

## CHAIRMAN'S STATEMENT

For the six months ended 30 June 1999, the net profit attributable to shareholders was HK\$1,514 million compared with HK\$1,796 million in the first half of 1998. The decline was due mainly to a non-recurring profit recorded by CLP Holdings in 1998. A complete analysis of the results can be found in the full interim report. The directors have declared an interim dividend of 20 HK cents, the same as in 1998.

Infrastructure continues to be the great strength of CITIC Pacific's business. For the six months ended 30 June 1999, the infrastructure businesses generated cash flow of over HK\$1,700 million to CITIC Pacific, excluding HK\$2,300 million proceeds received from the disposal of four infrastructure projects. Profits from infrastructure accounted for 79% of the total.

## BUSINESS REVIEW

### Power

CITIC Pacific's power plants in Mainland China continued to operate well, and in the first six months of 1999, a total of 4,553 million Kwh of electricity was generated by the three power plants in operation compared with 3,559 million Kwh in 1998.

CITIC Pacific is actively seeking other investment opportunities in power plants in China, but has been proceeding cautiously as the rate of growth in the demand for electricity slowed. There are now encouraging signs of an increased rate of growth, and in the long-term this will surely be sustained. Recently, the Company acquired a 49% equity interest in the Shangdong Weihai Xinli Thermal Power Company Limited, whose principal business is heat generation supplemented by electricity generation, which will give a good return.

## Roads, Bridges, Tunnels

Total traffic throughput of the roads, bridges and tunnels in Shanghai and Chongqing increased over 10% compared to the same period last year.

In August 1999, CITIC Pacific's interests in the franchise to operate the rail tunnel at the Eastern Harbour Crossing was increased to 50% from 10%. The road traffic at both the Eastern Harbour Crossing and the Western Harbour Crossing ("WHC") is expected to improve as the Cross Harbour Tunnel increases its toll for private cars in September. A joint venture of the shareholders of the WHC was awarded a contract to manage the Cross Harbour Tunnel on the expiry of its existing franchise.

## Trading and Distribution

Dah Chong Hong's ("DCH") operating environment remained difficult in the first half of 1999. Total turnover dropped by 32% compared with 1998 mainly due to weakness in the motor trading business in Hong Kong where the number of vehicles sold in the whole market declined by a third. DCH's market share of the motor market for the period under review was around 25%. DCH has supplied 85% of the LPG taxis introduced in Hong Kong and this market has great potential. The Mainland motor market remained weak but progress has been made in positioning DCH as a distributor of domestically-manufactured vehicles which will bring long-term benefits.

DCH's Hong Kong food business remained strong and the joint venture with Shiseido had significant growth.

Mainland China will continue to be the focus of DCH's development in the food business. DCH made progress in establishing new sources of supply, as well as expanding its food distribution network.

## Aviation

There is encouraging evidence from both Cathay Pacific and Dragonair that the aviation business has begun to improve. Cathay announced a small profit in the first half of 1999 compared with a loss in 1998. The number of tourists travelling to and from Hong Kong has increased and this is reflected in improving loads, but yields remain flat.

Cathay Pacific reached a welcome agreement with the pilots for a three-year contract which will have positive impact on both the spirit and cost structure of the airline. Dragonair began the year weakly, but in the last few months business has increased to 1998's level.

Both airlines and HACTL experienced very strong cargo growth and this is a good indicator of better underlying business fundamentals in the region.

## Property

The land premium for the Discovery Bay phase 9 and 10 development was settled and it is hoped that these apartments will be on the market by the end of 1999 or early 2000. The tunnel connecting Discovery Bay and the north side of the Lantau Island is expected to open in late 1999.

CITIC Pacific is actively engaged in negotiations with the Government to settle land premiums for the Discovery Bay Master Plan 6.0 and the Hung Shui Kiu, Yuen Long residential development.

CITIC Tower and DCH Commercial Centre are about 85% let. Festival Walk, the largest shopping mall in Hong Kong, has been a great success ever since it was opened late last year: 95% of the retail space is leased whilst the splendid office space is almost fully let. The first tenant has moved into the "Skyway House", a new office building near the Olympic MTR Station on the Airport line.

