt that 2009 was a very challenging year, and so I am very proud of what we have achieved, thanks to the hard work and tireless efforts of our staff in each of our businesses. New products and new markets were developed and businesses were run more efficiently at lower cost. To put it simply, we have people who know their business and who pursue excellence in what they do every day.

### **Special Steel**

In a year in which demand for steel was relatively weak, particularly at the beginning of 2009, our managers focused on rationalising product mix to meet the challenges of a changing marketplace. The result was that sales of our special steel products recorded a slight increase from 2008, and our special steel mills all achieved operating profit. We now have over 2,000 product types, all manufactured to customers' specifications — a characteristic of our special steel production. Product types will be further expanded when our new plate production lines come on stream.

Shareholders will have seen that we are in discussion to sell our 65% interest in Shijiazhuang Special Steel. This steel mill is located in the city centre and for city planning and environmental reasons is required to be relocated outside the city. We believe such a task is best handled by the government rather than a private company. Our intention is to continue to serve our customers by expanding our other facilities. At the same time, we will continue to focus on developing new products and raising their overall quality and technology content. This is essential for our continued success in a competitive environment and maintaining our position as the leading special steel manufacturer in China.

### **Iron Ore Mining**

Our mine will be the largest magnetite iron ore mine in Australia. When I first visited the site, I was struck by its sheer size and scope. As I write to you, the gas pipeline that will fuel the 450MW power station has been laid, and planning is underway for the power station's pre-commissioning, the port is substantially constructed, and the first two grinding mills have been offloaded at the port with preparations underway for their installation. Almost 3,000 workers are now involved in building the project, and at the peak of construction this number will reach 4,500.

We have added experienced personnel to our team. Five senior executives from CITIC Construction have relocated to Perth. They bring with them extensive experience managing large-scale international engineering projects. One of them, Dr. Hua Dongyi, has been appointed Chairman of CITIC Pacific Mining and will work closely with CEO Barry Fitzgerald. We now have a strong team focusing not only on the construction of the mine, but also on its future operation.

As with all large projects, we have to face and solve many issues and problems, big and small, every day. The project involves construction of some of the largest mining equipment and infrastructure in the world, built by numerous contractors. It requires the application of sophisticated knowledge, extensive experience and strong technical support, as well as the need to manage our contractors. Whilst we are making good progress towards our goal of beginning production on the first mill line by the end of 2010, there is still much more to be done, and we face many challenges and tough decisions.

### **Property in mainland China**

Our property developments in mainland China are also making progress. One of the two office towers currently being finished in Shanghai Pudong's Lu Jia Zui financial district was sold to a single corporation, which will make its headquarters there. We are optimistic that the other tower will soon be sold, subject to contract, to another major corporation. Our residential developments in Shanghai, Wuxi, Yangzhou and Jiangyin continue to receive strong interest from buyers. The projects we are developing are large scale, and all are in excellent locations. We will be very busy developing them over the next few years, and we expect to see an increased profit contribution from this business.

I am aware of the current concern that the mainland property market could be overheating. We continue to believe that, although there may be short-term volatility, the long-term outlook for high quality offices and housing in China is bright, driven by rising living standards and urbanisation.

### **Strategies**

During the conversations and meetings my colleagues and I have had with many investors and analysts, two questions have been frequently raised: "What is the business model of CITIC Pacific?" and "What is the company's strategic direction going forward?" More specifically, will we retain only the main businesses of special steel, iron ore mining and property in mainland China and sell everything else?

I believe CITIC Pacific is, and will continue to be, a company with multiple businesses in a few industries. This is a model that works well for us; however, we are not simply an investment holding company with a portfolio of assets, but rather an operating company. A few years ago, we began to focus on three main businesses, and this exercise has been more pronounced in the past year. When we analyse a business, we look at its market position, competitiveness, future prospects and the extent of our ability to influence its management. Based on these principles, in 2009 we disposed of two power stations, sold a 14.5% interest in Cathay Pacific and restructured CITIC Capital, bringing in CIC as a 40% shareholder. Most recently, in February 2010, CITIC Pacific agreed to sell our 20% interest in Macau Telecom (CTM) to our telecom subsidiary, CITIC 1616.

As a result of all these actions, we are now the majority owner of almost all our assets. The three main businesses are of course controlled by CITIC Pacific, and they accounted for 67% of the company's total assets at the end of 2009. The balance of our assets — with the exception of the Western Harbour Tunnel in Hong Kong — are also majority owned. They are the Eastern Harbour Tunnel, Ligang power station and our two listed subsidiaries, DCH and CITIC 1616, which will continue to provide stable profits and cash flows to CITIC Pacific.

Our strategy is clear. We will continue to invest capital in special steel, iron ore mining, their related upstream and downstream industries and property in mainland China. Any future businesses we undertake, whether they are the upstream businesses of sourcing raw materials and participating in supporting transportation infrastructure and logistics or developing downstream products, should have synergies with, or supplement and enhance, the value of the main businesses, particularly steel and mining.

Take steel as an example. We are the largest and leading special steel manufacturer in China. The raw materials used, such as iron ore, coal and alloy, are mostly sourced from third parties on the spot market, which can be unreliable and less cost effective than having our own sources. Once our own iron ore mine is in production, it will help meet the demands of our own steel mills and others too. The coal mine in Shandong province we invested in began small-scale production in late 2008. Its high quality coal is ideal for steel making and power generation. Once in full production, its output will reach six million tonnes a year, supplying not just our steel mills but also our power plants. Accessing raw materials, at production cost, will be very important to the future development of the steel business.

To efficiently transport the ore from our mine to our steel mills, we ordered 12 ships for delivery from 2011 onwards. Our port handling facilities at Jiangyin along the Yangtze River have been expanded to receive these ships, which can sail directly there from Australia. Therefore, having access to efficient transportation is also important.

The ore from our mine will not only supply our own steel mills, but also other mills in China. We have already signed letters of intent with steel mills. We believe selling and trading ore and other commodities will help enhance the value of our mining operations.

