CITIC PACIFIC

Fundamental Strengths

Annual Report 2008

Contents

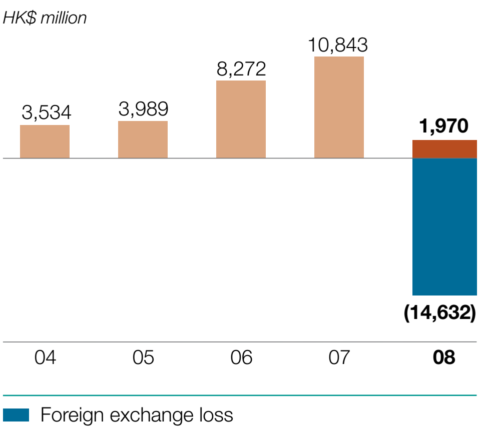
Financial Highlights

In HK$ Million unless specifically indicated	**2008**	2007	Increase / (Decrease) %
(Loss) / profit attributable to shareholders after tax	**(12,662)**	10,843	(217)
– excluding leveraged foreign exchange contracts, net of tax	**1,970**	10,821	(82)
– leveraged foreign exchange contracts (loss) / gain, net of tax	**(14,632)**	22	(66,609)
Major businesses' contribution			
Special steel	**1,617**	2,242	(28)
Iron ore mining	**(123)**	–	N/A
Property			
– Mainland China	**523**	197	165
– Hong Kong	**490**	534	(8)
Power generation	**(1,198)**	494	(343)
Others	**1,527**	3,655	(58)
Cash contributed from all businesses	**8,194**	13,201	(38)
Net debt	**38,938**	20,609	89
Cash & available committed loan facilities	**36,801**	26,589	38
Total number of shares outstanding *(in million)*	**3,646**	2,212	65
Shareholders' funds	**49,971**	59,793	(16)
Shareholders' funds per share *(HK$)*	**13.70**	27.03	(49)
Dividends per share *(HK$)*			
Regular	**0.30**	1.20	
Special	**–**	0.20	

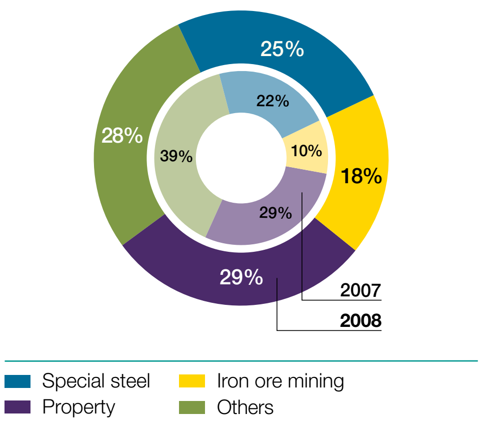
Ratios

Total debt to total capital	**64%**	36%
Net debt to total capital	**44%**	26%
Interest cover	**(13)x**	50x

Profit attributable to shareholders



Group segment assets



CITIC Pacific's Fundamental Strengths

CITIC Pacific has a great depth of experience and expertise in operating businesses in China, both on the mainland and in Hong Kong. In recent years the business has been increasingly focused on the mainland to take advantage of the long-term growth opportunities that exist there.

Our major businesses are special steel manufacturing, iron ore mining and property development in mainland China.

Our Major Businesses

Special Steel

- **25**% of segment assets
- 3 key production plants in China
- over **7 million** tonnes of annual production capacity

CITIC Pacific Special Steel is the largest special steel manufacturer in China. Special Steel is used in a wide range of industries including auto components, machinery manufacturing, transportation, energy, railways and shipping. The major products are bearing steel, gear steel, spring steel and seamless steel tubes.

Find out more on p6

Iron Ore Mining

- **18** % of segment assets
- **2 billion** tonnes of world class magnetite ore reserves
- over **27 million** tonnes of concentrate and pellets to be exported annually
- potential to increase production to more than **70 million** tonnes annually

The Sino Iron project is the most advanced magnetite development in Australia. Production is expected to start in the second half of 2010 ensuring a stable, quality supply of iron ore to CITIC Pacific's special steel plants, as well as other steel producers in China.

Find out more on p18

Property

- **29** % of segment assets
- developing **4.9 million** square metres of gross floor area in the coming years
- a diversified portfolio of development properties

CITIC Pacific focuses on developing medium and large scale projects in mainland China. Properties are located in prime areas in Shanghai, major cities in the Yangtze Delta area, as well as Hainan Island.

Find out more on p28

Chairman's Letter to Shareholders

2008 Results Overview

CITIC Pacific's net loss after tax attributable to shareholders for 2008 was HK$12,662 million compared with a profit of HK$10,843 million in 2007. A HK$14,632 million realised and marked to market loss after tax on a number of foreign exchange contracts was recognised in 2008, which significantly impacted the bottom line of our company. Excluding this loss, CITIC Pacific's businesses made an after tax profit of HK$1,970 million.

The Board recommends not paying a final dividend. Thus, the dividend per share for the year is the HK$0.3 declared and paid as an interim dividend. It has also been decided that no bonuses will be paid to directors for 2008.

Financially Sound

Our company is financially secure following the re-capitalisation by the CITIC Group. Shareholders' funds stood at HK$50 billion at 31 December 2008. Our balance sheet is solid, with debt maturity well structured in anticipation of cash flows from our businesses. Our cash position is good, and the majority of our projects already have financing in place. Maturing debt in the next few years requires re-financing and, considering today's environment, work on this will begin shortly.

Core Businesses are Fundamentally Strong

I am pleased to report that the difficult times we have experienced in recent months have not distracted the management of our businesses from their unremitting focus on our operations. However, there can be no doubt that the economic conditions have impacted the full year performance.

Our special steel business had a mixed year. After an excellent first half, which saw profits reach a historic high, both demand and the price of steel weakened, notably in the fourth quarter. In addition, a year end provision had to be made against our inventory as its value had decreased significantly. 2009 will be another challenging year.

Our focus is to manage our businesses for the long-term. The improvements we have made in recent years to raise product quality, develop new products and new markets, and operate more efficiently will continue to pay off. We now have a far more coordinated approach to sales and marketing, raw material sourcing and technology development among our three steel plants, and an increased proportion of higher value products.

We are in a strong position as the largest special steel maker in China with the highest market share in the categories of steel we manufacture. The economies of scale and market position we enjoy will help us continue to reap benefits.

Our iron ore mine development in Western Australia made significant progress in 2008. In December, amendments to the State Agreement Act governing the project were passed, enabling us to export magnetite concentrate as well as pellets and thus allowing the full project plan to be executed. In January 2009, we signed a seven-year contract for the supply of gas to our project. With more than 1,100 people working in Perth, Beijing and at the project site, and over 75 percent of capital expenditure committed, the project is the most advanced large-scale magnetite development in Australia. We now have 90 percent of our mining fleet on site. Other preparatory works are well advanced with components being manufactured at different facilities around the world. The initial production is expected to begin in 2010.

Despite a global downturn in commodity prices and a softening of demand for raw materials, we maintain an optimistic long-term view of the iron ore market.

Our property projects in mainland China continue to make progress. The twin office towers of our Shanghai Lu Jia Zui New Financial District Project are on schedule to be completed in 2010. During 2008, despite deteriorating market conditions we pre-sold a number of units in our residential projects in Qingpu, Yangzhou, and Jiangyin. Ningbo CITIC Square is on track for completion in the latter half of 2009. The construction of the infrastructure, two hotels and apartments of our Hainan project is also progressing well.

We are closely monitoring property market conditions, and we retain the flexibility to adjust the pace of our developments accordingly. However, we believe strongly that the underlying demand for quality offices and homes in China will continue to drive the property market in the long run. Our financial strength enables us to withstand short-term volatility and this, combined with our longstanding experience of property development in China, will be critical to our continued success.

Other Businesses

Our power business had a tough year. The significant increase in the price of coal was the main reason for the loss incurred. 2009 has seen coal prices come down, which is beneficial to power producers. However, utilisation hours of power plants will depend on China's overall economic development. We expect our power business to do better in 2009. Cathay Pacific's performance was affected by an unrealised mark to market loss on fuel hedging contracts as well as a general slowdown in demand in the second half of the year. 2009 will remain difficult for the aviation industry. In the long-term, Cathay Pacific will continue to benefit from the synergies with Dragonair and a strong relationship with Air China. The Eastern and Western Tunnels in Hong Kong operated smoothly with increased profit and continuing cash flow. Our two listed companies CITIC 1616 and Dah Chong Hong, both performed well with increasing profits in a challenging year. These businesses provide steady cash flow to our company.

Looking to the Future

Now that we have put the issues of 2008 behind us, we are focused on the future. For 2009, we face a difficult operating environment which will impact this year's performance. We will operate our business as efficiently as we can to help weather this downturn.

As we look at global economic conditions and compare the situation in mainland China, we remain encouraged. We have sufficient resources and are well placed to capture future opportunities.

I would like to take this opportunity to extend both my own personal thanks and that of the Board to all of our employees. This has been an extremely challenging period for our company, and our employees have shown outstanding dedication and commitment.

Larry Yung Chi Kin
Chairman
Hong Kong, 25 March 2009

BUSINESS REVIEW

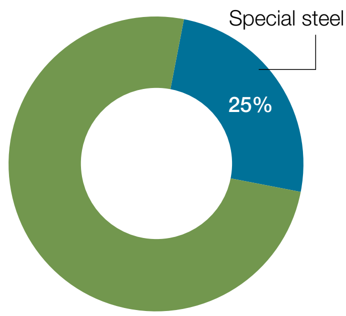
Special Steel

- 6.3 million tonnes of special steel produced in 2008
- High end products were 40% of total production in 2008
- A special steel plate line and two seamless steel tube lines are on track for completion in 2009
- New coking coal plant is on track to begin production in the second half of 2009
- Emission and energy savings achieved

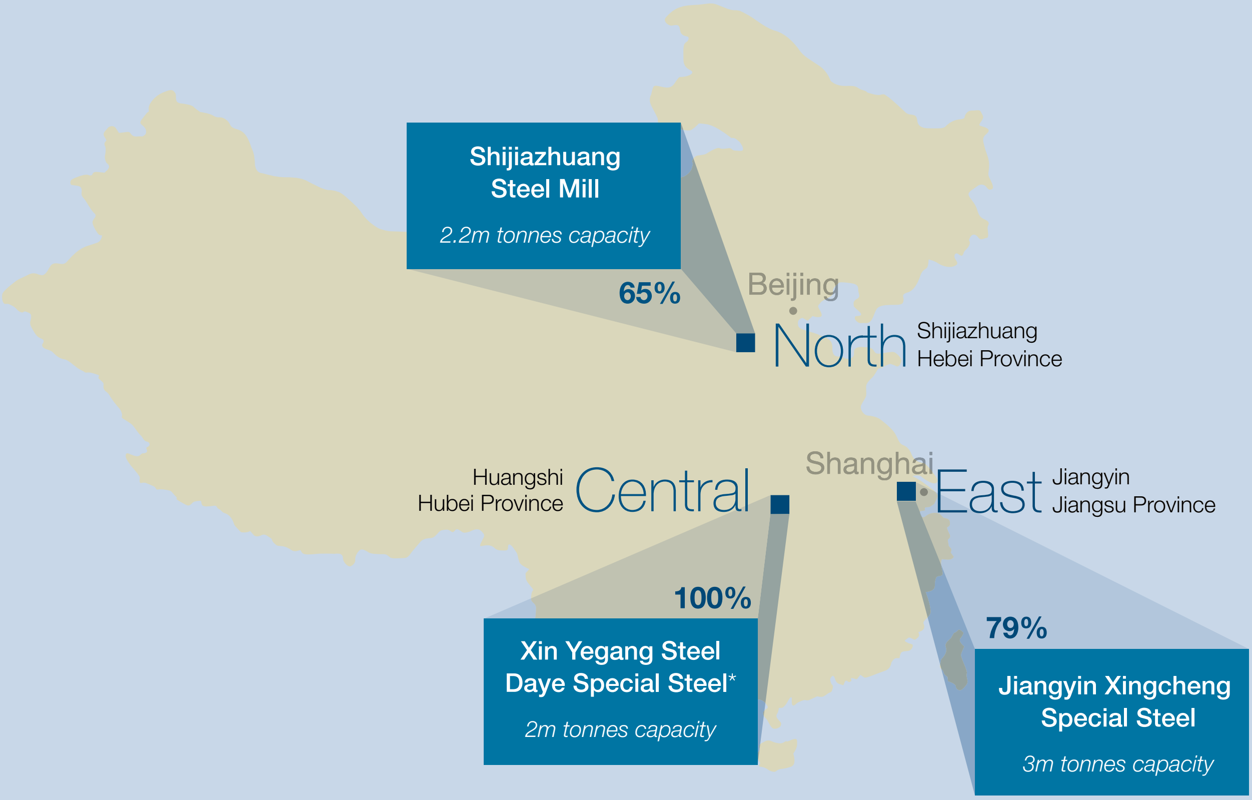
Special Steel

HK$ million	**2008**	2007	Change
Turnover	**22,758**	18,501	23%
Profit contribution	**1,617**	2,242	(28)%
Segment assets	**28,848**	21,489	34%
Segment liabilities	**5,751**	5,381	7%
Cash contribution to CITIC Pacific	**194**	2,196	(91)%
Capital expenditure	**8,381**	1,442	481%

Segment assets



CITIC Pacific Special Steel



* CITIC Pacific owns 58% of Daye Special Steel

Overview

CITIC Pacific Special Steel is the largest special steel manufacturer in China with an annual production capacity of over seven million tonnes. Our three operating plants, Jiangyin Xingcheng Special Steel, Xin Yegang Steel and Shijiazhuang Steel, are ideally located to cover the main markets for special steel in eastern, central and northern China. The major products manufactured are bearing steel, gear steel, spring steel and seamless steel tubes. These are widely used in a range of different industries, including auto components, machinery manufacturing, oil, petrochemicals, transportation, energy, railways and shipping.

