

# Financial Review

The financial review provides certain key profit and loss, balance sheet and cashflow items as viewed from an operating perspective. Hence, the presentation of results from the various businesses may differ from the presentation in the financial statements.

## Summary of 2010

A net profit of HK\$8,915 million was attributable to shareholders for 2010, compared with HK\$5,950 million in 2009. The special steel business performed strongly as we were able to leverage our leading market position to benefit from the strong demand for our special steel products. Our results also benefited from gains totalling HK\$3,008 million from the disposal of non-core assets, mainly the sale of interests in North United Power, Hong Kong Air Cargo Terminals Limited ('HACTL'), Companhia de Telecomunicacoes de Macau ('CTM') and the sale of shares in Cathay Pacific and other listed shares.

In order to present a clear picture of our operating businesses, the business segments have been adjusted to separate the gains on disposal of assets from the performance of the underlying business operations, and these gains have been reclassified under disposal of assets.

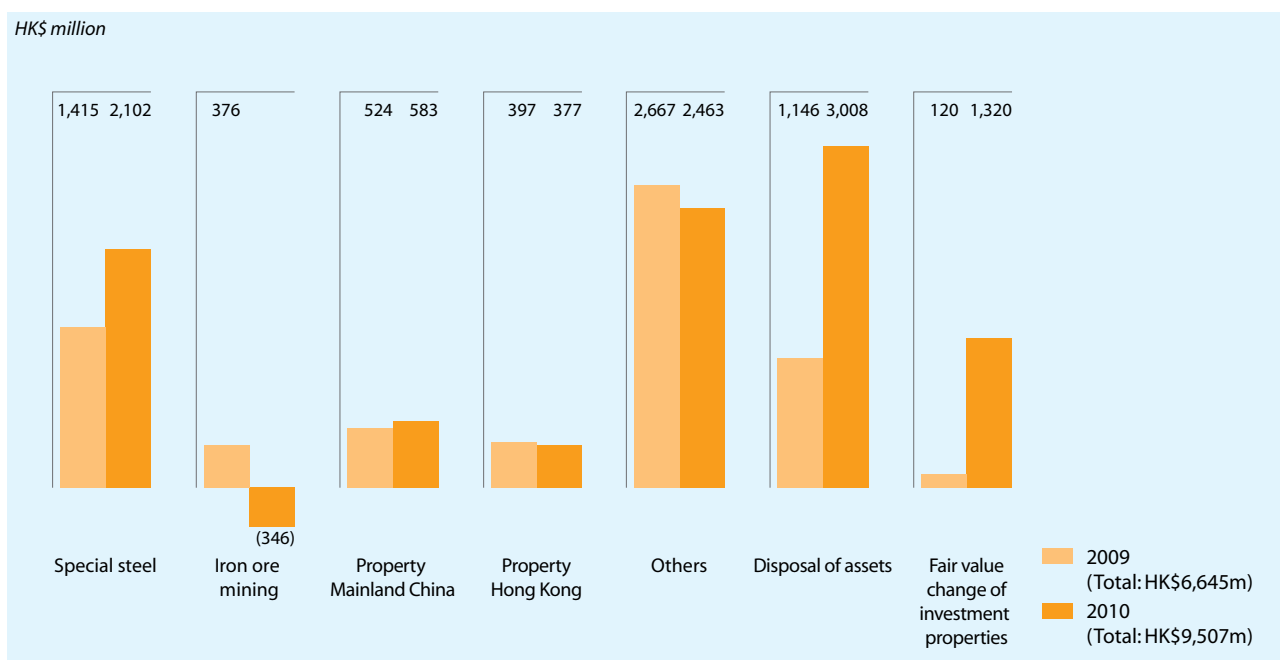
An upward revaluation of our investment properties was made following the advice of professional valuers.

