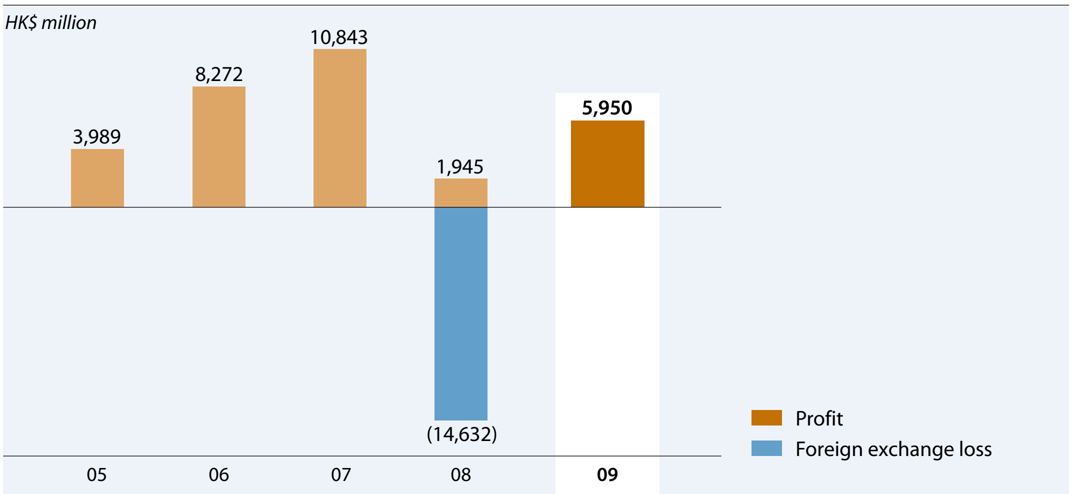
Financial Review

A net profit of HK$5,950 million was attributable to shareholders for the fiscal year 2009, showing a strong improvement compared with a net loss of HK$12,687 million for 2008, of which HK$14,632 million was attributable to after tax foreign exchange losses.