## FUTURE PROSPECTS

With the gradual recovery of the economy in Hong Kong, CITIC Pacific's strategy is to focus its investment in Hong Kong and look for opportunities in Mainland China. The Company will adopt a more aggressive approach than in 1998. I am confident that the second half of 1999 will see CITIC Pacific performing better than in the first. The directors are also confident that the continued economic reforms in China will present good business opportunities for CITIC Pacific in the foreseeable future.

Larry Yung Chi Kin *Chairman*

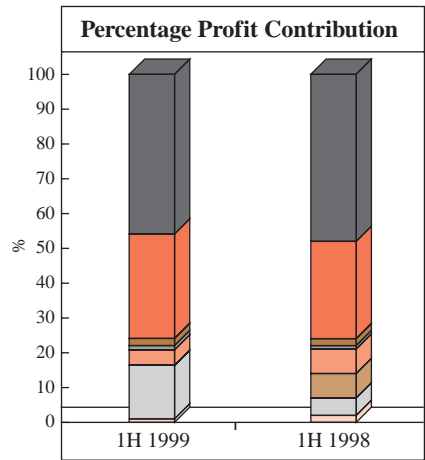
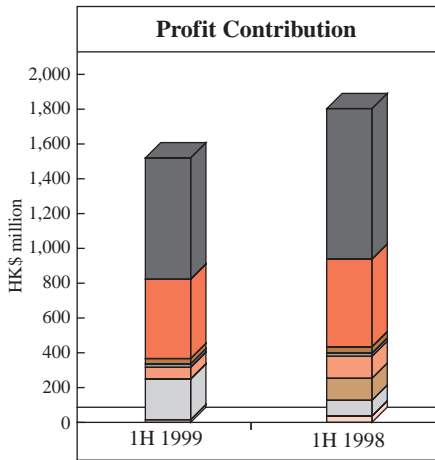
Hong Kong, 25 August 1999

# FINANCIAL REVIEW AND ANALYSIS

## REVIEW OF CONSOLIDATED FINANCIAL RESULTS FOR THE 6 MONTHS ENDED 30 JUNE 1999

### Net Profit

The net profit attributable to shareholders for the 6 months ended 1999 was HK\$1,514 million compared with HK\$1,796 million for same period in 1998, a reduction of HK\$282 million, or 16%.



HK\$ million	1H 1999	1H 1998
Power Generation	695	862
Civil Infrastructure	454	502
Aviation	31	36
Telecommunications	19	18
Trading & Distribution	67	126
Consumer Credit	-	126
Property	233	90
Others	15	36

*Note: Contribution is after allocating interest and overhead expenses in proportions to earnings before these items.*

The contribution from property was strong as profits on the sale of Phase I of Tierra Verde were recognized and property rental income increased after the completion of Festival Walk in late 1998.

The contribution from power generation decreased because CLP had recorded a non recurring profit from property sales in 1998, if this is excluded, CLP's contribution decreased by 2%. After the sale of CITIC Pacific's 25% interest in the Pudong Power Station, income ceased but a profit on the sale was recorded. The Ligang Power Station results in this half year were higher due to the timing of dividend receipts although the underlying business operation remained steady.

Civil Infrastructure contributed less due to reduced income after disposal, in the first quarter of 1999, of the Wuxi Toll Road, Wuxi Waterplants and Nanjing Waterplants, offset by a gain on their disposal.

The contribution from Aviation decreased due to reduced profit at Dragonair and Hong Kong Air Cargo Terminal offset by the better results of Cathay Pacific.

Dah Chong Hong made a reduced contribution in the first half of 1999 compared with an unusually strong trading performance last year. Motor trading was weak but the food business was resilient.

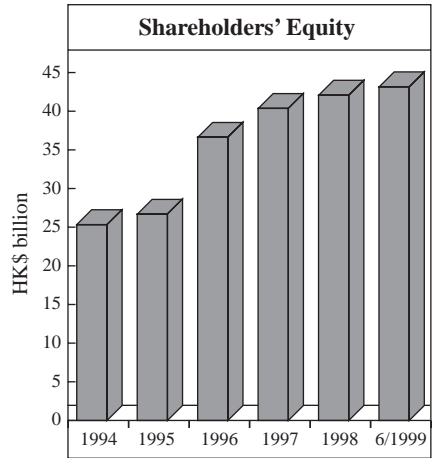
There was no income from consumer credit as CITIC Pacific sold shares in Manhattan Card in 1998 during its privatisation.