## Performance by Business

In HK\$ million	Contribution		Assets as at 31 Dec		Return on assets	
	2010	2009	2010	2009	2010	2009
Special steel*	2,102	1,415	48,351	38,710	5%	4%
Iron ore mining†	(346)	376	53,397	36,026	(1%)	1%
Property						
Mainland China	583	524	37,455	29,728	2%	2%
Hong Kong	377	397	12,215	11,093	3%	4%
Energy	1,045	886	7,840	6,868	14%	12%
Tunnels	502	437	1,963	1,928	26%	23%
Dah Chong Hong	775	402	14,717	11,460	6%	4%
CITIC Telecom	248	196	3,060	2,532	9%	8%
Others	(107)	746	5,624	9,237	(1%)	7%
<b>Sub-total</b>	<b>5,179</b>	<b>5,379</b>	<b>184,622</b>	<b>147,582</b>	<b>3%</b>	<b>4%</b>
Disposal of assets	3,008	1,146	–	–	–	–
Fair value change of investment properties	1,320	120	–	–	–	–
<b>Total</b>	<b>9,507</b>	<b>6,645</b>	<b>184,622</b>	<b>147,582</b>	<b>–</b>	<b>–</b>

\* The assets attributable to special steel in 2010 included assets for the expansion of the steel plants that were not income producing of HK\$6.5 billion (2009: HK\$6.8 billion). In 2010, CITIC Pacific's stake in Shijiazhuang was sold reducing assets by HK\$1.8 billion.

† The assets attributable to iron ore mining include assets of HK\$4.0 billion for ships under construction.



**Special Steel** The contribution for 2010 was HK\$2,102 million compared with HK\$1,415 million for 2009, an increase of 49%. The volume of special steel products sold was around 6.6 million tonnes during the year, similar to 2009. However, the price of special steel products rose 18% on average, driven by the rise in raw material prices during the period. The Shijiazhuang steel mill was disposed of in mid-March and its results were accounted up to the date of sale, with a credit of HK\$49 million gained upon the disposal. Excluding such gain, Shijiazhuang's contribution was HK\$3 million for 2010 (2009: HK\$172 million).

**Iron Ore Mining** Construction of the iron ore mine in Australia continued. A loss of HK\$346 million was recorded, which was mainly due to an accounting provision for a mismatch of the gas delivery with the production schedule under the existing contract. The balance of the profit and loss involves exchange gains between the AUD and USD, deferred tax credit and an impairment loss on surplus equipment.

**China Property** Net contribution increased to HK\$583 million in 2010 compared with HK\$524 million in 2009. Our investment properties, CITIC Square, Royal Pavilion and the commercial property in Ningbo had an average occupancy rate of 85% at the end of 31 December 2010. Contribution from property sales rose due to the sale of residential units in Qingpu in Shanghai, Wuxi and Yangzhou, and one of two office buildings in Ningbo.

**Hong Kong Property** Profits from leasing decreased slightly to HK\$360 million in 2010 compared with HK\$363 million in 2009, mainly attributable to the sale of part of CITIC Telecom Tower (previously known as Broadway Centre) and lower occupancy rates. Property sales contribution was mainly derived from the sale of properties in Discovery Bay by our associated company, Hong Kong Resorts.

In HK\$ million	2010	2009
Mainland China		
Sales	338	207
Leasing	352	334
Property under development	(107)	(17)
Hong Kong		
Sales	17	34
Leasing	360	363

**Energy** The energy division recorded a HK\$1,045 million profit contribution compared with HK\$886 million in 2009. The power generation business contributed HK\$532 million in 2010, compared with HK\$748 million in 2009. Although there was an increase in electricity generated, the higher cost of coal resulted in a decrease in profitability. In contrast, the profitability of the coal mine in Shandong was improved by both an increase in production and the higher coal prices.

In HK\$ million	2010	2009
Power generation	532	748
Coal	513	138
Total	1,045	886

**Tunnels** A profit contribution of HK\$502 million in 2010 was achieved compared with HK\$437 million in 2009. This was due to improving economic conditions in Hong Kong and an increase in the toll for the Western Harbour tunnel, which came into effect on 1 August 2010. Average daily traffic for the Eastern and Western Harbour Tunnels increased 7% and 11% respectively as compared with 2009.