2008 Operating Performance

In 2008, a total of 6.3 million tonnes of special steel was produced by CITIC Pacific Special Steel's three plants. Sales closely matched the amount produced.

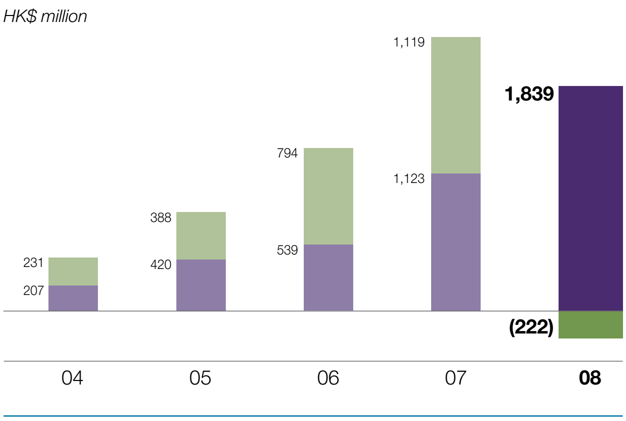
Production and sales were 4% and 3% lower compared with 2007. Demand for special steel products was strong in the first half of the year. However, the global financial crisis led to a slowdown in growth, and demand for steel products declined sharply. This in turn led to a drop in steel prices in the second half of 2008, which was particularly pronounced in the fourth quarter.

The profit contribution from CITIC Pacific Special Steel declined 28% compared with 2007, primarily due to the challenging operating environment in the latter part of 2008. During this period, all three plants experienced a sharp decline in product price, but were using raw materials purchased earlier in the year at high cost. Another major factor accounting for the decrease in profit contribution was a provision of HK$513 million against year-end inventory.

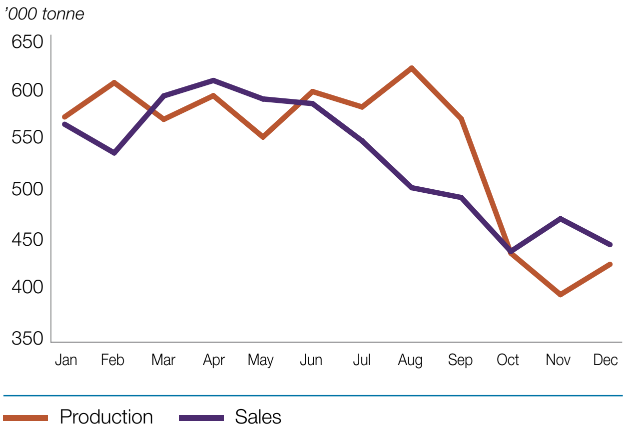
Special Steel Production

Our three special steel plants employ two different technological approaches: long and short processes. The long process uses iron ore and coke as raw materials. The short process uses scrap steel, pig iron or molten iron as raw materials. During the next phase, alloys are added to the molten steel produced from these processes. Through an 'LF' ladle refining furnace, an 'RH' or vacuum degassing furnace, and a continuous casting and rolling process, steel billets are produced and shaped to various specifications according to customers' specific requirements. The management teams at the plants are focused on cost efficiency and product quality, and will therefore choose whichever one of the processes that has lower raw material input costs.

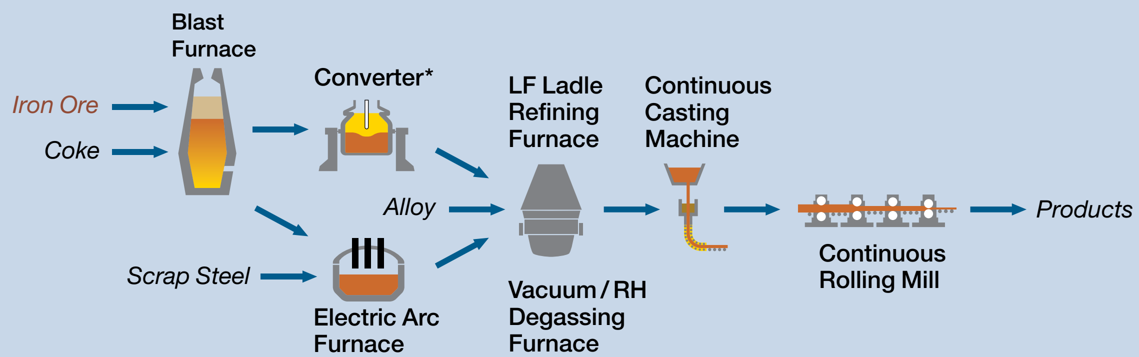
Profit contribution



2008 monthly production and sales volume



Special steel manufacturing process



* Xin Yegang does not use a converter

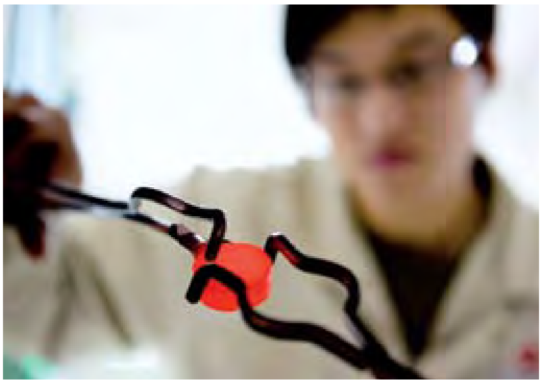
Products

Special steel refers to steel that has added or extra benefits, such as heat resistance, anti corrosion and anti fatigue. Categorised by shape, special steel includes bar steel, plate, strip steel, tube steel and wire steel. Approximately 90% of CITIC Pacific Special Steel's products are bar steel, manufactured to order based on customers' specific requirements. These bars are sold to manufacturers who use this steel to make products such as gears, bearings and springs. Around 6%, or 400,000 tonnes of total annual production, was for seamless steel tubes which are used in the oil and petrochemical industry as well as for machinery manufacturing.

Key products of CITIC Pacific Special Steel

Product	2008 market share	Sales ('000 tonnes) 2008	2007	Change
Gear steel	44%	**863**	831	4%
Alloy spring steel	40%	**447**	463	(3)%
Bearing steel	40%	**769**	789	(3)%
Other alloy steel	26%	**1,741**	1,835	(5)%
Carbon structure steel	19%	**1,265**	1,471	(14)%
Seamless steel tubes	7%	**380**	436	(13)%

Statistics are from the China Special Steel Enterprises Association and include only registered enterprises



In 2008 high end products were 40% of the total production, about 2.5 million tonnes and an 8% increase from 2007.

Customers

The Group's products are sold to these industries

Industry	2008 sales ('000 tonnes)	Percentage of total sales	Percentage change from 2007
Auto components	2,662	42%	2%
Machinery manufacturing	1,397	22%	6%
Metal works	828	13%	(23)%
Power generation	415	7%	8%
Oil and petrochemical	381	6%	9%
Railway	156	2%	12%
Shipbuilding	100	2%	7%
Others	390	6%	(31)%
Total	**6,329**	**100%**	**(3)%**

Top five customers in China

Name	Industry	Tonnage sold ('000)
Jiangsu Zhenda Seamless Tube	Machinery manufacturing	132
Pangang Group Chengdu Iron and Steel	Machinery manufacturing	80
Yangzhou Chengde Steel Tube	Power generation	79
Dongfeng Motor	Auto components	78
Jiangxi Hongdu Steelworks	Machinery manufacturing	77

Many buyers of our products are affiliated and contracted producers for manufacturers in the auto, machinery manufacturing, oil and petrochemical industries. Our end users include Toyota, General Motors, Honda, Volkswagen, Volvo, Caterpillar and SKF.

Sales and Marketing of Products

One of the key advantages of the special steel business is that production is based on customer orders and therefore inventory levels of finished products are usually low. For 2008, over 70% of sales were to long-term customers with whom we have strategic relationships. The product delivery period is typically in the one to three month range, with the majority being less than two months.

We retain the flexibility to adjust product prices according to market changes.

In 2008, 84% of products were sold to domestic Chinese customers. Exports made up the other 16% of sales amounting to 990,000 tonnes, a decrease of 11% compared with 2007.

The Group's products are exported to these countries and regions

Country / Region	Amount ('000 tonnes)	Percentage of total exports	Change from 2007
Korea	217	22%	(34)%
Southeast Asia	227	23%	21%
Europe	158	16%	(20)%
South America	109	11%	61%
United States	71	7%	15%
Middle East	60	6%	(32)%
Others	145	15%	(15)%
Total	**987**	**100%**	**(11)%**

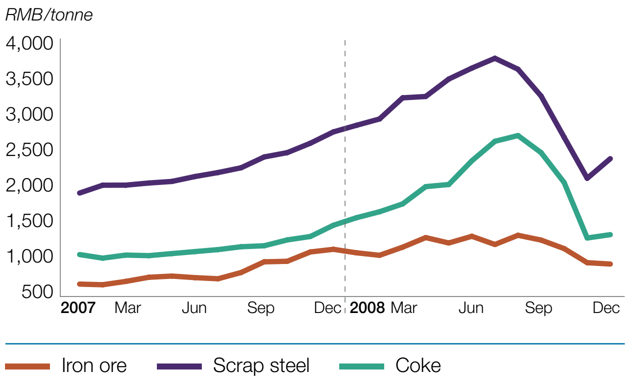
Raw Materials Required

Major raw materials used in the production of special steel include iron ore, scrap steel, coke, coal and alloy.

Major raw materials used

Type	2008 ('000 tonnes)	Percentage of total raw material cost	Percentage of production cost
Iron ore	8,878	34%	30%
Scrap steel	1,793	19%	17%
Coke	1,692	12%	10%
Coal	3,544	13%	11%
Alloy	238	14%	13%
Total	**16,145**	**92%**	**81%**

Price of major raw materials



Source of iron ore

Country	Percentage of total
China	42%
Australia	26%
Brazil	14%
India	10%
Others	8%

The prices of all major raw materials increased significantly in the first seven months of 2008. However, from August onwards the prices of these raw materials declined rapidly due to weakened demand.

Of the total 8.9 million tonnes of iron ore used in 2008, approximately 33% was contracted compared with 25% in 2007. The rest was purchased on the spot market. Major overseas suppliers are Vale, Hamersley and BHP. Fortescue also became a supplier in 2008.

For 2009, we see the trend of price differences between contracted and spot iron ore narrowing, which means that our cost base will be moving closer to other major steel producers in China, who are able to secure much more contracted iron ore than CITIC Pacific Special Steel. When our Australian iron ore mine begins full production, this issue will be partially resolved.

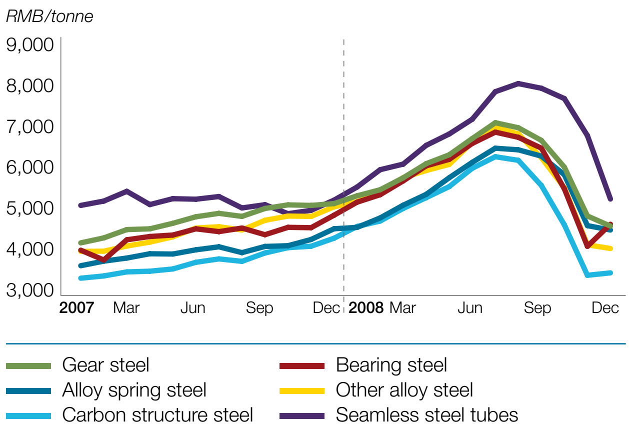
With the goal of lowering the overall cost of the delivered iron ore, we ordered a total of 12 bulk carriers with 115,000 deadweight tonnage (DWT) each. The first of these will be delivered in 2010. These ships are specially made to travel up the Yangtze River to arrive directly at Jiangyin Xingcheng Special Steel, which is expanding its port capacity to accommodate these vessels.

Another important raw material is coking coal. We now have two coking coal plants with a production capacity of 1.9 million tonnes. We invested in a new coking plant in 2008, which will begin production in the second half of 2009. It is capable of producing 900,000 tonnes of coking coal annually. With our three coking facilities, we can meet the needs of our plants.

Product Pricing

Pricing of special steel products is mainly driven by two factors: demand and the cost of raw materials. In the first three quarters of 2008, the price of special steel products in all three of our plants rose significantly due to strong demand as well as sharp increases in the cost of the raw materials used. However, from the fourth quarter onwards, weakened demand and raw material price decreases led to a significant drop in special steel prices.

Price of major products



Protecting the Environment

Over the years, much effort and work have gone into lessening the impact of our plants on the environment, mainly through reducing emissions and saving energy. The major initiatives undertaken were:

- Implementation of ISO14001 Environment and Management System
- Passed China's Occupational Health and Safety Assessment
- Improved use of resources, such as gas recovery, waste heat and pressure utilisation, waste water treatment and recycling
- Further investment in energy saving and emission reducing equipment

Major pollutants	Measures	Results
Industrial fumes, and dust	Cloth filter de-dusting and electric de-dusting	
Sewage water	Cooling water recycling; small quantity treated in sewage treating station before discharging	
Waste residual	Recovered and recycled	All national environment protection requirements met
Noise	Sound proof coverage used for all large noise generating equipments; factory not close to residential areas	
SO_2	Treated with wet desulphurizing device	

Outlook for 2009 and Beyond

In 2008, total special steel production in China was 10% of total steel produced and decreased 0.4% compared with 2007. In industrialised countries, special steel is roughly 15–20% of the total steel production. In the long-term, as China continues to grow, more and more special steel will be needed.