Profit attributable to shareholders



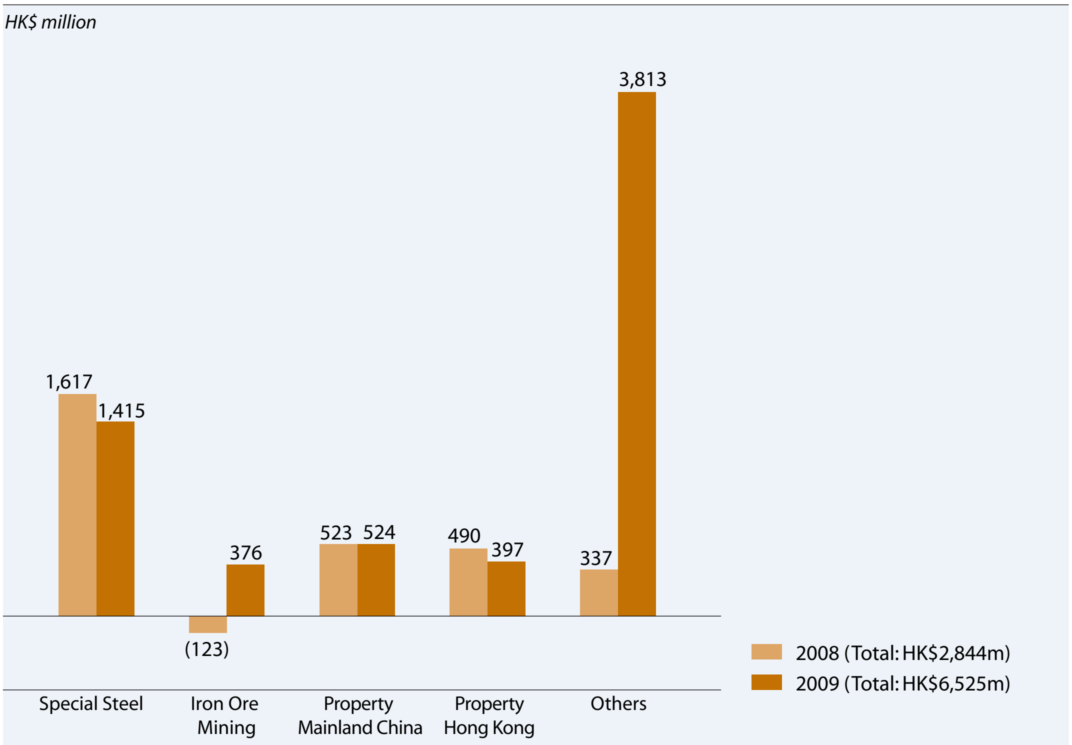
Performance by Business

Contribution by business

In HK$ million	2009 Contribution 2009	2009 Assets as at 31 Dec 2009	2009 Return on Assets	2008 Contribution 2008	2008 Assets as at 31 Dec 2008	2008 Return on Assets
Special steel	1,415	38,710*	4%	1,617	32,500	5%
Iron ore mining	376	36,026	1%†	(123)	24,187	(1%)
Property						
Mainland China	524	29,728	2%	523	25,973	2%
Hong Kong	397	11,093	4%	490	11,121	4%
Sub-total	**2,712**	**115,557**	**3%**	**2,507**	**93,781**	**3%**
Energy	886	6,868	12%	(1,090)	7,765	(14%)
Tunnels	437	1,928	23%	443	1,883	24%
Dah Chong Hong	402	11,460	4%	320	11,163	3%
CITIC 1616	196	2,532	8%	181	2,402	8%
Others	746	9,237	7%	(1,136)	13,201	(9%)
Disposal of assets	1,146	–	N/A	1,619	–	N/A
Total	**6,525**	**147,582**	**5%**	**2,844**	**130,195**	**2%**

* Includes assets under construction for the expansion of the steel plants amounting to HK$6,819 million in 2009 (2008: HK$4,670 million) .

† The iron ore mine had not commenced production in 2009. The contribution for the Iron ore mining business was a gain from the sale of excess AUD.



Special Steel The contribution for 2009 was HK$1,415 million compared with HK$1,617 million in 2008. 2009 was characterised by a recovering market for special steel, with a steady upward trend in sales volume resulting from the fiscal stimulus and the recovering economy. Management's continuous focus on achieving a more profitable product mix and reducing raw material costs was beneficial. This emphasis will continue.

Iron Ore Mining The build-out of the Australian mining operations infrastructure continued in 2009, with good progress made on the port, the gas pipeline for the power station and the installation of the first grinding mill. A contribution of HK$376 million was recorded, an increase that was mainly due to the sale of excess AUD, which strengthened during the year.

China Property Net contribution from leasing and sales was stable at HK$524 million in 2009 compared with HK$523 million in 2008. Leasing performed relatively well, with CITIC Square, Royal Pavilion and New Westgate Garden retail and other properties showing a 21% underlying profit increase from the same period last year. This increase was due mainly to higher rental rates for new leases signed during the period and increased income from retail leases due to higher consumer spending in 2009. The average occupancy rate increased to 94% from 92% in 2008. Residential sales were robust and mainly driven by our Shanghai, Wuxi and Yangzhou properties. During the review period, the company also sold a retail asset in Ningbo.

Hong Kong Property Profits from leasing decreased slightly to HK$363 million in 2009 from HK$365 million in 2008, due to the average occupancy rate of our Hong Kong portfolio declining slightly from 88% in 2008 to 86% in 2009 when the commercial leasing market remained soft. HK$34 million of contribution was derived from the sale of properties in Discovery Bay by our associated company, Hong Kong Resorts, in 2009.

Contribution from property

In HK$ million	**2009**	2008
Mainland China		
Sales	**207**	298
Leasing	**334**	277
Property under development	**(17)**	(52)
Hong Kong		
Sales	**34**	125
Leasing	**363**	365

Energy Despite a decline of 2.5% year-on-year in total power generated due to soft economic conditions in the first half of 2009, the energy division showed a HK$886 million profit compared with a HK$1,090 million loss in 2008. This was due to an increase in power tariffs towards the end of 2008 and cheaper coal from suppliers. Our coal mine in Shandong continued to increase production, which contributed strongly to the profitability of this segment.