## **Our Management and Governance**

2009 was difficult for most major economies and for corporations both large and small. CITIC Pacific was not immune. Not only were we operating in a challenging environment, we were also recovering from the effect that the losses of 2008 had on our organisation.

In April, I became Chairman of CITIC Pacific. Many people have asked me what being a subsidiary of the CITIC Group meant to CITIC Pacific. “How will the company be run in the future?” “Will the culture and values of the company change?” “What are our aspirations?” These are clearly fundamental issues that define who we are and how we intend to move forward. I have given them much thought, and I would like to share some of my thinking with you here.

CITIC Pacific has a proud history. We are managed by a team of highly qualified and experienced professionals who strive to achieve the highest standards. As CITIC Group is now the majority shareholder, we have to be even more vigilant about our obligations to minority shareholders, even as we continue to leverage our relationship with the CITIC Group to access resources and opportunities.

Our employees are very hard working and dedicated. As we evolve to a more formalised decision-making structure with a clear set of guidelines and processes, the businesses will be more resilient in dealing with increasingly volatile conditions. Our employees must become more innovative while operating within the risk management framework we have established, and they will learn to become better managers and better communicators. My aspiration is for CITIC Pacific to be recognised as one of the best-run companies in the world, although I realise that much more needs to be done for us to deserve that accolade.

In my letter of August 2009, I communicated to you a number of initiatives and measures put in place since the end of 2008, with the aim of strengthening corporate governance and improving internal controls.

I am glad to report to you that our investment, executive and asset and liability management committees continue to function well and the overall decision-making process at the company is now more formalised and systematic. Of course, these committees form just one element in our overall effort to put ourselves at the forefront of corporate governance. Equally important is our continued commitment and on-going assessment of areas for improvement. Let me tell you some other initiatives and steps we have taken.

In September 2009, we engaged a consulting firm to conduct a thorough study and assessment of CITIC Pacific's finance function. This exercise not only helped us meet the corporate governance requirements of the Hong Kong Stock Exchange, but more importantly provided us with greater clarity on the adequacy of the finance function in our company. A total of 113 senior employees in our finance areas were interviewed in depth, and a very comprehensive report was produced. I am glad to say that the finance functions at CITIC Pacific are adequately and appropriately staffed with people who have the knowledge and skills to perform well in their respective jobs. However, the report did identify certain areas requiring improvement, including the need for enhanced training and better communication between headquarters and subsidiary companies. We are taking these findings very seriously and have begun to formulate programmes to address them.

One of my goals has been and will continue to be disseminating our financial results to you as early as possible. We have made significant improvements to our reporting process and are upgrading our systems to accelerate the delivery of our accounts to you in the future. Regular readers of our annual report will notice that we have published our 2009 full year results two weeks earlier than in the previous year. We are committed to a more timely release of our financial results, bringing us in line with leading corporations in the world.

For us to do well, we must have the best people — they are our most important asset. Attracting high calibre individuals is crucial to our future as they come with new perspectives, fresh thinking and energy. Our new financial controller and treasurer are quickly making their presence felt and have already made a difference in a short period of time. Our mining management team has also been strengthened with the appointment of a number of experienced executives.

We need not only loyal and capable employees but also strong leaders. I told our shareholders at the Annual General Meeting that I would be looking for a managing director. I am happy to report that Mr. Zhang Jijing was appointed to this position in November 2009. Mr. Zhang has been with the CITIC Group for over 24 years and has broad experience in both China and Australia, where he worked for 16 years. I believe he is the ideal person to implement our business strategy. Mr. Zhang will work with me, the board and the management team to take CITIC Pacific forward.

At the board level, I am mindful of the fact that structural changes may be needed to meet today's governance standards, in particular the need for more independent directors. This is an area we will address.

We have accomplished much in one of the most difficult operating environments in recent history. The foundations we have laid so far will enable us to grow in a rational manner. But there is still much to be done, and together with our management team I will continue to drive the process of change. Markets are becoming increasingly competitive, and the macro environment is not always going to be in our favour. Our challenge is to continue to perform to the best of our ability and to generate strong returns for our shareholders. I believe that if we can continue to identify and grasp opportunities, the fundamentals are in place for continued success. We have got off to a good start in 2010, and I would like to invite you to share my cautious optimism for the new year – the year of the Tiger!

In closing, I would like to thank our board and our hard working employees for the results we achieved. To our investors and banks, I thank you for your continued support.

Chang Zhenming  
Chairman

Hong Kong, 10 March 2010

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 HK\$m	As restated 2008 HK\$m
Turnover	2	46,409	46,420
Cost of sales		(38,248)	(38,367)
		<hr/>	<hr/>
Gross profit		8,161	8,053
Other income/(loss) and net gains/(losses)	3	2,632	(13,568)
Distribution and selling expenses		(1,470)	(1,477)
Other operating expenses		(3,523)	(3,028)
Change in fair value of investment properties		90	12
		<hr/>	<hr/>
Profit/(loss) from consolidated activities	2	5,890	(10,008)
Share of results of	2		
Jointly controlled entities		2,018	200
Associated companies		642	(1,761)
		<hr/>	<hr/>
Profit/(loss) before net finance charges and taxation		8,550	(11,569)
		-----	-----
Finance charges		(937)	(1,287)
Finance income		313	499
		<hr/>	<hr/>
Net finance charges	5	(624)	(788)
		<hr/>	<hr/>
Profit/(loss) before taxation		7,926	(12,357)
Taxation	6	(1,097)	578
		<hr/>	<hr/>
Profit/(loss) for the year		6,829	(11,779)
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Shareholders of the Company	2	5,950	(12,687)
Minority interests		879	908
		<hr/>	<hr/>
		6,829	(11,779)
		<hr/> <hr/>	<hr/> <hr/>
Dividends	7	(1,459)	(658)
		<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share for profit/(loss) attributable to shareholders of the Company during the year (HK\$)	8		
Basic		1.63	(5.70)
		<hr/> <hr/>	<hr/> <hr/>
Diluted		1.63	(5.70)
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 HK\$m	2008 HK\$m
Profit/(loss) for the year	6,829	(11,779)
Other comprehensive income, net of tax		
Cash flow hedging reserves movement from interest rate swap and foreign exchange contracts	4,312	(3,459)
Transfer from investment revaluation reserve to profit and loss account on disposal of other financial assets	(80)	(4,095)
Fair value changes from other financial assets	509	(453)
Transfer to profit and loss account on impairment of other financial assets	-	98
Share of other comprehensive income of associated companies and jointly controlled entities	51	(35)
Exchange translation differences	246	1,979
Reserve released on disposal/dilution of interest in jointly controlled entities	(27)	(93)
Reserve released on disposal of interest in associated companies	50	-
	<u>11,890</u>	<u>(17,837)</u>
<b>Total comprehensive income for the year</b>	<b>11,890</b>	<b>(17,837)</b>
Total comprehensive income for the year attributable to		
Shareholders of the Company	11,000	(19,023)
Minority interests	890	1,186
	<u>11,890</u>	<u>(17,837)</u>
	<b>11,890</b>	<b>(17,837)</b>