Looking at the prospects for 2009, China's steel industry faces the dual challenge of weakened steel demand both domestically and also from international markets. The RMB4 trillion stimulus package unveiled by the Chinese government in November 2008, which aims to bolster the economy, should benefit the steel industry. However, a structural imbalance between demand and supply exists, and this is likely to be more pronounced in the first half of 2009 with the situation improving in the second half.

Similarly, in special steel over-supply at the lower-end of the product spectrum is already evident. However, a number of the higher-end products still rely on imports. Overall product prices are likely to remain low in 2009, particularly in the first half of the year with some recovery expected in the second half. The auto, machinery, railway and energy sectors will continue to play an important role in driving demand for special steel in the long-term.

Plans for the Future

As the largest special steel producer in China, CITIC Pacific benefits from economies of scale combined with our leadership position in the types of steel produced. This puts us in an extremely advantageous position to capture long-term growth opportunities in the China market. Work will continue in many areas:

Product Development, Marketing and Sales

We will closely monitor China's stimulus plan to seek new opportunities in markets for high quality bar products, seamless steel tubes and those used in the railway, wind power, marine engineering and machinery manufacturing industries.

Raising product quality is critical to staying competitive, in particular in a market where there is over supply of lower-end products. In 2008, 40% of CITIC Pacific's products were high quality compared with 36% in 2007.

Currently, a small portion of our products are sold through traders while the majority is sold directly to users. Going forward, we will aim to continue reducing the reliance on traders and directly reach end-users. Strategic co-operative relationships have been established with First Auto, Dongfeng Motor, Caterpillar and SKF.

Synergies Among Plants

Since the formation of CITIC Pacific Special Steel, strong synergies have been achieved from the three plants, and work will continue on this front. Major raw materials required by the three plants will be sourced centrally to further reduce costs. Centralised negotiations with major ports such as Beilun port in Ningbo on raw material loading and unloading could further reduce transshipment costs. Management will also further rationalise the regional sales division in order to lower transportation costs and shorten the time needed to deliver products to customers.

Expansion Plans

With the aim of further enhancing our leading position in the domestic and international markets for special steel, we are expanding our product range to include plates as well as downstream finished products such as seamless steel tubes.

A new special steel plate production line with an annual capacity of 1.2 million tonnes is being constructed at Jiangyin Xingcheng Special Steel, and is expected to be completed in the second half of 2009. Main products will include ship plate steel, steel used in marine engineering, petroleum pipe line steel, and pressure vessel steel used in the shipbuilding, marine engineering, oil, petrochemical and machinery manufacturing industries.

The market for medium plates has been growing rapidly in China in recent years. There is strong demand for high quality, high value added plates. This market currently relies on imports, in particular pipe line steel, ship plate and steel used in marine engineering and machinery manufacturing. Therefore, the products from this new line will be able to meet the demand for similar products in China in the future.

In Xin Yegang, two new lines with total annual production capacity of 630,000 tonnes of medium wall seamless steel tubes are being constructed. Completion is expected in the third quarter of 2009. Products from the two lines are widely used in the energy, petrochemical, coal and military industries.

Jiangyin Xingcheng Special Steel

www.jyxc.com

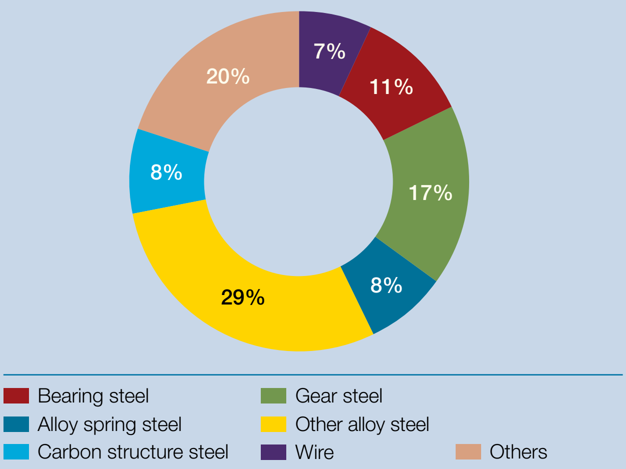
Located in Jiangsu Province in the eastern part of China, Jiangyin Xingcheng Special Steel is a leader in special steel manufacturing in China. Its annual production capacity of three million tonnes includes a production line built in partnership with Sumitomo Metals Kokura of Japan. Completed in 2007, it is now producing special steel for high-end auto components. It is also the first and only line in China capable of producing round tube billet with a diameter of 800mm for use in machinery manufacturing. The plant's other high-grade products are used in the making of bearings, gears, springs and high-pressurised tubes.

A new production line is being constructed to produce special steel plate products. With an annual capacity of 1.2 million tonnes, its completion is expected to be in the second half of 2009.

Jiangyin Xingcheng Special Steel is strategically situated next to the Yangtze River and has two 50,000 tonne wharfs, providing efficient transport of its raw materials and finished products. The wharfs are being expanded to accommodate the 115,000DWT ships ordered by CITIC Pacific.

For 2008, a total of 2.9 million tonnes of steel was produced and 2.8 million tonnes were sold, an increase of 6% and 5% respectively, primarily due to the addition

Jiangyin Xingcheng's products



of the Sumitomo line. Exports were 460,000 tonnes, a 6% drop from the previous year. Many of the products are certified by well known users worldwide, such as Toyota, SKF, FAG and Caterpillar.

Xin Yegang Steel (Xin Yegang)

www.xinyegang.com

Xin Yegang had an annual designed production capacity of two million tonnes at the end of 2008, including the capacity of Daye Special Steel, an A-share listed company in which CITIC Pacific indirectly holds a 58% interest. Xin Yegang's products include bearing steel, gear steel, spring steel, carbon structure steel and seamless steel tubes that are used in the auto, petrochemical, power and machinery manufacturing sectors.

Two new lines with a total annual production capacity of 630,000 tonnes are being constructed, and completion is expected to be in the third quarter of 2009. Their products are primarily used in the energy, petrochemical, coal and military industries. These two products will compliment Xin Yegang's existing seamless tubes to further satisfy customer needs.

Xin Yegang is located in the city of Huangshi in Hubei Province and is the oldest steel plant in China, dating back to 1908. It is next to the Yangtze River, with three 5,000 tonne wharfs that enable it to enjoy an advantage in transportation. In the future, the Group's mini-cape sized ships will transport the iron ore from various sources to ports on the Yangtze River, where it will be transshipped to Xin Yegang. As a result, transshipment costs should be reduced.

In 2008, Xin Yegang's production and sales were 1.7 million tonnes, a reduction of 8% compared with 2007. Exports were 253,000 tonnes, which was 15% of total sales and 9% lower from the previous year.

Shijiazhuang Steel Mill (Shigang)

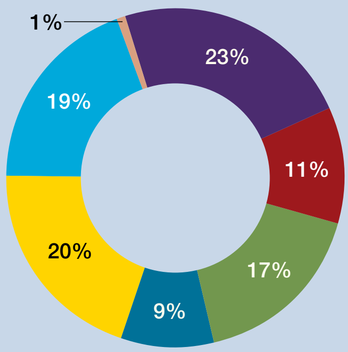
www.csggs.com

Located in the city of Shijiazhuang in Hebei Province, Shigang benefits not only from the efficient transportation networks around Beijing and Tianjin, but also from neighbouring coal-rich Shanxi Province. Established in 1957, Shigang is now a manufacturer of special steel with a production capacity of over two million tonnes.

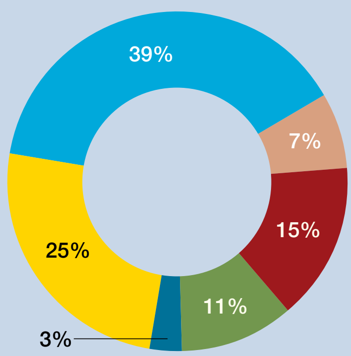
Its main products include bearing steel, gear steel and alloy steel, and are supplied mainly to the auto components and machinery manufacturing sectors.

For 2008, 1.7 million tonnes of steel were produced and 1.8 million tonnes were sold. Exports were down 19% compared with last year, amounting to 15% of total sales.

Xin Yegang Steel's products



Shigang's products




MT 6300AC
DT010

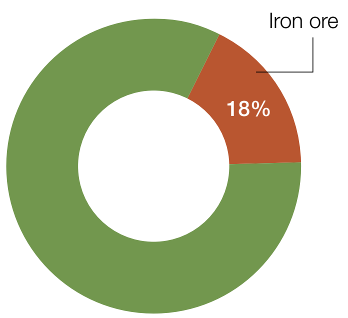
BUSINESS REVIEW

Iron Ore Mining

- Amendments to the State Agreement Act passed enabling the export of concentrate in addition to pellets
- Indigenous Land Use Agreements signed with three Native Title claimant groups
- Major gas supply arrangement secured
- Over 18 million tonnes of material moved
- More than 75% of capital expenditure committed

Iron Ore Mining

Segment assets



HK$ million	**2008**	2007	Change
Segment assets	**20,976**	9,780	114%
Segment liabilities	**6,074**	702	765%
Capital expenditure			
Mining	**8,479**	4,808	76%
Ships	**1,531**	2,036	(25)%

Overview

CITIC Pacific's Sino Iron project is geographically well placed to take advantage of the neighbouring Asian market, with a large mineral resource base and processing close to port facilities in the Pilbara region of Western Australia.

CITIC Pacific has rights to two billion tonnes of resource, giving the project an expected mine life of about 25 years, with options to acquire an additional four billion tonnes which would lift production to 70 million tonnes per annum.

With long lead items ordered, manufacturing in progress and major construction underway at site, the project is the most advanced magnetite development in Australia and represents a secure, long-term source of quality feedstock for major steel mills in China, including those owned by CITIC Pacific.

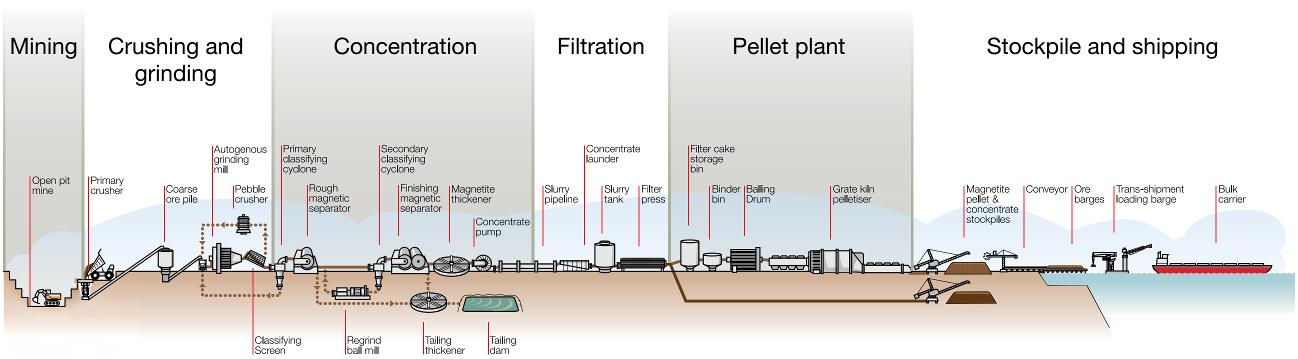
The Sino Iron project is managed by CITIC Pacific Mining, a subsidiary of CITIC Pacific, and is headquartered in Perth with a representative office in Beijing. The project will mine magnetite iron ore and is scheduled to begin production during the second half of 2010. Ore will be processed into concentrate and pellets, and at full production more than 27 million tonnes of product will be exported each year.

Once in operation, the Sino Iron project will mine more than 140 million tonnes of material each year, of which about 80 million tonnes will be processed, making it one of the world's largest mines. Dedicated infrastructure includes concentrate processing, pelletising, a 51 gigalitre desalination plant and new port facility, as well as a 450 MW power station.

The project will benefit from China's position as the world leader in magnetite ore processing technology with the lead contract for the detailed design, construction and commissioning of the mine, processing facilities and materials handling being implemented by China Metallurgical Construction Corporation, which will acquire a 20 percent equity interest in the project.

An important aspect of the project is the transfer to Australia of Chinese magnetite mining and processing technology and expertise which, combined with the experience of CITIC Pacific Mining's Australian team and partners, will create the foundation of an Australian magnetite industry on a world scale.

Sino Iron project – Magnetite mining and processing for export



Products

The products anticipated from the Sino Iron project will be of very high quality specification (high in iron content, low in contaminants). This is a crucial requirement for special steel producers in particular, who have very tight tolerance limits given the nature of their finished products. Therefore, these products are expected to benefit from broad market acceptance from conventional steel producers as well as special steel plants.

Mineral Resource Estimate

Total Joffre resource

Classification	Million tonnes	MagFe (%)
Measured	193	22.38%
Indicated	1,209	22.74%
Inferred	911	24.15%
Total	**2,314**	**23.26%**

Note: 'Mineral Resource' estimates are based on assay data at December 2007. Model released February 2008.

A 'Mineral Resource' is a concentration or occurrence of material of economic interest in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories. 'Joffre' is a member of the Brockman Iron Formation, the main ore body for the project.

2008 Project Progress

The Sino Iron project has achieved significant outcomes during 2008.

Approvals

Government approval to commence construction was given in May 2008 based on an initial, limited project proposal. Amendments to the State Agreement Act under which the project operates were passed by the Western Australian Parliament in December to allow the export of concentrate in addition to pellets.

Indigenous Land Use Agreements were signed with three Native Title claimant groups covering the Cape Preston area. The agreement provides native title and land tenure certainty for the project and benefits including education, training and employment opportunities for the groups.