Tunnels This segment showed a profit contribution of HK$437 million for 2009 compared with HK$443 million in 2008. This was due to the poor economic conditions in the first half of the year, which reduced total traffic volume. However, traffic began to show some increase during the second half of 2009.

Dah Chong Hong CITIC Pacific's share of DCH's net profit was HK$402 million for 2009 compared with HK$320 million for 2008. The 26% increase in contribution was mainly driven by the motor vehicle segment in mainland China, the strong demand for imported vehicles and increased sales through the expanded dealership network in the PRC. Profit from the trading and food segment was the same as 2008, with the growth in fast-moving consumer goods offset by the decline in sales of edible oil and worldwide food commodity prices in 2009. The performance of the logistics segment improved with additional logistics facilities in Hong Kong and mainland China coming into service and the provision of more value-added services to customers.

CITIC 1616 Our share of CITIC 1616's net profit was HK$196 million for 2009 compared with HK$181 million for 2008. CITIC 1616's improved performance was mainly due to new business from China Motion Netcom, which was acquired in November 2008, and ComNet Communications (Singapore) Pte. Ltd. (formerly Macquarie Telecom Pte. Ltd.), which was acquired in July 2009, as well as increased revenue from mobile value-added services and virtual private network (VPN).

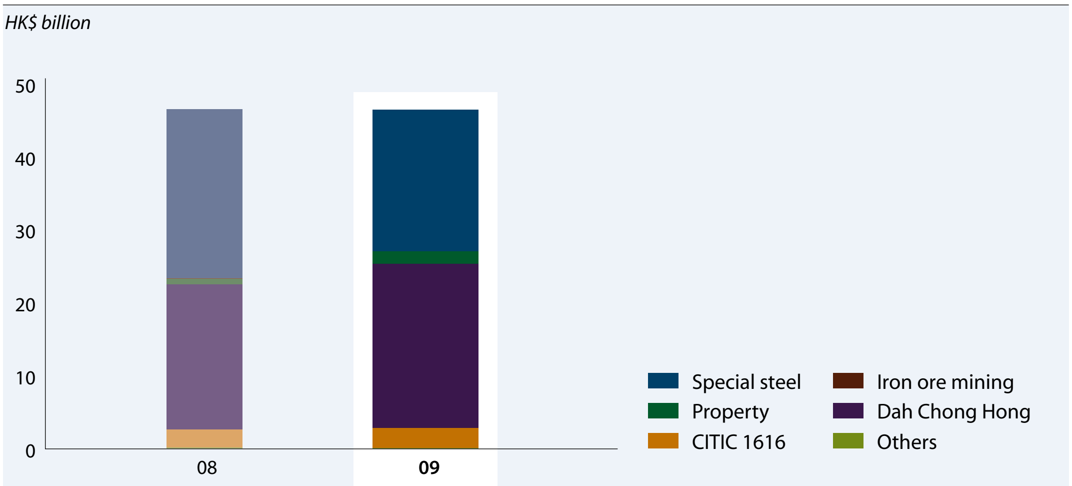
Disposal of Assets The sale of 14.5% of Cathay Pacific was completed in November 2009, resulting in a one-time gain of HK$996 million for CITIC Pacific. Cathay Pacific also contributed HK$168 million of net income for the period. Other net income was derived from the sale of listed shares, which decreased to HK$73 million in 2009 from HK$1,215 million in the previous year.

Turnover

Special Steel and Dah Chong Hong accounted for the majority of the consolidated turnover of CITIC Pacific in 2009.

Turnover at Special Steel decreased 16%, while turnover at Dah Chong Hong increased 14% from the previous year. Economic conditions in mainland China continued to improve due to government stimulus measures.