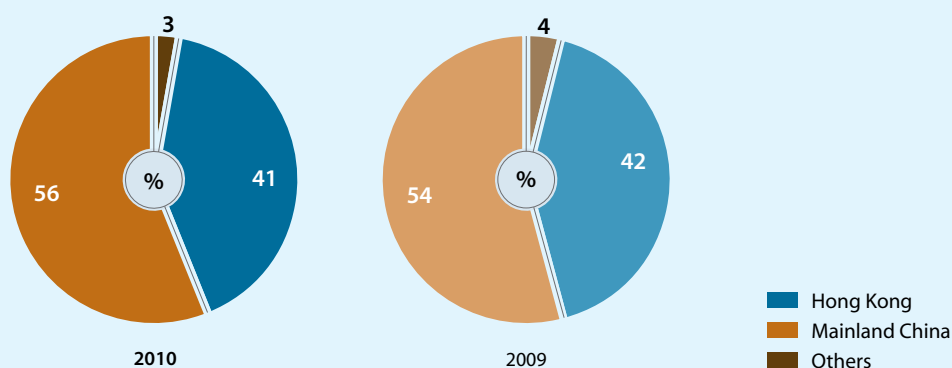
**Dah Chong Hong** CITIC Pacific's share of DCH's profit was HK\$775 million in 2010 compared with HK\$402 million in 2009. The increase in contribution was driven by the strong growth of the motor vehicle business in mainland China and the attributable share of a gain of HK\$331 million from the disposal of DCH's interest in its Shiseido franchise. The performance of the food and consumer products business also improved with the increase in sales of fast moving consumer goods in the PRC. The profitability of the logistics business grew with additional facilities in Hong Kong and mainland China and the provision of more value-added services to customers, partly offset by the higher pre-operating expenses of the new facilities.

**CITIC Telecom** CITIC Pacific's share of CITIC Telecom's profit was HK\$248 million in 2010 compared with HK\$196 million in 2009. This was primarily due to an increase in our shareholding of CITIC Telecom from 52.6% to 60.6%, as a result of the sale of our interests in CTM to CITIC Telecom.

## Fair Value Change of Investment Properties

The fair value change of investment properties was HK\$1,320 million in 2010 as compared with HK\$120 million in 2009. This was mainly due to an upward revaluation of investment properties in both mainland China and Hong Kong due to strong economic conditions. The remainder of the increase was mainly attributable to the classification of one tower of Ningbo Pacific Plaza as an investment property. The property had been previously classified as a property held for sale.

Property by geographic location



## Disposal of Assets

Profit contribution on disposal of assets was HK\$3,008 million as compared with HK\$1,146 million in 2009. The bulk of these gains arose from the sale of 20% of North United Power, 10% of Hong Kong Air Cargo Terminals Limited ('HACTL') and 20% of Companhia de Telecomunicacoes de Macau ('CTM'), and the sale of shares in Cathay Pacific and other listed shares.

In HK\$ million	2010	2009
Contributions from disposals		
HACTL	416	–
CTM	433	–
North United Power	914	–
Cathay Pacific	1,202	996
Sale of other listed shares	22	73
Others	21	77
<b>Total</b>	<b>3,008</b>	<b>1,146</b>