## Taxation

Of the total tax charge of HK\$164 million, a greater portion of tax was made by associated companies due to taxation on the profit of Tierra Verde.

## Shareholders' Equity

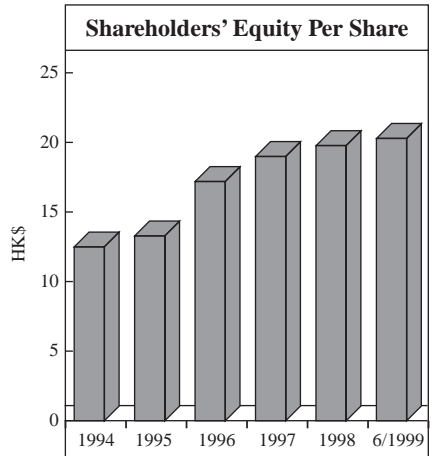
Shareholders' equity increased by HK\$1,088 million to HK\$42,987 million as compared to December 1998.



HK\$ billion	1994	1995	1996	1997	1998	6/1999
Shareholders' equity	25.1	26.6	36.5	40.2	41.9	43.0

## Shareholders' Equity Per Share

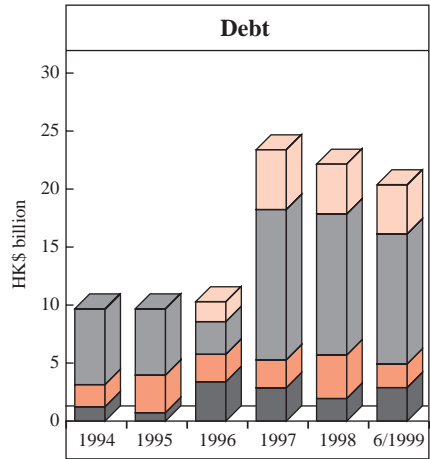
Shareholders' equity per share was HK\$20.2 compared with HK\$19.7 in December 1998.



HK\$	1994	1995	1996	1997	1998	6/1999
Shareholders' equity per share	12.5	13.2	17.1	18.9	19.7	20.2

## Debt

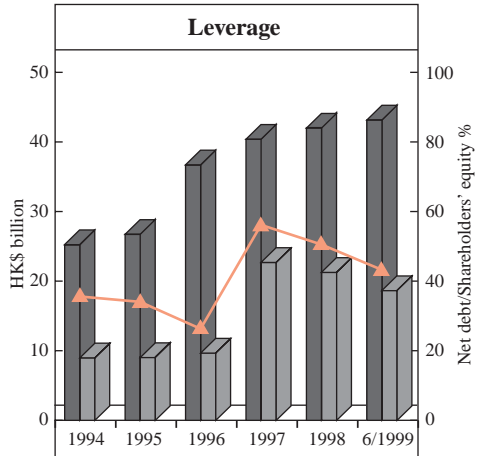
The Group's total debt continued to decrease. At 30 June 1999, the Group's total debt was HK\$20.3 billion, while net debt at HK\$18.6 billion was some HK\$2.6 billion below the level at the end of 1998. Undrawn facilities available to the Group totalled HK\$4.6 billion of which approximately HK\$1.8 billion were committed revolving facilities, HK\$1.8 billion were money market lines and the balance were trade facilities.



HK\$ billion	1994	1995	1996	1997	1998	6/1999
after fifth year	-	-	1.7	5.1	4.3	4.2
in the third to fifth years inclusive	6.6	5.8	2.8	12.9	12.1	11.2
in the second year	1.9	3.2	2.3	2.4	3.7	2.0
in the first year	1.2	0.7	3.4	2.9	2.0	2.9

## Leverage

Leverage as measured by net debt/shareholders' equity was 43% at 30 June 1999 compared with 51% at the end of 1998. The decrease is the result of a net cash inflow for the period.