By business



In HK$ million	**2009**	2008
Special steel	**19,079**	22,758
Iron ore mining	**27**	27
Property		
Mainland China	**1,390**	544
Hong Kong	**257**	243
Sub-total	**20,753**	23,572
Energy	**–**	–
Tunnels	**724**	734
Dah Chong Hong	**22,131**	19,496
CITIC 1616	**2,716**	2,486
Others	**85**	132
Total	**46,409**	46,420

Derivatives Contracts

In 2009, we restructured our portfolio of leveraged foreign exchange contracts outstanding at the end of 2008 to ensure that derivative products are used only for hedging our business risks (The exception was three RMB leveraged foreign exchange contracts maturing in January and July 2010). These hedges were set up as accounting hedges. A one-time pre-tax gain of HK$283 million was reported for 2009, mainly due to gains up to the date of the restructuring of the leveraged foreign exchange derivative contracts, which were intended to hedge exposures at our Australian mining operations.

As at 31 December 2009, CITIC Pacific had gross outstanding derivative instruments of HK$49,148 million, compared with gross outstanding derivative instruments of HK$74,794 million as at 31 December 2008.

	Notional Amount		Fair Value as at	
In HK$ million	**31 Dec 2009**	31 Dec 2008	**31 Dec 2009**	31 Dec 2008
Forward foreign exchange contracts	**18,341**	14,309	**457**	(910)
Leveraged foreign exchange contracts*	**1,186**	20,204	**(108)**	(3,178)
Interest rate swaps	**28,426**	39,008	**(1,581)**	(4,541)
Credit default swap	**–**	78	**–**	–
Cross currency swaps	**1,195**	1,195	**178**	155
	49,148	74,794	**(1,054)**	(8,474)

* Maximum deliverable/notional amount for leveraged foreign exchange contracts.

Three AUD leveraged forward exchange contracts were restructured into a series of plain vanilla forward contracts from March to May 2009. Since then, no additional AUD leveraged forward contracts have been entered into. Together with the contracts restructured in 2008, CITIC Pacific had AUD plain vanilla contracts with a notional amount of AUD 2.0 billion as at 31 December 2009. These contracts were qualified for hedge accounting purposes. They are accounted for as hedges against movements in the spot exchange rate, which allows most of the movements in the fair market value of these derivatives to be recorded in equity, with a small residual amount. The latter largely reflects the difference in AUD/USD interest rates, and is recorded in the profit and loss account.

One Euro dual currency leveraged foreign exchange contract was terminated in January 2009. At the moment, we have no remaining Euro leveraged forward exchange contracts. Three RMB target redemption forward contracts with a maximum notional amount of RMB943 million were held by CITIC Pacific to hedge its RMB exposures. Two of these leveraged foreign exchange contracts matured in January 2010, and the remaining contract will mature in July 2010. These leveraged forward contracts are not eligible for hedge accounting, and gains and losses in the fair market value of these contracts are reflected in the profit and loss account.

Interest Expense

CITIC Pacific's interest expense charged to the profit and loss account decreased from HK$747 million to HK$650 million in 2009. Capitalised interest of HK$1,816 million was mainly attributable to special steel and property development projects under construction in mainland China and our mining operations in Australia.

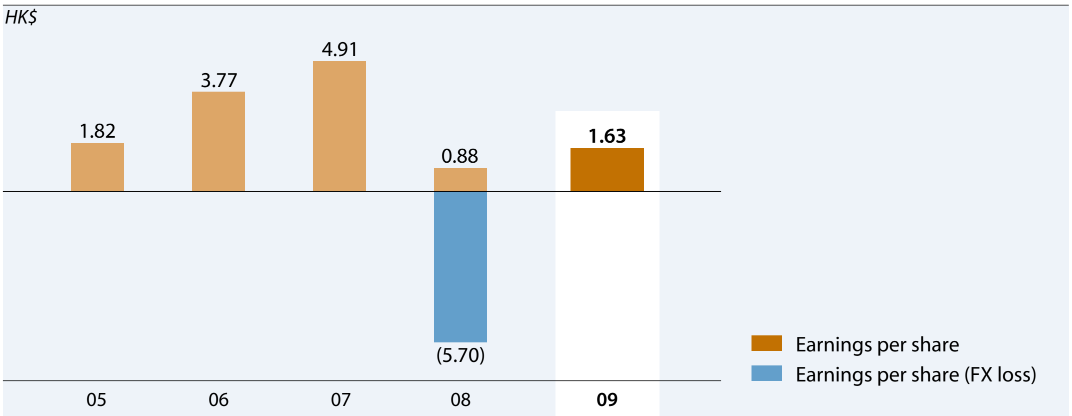
The weighted average cost of debt (including both interest capitalised and expensed) declined from 4.7% for 2008 to 3.7% for 2009. This was due to the continuing low interest rate environment in Hong Kong and the United States.