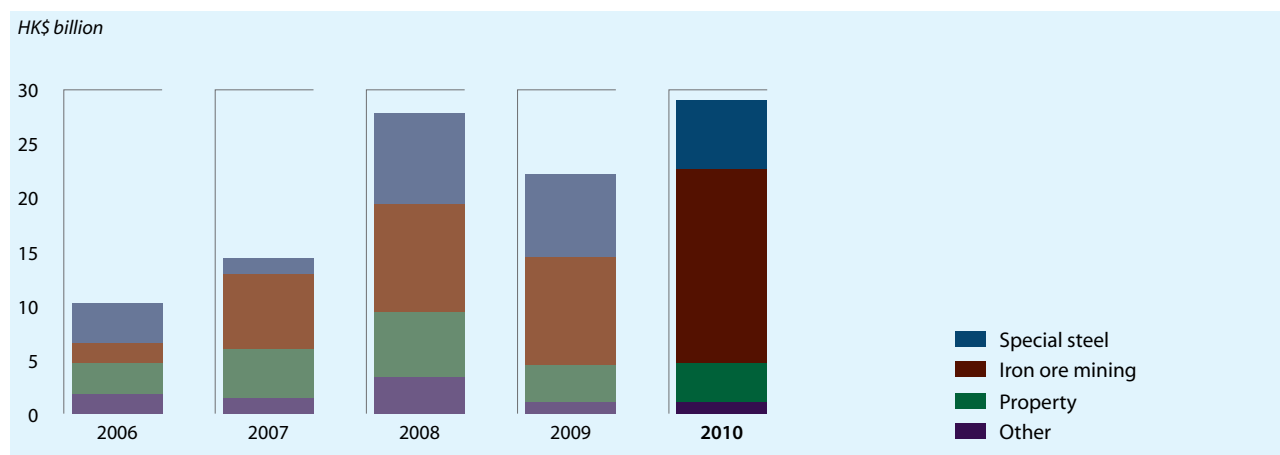
## Cash Inflows

Consolidated cash inflows totalled HK\$16,429 million in 2010 compared with HK\$18,972 million in 2009. Cash inflows principally represent cash generated from operating activities after income taxes, dividends from associated companies and jointly controlled entities, proceeds from sales of businesses, sales of listed investments and sales of fixed assets and investment properties.

<i>In HK\$ million</i>	2010	2009
<b>Cash inflows/(outflows) from business operations</b>		
Special steel	2,083	1,370
Iron ore mining	(64)	55
Property		
Mainland China	5,381	3,339
Hong Kong	221	281
Energy	–	32
Tunnels	550	521
Dah Chong Hong	(146)	1,200
CITIC Telecom	341	402
Others	(350)	27
	8,016	7,227
<b>Other cash inflows</b>		
Divestment of businesses	4,043	9,700
Dividends from associated companies & jointly controlled entities	548	299
Sales of other listed investments & other financial assets	2,803	599
Sales of fixed assets & investment properties	237	282
Others	782	865
	8,413	11,745
<b>Total</b>	<b>16,429</b>	<b>18,972</b>

## Capital Expenditure

Investment in iron ore mining accounted for the largest share of capital expenditure in the last three years and continued to make up the bulk of expenditures in 2010. There was also continued capital investment in special steel and property in mainland China.



In HK\$ million	2010	2009
Special steel	6,271	7,611
Iron ore mining	17,909	10,033
Property		
Mainland China	3,602	3,362
Hong Kong	–	19
<b>Sub-total</b>	<b>27,782</b>	<b>21,025</b>
Others	1,094	1,079
<b>Total</b>	<b>28,876</b>	<b>22,104</b>

Capital expenditure presented in the above table includes expenditure to acquire fixed assets, develop properties, acquire businesses and pay for mining rights and related development costs including capitalised interest.

CITIC Pacific has maintained its focus on its major businesses. Our investments in special steel, the Australian iron ore mining project and property projects in mainland China represent 96% of the total capital expenditure of CITIC Pacific for 2010.