Gas Supply

A significant milestone was reached with the completion of a major gas supply agreement. This agreement will see the Sino Iron project become the foundation customer for a new natural gas supply in Western Australia. Under the contract, gas will be supplied by Apache and Santos over seven years commencing in the second half of 2011 from the offshore Reindeer gas field.

Construction

Bulk earthworks for the concentrator and power plant were completed and civil works commenced. Construction of a causeway providing temporary access to the location of the port facility is underway. Initial earthworks for the 25 kilometre service corridor between mine and port at Cape Preston have begun.

Installation of construction accommodation villages is continuing with 900 new rooms becoming available in April 2009, increasing to more than 3,000 rooms to match forecast workforce levels.

Contracts have been awarded for the detailed design and construction of a jetty structure and the transshipment facilities. A contract for the detailed design and supply of the desalination plant process, mechanical and electrical equipment has also been awarded. A major logistics contract was awarded to Sinotrans which will work in partnership with Toll Australia to globally manage transport and logistics requirements for the project.

Mine Development

A bulk sample of iron ore was extracted from the mine pit in August 2008 and testing has been conducted successfully to refine and optimize the process plant design. Results to date confirm the ore is suitable for the autogenous grinding phase of processing, and further testing will continue during first half 2009 to assess performance in other processing phases.

More than 90 per cent of the mining fleet is on site. The early arrival of the equipment, amongst the largest in its class, will add to the business's efficiency as the equipment will play a critical role in project construction. More than 18 million tonnes of material was moved during 2008 in preparation for the commencement of mine operations.

People

At year end 2008, CITIC Pacific Mining had more than 530 employees in Western Australia and China and more than 500 contractors on site. In a highly competitive labour market, the recruitment effort saw, on average, one person joining the business each day during 2008. The business was also certified as a registered training organisation in April.

Safety

The construction phase of a project raises challenges for safety with a rapid increase in personnel numbers at site. During 2008, work progressed on a number of safety initiatives across the business, in particular communications, contractor management, vehicle safety and a review of health and safety standards, to ensure objectives, activities and behaviours are aligned to prevent the risk of injury. Cyclone readiness was also a key focus during the year.

Environment and Heritage

CITIC Pacific Mining's heritage team successfully managed obligations under Australian Native Title and cultural heritage legislation to allow ground disturbance over the project area. The team undertook extensive archaeological and ethnographic surveys in consultation with three Native Title claimant groups to ensure careful management of heritage areas and prepare relevant approvals, allowing construction to proceed in a timely way.

A team of environmental professionals oversees compliance in all environmental aspects of the project, including regular site audits and establishment of monitoring programs. Comprehensive environmental management plans have been developed in consultation with government to ensure appropriate management of sensitive issues and areas.

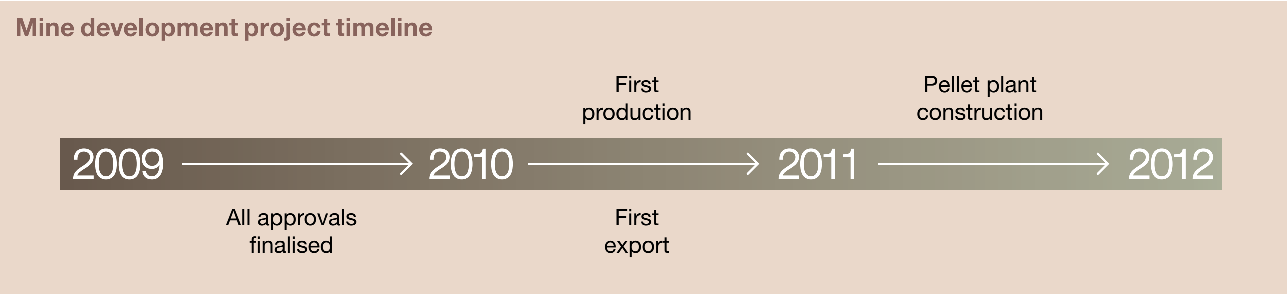
CITIC Pacific Mining recently completed the transfer of approximately 2,500 hectares of land to Western Australia's Conservation Estate, which will assist the protection of terrestrial ecosystems.

Greenhouse Gas Emissions

With energy as a key input, the planning and design phases of the project have incorporated strategies to reduce greenhouse gas emissions, including the construction of an efficient, low emission combined-cycle power station, which produces about 40 per cent less emissions than an open cycle plant. With a significant energy footprint, there are implications for the project from the planned introduction of a carbon pollution reduction scheme (CPRS) in Australia.

During 2008, a life cycle assessment of magnetite was commissioned which demonstrated significant net greenhouse gas savings over the value chain. Magnetite product is of higher iron content with lower impurities and generates heat in the steel making process, thereby resulting in an overall reduction in carbon emission when compared to traditional hematite fines.

Under the proposed CPRS, increased emission activities in Australia will be penalised despite net emissions in the global steelmaking value chain being reduced. CITIC Pacific Mining is currently seeking government support for magnetite mining and processing to be compensated as an emissions intensive, trade exposed industry to ensure that the project is not unduly impacted on its ability to operate in a competitive, cost effective and carbon conscious way.



Community

CITIC Pacific Mining has established relationships with government, industry and community stakeholders in Western Australia, with a focus on Pilbara regional stakeholders. Engagement with the local community is essential to the success of this project and consultation with stakeholders has allowed development of a community engagement framework and identified a number of initial opportunities for community partnerships.

Project Commencement

Following a review of the overall project schedule with key project partners, the first production target has been revised to the second half of 2010.

Construction of the six mill lines and the pellet plant will be phased to reduce peak manning levels and manage associated costs.

The capital expenditure for the project is approximately US$3.85 billion, consisting of US$3.5 billion in capital cost and US$0.35 billion in pre-investment. More than 75% of capital expanditure is committed. In an assessment of operating needs, CITIC Pacific Mining identified opportunities to build in economies of scale when constructing key pieces of infrastructure. This pre-investment will add value to the project and will help increase capacity for future stages.

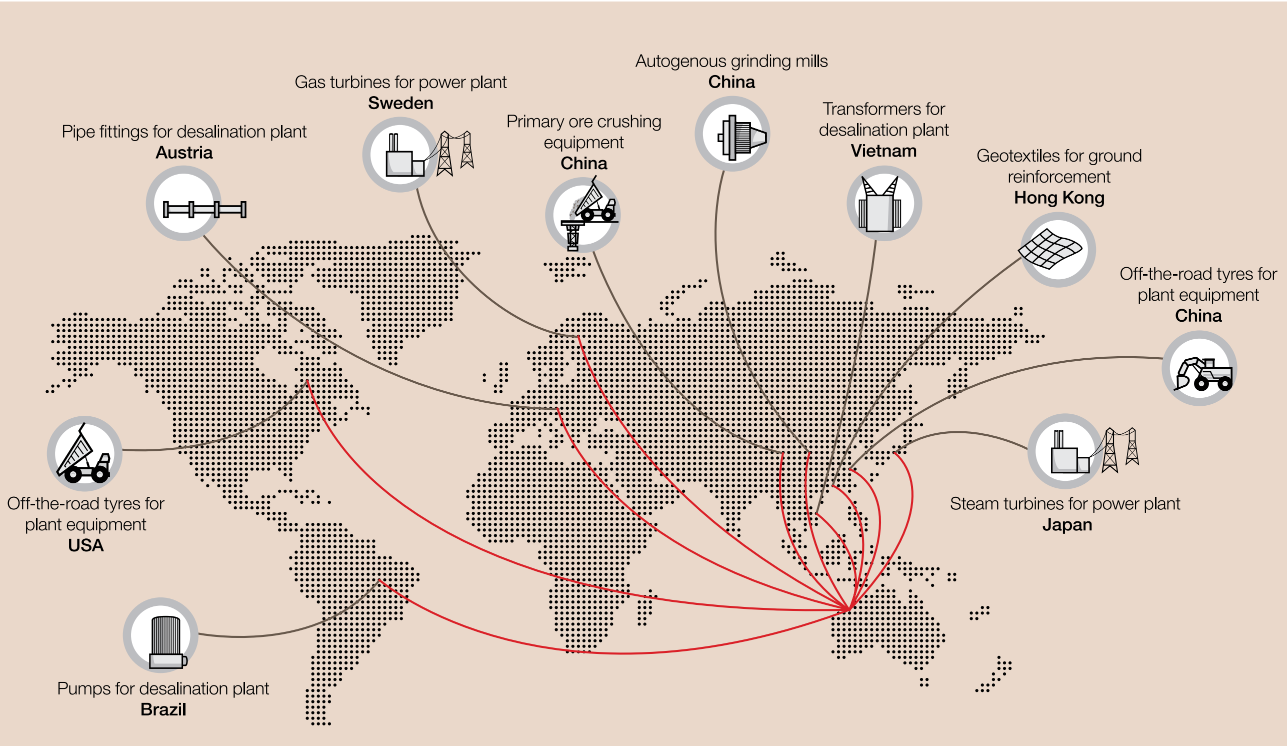
Looking Ahead

Despite a global downturn in commodity prices and a softening of demand for raw materials, CITIC Pacific maintains an optimistic view of the iron ore market.

While it is expected that iron ore demand will be subject to considerable volatility in the immediate short-term, there are potential benefits flowing from China's US$586 billion economic stimulus package, which is largely directed at infrastructure.

Such initiatives will take time to offset the negative impact of the recent rapid downturn in exports and construction. However, in the longer term there is evidence that the current global credit issues could ultimately lead to supply shortages, potentially allowing demand to increase due to industry consolidation and associated supply contraction and constraints; limited capital availability for new projects; cost structures remaining high compared to long term historical norms; and sustained, albeit slower, growth in China.

A business strategy has been developed to drive an improvement culture at CITIC Pacific Mining with the aim of continually enhancing the productivity of resources to increase the value of the business for shareholders and products for customers. The strategy seeks to maximise new technology and research to improve the efficiency of the business.



In 2009, CITIC Pacific Mining will maintain engagement with the local community as the level of project activity increases and a large construction workforce continues to arrive at site.

Project Activity in 2009

With the amendments to the State Agreement Act now passed, CITIC Pacific Mining has submitted a full project development proposal to enable progress on construction as planned, and will work closely with government to finalise environmental management plans under the environmental approval given to the project in 2003, as well as Aboriginal Heritage Act approvals. With continued strong support from government to progress approvals for major projects, CITIC Pacific Mining remains confident that approvals will not impede the construction progress.

Key project components are being manufactured and will be delivered from around the world, beginning in the first half of 2009. With these arrivals, activity across the site will dramatically increase during the year.

A construction workforce of more than 4,000 is expected during peak construction periods. The awarding of outstanding major construction contracts will be completed during the first half 2009 and civil works will commence on the crushing facilities and concentrator. A temporary causeway to the location of the port facility at the cape area will enable major earthworks to begin, following which civil works will commence on the desalination plant and other facilities. The construction of a permanent causeway and port facility will commence, enabling modular pieces of equipment to be delivered direct to site later in the year.

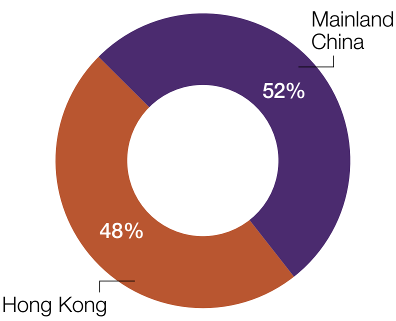
BUSINESS REVIEW

Property

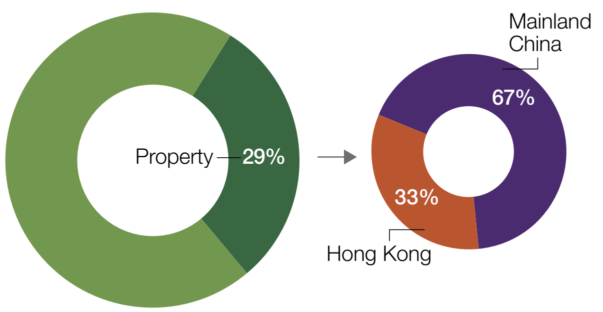
- Twin office towers of Shanghai's Lu Jia Zui New Financial District Project on schedule for completion in 2010
- CITIC Square in Ningbo is on track for completion in the latter half of 2009
- Construction of the infrastructure, two hotels and apartments at our Hainan project is progressing well
- Pre-sold units in residential projects in Qingpu, Yangzhou, and Jiangyin

HK$ million	**2008**	2007	Change
Turnover	**787**	1,321	(40)%
Profit contribution			
Mainland China	**523**	197	165%
Hong Kong and others	**490**	534	(8)%
Segment assets	**33,632**	28,078	20%
Segment liabilities	**2,002**	1,507	33%
Cash contribution to CITIC Pacific	**2,017**	2,201	(8)%
Capital expenditure	**5,058**	4,525	12%