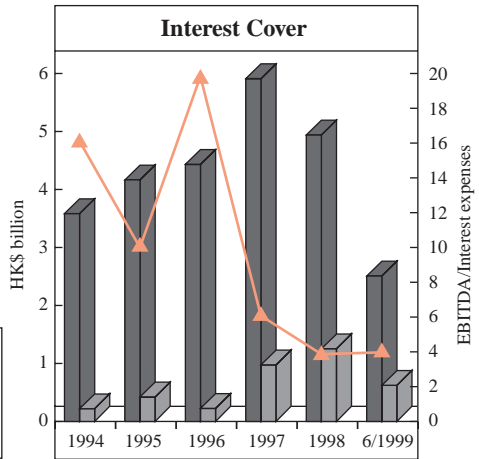
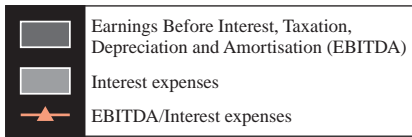


HK\$ billion	1994	1995	1996	1997	1998	6/1999
Shareholders' equity	25.1	26.6	36.5	40.2	41.9	43.0
Net debt	9.0	9.1	9.6	22.6	21.2	18.6
Net debt/Shareholders' equity %	36	34	26	56	51	43



## Interest Cover

The interest cover for the 6 months ended 1999 was 4.0 which is the same as December 1998.



## Cash Flow

Cash contributed from all businesses to the Group for the 6 months ended 1999 was HK\$4.4 billion. The infrastructure sector contributed cash of HK\$1.7 billion. Both the aviation and trading sectors produced significantly lower cash flow due to more difficult trading condition in the first half of 1999 compared with 1998. The disposal of PRC infrastructure in first quarter yielded CITIC Pacific a cash flow of HK\$2.3 billion. The excess of cash inflow over the capital expenditure, which was mainly for the development of Discovery Bay, and payment of interest and dividends was used to reduce net debt by approximately HK\$2.6 billion.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

*for the six months ended 30 June 1999*

<i>in HK\$ million</i>	<i>Note</i>	<i>Six months ended 30 June</i>	
		<b>1999</b>	1998
Turnover		<b>5,320</b>	7,182
Profit from consolidated activities		<b>1,181</b>	1,365
Share of profits less losses of associated companies		<b>1,125</b>	1,294
Net interest expense		<b>(577)</b>	(530)
Profit before taxation		<b>1,729</b>	2,129
Taxation	<i>1</i>	<b>(164)</b>	(279)
Profit after taxation		<b>1,565</b>	1,850
Minority interests		<b>(51)</b>	(54)
Profit attributable to shareholders		<b>1,514</b>	1,796
Dividends		<b>(426)</b>	(426)
Transfer to reserves		<b>(3)</b>	–
Retained profit		<b>1,085</b>	1,370
Earnings per share	<i>2</i>	<b>71 cents</b>	84 cents
Dividend per share			
– Interim	<i>4</i>	<b>20 cents</b>	20 cents

Notes:

1. *Hong Kong profits tax is calculated at 16% (1998: 16%) on the estimated assessable profit for the period. Overseas taxation is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. Detailed as follows:*

<i>in HK\$ million</i>	1999	1998
<i>Company and subsidiary companies</i>		
Hong Kong profits tax	20	56
Overseas taxation	16	13
Deferred taxation	(5)	(3)
<i>Associated companies</i>		
Hong Kong profits tax	82	172
Overseas taxation	25	34
Deferred taxation	26	7
	164	279

2. *The calculation of earnings per share is based on profit attributable to shareholders of HK\$1,514 million (1998: HK\$1,796 million) and on 2,127,367,160 shares in issue throughout the period (1998: 2,127,367,160 shares in issue).*
3. *Certain comparative figures have been reclassified to conform with the current period's presentation.*
4. *The Directors have declared an interim dividend of 20 HK cents (1998: interim dividend of 20 HK cents) per share for the year ending 31 December 1999 payable on Wednesday, 22 September 1999 to shareholders whose names appear on the Register of Members of the Company on Friday, 17 September 1999. The Register of Members of the Company will be closed from Monday, 13 September 1999 to Friday, 17 September 1999, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at 1601 Hutchison House, 10 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on Friday, 10 September 1999.*

## **INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES**

### **CORPORATE GOVERNANCE**

During the six months ended 30 June 1999, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company has established an Audit Committee with written terms of reference in 1995 and thus is in compliance with the additional requirement of the Stock Exchange to its Code of Best Practice.