Taxation

In 2009, current taxation increased from HK$690 million to HK$779 million due to increased profits from operations. In 2008, Sino Iron recognised a significant deferred taxation credit of HK$1.3 billion in respect of losses stemming from leveraged foreign exchange contracts.

Earnings per Share

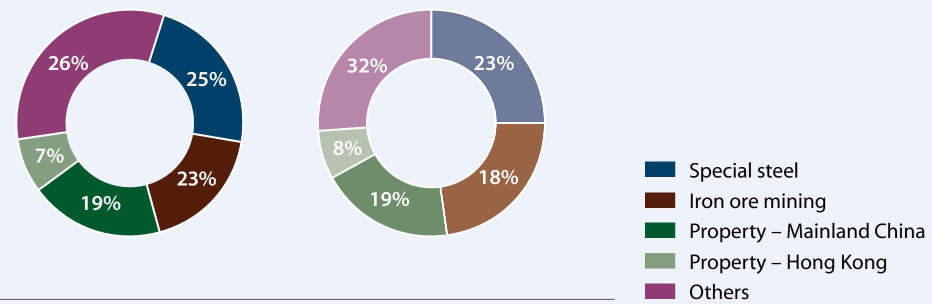
Earnings per share were HK$1.63 in 2009 compared with a loss of HK$5.70 in 2008. Earnings per share grew from 2005 to 2007 but declined sharply in 2008 due to large losses from leveraged foreign exchange derivatives. The performance in 2009 is a reflection of the general economic environment and conditions affecting our businesses, suggesting a return to normal operating conditions after derivative losses in 2008.



Assets

Total assets increased from HK$138,901 million to HK$155,741 million in 2009. Asset growth was mainly driven by our three main lines of business – iron ore mining in Australia, special steel and mainland property. With the continuing divestment of non-core businesses such as Cathay Pacific, a power plant and the reduction of our stake in CITIC Capital, these core businesses increased their share of total assets from 60% in 2008 to 67% in 2009.

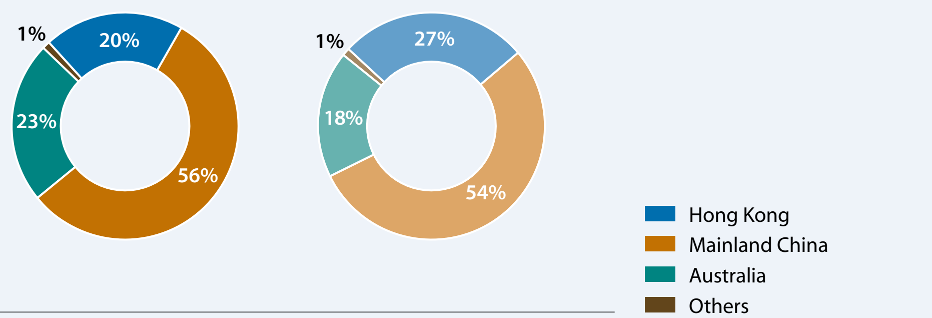
By business



as at 31 Dec 2009
(Total: HK$155,741m)

as at 31 Dec 2008
(Total: HK$138,901m)