Property profit contribution



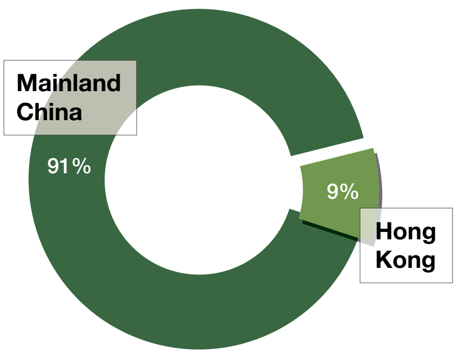
Segment assets



CITIC Pacific's Properties

Mainland China vs HK property

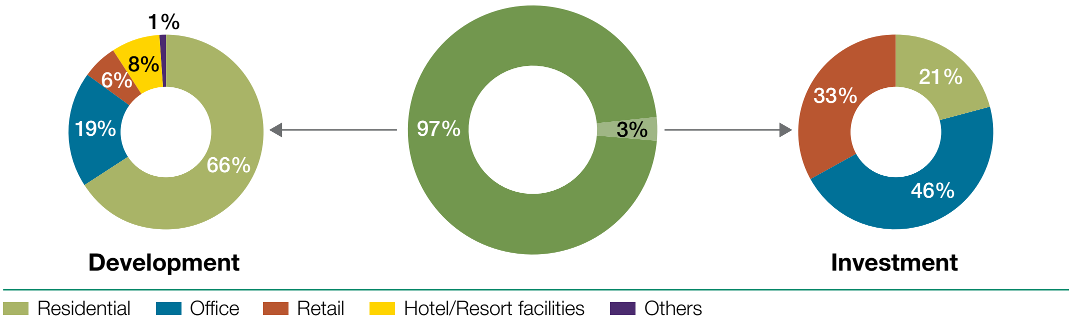
By gross floor area (GFA)



Mainland China

- Mainland property is a key focus and a core business
- Developing 4.9 million square metres of gross floor area in the coming years
- Strategic focus on Shanghai, major cities in the Yangtze Delta area, as well as the Shenzhou Peninsula on Hainan Island
- Strengthening sales and marketing efforts of existing developments; looking to grow the land bank at strategic locations in a prudent manner

By gross floor area (GFA)



Total gross floor area: 5 million square metres

Development Properties

Project	Usage	Ownership	Approx. site area (sq. metre)	Approx. GFA (sq. metre)	Expected completion date
New Westgate Garden, **Shanghai**	Residential, retail	100%			
Phase I			32,900	9,000 (on sale)	Completed
Phase II			35,300	137,000	2014
Qingpu Residential Development, **Shanghai**	Residential, hotel, retail	100%	796,800	606,000	In phases from 2009 onwards
Lu Jia Zui New Financial District Project, **Shanghai**	Office, hotel, residential, retail	50%	249,400	847,000	2010 to 2015
Site at Sichuan Beilu Station of Metro Line No.10, Hongkou, **Shanghai**	Office, retail	90%	13,300	53,000	2010 to 2011
No.10, Hainan Rd., Hongkou, **Shanghai**	Office, retail	100%	16,400	66,000	After 2011
Site at Jiading New City Station of Metro Line No.11, Jiading, **Shanghai**	Office, hotel, residential, retail	100%	156,000	538,000	In phases from 2012 onwards
Jiang Dong District, **Ningbo, Zhejiang Province**	Office, retail	99.3%	39,500	98,000	2009
Noble Manor **Yangzhou, Jiangsu Province**	Residential, retail	100%	328,600	437,000	In phases from 2009 onwards
Jiangyin, Jiangsu Province	Residential, retail	56%	91,300	178,000	2010 to 2011
Binhu District **Wuxi, Jiangsu Pronvince**	Residential, retail	70%	2,110,300	249,000	In phases from 2010 onwards
Shenzhou Peninsula **Wanning, Hainan Province**	Hotel, retail, residential	80% – 99.9%	6,710,100	1,653,000	In phases from 2010 onwards
Total			**10,579,900**	**4,871,000**	

GFA = *gross floor area i.e. the total area of permitted construction above ground*

Shanghai

Lu Jia Zui New Financial District Project

50% owned

Site area:	249,400 square metres
Gross floor area:	847,000 square metres Phase I – 263,000 square metres Other phases – 584,000 square metres
Usage:	Office, retail, hotel and residential
Expected completion:	2010 – 2015 Phase I twin office towers to be completed in 2010
Current Status:	Phase I construction in progress

This site is the last significant prime development area on the banks of the Huangpu River in Central Shanghai and was previously used as the shipyard for Shanghai Shipyard Co. Ltd on the South shore of the Huangpu River. Jointly developed by CITIC Pacific and the China State Shipbuilding Corporation, this project will include Grade-A office buildings, retail space, apartments and a hotel. The entire project will benefit from both the riverside scenery and convenient transport links and is being developed in phases under a comprehensive master plan. These buildings will become a prominent landmark in the Lu Jia Zui Financial District along the Huangpu river banks.

Phase I comprises two Grade-A office buildings and a five star hotel which will be managed by an internationally renowned hotel operator. As the financial centre of China, Shanghai and particularly the Lu Jia Zui Financial District in Pudong, are attracting an increasing number of financial institutions to set up their regional headquarters. Some businesses have already expressed an interest in purchasing the office premises.

Zhujiajiao New Town – Qingpu Residential Project

100% owned

Site area:	796,800 square metres
Gross floor area:	616,000 square metres
Usage:	Low density residential, retail and hotel
Expected completion:	In phases from 2009 onwards
Current Status:	approx. 10,000 square metres GFA completed approx. 90,000 square metres GFA under construction 516,000 square metres – under planning and initial phase of development

Located in the Western part of Shanghai at the junction of Zhejiang Province, Jiangsu Province and Shanghai, the Qingpu District is the gateway to and focus of development in the Western part of the city.

This project will take full advantage of the cultural traditions and history of the area and is adjacent to two scenic lakes, Dadian and Dianshan. It will create a unique living environment and become part of the core district of Zhujiajiao. The design encompasses villas, semi-detached houses, town houses, retail shops and a hotel. The hotel will be managed by a well known international hotel operator.

Sales Progress

Pre-sale of residential units was launched in phases beginning in September 2007. Of the 200 units (approx. 29,000 m^2 GFA) launched, 116 units (58%) have been sold as of February 2009 at an average price of approximately RMB 10,000/m^2.

Shanghai *continued*

New Westgate Garden

100% owned

Phase I

Site area:	32,900 square metres
Gross floor area:	117,000 square metres (9,000 square metres on sale)
Usage:	Residential
Number of units:	709
Completed:	June, 2006
Current Status:	91% of units sold as of February 2009

Phase II

Site area:	35,300 square metres
Gross floor area:	137,000 square metres
Usage:	Residential and retail
Expected completion:	2014
Current Status:	Re-settlement in progress

Located in the Huangpu District of Shanghai adjacent to Xizang Nanlu and Jianguo Donglu, this premium residential development is within walking distance of the Lao Xi Men subway station on the new Metro Line 8. It includes residential towers and retail shops with a basement car park.

Sichuan Beilu Station of Metro Line No. 10

90% owned

Site area:	13,300 square metres
Gross floor area:	53,000 square metres
Usage:	Office and retail
Expected completion:	2010 – 2011
Current status:	Construction in progress

CITIC Pacific and Shanghai Shentong Metro Assets Management Company Limited jointly acquired this site in Hongkou District in early 2007. It is situated above the Sichuan Beilu Metro Station of Metro Line No. 10 which is currently under construction and expected to become operational in early 2010. The project comprises office buildings and retail outlets that will benefit from the pedestrian flow generated by the metro line and the overall geographical advantage offered by Hongkou.

No. 10, Hainan Road

100% owned

Site area:	16,400 square metres
Gross floor area:	66,000 square metres
Usage:	Office and retail
Expected completion:	After 2011
Current status:	Design in progress

The site was acquired in December 2007 and is situated on the East side of the Sichuan Beilu Station. It will be designed and developed into a combined landmark project for this thriving district.

Jiading New City Station of Metro Line No.11

100% owned

Site area:	156,000 square metres
Gross floor area:	538,000 square metres
Usage:	Office, retail, hotel and residential
Expected completion:	In phases from 2012 onwards
Current Status:	Design in progress

Located in the Northwest of Shanghai, Jiading District is the gateway to a number of neighbouring economic regions such as Suzhou, Kunshan and Taicang in Jiangsu Province. As the earliest satellite city of Shanghai, Jiading is well known as a base for the science and automobile industries. This development is situated in the Shanghai city core area above the Jiading New City Station of the new Metro Line No.11, which will run across Jiading, Putuo, Changning, Xuhui and Pudong New District upon completion, in phases starting from end 2009. The project will be developed in phases and include residences, offices, retail shops and hotels. The development will be integrated with the interchange hub of metro lines and other public transport, as well as surrounding areas under a comprehensive plan of residential districts, business centres, sports and recreational parks and science research districts.

Zhejiang Province

CITIC Square, Ningbo

99.3% owned

Site area:	39,500 square metres
Gross floor area:	98,000 square metres
Usage:	Office and retail
Expected completion:	2009
Current Status:	Superstructure works completed

This development is in the Jiangdong District of Ningbo, the economic provincial capital as well as the regional centre of economic development of Zhejiang Province. The site is in close proximity to 'Ningbo Eastern New City', the future political and economic centre of the city. CITIC Square will be a Grade-A office and retail development. Preparation for pre-leasing and pre-sale is underway.

Jiangsu Province

Binhu District Residential Project, Wuxi

70% owned

Site area:	2,110,300 square metres
Gross floor area:	249,000 square metres
Usage:	Residential and retail
Expected completion:	In phases from 2010 onwards
Current Status:	Approx. 160,000 m² GFA development under construction and topped out

CITIC Pacific, together with the Wuxi Guolian Group, is jointly developing this residential and commercial property in the Binhu District of Wuxi. This site is located in front of the scenic Tai Lake and is within 15 – 20 minutes driving distance of the city centre. The project will be developed in phases with villas, town houses, low-rise and mid-rise residential buildings, all designed to take the advantage of the picturesque landscape, golf course view and scenic view of Tai Lake.

Noble Manor, Yangzhou

100% owned

Site area:	328,600 square metres
Gross floor area:	437,000 square metres Phase I – 90,000 square metres Other phases – 347,000 square metres
Usage:	Residential and retail
Expected completion:	In phases from 2009 onwards
Current Status:	Phase I at the final stage of completion Phase II construction in progress

Located in the Western part of the city centre, the site will be developed in harmony with the historical culture and neighboring environment of Yangzhou. A variety of residential units in low-rise, mid-rise and high-rise buildings will be provided.

Sales Progress

Pre-sale of residential units was launched in phases beginning in September 2007. Of the 667 units (approx. 78,000 m² GFA) launched, 501 units (75%) have been sold as of February 2009 at an average price of approximately RMB 5,800/m².

Jiangsu Province *continued*

Jiangyin Residential Project, Jiangyin

56% owned

Site area:	91,300 square metres
Gross floor area:	178,000 square metres
Usage:	Residential and retail
Expected completion:	2010 – 2011
Current Status:	Basement works and superstructure works in progress

Jiangyin is one of the fastest growing cities in Jiangsu Province. CITIC Pacific and the Wuxi Guolian Group are co-developing Jiangyin Xingcheng's old steel mill site in the Eastern city centre into a residential and commercial property.

Sales Progress

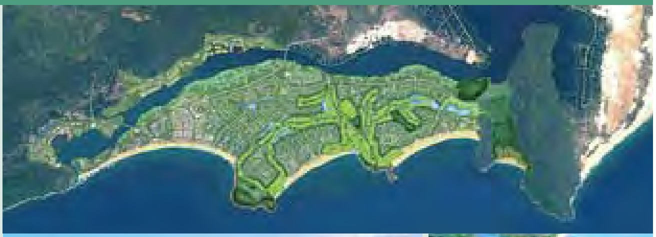
Pre-sale of residential units was launched in December 2008. Of the 164 units (approx. 26,000 m^2 GFA) launched, 95 units (58%) have been sold as of February 2009 at an average price of approximately RMB 7,800/m^2.

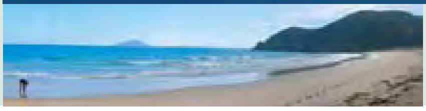
Hainan Province

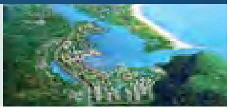
Shenzhou Peninsula Development, Wanning

80% – 99.9% owned

Site area:	6,710,100 square metres
Gross floor area:	1,653,000 square metres
Usage:	Integrated residential, hotel, retail and recreation
Expected completion:	In phases from 2010 onwards
Current Status:	Design and construction of Phase I (approx. 200,000 m^2 GFA) in progress







CITIC Pacific is developing a leisure resort real estate project on the Shenzhou Peninsula. The site has a planning area of 38 square kilometres, with four south facing beaches along eight kilometres of scenic coastline. About 16 square kilometres will be developed into a world class resort. As part of a new express railway line along the East coast of Hainan Island connecting the cities of Haikou and Sanya, a railway station will be built at Wanning city, which is approximately six kilometres from the Shenzhou Peninsula site. Constructed by the Hainan provincial government, completion of this new express railway is targeted in 2011. By then, the accessibility of the Shenzhou Peninsula site will be significantly improved from Haikou and Sanya, both regional hubs with international scheduled flights.

CITIC Pacific is also the prime developer responsible for the project's overall planning, design and infrastructure.

As at February 2009, CITIC Pacific had acquired 6.71 square kilometres of land. The construction of two hotels, apartments and the infrastructure of Phase I is progressing well. The hotels will be managed by well-known international hotel operators. Opening of the two hotels and pre-sale of apartments are expected in 2010.

Investment Properties

Property	Usage	Ownership	Approx. site area (sq. metre)	Approx. GFA (sq. metre)
CITIC Square, **Shanghai**	Office, retail	100%	14,500	114,000
Royal Pavilion, **Shanghai**	Serviced apartments	100%	8,800	35,000
New Westgate Garden, Retail Portion, **Shanghai**	Retail	100%	32,900	18,000
Total			**56,200**	**167,000**

GFA = *gross floor area*

Shanghai

CITIC Square

100% owned

Site area: 14,500 square metres
Gross floor area: 114,000 square metres
Usage: Office and retail
Completed: 2000

A Grade-A office tower located on Nanjing Xi Lu, one of the busiest commercial areas in Shanghai, CITIC Square continues to enjoy steady rental income with 98% occupancy as of February 2009.