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009

	Note	2009 HK\$m	As restated 31 December 2008 HK\$m	As restated 1 January 2008 HK\$m
<b>Non-current assets</b>				
Property, plant and equipment		39,236	23,028	12,154
Investment properties		11,164	11,230	10,895
Properties under development		9,065	8,630	4,245
Leasehold land		2,377	2,320	1,641
		61,842	45,208	28,935
Jointly controlled entities		22,097	21,140	17,446
Associated companies		5,611	14,801	17,683
Other financial assets		2,198	1,063	7,502
Intangible assets		10,913	8,979	4,602
Deferred tax assets		554	1,967	100
Derivative financial instruments	11	748	235	150
Non-current deposits		6,480	8,709	5,723
		110,443	102,102	82,141
<b>Current assets</b>				
Properties under development		2,172	1,218	43
Properties held for sale		1,651	733	440
Other assets held for sale		1,765	-	1,127
Inventories		6,983	5,605	5,982
Derivative financial instruments	11	92	1,016	251
Debtors, accounts receivable, deposits and prepayments	9	11,082	9,931	8,041
Cash and bank deposits		21,553	18,296	8,045
		45,298	36,799	23,929
<b>Current liabilities</b>				
Bank loans, other loans and overdrafts				
- secured		105	490	328
- unsecured		4,252	8,892	3,326
Creditors, accounts payable, deposits and accruals	10	19,992	13,500	10,661
Derivative financial instruments	11	167	3,043	66
Provision for taxation		243	274	590
Liabilities held for sale		-	-	2
		24,759	26,199	14,973
Net current assets		20,539	10,600	8,956
Total assets less current liabilities		130,982	112,702	91,097
<b>Non-current liabilities</b>				
Long term borrowings		61,318	47,852	25,000
Deferred tax liabilities		1,891	1,710	1,587
Derivative financial instruments	11	1,727	6,682	69
Provisions		807	734	-
		65,743	56,978	26,656
Net assets		65,239	55,724	64,441

**CONSOLIDATED BALANCE SHEET (Continued)**  
**AS AT 31 DECEMBER 2009**

	Note	2009 HK\$m	As restated 31 December 2008 HK\$m	As restated 1 January 2008 HK\$m
Equity				
Share capital		1,459	1,458	885
Reserves		57,888	48,230	56,880
Proposed dividend	7	912	-	1,770
		<hr/>	<hr/>	<hr/>
Equity attributable to shareholders of the Company		60,259	49,688	59,535
Minority interests in equity		4,980	6,036	4,906
		<hr/>	<hr/>	<hr/>
Total equity		<u>65,239</u>	<u>55,724</u>	<u>64,441</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts (“the Accounts”) of CITIC Pacific Limited (the “Company”) and its subsidiary companies (together the “Group”) are set out below. These policies have been consistently applied to each of the years presented, other than the adoption of new or revised Hong Kong Financial Reporting Standards (“HKFRS”) in 2009 as set out below. The Accounts have been prepared in accordance with HKFRS, and under the historical cost convention, except as disclosed in the accounting policies. The applicable HKFRS include all applicable Hong Kong Accounting Standards (“HKAS”) and Hong Kong International Financial Reporting Interpretations (“HK(IFRIC)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The following standards, amendments or interpretations became effective in 2009 and are relevant to the Group.

<u>Standard No.</u>	<u>Title</u>	<u>Effect</u>
HKAS 1 (Revised)	Presentation of financial statements	Note (a)
HKAS 16 (Amendment)	Property, plant and equipment	Insignificant
HKAS 23 (Revised)	Borrowing costs	Insignificant
HKAS 28 (Amendment)	Investments in associates	Insignificant
HKAS 32 (Amendment)	Financial instruments: Presentation	Insignificant
HKAS 36 (Amendment)	Impairment of assets	Insignificant
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement	Insignificant
HKAS 40 (Amendment)	Investment property	Note (b)
HKFRS 7 (Amendment)	Financial instruments: Disclosures	Note (c)
HKFRS 8	Operating segments	Note (d)
HK(IFRIC) Interpretation 13	Customer loyalty programmes	Note (e)

Adoption of the above standards has not had a significant impact on these Accounts except as stated below.

- (a) Under HKAS 1(Revised), entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). The Group has elected to present two performance statements.
- (b) As a result of amendments to HKAS 40, “Investment property”, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the years presented.

## 1 Significant accounting policies (Continued)

- (c) As a result of the adoption of the amendments to HKFRS 7 “Financial instruments: Disclosures”, the Accounts include expanded disclosures about the fair value measurement of the Group’s financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable marketable data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- (d) 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 a 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.

- (e) 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 up until August 2009 and reduced 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. There is no material impact to the Group’s results for the year.