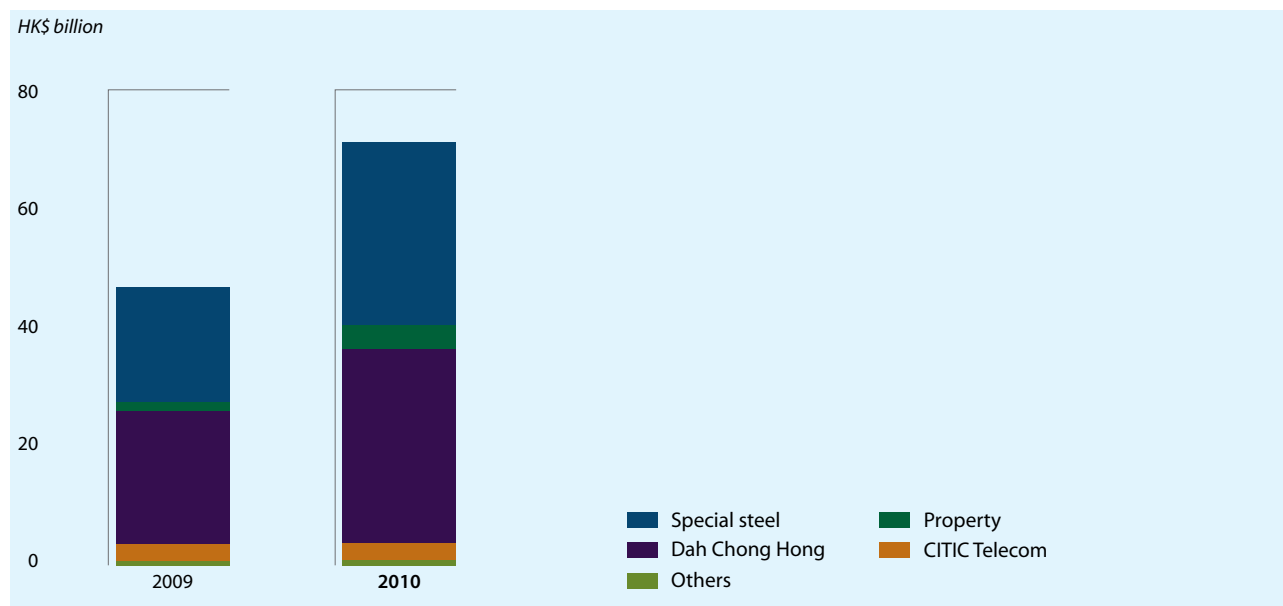
As at 31 December 2010, the contracted capital commitments of CITIC Pacific and its subsidiary companies were approximately HK\$13,848 million.

The future capital expenditure will be funded by the Group's cash and deposits and available credit facilities. Page 62 sets out the HK\$25 billion of cash and deposits held by the Group and HK\$19 billion of available committed facilities at 31 December 2010.

## Turnover

Turnover increased from HK\$46,409 million in 2009 to HK\$70,614 million in 2010. Special Steel and Dah Chong Hong accounted for the majority of the consolidated turnover of CITIC Pacific in 2010. Turnover of CITIC Pacific is mainly comprised of the total invoiced value of goods supplied net of government taxes where applicable (Special Steel and DCH), charges for telecommunication services and fees from services rendered to customers (CITIC Telecom), gross proceeds from sale of properties and gross property rental (Property) and toll income (Tunnels).

Turnover of Special Steel increased 60% while turnover of Dah Chong Hong increased 46% in 2010.



In HK\$ million	2010	2009
Special steel	30,478	19,079
Iron ore mining	27	27
Property		
Mainland China	3,791	1,390
Hong Kong	258	257
<b>Sub-total</b>	<b>34,554</b>	<b>20,753</b>
Tunnels	775	724
Dah Chong Hong	32,211	22,131
CITIC Telecom	2,966	2,716
Others	108	85
<b>Total</b>	<b>70,614</b>	<b>46,409</b>

## Interest Expense

CITIC Pacific's interest expense charged to the profit and loss account increased from HK\$650 million in 2009 to HK\$766 million in 2010. This was offset by HK\$356 million of interest income, which increased from HK\$313 million in 2009.

The weighted average cost of debt (including both interest capitalised and expensed) increased from 3.7% in 2009 to 3.8% in 2010. This reflected the continuing low interest rate environment in Hong Kong and the United States.