Royal Pavilion

100% owned

Site area: 8,800 square metres
Gross floor area: 35,000 square metres
Usage: Serviced apartments
Completed: 1998

Royal Pavilion is a development of luxury serviced apartments, with 75% occupancy as of February 2009.

New Westgate Garden – Retail Portion

100% owned

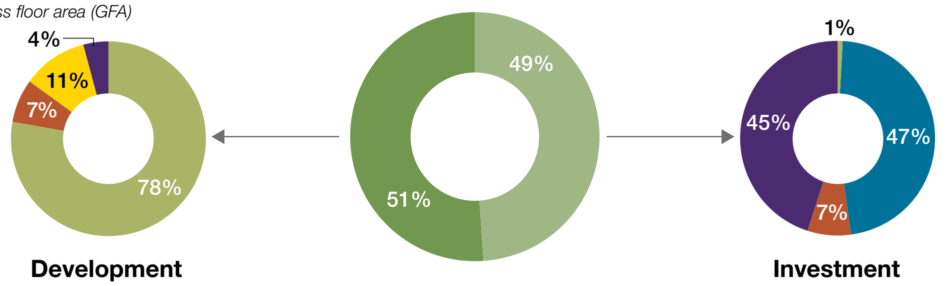
Site area: 32,900 square metres
Gross floor area: 18,000 square metres
Usage: Retail
Completed: 2006

The retail property is fully let.

Hong Kong

- 231,000 square metres of gross floor area to be developed in Discovery Bay
- Major investment properties include CITIC Tower, the Group's headquarters, and DCH Commercial Centre

By gross floor area (GFA)



Total gross floor area: 478,000 square metres

Investment Properties

Property	Usage	Ownership	Approx. GFA (sq. metre)
CITIC Tower	Office, retail	40%	52,000
DCH Commercial Centre	Office, retail	100%	36,000
Wyler Centre I	Industrial	100%	37,000
Broadway Centre	Industrial	100%	32,000
Yee Lim Industrial Centre, Block C	Industrial	100%	30,000
Others	Various	100%	50,000
Total			**237,000**

GFA = *gross floor area*



Development Properties

Discovery Bay

50% owned by CITIC Pacific, Discovery Bay is a large residential development jointly developed with HKR International Ltd. Since its launch in 1973, Discovery Bay has evolved into a fully integrated, suburban multinational residential community. Situated on the northeastern shore of Lantau Island, adjacent to the Disney Theme Park, Discovery Bay is endowed with open space. Recreational and leisure facilities include a private beach, central park, scenic promenade, golf courses and a marina.

The current Yi Pak Bay development is located in the Northern part of Discovery Bay. It has a gross floor area of approximately 218,000 square metres, of which 91,000 square metres have been developed as Siena One (Phase 11) and Siena Two (Phase 12). Chianti (Phase 13), which has a gross floor area of 50,000 square metres, was 98% sold as of February 2009.

A hotel development of 26,000 square metres of gross floor area at the Northern part of Discovery Bay is under construction.

Power Generation

HK$ million	2008	2007	Change
(Loss) / profit contribution	**(1,198)**	494	(343)%
Segment assets	**5,857**	6,409	(9)%
Segment liabilities	**6**	32	(81)%

At the end of 2008, CITIC Pacific owned a total attributable capacity of 6,250MW. During the year, we disposed of our 50% equity interest in the Kaifeng power plant.

The total electricity generated in 2008 by all power plants in which CITIC Pacific had an interest was 100 billion kwh, an increase of 5% from 2007. Heat generated was 41,075kGJ, a slight decrease of 2% compared with 2007.

In 2008, the price of coal rose significantly, averaging 46% across all of our power plants. The government policy of passing on fuel cost increases was not implemented, so power producers had to bear the rise in the cost of coal and therefore suffered losses for the year. Under these circumstances, our plants recorded a loss for the year.

During the year, further improvements were made to reduce emissions. Desulphurising systems are now installed in all of our power plants.

In order to secure a stable supply of coal, we acquired a 30% interest in a coal mine in Shandong Province with annual production capacity of 6 million tonnes. This coal mine has been profitable since the initial production began in November 2008.

As we look at the prospects for 2009, the operating environment is likely to be difficult, and shrinking demand remains a key challenge for our power business. A series of measures have been put in place. We strive to reduce costs by improving operating efficiency, while, increasing the stability of generating units to achieve higher productivity. In addition, we have already locked in the coal supply required by most of our plants in 2009.

Operational statistics of CITIC Pacific's power plants

Power plant	Location (province)	Installed capacity (MW)	Ownership	Type	Utilisation hours	Electricity generated 2008 (m kWh)	2007 (m kWh)	Change	Heat generated 2008 (kGJ)	2007 (kGJ)	Change
Ligang	Jiangsu			Coal fired							
I & II		1,440	65%		4,907	7,066	8,748	(19)%	NA	NA	NA
III & IV		1,260	71.4%		4,373	10,757	6,165	74%	NA	NA	NA
Hanfeng	Hebei	1,320	15%	Coal fired	5,284	6,974	7,427	(6)%	NA	NA	NA
Huaibei	Anhui	640	12.5%	Coal fired	5,965	3,818	3,302	16%	NA	NA	NA
Kaifeng*	Henan	–	50%	Coal fired	–	–	588	–	NA	NA	NA
North United	Inner Mongolia	13,050	20%	Coal fired	4,856	63,088	62,137	2%	25,844	27,423	(6)%
Zhengzhou	Henan	1,000	50%	Co-generation	5,682	5,682	4,874	17%	6,236	5,545	12%
Hohhot	Inner Mongolia	400	35%	Co-generation	5,532	2,213	2,472	(10)%	2,896	2,273	27%
Weihai	Shandong	36	49%	Co-generation	3,196	115	164	(30)%	3,383	3,694	(8)%
Chenming	Shandong	24	49%	Co-generation	3,033	73	154	(53)%	2,716	3,158	(14)%

** Sold in 2008*

Aviation

	Location	Ownership
Cathay Pacific	Hong Kong	17.5%
HACTL	Hong Kong	10%

HK$ million	**2008**	2007	Change
(Loss) / profit contribution	**(994)**	1,263	(179)%
Segment assets	**7,982**	10,689	(25)%
Segment liabilities	**–**	–	–

Cathay Pacific

www.cathaypacific.com

Cathay Pacific is an international passenger and freight carrier based in Hong Kong, which together with its subsidiaries Dragonair and Air Hong Kong, operates a fleet of 162 aircraft providing services to more than 120 destinations in 37 countries around the world.

In 2008, Cathay Pacific registered a loss of HK$8,558 million compared with a profit of HK$7,023 million in 2007. This loss was primarily due to the significant decrease in both passenger and cargo demand in the second half of the year, and a mark to market loss on certain fuel hedging contracts which amounted to HK$7.6 billion.

HACTL

www.hactl.com

HACTL operates Super Terminal 1, the largest air cargo terminal in the world. Total cargo throughput for 2008 was 2.5 million tonnes, down 4% from 2007.

Civil Infrastructure

	Location	Ownership	Franchise till
Eastern Harbour Tunnel (Road)	Hong Kong	71%	2016
Western Harbour Tunnel	Hong Kong	35%	2023

HK$ million	**2008**	2007	Change
Profit contribution	**523**	490	7%
Segment assets	**2,464**	2,470	–
Segment liabilities	**34**	31	10%

Eastern Harbour Tunnel

www.easternharbourtunnel.com.hk

The Eastern Harbour Tunnel registered average daily traffic of 63,218 vehicles in 2008, a 1% decrease from 2007.

Western Harbour Tunnel

www.westernharbourtunnel.com

The Western Harbour Tunnel is a key section of the Route 3 highway connecting Hong Kong Island with mainland China and Chek Lap Kok Airport. In 2008, average daily traffic was 47,742 vehicles, down 2% from 2007.

CITIC Pacific also has a 35% interest in the company that manages the Cross Harbour Tunnel on behalf of the government.

Listed Subsidiaries

Dah Chong Hong

www.dch.com.hk

56.7% equity held by CITIC Pacific
Stock code: 01828 (The Stock Exchange of Hong Kong)

HK$ million	**2008**	2007	Change
Profit contribution	**320**	417	(23)%
Segment assets	**9,462**	6,831	39%
Segment liabilities	**2,816**	2,185	29%

Dah Chong Hong is primarily engaged in distribution of motor vehicles, consumer and food products. It has operations in Hong Kong and mainland China, as well as Japan, Singapore and Canada. Dah Chong Hong was a wholly owned subsidiary of CITIC Pacific until its listing in October 2007.

CITIC 1616

www.citic1616.com

52.6% equity held by CITIC Pacific
Stock code: 01883 (The Stock Exchange of Hong Kong)

HK$ million	**2008**	2007	Change
Profit contribution	**181**	157	15%
Segment assets	**1,576**	1,047	51%
Segment liabilities	**747**	472	58%

CITIC 1616 is Asia's leading telecom service provider in telecom hubbing, enterprise solutions and international calling cards, servicing corporate and individual clients in more than 60 countries as well as over 350 international telecom operators. CITIC 1616 was a wholly owned subsidiary of CITIC Pacific until its listing in April 2007.

Financial Review

Despite a challenging year, the underlying businesses of the Group remained strong. The Group will continue to focus on our strengths in core businesses in a difficult global environment.

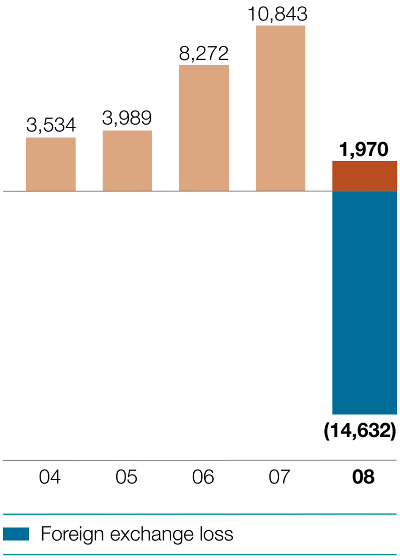
Group Performance

2008 proved to be a challenging year for the Group. Despite the strong performance in our underlying businesses during the first half of the year, our core activities were not immune from the ongoing economic slowdown in mainland China and as a direct result of the global economic crisis our businesses consequently slowed as the year progressed.

A net loss of HK$12,662 million was attributable to shareholders for the year ended 2008, compared with a net profit of HK$10,843 million in 2007. HK$14,632 million in losses (net of tax) were associated with a number of leveraged foreign exchange contracts described elsewhere. Before taking into account the effect of these leveraged foreign exchange losses, the operating profit attributable to shareholders was HK$1,970 million (net of tax), a 82% decline from 2007, due to deteriorating market conditions in the second half of 2008 and exceptional profits in 2007 arising from the listing of Dah Chong Hong and CITIC 1616.

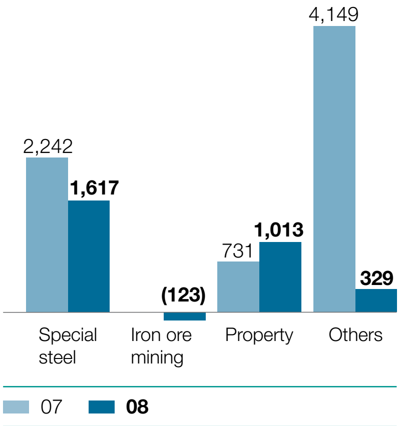
Profit attributable to shareholders

HK$ million



Contribution

HK$ million



Consolidated Profit and Loss Account

Contribution by segments[1]

In HK$ million	**2008**	2007
Special steel	**1,617**	2,242
Iron ore mining	**(123)**	–
Property		
Mainland China	**523**	197
Hong Kong	**490**	534
Power generation	**(1,198)**	494
Aviation	**(994)**	1,263
Civil infrastructure	**523**	490
Dah Chong Hong	**320**	417
CITIC 1616	**181**	157
Other investments	**1,530**	111
Fair value change of investment properties	**(33)**	1,217
Total	**2,836**	7,122

1 *A business's after tax profit that contributes to unallocated central interest, overhead and goodwill.*

- **Special Steel** In the Special Steel division, net income declined from HK$2,242 million in 2007 to HK$1,617 million in 2008, a 28% decline year-on-year. Although turnover overall increased 23% in 2008, steel prices traded lower and demand was reduced in the second half of 2008, reflecting a general slowdown affecting the mainland China economy. In 2008, Special Steel made an inventory provision of HK$705 million in total, including HK$380 million for the jointly controlled entities. The amount attributable to CITIC Pacific's interest was HK$513 million.

- **Iron Ore Mining** The Iron Ore Mining division realised a HK$123 million loss in 2008 as construction on essential infrastructure continued. The loss was due primarily to operating expenses that could not be capitalised for accounting purposes.

Contribution from Property

In HK$ million	**2008**	2007
Mainland China		
Sales	**298**	(147)
Leasing	**277**	219
Tax rate change in 2007	**–**	177
Property under development	**(52)**	(52)
Hong Kong		
Sales	**125**	256
Leasing	**365**	278
Total	**1,013**	731

- **China Property** In our China Property division, net profit increased to HK$523 million in 2008 from HK$197 million in 2007. Leasing income was relatively stable, with CITIC Square and other retail properties showing an increase in rents on the back of long term leases. The average occupancy rates were 95%. Sales from the New Westgate Gardens and Qingpu reflected the slowdown in the luxury property market in 2008 and the results were bolstered by a write-back of HK$253 million impairment loss made in 2007 on phase II of New Westgate Gardens.