### **YEAR 2000**

The Group has adopted as its definition of Year 2000 compliance the Year 2000 Conformity Requirements (PD2000-1: 1998) issued by the British Standards Institution: “Year 2000 conformity shall mean that neither performance nor functionality is affected by dates prior to, during and after the Year 2000”.

CITIC Pacific formed a Year 2000 Group Steering Committee in March 1998. It is chaired by a main Board Director and its mission is to ensure that appropriate actions are being taken in businesses that are material to the Group in terms of assets, cash flows or profits to address non Year 2000 compliant issues. This Committee provides policy guidance to the Group and monitors progress through monthly meetings. Year 2000 steering committees have been formed in subsidiary companies sponsored by their chief executive officers and their progress is regularly reported to and reviewed by the Group Steering Committee. The progress of CITIC Pacific’s associated companies and joint ventures is monitored by regular visits and periodic reports.

The objective of the CITIC Pacific Year 2000 programme is to ensure that the Group’s business critical systems using dates to perform important functions and calculations will operate as they currently do, through and after the year 2000.

The programme involves taking comprehensive inventories, performing impact analysis, carrying out remediation, and testing all business critical systems to ensure they shall be Year 2000 compliant. External expert advice has been and will be sought as necessary. Suppliers, vendors, service providers and business partners have been asked to confirm that their products and services are Year 2000 compliant.

As at the end of July 1999, CITIC Pacific and its subsidiaries had completed modification, remediation and testing of all the business critical systems in accordance with the guidelines issued by the Group, except in Dah Chong Hong, Limited motor service division which will introduce a major system in September 1999 and the Jiangyin Xing Cheng Special Steel Works which is in the process of testing which will also be completed in September. These apart, the head of each business unit has confirmed that the areas under his/her supervision are Year 2000 compliant.

Despite the work done there can be no absolute assurance that the Group's compliance programme will be successful so contingency plans are being developed to manage the risk of failure and to minimize the potential impact of any disruptions to its operations. Major contingency plans are reviewed by the Group Steering Committee and will be monitored regularly.

As at the end of June 1999, the Group has incurred costs of HK\$3.5 million on its Year 2000 programme and these costs have been separately identified and accounted for in the Group's accounts as an expense. In addition, Year 2000 related expenses have also been accounted for in the Group's accounts under expenditure for major systems development, where the costs relating to Year 2000 compliance cannot be separately identified. Other than the costs referred to above, as at 30 June 1999 no further commitments have been authorised by the directors of the Company (whether contracted for or not yet contracted for) in respect of the Group's Year 2000 modification costs.

The Group has taken and will continue to take steps necessary to give reasonable assurance that its internal business systems and equipment will enable it to be Year 2000 compliant so that its business will not be materially interrupted.

## DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

The interests of the Directors in securities of the Company or any associated corporation as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as at 30 June 1999 were as follows:

<i>Name</i>	<i>Number of Shares of the Company</i>				<i>Total</i>
	<i>Personal interests</i>	<i>Corporate interests</i>	<i>Family interests</i>	<i>Other interests</i>	
Larry Yung Chi Kin		400,381,000			400,381,000
Henry Fan Hung Ling		43,000,000			43,000,000
Vernon Francis Moore				3,200,000 <i>(Note 1)</i>	3,200,000
Peter Lee Chung Hing	500,000				500,000
Robert Ernest Adams	550,000				550,000
Patrick W S Chung	550,000				550,000
Peter Mak Shair On	100,000				100,000
Hansen Loh Chung Hon	1,050,000	500,000 <i>(Note 2)</i>	500,000 <i>(Note 2)</i>		1,550,000
André Desmarais	13,800	36,859,000			36,872,800 <i>(Note 3)</i>