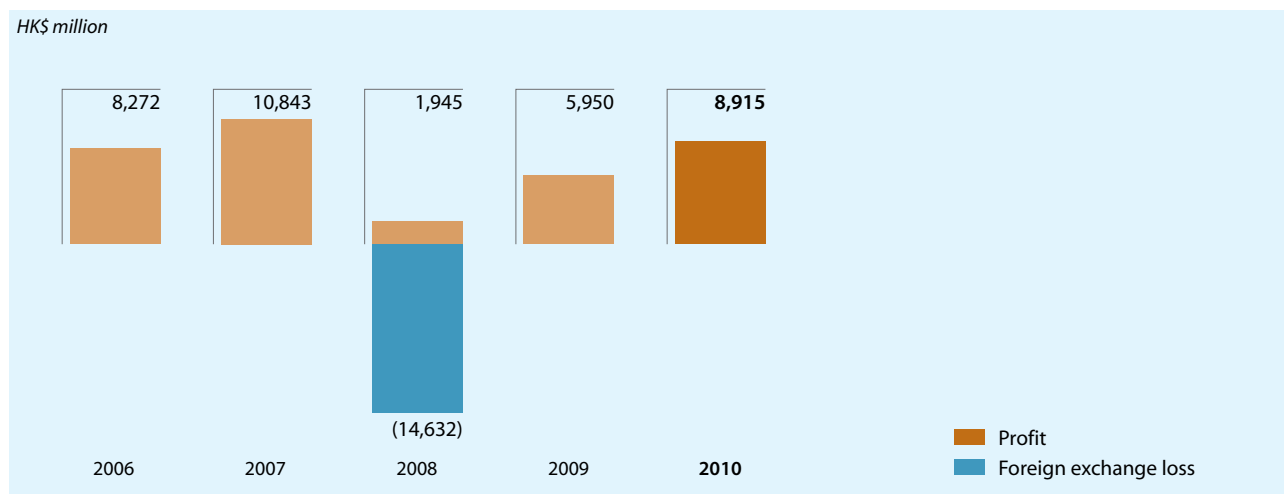
Capitalised interest of HK\$2,335 million was mainly attributable to the development of our mining operations in Australia (2009: HK\$1,816 million).

## Taxation

Current taxation increased from HK\$779 million in 2009 to HK\$1,802 million in 2010 due to increased profits from operations, and overseas taxation reflected a provision in relation to a CITIC Pacific group corporate reorganisation in the PRC.

## Net Profit

A net profit of HK\$8,915 million was attributable to shareholders for 2010, compared with a net profit of HK\$5,950 million in 2009. This was the best year since 2007 and shows a strong recovery in corporate profitability for CITIC Pacific after losses from foreign exchange contracts and the financial crisis in 2008.



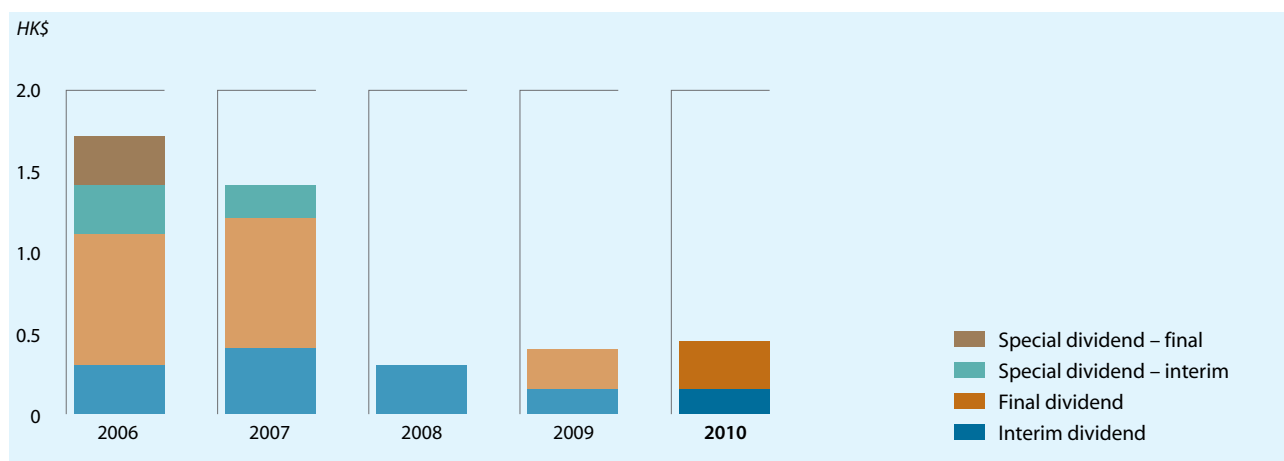


## Earnings per Share

Earnings per share were HK\$2.44 in 2010 compared with HK\$1.63 in 2009, an increase of 50%. The number of shares outstanding was 3,648,688,160 with no shares being issued during 2010.