- **Hong Kong Property** While the strong leasing environment in early 2008 helped our rental properties in Hong Kong, the turmoil in the financial sector, placed pressure on the commercial property market. However due to long term leases entered into 2007 and in early 2008, profits from leasing increased from HK$278 million in 2007 to HK$365 million in 2008. The average occupancy rate for our Hong Kong portfolio was 93%. The HK$170 million profit on property sales in 2008 was mainly due to the sale of the Motor Services Centre in Yuen Long.
- **Power Generation** Despite an increase of 5% from 2007 of the total electricity generated to 100 billion kwh, the power generation division showed a HK$1,198 million loss, compared with a HK$494 million profit in the previous year. This was due to a sharp increase in coal prices, averaging 46% across our coal plants, which outpaced the maximum allowable tariff adjustments in 2008 which ranged from approximately 4-15%, depending on the power plant. Due to these factors, a net impairment loss of HK$449 million was booked on the power generation business in 2008.
- **Aviation** Aviation division showed a HK$994 million loss, compared with a HK$1,263 million profit in the previous year. Cathay Pacific saw increased turnover of 14.9% from 2007 based on passenger traffic growth of 7.3% over the year but suffered from mark-to-market losses on derivatives used to hedge fuel prices that were not effective hedges for accounting purposes. Our Aviation division income was bolstered by a one time disposal gain of HK$403 million on the sale of Air China Cargo.
- **Civil Infrastructure** Civil Infrastructure showed a profit increase to HK$523 million in 2008 from HK$490 million in 2007. The Eastern Harbour and Western Harbour tunnels suffered a slight decrease in traffic (-2% a day) compared with 2007 due to the poorer economy and the toll increase in the Western Harbour tunnel, but overall this was offset by the increased revenue per vehicle.
- **Dah Chong Hong** The Group's profit from Dah Chong Hong was HK$320 million for 2008, compared with HK$417 million from operations for 2007. Ownership in 2008 was approximately 57% compared with 100% before listing in October 2007. As with our

other businesses, Dah Chong Hong was affected by the economy in the final quarter but strong results from earlier in the year increased after tax profit growth to HK$582 million in 2008 compared with HK$522 million in 2007. The motor segment performed well in Hong Kong and mainland China, compared with its other businesses, despite slowing sales and aggressive price discounts in the last quarter.

- **CITIC 1616** The Group's profit share from CITIC 1616 was HK$181 million for 2008 as compared with HK$157 million for 2007. Ownership in 2008 was 53% compared with 100% before listing in April 2007. CITIC 1616 improved operating performance, with after tax profit growing from HK$263 million to HK$332 million in 2008. This was mainly due to organic growth in its core voice, SMS and mobile value-added service businesses and the full consolidation of CPCNet on a whole-year basis.
- **Other Investments** Profit from Other Investments increased to HK$1,530 million in 2008, compared with a HK$111 million profit in the previous year, mainly from a profit on the sale of listed investments of HK$1,215 million.

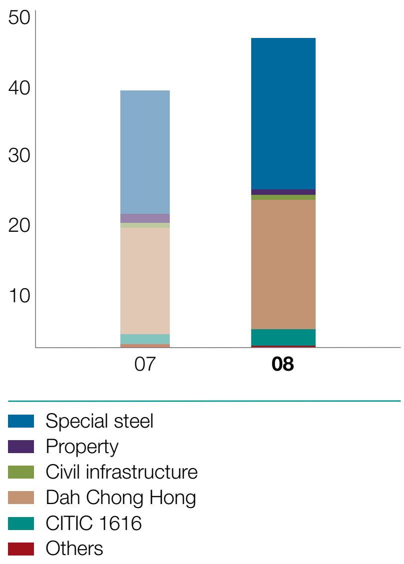
Turnover

Special Steel and Dah Chong Hong accounted for the majority of the growth in turnover of the Group.

Turnover at Dah Chong Hong increased by 21% mainly driven by strong growth in its motor business.

In HK$ million	2008	2007
Special steel	**22,758**	18,501
Property		
Mainland China	**544**	1,090
Hong Kong	**243**	231
Civil infrastructure	**734**	750
Dah Chong Hong	**19,496**	16,050
CITIC 1616	**2,486**	1,486
Others	**159**	426
Total	**46,420**	38,534

Turnover by business segments



Change in Fair Value of Investment Properties

The Fair Value Change of Investment Properties showed a small loss of HK$33 million in 2008, compared with a revaluation gain of HK$1,217 million in 2007. This reflects the general slowdown in the commercial property market in Hong Kong in the latter half of 2008 and the more general slowdown of growth in mainland China.

Losses Due to Leveraged Forward Exchange Contracts

The iron ore mining operations utilise USD as its functional currency 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, with smaller capital expenditure exposures in RMB, the Euro, Swedish Krona and JPY. A one-time loss of HK$15,891 million was incurred in 2008, due mainly to losses on leveraged foreign exchange contracts intended to hedge exposures at our Australian mining operations. Leveraged foreign exchange contracts as at 30 June 2008 had a fair value gain of HK$53 million as at that date. Contracts entered into before 30 June 2008 gave rise to losses of HK$389 million for the year ended 31 December 2008. The remaining losses of HK$15,502 million arose on leveraged foreign exchange contracts entered into in the second half of 2008. A deferred taxation credit of HK$1,259 million has been recognised in the iron ore mining operations. Hence, the leveraged foreign exchange loss, net of tax, for the year 2008 was HK$14,632 million.

Leveraged forward exchange contracts with a maximum deliverable amount of A$5.3 billion were novated to CITIC Group in December 2008, being the amount in excess of the AUD required for the project. Eight remaining contracts with a maximum deliverable amount of A$2.9 billion as at 31 December 2008 were retained to manage the future AUD requirements of the iron ore mining operations. Certain of the contracts retained by the Group have been restructured to plain vanilla forward contracts. As at 31 December 2008, the remaining three unstructured contracts had a maximum deliverable amount of A$2.0 billion. One of these contracts was restructured in March 2009, and the remaining contracts will be restructured later in 2009.

In addition, certain leveraged forward exchange contracts for RMB and the Euro were terminated in 2008. As at 31 December 2008, three RMB target redemption forward contracts with maximum notional amount of RMB 5.3 billion are held by the Group to manage the remaining RMB exposures of the iron ore mining operations. Euro exposures are not currently hedged by the Group.

Return on Equity[2]

2008 has proved to be a difficult year, primarily as a result of the losses arising from leveraged foreign exchange contracts but also due to business conditions in the second half of the year described elsewhere.

Earnings per Share

Earnings per share grew over the past four years, but declined sharply in 2008, due to the losses in leveraged foreign exchange contracts. The share base has also grown with the issuance of 1,453,125,000 new shares to the CITIC Group.

Interest Expense

The Group's interest expense net of amounts capitalised increased from HK$305 million to HK$747 million. Capitalised interest increased from HK$680 million in 2007 to HK$1,086 million in 2008 and is mainly attributed to property projects under development in mainland China and our mining operations in Australia.

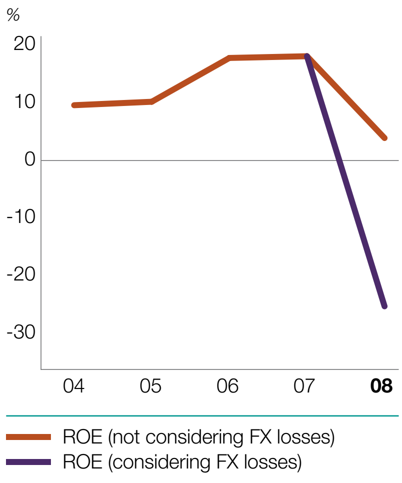
The weighted average cost of debt declined from 5.5% in 2007 to 4.7% in 2008. This was due to interest rate cuts in Hong Kong and the United States, and a decline in RMB borrowing rates.

Taxation

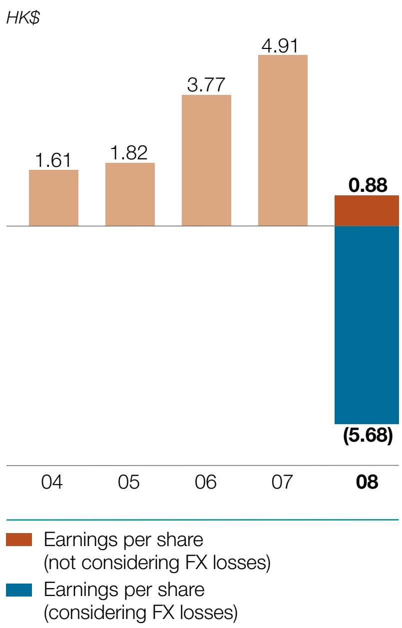
Due to the losses of the Group in 2008, there was an income tax credit of HK$578 million for the year (2007 tax expenses: HK$770 million). Following the reduction of the income tax rate for China property companies, the deferred taxation liabilities brought forward from 2006 were adjusted downwards by HK$180 million in 2007.

[2] *ROE = Profit Attributable to Shareholders / Shareholders' Funds*

Return on equity



Earnings per share



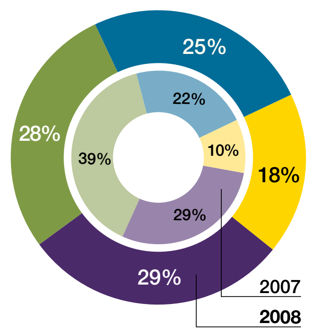
Balance Sheet Items

Group Segment Assets[3]

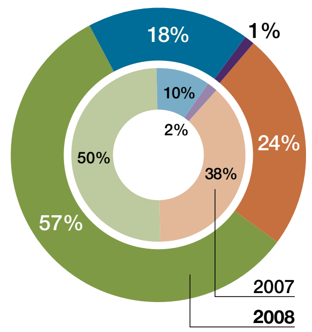
Group segment assets have increased from HK$97,564 million to HK$117,493 million in 2008. Asset growth was mainly driven by our three main lines of business – Special Steel, Iron Ore Mining in Australia and Property. These businesses have increased their share of total assets from 61% in 2007 to 72% in 2008. The share of our Australian business has also increased substantially from 10% in 2007 to 18% in 2008 as the infrastructure build-out intensified in 2008.

In HK$ million	**2008**	2007
Special steel	**28,848**	21,489
Iron ore mining	**20,976**	9,780
Property		
Mainland China	**22,529**	16,086
Hong Kong	**11,103**	11,992
Power generation	**5,857**	6,409
Aviation	**7,982**	10,689
Civil infrastructure	**2,464**	2,470
Dah Chong Hong	**9,462**	6,831
CITIC 1616	**1,576**	1,047
Others	**6,696**	10,771
Total	**117,493**	97,564

Group segment assets



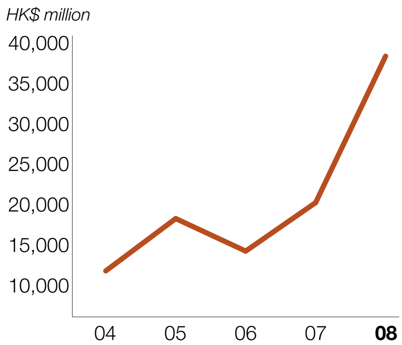
Group segment assets by geographical area



Net Debt

Net Debt has grown in line with the expansion plans for our businesses. The Group expects net debt to begin to decline once the major capital expenditure plans for the steel and mining businesses have been completed in 2010 and 2011. New facilities in 2008 include a 20-year US$1.3 billion project finance loan for the development of the Australian iron ore mining project and US$380 million 12-year (from delivery of the vessels) loan facilities for the purchase of twelve dry bulk carriers for iron ore transportation.

Net debt



[3] *Group segment assets represent segment assets + investments in jointly controlled entities + investments in associated companies*

Shareholders' Funds

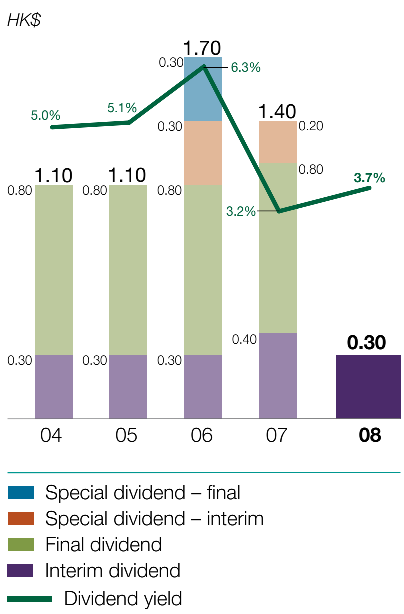
Shareholders' Funds declined from HK$59,793 million in 2007 to HK$49,971 million as at 31 December 2008. The Shareholders' Funds were reduced by the loss of HK$12,662 million and the 2008 interim and 2007 final dividend payment of HK$2,415 million, but increased by HK$2,470 million with the issue of 1,453,125,000 new shares to the CITIC Group. The new capital structure of the Company is set out in the table below. The other major movements in Shareholders' Funds were due to a reduction of HK$4,095 million on the disposal of financial assets and mark-to-market losses on foreign exchange and interest rate hedges effective for accounting purposes of HK$3,459 million.

	After	Before
Shares outstanding	3,646,274,160	2,193,149,160
Shareholder		
CITIC Group	57.6%	29.4%
Larry Yung	11.5%	19.1%
Management	1.8%	3.2%
Public	29.1%	48.3%
Total	**100%**	**100%**

Dividends

The Board has proposed not paying a final dividend for 2008, therefore the total dividend per share is HK$ 0.30, paid as an interim dividend in June 2008.