*Note 1: Deemed interests held by the relevant Director and his family as contingent beneficiaries of a discretionary trust.*

*Note 2: The corporate interests and the family interests of the relevant Director duplicate each other as the 500,000 shares are held through a company in which the relevant Director and his family are interested.*

*Note 3: In addition to the aforesaid, the relevant Director is also one of the trustees of a Canadian discretionary trust which controls Canadian companies which own 24,000 shares of the Company.*

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 1999, the interests of the substantial shareholders, other than the Directors of the Company, in the equity securities of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance and the amount of such interests are as follows:

<i>Name</i>	<i>Number of Shares of the Company</i>
China International Trust and Investment Corporation	638,721,285
China International Trust & Investment Corporation Hong Kong (Holdings) Limited (“CITIC HK”)	638,721,285
Heedon Corporation	518,424,285
Honpville Corporation	310,988,221
Rockhampton Investments Limited	292,000,000
Bloomfield Enterprises Corp.	292,000,000
Earnplex Corporation	292,000,000

CITIC HK is a substantial shareholder of the Company indirectly through the following wholly owned subsidiary companies by virtue of section 8(2) of the SDI Ordinance as follows:

<i>Name of Subsidiary Companies of CITIC HK</i>	<i>Number of Shares of HK\$0.40 each</i>
Affluence Limited	43,266,000
Winton Corp	30,718,000
Westminster Investment Inc.	101,960,000
Jetway Corp.	42,500,000
Cordia Corporation	32,258,064
Honpville Corporation	310,988,221
Hainsworth Limited	67,031,000
Southpoint Enterprises Inc.	10,000,000

Each of Affluence Limited, Winton Corp, Westminster Investment Inc., Jetway Corp., Cordia Corporation, Honpville Corporation, Hainsworth Limited and Southpoint Enterprises Inc. holds the shares of the Company beneficially. Accordingly, Honpville Corporation is a substantial shareholder of the Company.

China International Trust and Investment Corporation is the direct holding company of CITIC HK. CITIC HK is the direct holding company of Heedon Corporation, Hainsworth Limited, Affluence Limited and Barnsley Investments Limited. Heedon Corporation is the direct holding company of Winton Corp, Westminster Investment Inc., Jetway Corp., Kotron Company Ltd. and Honpville Corporation and Kotron Company Ltd. is the direct holding company of Cordia Corporation. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc. Accordingly, the interests of China International Trust and Investment Corporation in the Company duplicate the interests of CITIC HK in the Company. The interests of CITIC HK in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Heedon Corporation in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Barnsley Investments Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above and the interests of Kotron Company Ltd. in the Company duplicate the interests in the Company of its direct subsidiary company as described above.

Rockhampton Investments Limited is a wholly owned subsidiary company of Bloomfield Enterprises Corp., which in turn is a wholly owned subsidiary company of Earnplex Corporation. Accordingly, the interests of Earnplex Corporation duplicate the interests in the Company of its direct and indirect subsidiary companies as described above. Mr Larry Yung Chi Kin is the owner of the entire issued share capital of Earnplex Corporation. The interests in the Company of Rockhampton Investments Limited represent part of the corporate



interests of Mr Larry Yung Chi Kin as mentioned in the above section of “Directors’ Interests in Securities of the Company”.

## SHARE CAPITAL

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company’s shares during the period.

By Order of the Board

Alice Tso Mun Wai *Company Secretary*

Hong Kong, 25 August 1999

## **CORPORATE INFORMATION**

Registered Office  
32nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong  
Telephone: 2820 2111  
Fax: 2877 2771

Internet  
<http://www.citicpacific.com>

E-mail  
General enquiries: [contact@citicpacific.com](mailto:contact@citicpacific.com)  
Property enquiries: [property@citicpacific.com](mailto:property@citicpacific.com)

Auditors  
PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central  
Hong Kong

Registrars  
Tengis Limited  
1601 Hutchison House  
10 Harcourt Road  
Hong Kong  
Telephone: 2846 9666  
Fax: 2810 8185

Company Secretary  
Alice Tso Mun Wai

Key Dates  
Closure of Register: 13 September 1999 to 17 September 1999  
Interim Dividend payable: 22 September 1999