## Dividends per Share

A final dividend of HK\$0.30 per share has been recommended to shareholders for approval at the Annual General Meeting. This, together with the interim dividend of HK\$0.15 per share that had been declared for the first half of 2010, represents an increase of HK\$0.05 per share from last year. This equates to an aggregate cash distribution of HK\$1,642 million.

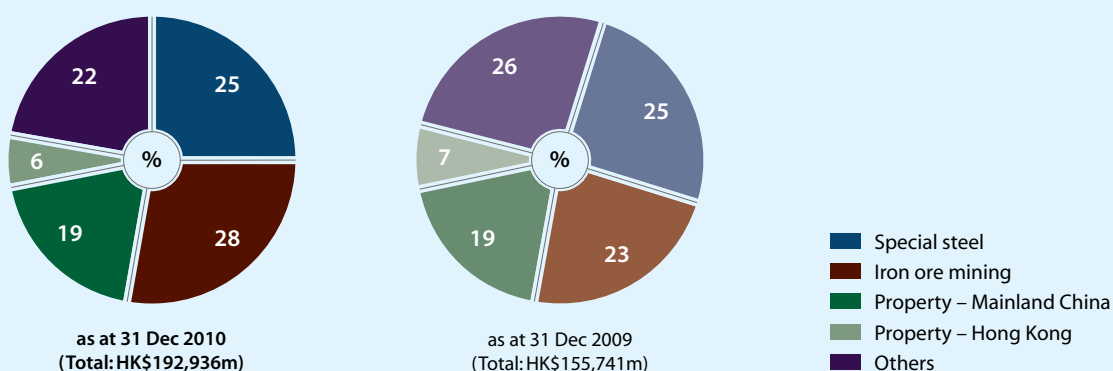


## Balance Sheet Items

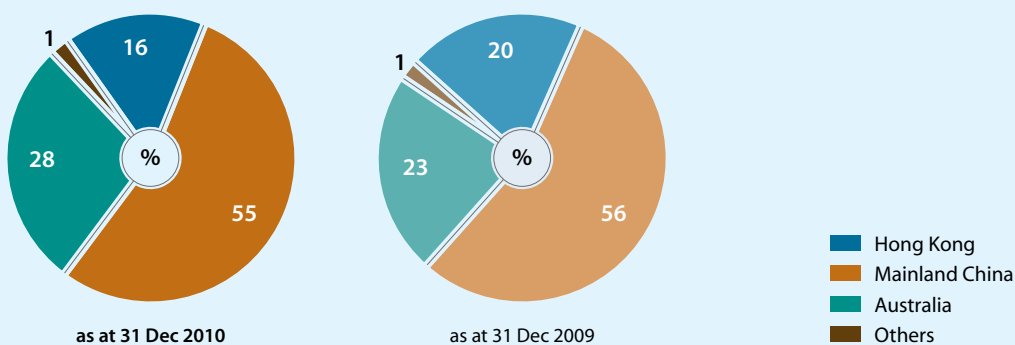
### Assets

Total assets increased from HK\$155,741 million to HK\$192,936 million in 2010. Asset growth was mainly driven by the continued construction of the iron ore mine in Australia and continuing capital investment in the steel plants and our properties in mainland China. Other assets continued to decline as CTM and remaining interests in HACTL and North United Power were divested in 2010. Our main businesses increased their share of total assets from 67% in 2009 to 72% at 31 December 2010.