HKAS 24 “Related party disclosure” (Revised) reduces the related party disclosure requirements for transactions with the government and other government related entities as well as clarifies and simplifies the definition of a related party. The Group has adopted the partial exemption in the disclosure requirements for government-related entities as permitted under HKAS 24 (Revised), which has no effect on the financial statements other than more simplified disclosures on transactions with government-related entities.

The following new standards, amendments and interpretations which have been issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as of 31 December 2009 may impact the Group in future years but are not yet effective for the year ended 31 December 2009:

## 1 Significant accounting policies (Continued)

<u>Standard No.</u>	<u>Title</u>	<u>Applicable accounting period to the Group</u>
HKFRS 3 (revised)	Business combinations	2010
Amendment to HKAS 27	Consolidated and separate financial statements	2010
Amendment to HKAS 39	Financial instruments: Recognition and measurement – Eligible hedged items	2010
HK(IFRIC) 17	Distribution of non-cash assets to owners	2010
Improvement to HKFRS 2009		2010
HKAS 24	Related party disclosure (revised)	2011
HKFRS 9	Financial instruments	2013

The adoption of the above standards, amendments or interpretations in the years listed and the Group is in the process of assessing their impact on future accounting periods.

## 2 Segment information

### (a) Turnover and profit/(loss) attributable to shareholders of the Company:

Year ended 31 December 2009	Turnover Note (a) HK\$m	Profit/(loss) from consolidated activities HK\$m	Share of results of jointly controlled entities HK\$m	Share of results of associated companies HK\$m	Interest income HK\$m	Finance charges HK\$m	Group total HK\$m	Segment allocations Note (b) HK\$m	Segment profit/(loss) HK\$m	Taxation HK\$m	Minority interests HK\$m	Profit/(loss) attributable to shareholders of the Company HK\$m
Special steel	19,079	1,591	371	29	151	(162)	1,980	-	1,980	(317)	(248)	1,415
Iron ore mining	27	484	-	-	1	-	485	-	485	(109)	-	376
Property												
Mainland China	1,390	654	-	-	40	(25)	669	4	673	(161)	12	524
Hong Kong	257	189	-	141	-	-	330	86	416	(19)	-	397
Energy	-	(65)	1,018	(16)	-	-	937	-	937	(51)	-	886
Tunnels	724	488	148	-	-	-	636	-	636	(80)	(119)	437
Dah Chong Hong	22,131	1,090	73	28	12	(112)	1,091	(90)	1,001	(252)	(347)	402
CITIC 1616	2,716	444	-	(1)	5	-	448	-	448	(75)	(177)	196
Other investments (Note (c))	85	1,060	408	411	6	-	1,885	-	1,885	7	-	1,892
Change in fair value of investment properties	-	90	-	50	-	-	140	-	140	(20)	-	120
Corporate												
General and administration expenses	-	(562)	-	-	-	-	(562)	-	(562)	(20)	-	(582)
Gain from leveraged foreign exchange contracts	-	283	-	-	-	-	283	-	283	(88)	-	195
Exchange gain	-	144	-	-	-	-	144	-	144	-	-	144
Net finance charges	-	-	-	-	98	(638)	(540)	-	(540)	88	-	(452)
<b>Total</b>	<b>46,409</b>	<b>5,890</b>	<b>2,018</b>	<b>642</b>	<b>313</b>	<b>(937)</b>	<b>7,926</b>	<b>-</b>	<b>7,926</b>	<b>(1,097)</b>	<b>(879)</b>	<b>5,950</b>

#### Note:

- Companies making up each reportable segment are set out in the notes to the accounts.
- Segment allocations arise from property leases between segments carried out at arms' length rentals.
- Other investments segment had included Aviation segment which comprised a profit of approximately HK\$1 billion from disposal of interests in Cathay Pacific Airways Ltd.

## 2 Segment information (Continued)

### (a) Turnover and profit/(loss) attributable to shareholders of the Company:

Year ended 31 December 2008 (as restated)	Turnover HK\$m	Profit/ (loss) from consolidated activities HK\$m	Share of results of jointly controlled entities HK\$m	Share of results of associated companies HK\$m	Interest income HK\$m	Finance charges HK\$m	Group total HK\$m	Segment allocations HK\$m	Segment profit/(loss) HK\$m	Taxation HK\$m	Minority interests HK\$m	Profit/(loss) attributable to shareholders of the Company HK\$m
Special steel	22,758	2,147	53	-	266	(141)	2,325	-	2,325	(344)	(364)	1,617
Iron ore mining	27	(133)	-	-	1	-	(132)	-	(132)	9	-	(123)
Property												
Mainland China	544	590	16	-	57	(41)	622	4	626	(109)	6	523
Hong Kong	243	343	-	62	-	-	405	89	494	(4)	-	490
Energy	-	(358)	(243)	(507)	2	-	(1,106)	-	(1,106)	16	-	(1,090)
Tunnels	734	498	142	-	1	-	641	-	641	(74)	(124)	443
Aviation	-	402	-	(1,432)	11	-	(1,019)	-	(1,019)	-	-	(1,019)
Dah Chong Hong	19,496	919	64	(11)	27	(132)	867	(93)	774	(191)	(263)	320
CITIC 1616	2,486	393	-	(1)	21	(1)	412	-	412	(68)	(163)	181
Other investments	132	1,203	168	128	1	-	1,500	-	1,500	2	-	1,502
Change in fair value of investment properties	-	12	-	-	-	-	12	-	12	(45)	-	(33)
Corporate												
General and administration expenses	-	(348)	-	-	-	-	(348)	-	(348)	79	-	(269)
Loss from leveraged foreign exchange contracts	-	(15,891)	-	-	-	-	(15,891)	-	(15,891)	1,259	-	(14,632)
Exchange gain	-	215	-	-	-	-	215	-	215	-	-	215
Net finance charges	-	-	-	-	112	(972)	(860)	-	(860)	48	-	(812)
<b>Total</b>	<b>46,420</b>	<b>(10,008)</b>	<b>200</b>	<b>(1,761)</b>	<b>499</b>	<b>(1,287)</b>	<b>(12,357)</b>	<b>-</b>	<b>(12,357)</b>	<b>578</b>	<b>(908)</b>	<b>(12,687)</b>