By geographic area

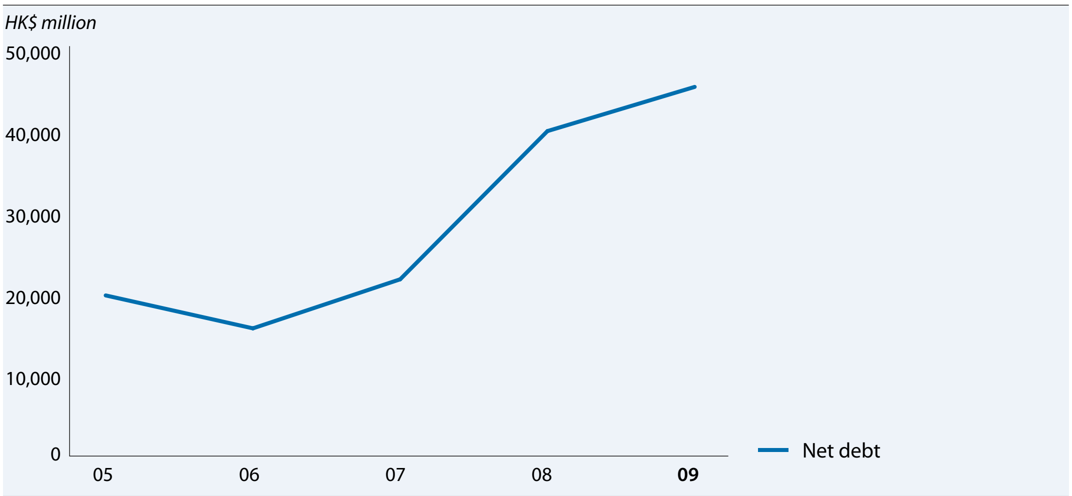


as at 31 Dec 2009

as at 31 Dec 2008

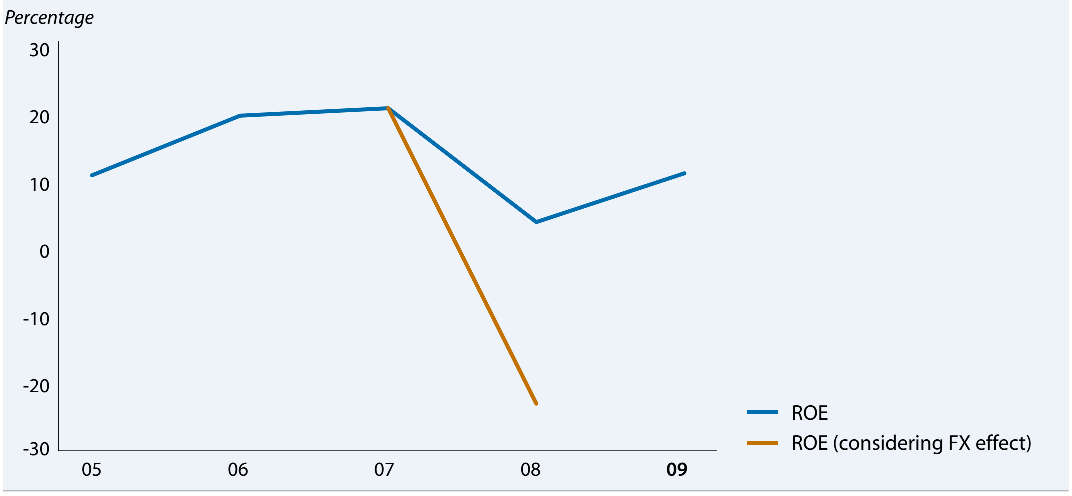
Net Debt

Net debt has grown in line with the planned expansion of our businesses. CITIC Pacific expects net debt to begin declining once the major capital expenditure plans for the steel and mining businesses and major property projects have been completed in 2011.



Return on Equity*

The return on equity for 2009 was 11%, with the return to profitability after the losses arising from leveraged foreign exchange contracts in 2009.