#### By business



#### By geographic location

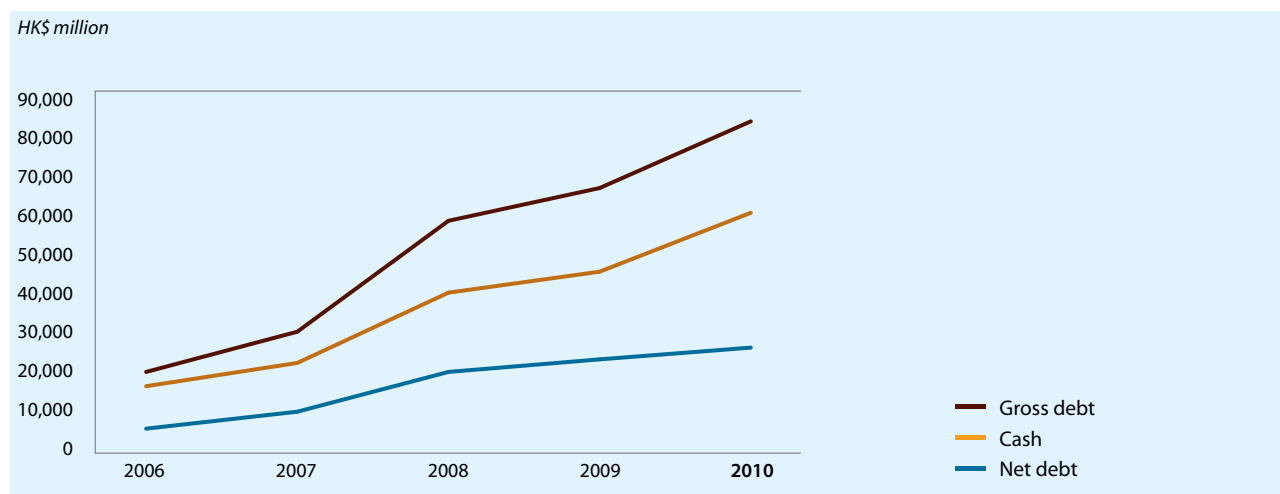


### Current Assets and Liabilities

Current assets for CITIC Pacific were HK\$54,340 million (2009: HK\$45,298 million) of which HK\$24,558 million was cash and deposits. Current liabilities were HK\$43,129 million (2009: HK\$24,759 million) of which HK\$15,227 million was bank loans, loans and overdrafts. For CITIC Pacific's strategy for management of liquidity, please see page 61.

## Net Debt

Net debt continued to grow in line with the planned expansion of businesses. CITIC Pacific expects net debt to increase until major fixed asset investments in the special steel and iron ore mining businesses come into production and property projects are completed.



## Shareholders' Funds

Shareholders' funds increased from HK\$60,259 million at 31 December 2009 to HK\$68,282 million at 31 December 2010 due to profit for 2010 together with adjustments in the reserves for disposal of assets, exchange translations, movements in the hedging reserve for interest rate and foreign exchange contracts and adjustments for fair value changes from other financial assets.

## Derivatives Contracts

As at 31 December 2010, CITIC Pacific had gross outstanding derivative instruments of HK\$43,955 million, compared with gross outstanding derivative instruments of HK\$49,148 million as at 31 December 2009.

In HK\$ million	Notional amount		Fair value as at	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Forward foreign exchange contracts	10,409	18,341	1,633	457
Leveraged foreign exchange contracts*	–	1,186	–	(108)
Interest rate swaps	32,351	28,426	(2,539)	(1,581)
Cross currency swaps	1,195	1,195	235	178
	43,955	49,148	(671)	(1,054)

\* Maximum deliverable amount for leveraged foreign exchange contracts.

The majority of these contracts are qualified for hedge accounting purposes, and as a result most of the movement in the fair market value of these derivatives is recorded in reserves. The cash flow hedging reserves showed a HK\$513 million loss for 2010, mainly due to further declines in interest rates in the US and Hong Kong impacting our interest rate swaps as compared to a HK\$4,312 million gain in 2009, which had mainly been a result of a substantial appreciation in the AUD/USD exchange rate, recovering from significant declines in 2008.