## 2 Segment information (Continued)

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

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

	2009 HK\$m	2008 HK\$m
Mainland China	34,467	33,125
Hong Kong	9,891	10,968
Other countries	2,051	2,327
	<u>46,409</u>	<u>46,420</u>

## 2 Segment information (Continued)

### (b) Assets and liabilities

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

	Segment assets		Investments in jointly controlled entities		Investments in associated companies		Total assets		Segment liabilities		Total net assets		Additions of non-current assets (other than financial instruments and deferred tax assets)	
	2009	2008	2009	2008	2009	As restated 2008	2009	As restated 2008	2009	As restated 2008	2009	As restated 2008	2009	As restated 2008
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
By principal activities														
Special steel	34,271	27,938	4,291	4,444	148	118	38,710	32,500	(18,146)	(14,572)	20,564	17,928	6,296	8,631
Iron ore mining	36,026	24,187	-	-	-	-	36,026	24,187	(25,977)	(16,112)	10,049	8,075	10,310	11,113
Property														
Mainland														
China	24,263	20,323	5,465	5,650	-	-	29,728	25,973	(7,158)	(4,391)	22,570	21,582	3,325	5,346
Hong Kong	6,389	6,425	-	-	4,704	4,696	11,093	11,121	(473)	(492)	10,620	10,629	20	6
Energy	301	358	6,567	5,632	-	1,775	6,868	7,765	(52)	(8)	6,816	7,757	-	2,359
Tunnels	980	983	948	900	-	-	1,928	1,883	(194)	(192)	1,734	1,691	-	-
Aviation	-	-	-	-	-	7,699	-	7,699	-	-	-	7,699	15	-
Dah Chong														
Hong	11,072	10,781	258	234	130	148	11,460	11,163	(5,704)	(5,994)	5,756	5,169	524	797
CITIC 1616	2,532	2,397	-	-	-	5	2,532	2,402	(749)	(819)	1,783	1,583	376	370
Other investments	4,040	862	4,568	4,280	629	360	9,237	5,502	(113)	(130)	9,124	5,372	-	-
Corporate	8,159	8,706	-	-	-	-	8,159	8,706	(31,936)	(40,467)	(23,777)	(31,761)	-	-
Segment assets/(liabilities)	<u>128,033</u>	<u>102,960</u>	<u>22,097</u>	<u>21,140</u>	<u>5,611</u>	<u>14,801</u>	<u>155,741</u>	<u>138,901</u>	<u>(90,502)</u>	<u>(83,177)</u>	<u>65,239</u>	<u>55,724</u>	<u>20,866</u>	<u>28,622</u>

Corporate segment assets and liabilities mainly represent financial instruments, cash and bank deposits and borrowings which are managed centrally by the group treasury function and are not allocated to individually reportable segments.

## 2 Segment information (Continued)

### (b) Assets and liabilities (Continued)

An analysis of the Group's non-current assets (other than financial instruments and deferred tax assets) by geographical area is as follows:

	2009 HK\$m	2008 HK\$m
Mainland China	59,132	54,505
Hong Kong	18,934	24,352
Australia	30,215	20,166
Other countries	860	877
	<u>109,141</u>	<u>99,900</u>

### 3 Other income/(loss) and net gains/ (losses)

	2009 HK\$m	2008 HK\$m
Other income		
Commission income, subsidy income and rebates	202	160
Dividend income from other financial assets		
- Listed shares	3	89
- Co-operative joint ventures	-	7
	<u>205</u>	<u>256</u>
	-----	-----
Gain/(loss) from leveraged foreign exchange contracts (note i)		
- net realised gain/(loss)	84	(12,691)
- unrealised gain/(loss)	199	(3,200)
	<u>283</u>	<u>(15,891)</u>
	-----	-----
Net exchange gain (note ii)	707	192
Net gain from disposal of subsidiary company	-	170
Net (loss)/gain from disposal/deemed disposal of jointly controlled entities	(76)	422
Net gain from disposal of associated companies	1,154	-
Net gain from sale of other financial assets, mainly listed investments	86	1,215
Net gain from disposal of fixed assets	92	-
Others	181	68
	<u>1,437</u>	<u>1,875</u>
	-----	-----
	<u>2,632</u>	<u>(13,568)</u>
	=====	=====

#### Notes :

- (i) In 2008, the Group entered into multiple Australian dollar (AUD), Euro and Renminbi (RMB) leveraged foreign exchange contracts with the intention of minimizing currency exposure of the Group's iron ore mining project. These contracts were not eligible for hedge accounting and gains and losses arising from changes in the fair market value of these contracts were reflected in the profit and loss account. The Group incurred a total loss of HK\$15.9 billion in 2008 in respect of such contracts. Most of the losses arose on AUD contracts. There was a significant change in the AUD to the USD exchange rate which combined with their leveraged features resulted in the amount of AUD deliverable to the Group increasing significantly and exceeding the Group's need for AUD.

All of the leveraged foreign exchange contracts were novated to CITIC Group, terminated, or restructured into plain vanilla forward contracts (that are eligible for hedge accounting), during the period from December 2008 to May 2009, with the exception of three RMB leveraged foreign exchange contracts at a negative fair value of HK\$108 million as at 31 December 2009 and which mature in 2010. A net gain of HK\$283 million was recognised for the year ended 31 December 2009 in relation to leveraged foreign exchange contracts, which comprised gains and costs incurred upon termination and restructuring of outstanding AUD and Euro leveraged foreign exchange contracts, realised gains and losses on taking delivery of foreign currencies under these leveraged contracts, and unrealised gains on revaluation of the RMB leveraged foreign exchange contracts.