* ROE = Profit Attributable to Shareholders / Average Shareholders' Funds

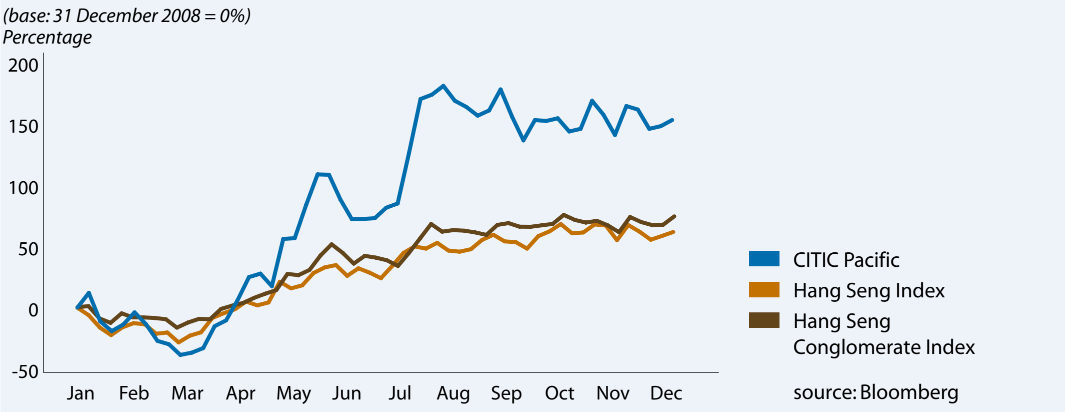
Shareholders' Funds

Shareholders' funds increased from HK$49,688 million at 31 December 2008 to HK$60,259 million at 31 December 2009, due to profit for the year and mark-to-market gains in the derivatives portfolio. These gains were mainly due to a rise in the exchange rate of the AUD against the USD as well as the rise in USD and HKD interest rates, and are mainly reflected in reserves as most of the underlying instruments qualify for hedge accounting.

Share Price Performance

During 2009, the share price of CITIC Pacific rose by 149% as a result of improving economic conditions and shareholder confidence. This was benchmarked against a rise in the Hang Seng Index of 52% and a 66% rise in the Hang Seng Conglomerate Index. In 2009, the share price had a high of HK$23.70 and a low of HK$7.18.

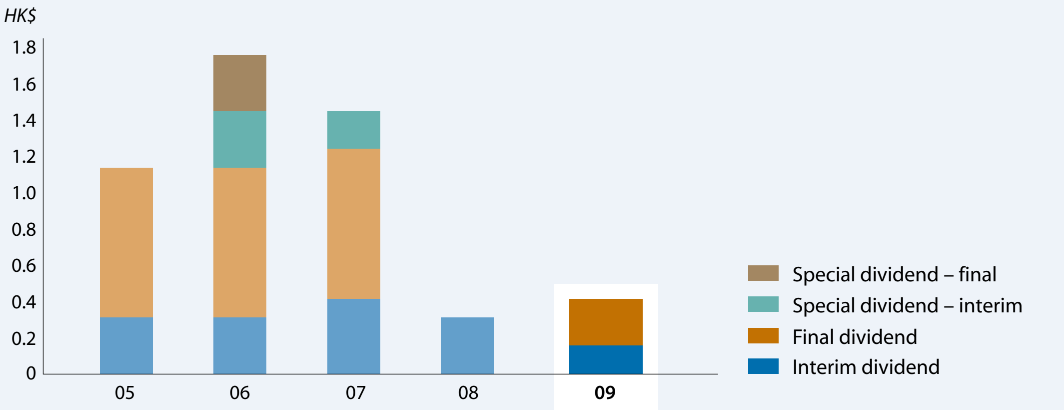
CITIC Pacific vs HSI and HSCI



Dividends

A final dividend of HK$0.25 per share in addition to the interim dividend of HK$0.15 per share has been recommended for 2009, following the return to profitability. This equates to an aggregate cash distribution of HK$1,459 million. In view of the loss in 2008, no final dividend was paid for that year.