- (ii) The realised and unrealised exchange gain of HK\$707 million (2008: HK\$192 million) mainly represents the net exchange gain on Australian dollars bank balances received upon settlement of the forward foreign exchange contracts arising from their revaluation to the exchange rate at 31 December 2009.

#### 4 Profit/(loss) from consolidated activities

	2009 HK\$m	2008 HK\$m
The profit/(loss) from consolidated activities is arrived at after charging:		
Cost of inventories	33,566	35,206
Depreciation of property, plant and equipment	1,001	940
Amortisation of leasehold land	61	44
Amortisation of intangible assets	124	107
Impairment losses provision on :		
Other financial assets	114	177
Property, plant and equipment	13	2
Jointly controlled entities and associated companies	339	403
Trade and other receivable	19	41
Intangible assets	2	27
	<u>          </u>	<u>          </u>

#### 5 Net finance charges

	2009 HK\$m	2008 HK\$m
Finance charges		
Interest expense		
Bank loans and overdrafts wholly repayable within five years	1,240	1,124
Bank loans not wholly repayable within five years	947	427
Other loans wholly repayable within five years	268	268
Other loans not wholly repayable within five years	11	14
	<u>          </u>	<u>          </u>
	2,466	1,833
Amount capitalised	(1,816)	(1,086)
	<u>          </u>	<u>          </u>
	650	747
Other finance charges	62	47
Other financial instruments		
Net realised loss	155	-
Fair value loss	70	493
	<u>          </u>	<u>          </u>
	937	1,287
Finance income		
Interest income	(313)	(499)
	<u>          </u>	<u>          </u>
	624	788
	<u>          </u>	<u>          </u>

## 6 Taxation

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

	2009 HK\$m	2008 HK\$m
Current taxation		
Hong Kong profits tax	226	120
Overseas taxation	553	570
Deferred taxation		
Changes in fair value of investment properties	19	51
Origination and reversal of other temporary differences		
- arising from leveraged foreign exchange contracts of an		
Australian subsidiary company	88	(1,259)
- others	210	(27)
Effect of tax rate changes	1	(33)
	<u>1,097</u>	<u>(578)</u>

## 7 Dividends

	2009 HK\$m	2008 HK\$m
2008 Final dividend paid: HK\$Nil (2007: HK\$0.80) per share	-	1,757
Interim		
2009 Interim dividend paid: HK\$0.15 (2008: HK\$0.30) per share	547	658
Final		
2009 Final dividend proposed: HK\$0.25 (2008: HK\$Nil) per share	912	-
	<u>1,459</u>	<u>658</u>
Dividend per share (HK\$)	<u>0.40</u>	<u>0.30</u>

## 8 Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on the consolidated profit attributable to shareholders of HK\$5,950 million (2008: loss of HK\$12,687 million).

The basic earnings/(loss) per share is based on the weighted average number of 3,646,765,954 shares in issue during the year (2008: 2,227,717,822 shares in issue). Diluted earnings per share for the year ended 31 December 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 year ended 31 December 2009.

## 9 Debtors, accounts receivable, deposits and prepayments

	2009	2008
	HK\$m	HK\$m
Trade debtors and bills receivable aged:		
- Within 1 year	5,322	5,281
- Over 1 year	134	56
	<u>5,456</u>	<u>5,337</u>
Accounts receivable, deposits and prepayments	5,626	4,594
	<u>11,082</u>	<u>9,931</u>

Note:

- (i) Trade debtors are net of provision 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 approximate their fair value.
- (iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK\$183 million (2008: HK\$181 million), which are unsecured, interest free and recoverable on demand, except for an amount of HK\$Nil (2008: HK\$1.3 million) which is interest bearing, and amounts due from associated companies of HK\$27 million (2008: HK\$27 million) which are unsecured, interest free and recoverable on demand.

## 10 Creditors, accounts payable, deposits and accruals

	2009	2008
	HK\$m	HK\$m
Trade creditors and bills payable aged:		
- Within 1 year	6,983	5,517
- Over 1 year	482	424
	<u>7,465</u>	<u>5,941</u>
Accounts payable, deposits and accruals	12,527	7,559
	<u>19,992</u>	<u>13,500</u>

Note:

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

## 11 Derivative financial instruments

	2009		2008	
	Assets HK\$m	Liabilities HK\$m	Assets HK\$m	Liabilities HK\$m
Qualified for hedge accounting – cash flow hedges				
- Interest-rate instruments	-	1,470	-	4,150
- Forward foreign exchange instruments	585	148	21	990
	<u>585</u>	<u>1,618</u>	<u>21</u>	<u>5,140</u>
	-----	-----	-----	-----
Not qualified for hedge accounting				
- Interest-rate instruments	218	151	222	458
- Forward foreign exchange instruments	37	125	1,008	4,127
	<u>255</u>	<u>276</u>	<u>1,230</u>	<u>4,585</u>
	-----	-----	-----	-----
	<u>840</u>	<u>1,894</u>	<u>1,251</u>	<u>9,725</u>
	-----	-----	-----	-----
Less: current portion				
- Interest-rate instruments	58	40	50	63
- Forward foreign exchange instruments	34	127	966	2,980
	<u>92</u>	<u>167</u>	<u>1,016</u>	<u>3,043</u>
	-----	-----	-----	-----
	<u>748</u>	<u>1,727</u>	<u>235</u>	<u>6,682</u>
	=====	=====	=====	=====

## 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 AND ANALYSIS

## Group Debt and Liquidity

The net debt of CITIC Pacific as at 31 December 2009 as compared with 31 December 2008 is as follows:

<i>HK\$ million</i>	<b>2009</b>	2008
Total debt	<b>65,675</b>	57,234
Cash and bank deposits	<b>21,553</b>	18,296
Net debt	<b>44,122</b>	38,938

Leverage (Net debt to Total capital*)	<b>42%</b>	44%
--	------------	-----

\* Total capital = Shareholders' funds + Net debt

The denomination of CITIC Pacific's borrowings and cash and bank deposit balances by currency as at 31 December 2009 is summarised as follows:

<i>HK\$ million equivalent</i>	Denomination					<b>Total</b>
	HK\$	US\$	RMB	JPY	Other	
Total debt in original currency	11,405	40,834	12,805	534	97	<b>65,675</b>
Total debt after hedging	16,957	35,811	12,805	5	97	<b>65,675</b>
Cash and bank deposits	4,843	9,119	7,046	218	327	<b>21,553</b>
Net debt / (cash) after hedging	12,114	26,692	5,759	(213)	(230)	<b>44,122</b>

As at 31 December 2009, assets of HK\$903 million (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, iron ore mining assets of HK\$24 billion were pledged under its project financing. Contracts for building 12 ships (HK\$5 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

CITIC Pacific emphasises 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 CITIC Pacific's ability to refinance the debt in that year.

<i>HK\$ million</i>	2010	2011	2012	2013	2014	2015 and beyond	Total	Percentage
Parent company <sup>1</sup>	700	9,494 <sup>1</sup>	7,350	4,595	1,285	7,149 <sup>1</sup>	30,573	47%
Subsidiaries	3,657	5,130	3,311	2,693	1,628	18,683	35,102	53%
Total maturing debt	4,357	14,624	10,661	7,288	2,913	25,832	65,675	100%

1 Including through wholly-owned special purpose vehicles.

## Available Sources of Financing

In addition to the cash and deposits balance of HK\$22 billion, as at 31 December 2009 CITIC Pacific had available loan and trade facilities totalling HK\$17 billion and HK\$4 billion respectively. Borrowings by source of financing as at 31 December 2009 are summarised as follows:

<i>HK\$ million</i>	Total facilities	Amount utilised	Available unutilised facilities
<b>Committed facilities</b>			
Term loans	73,449	58,879	14,570
Global bonds (USD bond)	3,510	3,510	-
Private placement (JPY bond)	529	529	-
<b>Total committed facilities</b>	<b>77,488</b>	<b>62,918</b>	<b>14,570</b>
<b>Uncommitted facilities</b>			
Money market lines and short-term facilities	4,776	2,718	2,058
Trade facilities	5,767	1,490	4,277
<b>Total uncommitted facilities</b>	<b>10,543</b>	<b>4,208</b>	<b>6,335</b>

As at 31 December 2009, total committed facilities were HK\$77 billion, of which HK\$15 billion (19%) 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

CITIC Pacific's overall risk management programme seeks to minimise the impact of fluctuations in exchange rates, interest rates and various input cost fluctuations on its 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 to be followed throughout the organisation and to monitor risk 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 both in economic terms and under accounting rules.

In June 2009 CITIC Pacific engaged Reval Inc., 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 the compilation of the annual report.

The use of financial instruments is currently 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 specific approval of ALCO. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred.

It is CITIC Pacific's policy not to enter into derivative transactions for speculative purposes.

### Foreign Exchange Risk

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

We strive to reduce currency exposure by matching assets with borrowings in the same currency to the extent possible. Our policy is 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.

CITIC Pacific's material currency exposures arise from:

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

Translation exposures from the consolidation of subsidiaries whose functional currency is not HKD are not hedged, as this is a non-cash exposure.

Our 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 up to 2013 at an average rate of 0.82.

CITIC Pacific's investment in businesses whose functional currency is USD is mostly attributable to the iron ore mining business, which had USD gross assets of HK\$35 billion. The company uses its USD borrowings to hedge these USD assets through a net investment hedge. As at 31 December 2009, CITIC Pacific had HK\$41 billion equivalent of US dollar debt, of which HK\$5 billion was economically hedged using plain vanilla forwards and cross currency swaps.

Businesses in mainland China had RMB gross assets of approximately HK\$87 billion as at 31 December 2009, offset by debts and other liabilities of HK\$29 billion. This gave the company an RMB net asset exposure of HK\$58 billion. As investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi.

## Interest Rate Risk

CITIC Pacific's interest rate risk arises primarily from borrowings. Borrowings subject to variable rates expose CITIC Pacific to cash flow interest rate risk. Borrowings subject to fixed rates economically expose CITIC Pacific to fair value interest rate risk.

This risk is managed by considering the portfolio of interest bearing assets and liabilities. The net desired position is then managed by borrowing fixed rate or through the use of interest rate swaps, which have the economic effect of converting floating rate borrowings into fixed rate borrowings.

The appropriate ratio of fixed/floating risk for CITIC Pacific 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 CITIC Pacific's business and investments. The current ratio of fixed rate to the total borrowings of the portfolio for CITIC Pacific stands at 38%.

As at 31 December 2009, CITIC Pacific's portfolio of floating to fixed interest rate derivative contracts had a notional amount of HK\$21 billion. After hedging, 62% of the borrowings of CITIC Pacific were linked to floating interest rates.

CITIC Pacific's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) in 2009 was approximately 3.7% compared with 4.7% in 2008.

## Counterparty Risk

CITIC Pacific deals with international financial institutions with a credit rating of investment grade A- (S&P) or A3 (Moody's) and above unless special authorisation has been received from the asset and liability management committee. For unrated mainland Chinese institutions, special authorisation is required from ALCO. 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 allocating and monitoring the limits with the list of approved financial institutions. Management does not expect any losses from non-performance by our financial counterparties.

## Liquidity Risk

CITIC Pacific 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, 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.

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

## **Capital Commitments and Contingent Liabilities**

As at 31 December 2009, the contracted capital commitments of CITIC Pacific Limited and its subsidiary companies were approximately HK\$20 billion and the contingent liabilities had not changed significantly from the previous year end.

## **HUMAN RESOURCES**

CITIC Pacific, including its principal subsidiaries worldwide, employed a total of 30,329 staff as at December 2009 (2008: 28,654). 82% of the staff were based in mainland China; 15% in Hong Kong; 2% in Australia and the other 1% in Japan, Singapore, Taiwan and Canada. There was a 5.9% growth in our workforce in 2009 as compared with 2008. The main increases came from the Mainland Property, CITC 1616 and Iron Ore Mining business segments as a result of new development projects and acquisition.