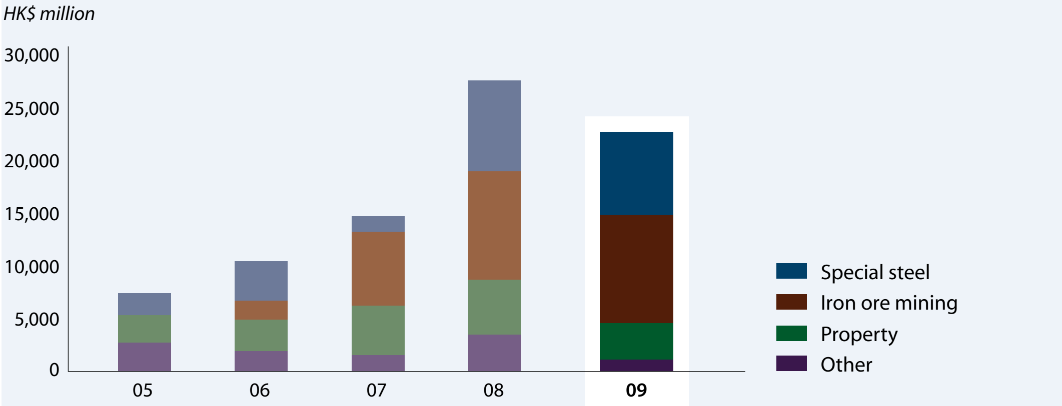
Dividend per share



Financial Review

Capital Expenditure

Capital expenditure has continued to grow over the past five years with the Australian mining operations accounting for the largest share in the past three years.



In HK$ million	**2009**	2008
Special steel	**7,611**	8,381
Iron ore mining	**10,033**	10,010
Property		
Mainland China	**3,362**	5,049
Hong Kong	**19**	9
Sub-total	**21,025**	23,449
Others	**1,079**	3,400
Total	**22,104**	26,849

Capital expenditure presented in the above table includes expenditure to acquire or increase fixed assets, properties under development and acquisition of businesses and minority interests, deposits paid on fixed asset purchases, payments for mining rights and related development costs including capitalised interest.

CITIC Pacific has maintained its focus on its major businesses and has invested approximately HK$7.6 billion in the special steel division, HK$10.0 billion in the Australian mining project and HK$3.4 billion in its property projects in China, accounting for 34%, 45% and 15% of the total capital expenditure of CITIC Pacific for 2009 respectively.

- In 2009 new special steel plate production lines were constructed at Jiangyin Special Steel with a capacity over 3 million tonnes. At Xin Yegang, two new lines capable of producing 630,000 tonnes of medium to thick wall seamless steel tubes were completed in 2009.
- The Australian mining project has continued to build out the essential infrastructure. Major achievements in 2009 included progress made on the construction of the main causeway, the gas pipeline and the production of the first grinding mill.
- Property projects currently under construction in mainland China are located in Shanghai, Wuxi, Jiangyin, Yangzhou and Hainan Island. In Hong Kong, our development projects in Discovery Bay are under construction. (See pages 32 to 45.)

Cash Inflows

Consolidated cash inflows totalled HK$18,972 million in 2009 compared with HK$12,886 million for the comparable period in 2008. Cash inflows principally represent cash generated from operating activities after income taxes, dividends from associated companies and jointly controlled entities, proceeds from divestment of businesses, sales of listed investments and sales of fixed assets and investment properties.

In HK$ million	**2009**	2008
Cash Inflows from Business Operations		
Special steel	**1,370**	3,847
Iron ore mining	**55**	(36)
Property		
Mainland China	**3,339**	721
Hong Kong	**281**	286
Energy	**32**	–
Tunnels	**521**	513
Dah Chong Hong	**1,200**	429
CITIC 1616	**402**	400
Others	**27**	(116)
	7,227	6,044
Other Cash Inflows		
Dividends from associated companies & jointly controlled entities	**299**	824
Divestments of business	**9,700**	1,503
Sales of other listed investments & other financial assets	**599**	3,368
Sales of fixed assets & investment properties	**282**	486
Others	**865**	661
	11,745	6,842
Total	**18,972**	12,886

Proceeds from divestments of businesses in 2009 included a HK$2,130 million advance payment from the sale of a 20% interest in the Australian mining operations to China Metallurgical Group Corporation and the receipt of HK$7,347 million from the sale of a 14.5% stake in Cathay Pacific to Air China and Swire Pacific.