CITIC Pacific offers competitive remuneration packages which are reviewed annually to ensure their competitiveness. In addition to guaranteed base pay and comprehensive benefits programs, CITIC Pacific has implemented a variable bonus that links pay with individual performance and business results. Over the years, this variable pay policy has proved to be effective in motivating individual's performance.

With the recovery of business in 2009, CITIC Pacific resumed the bonus award suspended in 2008 to its directors. However the total remuneration paid to the directors this year is still substantially lower than 2007.

To prepare its staff for the ever-changing challenges of the marketplace, CITIC Pacific organises a wide range of internal and external training programmes as well as seminars to expand the business expertise, competencies, skill sets and industry knowledge of its staff. With the continuing growth of mainland business, CITIC Pacific encourages and facilitates various kinds of knowledge sharing and skills transfer between staff in Hong Kong and mainland China. CITIC Pacific also supports and encourages self-initiated personal development plan through financial sponsorship.

To enhance the sense of engagement, pride and community among staff, numerous activities and interest groups have been organised throughout the year. In 2009, various activities such as singing and photography competition, outing etc were held in the mainland business units to celebrate the 60th anniversary of the People's Republic of China.

## Corporate Social Responsibility

As a socially-responsible organization, CITIC Pacific has contributed to the community by supporting and sponsoring different kinds of social activities in Hong Kong, the mainland and overseas, such as the “Path Builders” Training Project, “Work Ready Program” in Australia, Walk for Millions, Oxfam Rice Sale, Oxfam Trailwalker and donation for the Taiwan earthquake etc.

## SHARE OPTION PLAN

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 CITIC Pacific or any of its subsidiaries to subscribe for options over CITIC Pacific’s shares. Since the adoption of the Plan and up to the year ended 31 December 2009, CITIC Pacific has granted five lots of share options:-

<u>Date of grant</u>	<u>Number of share options</u>	<u>Exercise price</u> <u>HK\$</u>
28 May 2002	11,550,000	18.20
1 November 2004	12,780,000	19.90
20 June 2006	15,930,000	22.10
16 October 2007	18,500,000	47.32
19 November 2009	13,890,000	22.00

Subsequent to the year end, CITIC Pacific has granted 880,000 share options on 14 January 2010 at the exercise price of HK\$20.59 per share.

All options granted and accepted under the Plan 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 during the year ended 31 December 2009.

The share options at the exercise price of HK\$18.20 and HK\$19.90 expired at the close of business on 27 May 2007 and 31 October 2009 respectively.

## CORPORATE GOVERNANCE

CITIC Pacific is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to maintain and promote investor confidence, protect the interests of shareholders and enhance shareholder value. A number of initiatives and measures have been taken and put in place since the end of 2008, with the aim of strengthening corporate governance and improving internal controls at CITIC Pacific. Over the past eighteen months, CITIC Pacific has established or redefined the roles of a number of committees to oversee its corporate governance. These include an asset and liability management committee, investment committee and executive committee, all of which have made the overall decision-making process at CITIC Pacific more formalised and systemised. A special committee to deal with matters relating to the investigation of CITIC Pacific by the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force was also established in April 2009. A special committee to deal with CITIC Pacific’s leveraged foreign exchange contracts has completed its tasks and was dissolved.

Following the appointment of Mr Zhang Jijing as managing director of CITIC Pacific on 18 November 2009, the roles of chairman and chief executive officer were separated and assumed by Mr Chang Zhenming and Mr Zhang Jijing respectively. Aside from this, CITIC Pacific complied throughout 2009 with all of the provisions in the code on corporate governance practices contained in appendix 14 of the Listing Rules. The audit committee of the board reviewed the 2009 financial statements with management and the company's auditors and recommended its adoption by the board. The committee consists of three non-executive directors of whom two are independent.

## **DIVIDEND AND CLOSURE OF REGISTER**

The directors have resolved to recommend to shareholders the payment of a final dividend of HK\$0.25 per share (2008: Nil), which together with the interim dividend of HK\$0.15 per share (2008: HK\$0.30 per share) already paid makes a total dividend of HK\$0.40 per share (2008: HK\$0.30 per share) for the year ended 31 December 2009. The total dividend of HK\$0.40 per share will amount to HK\$1,459 million of the company's profit for the year ended 31 December 2009 (2008: HK\$658 million).

The proposed final dividend of HK\$0.25 per share, the payment of which is subject to approval of the shareholders at the forthcoming annual general meeting of CITIC Pacific to be held on Friday, 14 May 2010, is to be payable on Monday, 24 May 2010 to shareholders whose names appear on the Register of Members of CITIC Pacific on 14 May 2010.

The Register of Members of CITIC Pacific will be closed from Monday, 10 May 2010 to Friday, 14 May 2010, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with CITIC Pacific'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, 7 May 2010.

## **SHARE CAPITAL**

CITIC Pacific has not redeemed any of its shares during the year ended 31 December 2009. Neither CITIC Pacific nor any of its subsidiary companies has purchased or sold any of CITIC Pacific's shares during the year ended 31 December 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.

## **ANNUAL REPORT AND FURTHER INFORMATION**

A copy of the announcement will be found on CITIC Pacific's website ([www.citicpacific.com](http://www.citicpacific.com)) and the Hong Kong Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)). The full Annual Report will be made available on the website of CITIC Pacific and the Hong Kong Stock Exchange around 29 March 2010.

By Order of the Board  
**Ricky Choy Wing Kay**  
*Company Secretary*

Hong Kong, 10 March 2010

*As at the date of this announcement, the executive directors of CITIC Pacific are Messrs Chang Zhenming (Chairman), Zhang Jijing, 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, Ju Weimin, Yin Ke and Peter Kruyt (alternate director to Mr André Desmarais); and the independent non-executive directors of CITIC Pacific are Messrs Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong.*