Dividend per share



Capital Expenditure

Capital expenditure has continued to grow over the past five years with the Australian mining operations accounting for the largest share of the growth in the past two years. This share will fall as construction nears completion in 2011.

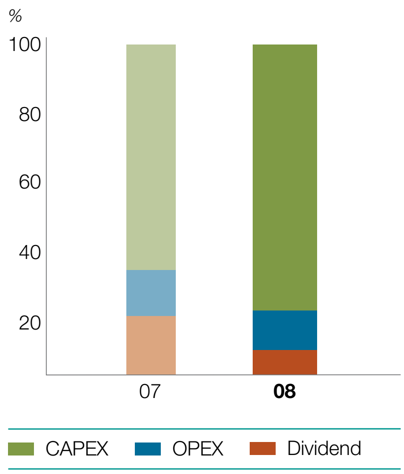
In HK$ million	**2008**	2007
Special steel	**8,381**	1,442
Iron ore mining	**10,010**	6,844
Property		
Mainland China	**5,049**	4,159
Hong Kong	**9**	366
Power generation	**581**	–
Aviation	**–**	–
Civil infrastructure	**16**	5
Dah Chong Hong	**515**	323
CITIC 1616	**116**	62
Other investments	**2,172**	1,108
Total	**26,849**	14,309

The Group has maintained its focus on its core businesses and has continued to invest approximately HK$8.4 billion in the Special Steel division, HK$10.0 billion in the Australian mining project and HK$5.1 billion in its Property division, accounting for 31%, 37% and 19% of the total respectively.

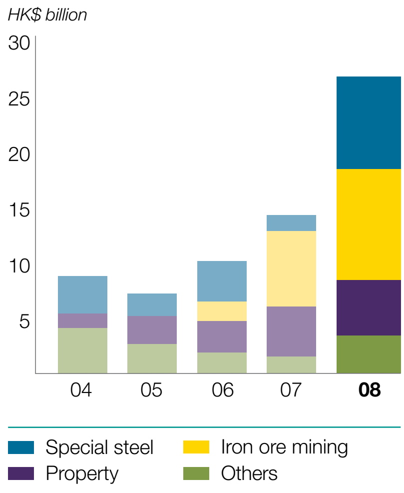
- The capital expenditure for the steel business in 2008 mainly represented the construction of a new special steel plate production line at the Jiangyin steel plant with a capacity of 1.2 million tonnes. At Xin Yegang two new lines capable of producing 630,000 tonnes of medium to thick wall seamless steel tubes are under construction.

- The capital expenditure for the iron ore mining project has continued with the infrastructure build-out and construction intensified during the year. Major milestones in 2008 include the construction of earthworks for the power plant pad and construction of the first of two excavators. Construction of earthworks for the concentrator pad site have also begun with drilling and blasting in 2008. Included in these costs was a total deposit of HK$1.5 billion for the purchase of specially designed ships to transport the iron ore.

Group cash outflow by nature



Capex by business segments



- The property projects currently under construction in mainland China include projects in Shanghai, Qingpu, Ningbo, Yangzhou and Hainan Island. In Hong Kong, the construction of a hotel in Discovery Bay is ongoing.
- Included in the capital expenditure for Other Investments is an outlay for the acquisition of a 30% interest in the Xinjulong Coal Mine in Shandong, as the Group moves to secure the raw materials needed for our steel and power plants.

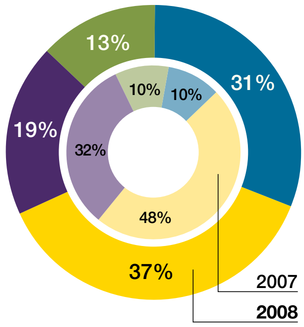
Cash Contributed from All Businesses[4]

Inflows to the Company totalled HK$8,194 million in 2008 compared with HK$13,201 million in 2007.

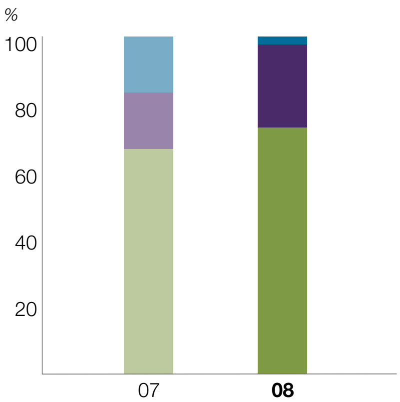
In HK$ million	**2008**	2007
Special steel	**194**	2,196
Iron ore mining	**–**	–
Property		
Mainland China	**925**	1,368
Hong Kong	**1,092**	833
Power generation	**242**	621
Aviation	**1,428**	508
Civil infrastructure	**510**	990
Dah Chong Hong	**88**	4,448
CITIC 1616	**53**	1,919
Others	**3,662**	318
Total	**8,194**	13,201

[4] *See 'Definition of Terms' on page 180.*

Capex by segment



Cash inflow by segment



Treasury Risk Management

In light of the uncertain global economic environment, CITIC Pacific is placing an increased emphasis on strengthening its policies and procedures in order to mitigate the effects of sudden adverse changes in market conditions.

General Policies

- Maintain central management of financial exposures while delegating finance raising to individual business units where appropriate, employing limited or non-recourse project finance when available
- Diversify funding sources through utilisation of both banking and the capital markets
- Arrange financing to match each business's characteristics and cash flow to the extent that it is possible

Responsibilities

The Group's overall risk management program seeks to minimise the impact of fluctuations in exchange rates, interest rates and various commodity price fluctuations on the Group's financial performance.

In response to losses arising from the Group's leveraged foreign exchange contracts reported elsewhere, management has taken several concrete steps to strengthen our risk management policies and procedures. An Asset and Liability Management Committee ('ALCO') was set up by the Board in October 2008 to oversee these procedures and monitor the exposures of the Group. PricewaterhouseCoopers ('PwC') was engaged to provide advice on the Group's financial risk management policies and procedures.

The Group Finance Department is responsible for maintaining and implementing the Group's financial risk management policies and procedures endorsed by ALCO within an agreed framework authorised by the Board.

The Group Finance Department monitors funding requirements of the Group along with interest rate, currency, credit and liquidity risks. This portfolio approach to financial risk management enables activities in these areas to be carried out more economically and efficiently, and allows a greater degree of transparency for the Group.

Overseas subsidiaries and jointly controlled entities are responsible for managing their liquidity, certain interest rate risks, certain foreign exchange risks and specific commodity price risks under policies approved by the boards of their respective companies, but also within the confines of the overall ALCO strategy.

The Group's listed subsidiary companies – Dah Chong Hong, CITIC 1616 and Daye Special Steel, manage their financial and treasury affairs themselves, within Group policies.

Derivatives Policy

Derivatives have been 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 as accounting hedges.

The fair value of outstanding derivative transactions is calculated monthly, based on price quotations obtained from major financial institutions. These derivative instruments are monitored periodically to test for the effectiveness of the hedging strategies involved.

Following ALCO's review of the Group's policies and procedures, the use of financial instruments has currently been restricted to borrowings, deposits, interest rates swaps and plain vanilla foreign exchange contracts. The use of structured derivatives and instruments that contain embedded options will require presentation to and the approval of ALCO.

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

Foreign Exchange Risk

The Group has major operations in Hong Kong, mainland China and Australia. Therefore it is subject to market risk in foreign exchange rates involving HK dollars ('HKD'), US dollars ('USD'), Renminbi ('RMB') and Australian dollars ('AUD'). There are also exposures to the Japanese Yen ('JPY') (operations and assets related to DCH), Euro ('EUR') and Swedish Krona ('SEK') (equipment purchases).

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

The Group's major foreign currency exposures arise from:

i) its capital expenditures relating to its iron ore mining operations in Australia;

ii) its steel and property operations in mainland China denominated in RMB and;

iii) USD denominated debt.

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

US Dollar (USD) The Group seeks to diversify its funding sources and also match funding requirements to subsidiaries whose functional currency and revenues are in USD through USD denominated borrowings. As at 31 December 2008, the Group has HK$8.5 billion equivalent of USD debt exposure which is fully hedged into HKD through the use of forward contracts and cash on hand.

Renminbi (RMB) The Group's businesses in China represented an asset exposure in RMB of approximately HK$67 billion as at 31 December 2008 (2007: HK$50 billion). RMB is currently not a freely convertible currency and 'Registered Capital', which usually accounts for no less than 25% of the total investment amount for projects in mainland China, is required to be paid in foreign currency. As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the RMB.

For the Australian mining operations, certain RMB denominated capital expenditures to pay the main contractor have been managed through non deliverable RMB target redemption forward contracts. The maximum notional amount of these contracts is RMB 5.3 billion.

Australian Dollar (AUD) The Australian mining operations utilise USD as its functional currency 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 and leveraged foreign exchange contracts were employed to manage these currency exposures.

The Group entered into multiple leveraged AUD foreign exchange contracts mainly in the second half of 2008. These contracts were intended to minimise the currency exposure of the Group's iron ore mining project. Due to substantial movements in the AUD to USD exchange rate, these contracts gave rise to substantial realised and mark to market losses and due to their leveraged features the amount of AUD to be delivered to the Group increased significantly and exceeded the Group's needs for AUD. Leveraged foreign exchange contracts with a maximum deliverable amount of A$5.3 billion, being contracts delivering AUD in excess of the Group's needs were novated to CITIC Group in December 2008.

The remaining contracts with a maximum deliverable amount of A$2.9 billion as at 31 December 2008 were retained to provide for the Group's further AUD needs. During the year, some of these remaining contracts were restructured into plain vanilla forward contracts that qualify as accounting hedges, as their maturity matches the need of the business. As at 31 December 2008, three unrestructured contracts with a maximum deliverable amount of A$2.0 billion were outstanding. One of the contracts was restructured in March 2009 into plain vanilla contract and the remaining two are intended to be restructured later in 2009.

Japanese Yen (JPY) CITIC Pacific issued a JPY Bond in 2005 to diversify its funding sources. From an economic perspective, this bond's currency exposure is managed through a cross currency swap into HKD floating rate payments which does not qualify as an accounting hedge. In addition to the JPY bond, as at 31 December 2008, JPY 6,434 million of exposure remains at the CITIC Pacific level.

For the Australian mining operations, as at 31 December 2008, there was a net JPY 1,814 million exposure for capital expenditures to purchase machinery. This position is partially hedged using plain vanilla forward contracts.

Swedish Krona (SEK) The Group's SEK exposure amounted to SEK 373 million at 31 December 2008 due to a contract with Siemens to supply a steam turbine generator for the Sino Iron project. This position is currently partially hedged using plain vanilla forward contracts.

Euro (EUR) The Group's EUR exposure amounted to EUR 101 million at 31 December 2008. This exposure is generated by contracts for procurement and design services for the Australian mining project. This position is currently not hedged as the amount is not viewed as material in terms of the operations of the Group.

Subsequent to the losses incurred with respect to the Group's leveraged foreign exchange forward contracts in 2008, the list of approved derivative instruments has been restricted to plain vanilla foreign exchange forwards and interest rate swaps.

Interest Rate Risk

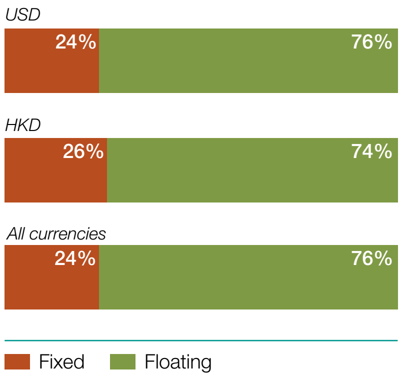
The Group's interest rate risk arises primarily from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rate expose the Group to fair value interest rate risk.

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

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

Interest rate base

As at 31 December 2008



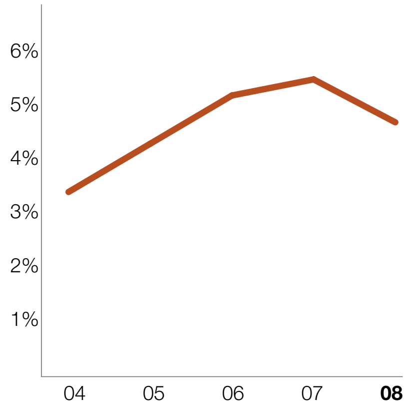
As at 31 December 2008, the Group's portfolio of interest rate derivative contracts had a notional amount of HK$13.2 billion. After hedging, 76% of the borrowing for the Group was floating rate.

The 2008 result includes non-cash charges of HK$507 million for interest rate hedging transactions that are economically effective but do not qualify as accounting hedges.

Interest rates rose in the first half of 2008, due to strong inflation concerns, but later in the year Central Banks cut interest rates aggressively in response to the global financial crisis. To fix interest rates, the Company entered into HK$16.4 billion of swaps to lock-in fixed rates for periods up to 20 years. These swaps, arranged to match the intended increase in borrowings and the requirements of the iron ore mining project, become effective in 2009 and 2010 and the projected ratio of fixed rate to total borrowings of the current portfolio is projected to be 38% on 31 December 2009.

The Group's overall weighted all-in cost of borrowing (including fees and hedging costs) in 2008 was approximately 4.7% compared with 5.5% in 2007.

Average borrowing costs



Credit Risk

To manage counterparty risk, the Group deals with international financial institutions with a credit rating of investment grade or above. The recommended credit rating was subsequently raised to A- (S&P) or A2 (Moody's) and above by ALCO in 2009. For mainland Chinese institutions that do not have an international credit rating, a maximum deposit limit is set that does not exceed the amount borrowed from those institutions. Deposits are liquid, interest-bearing and consistent with treasury and business purpose needs.

The Group Finance Department is responsible for monitoring the limits and the list of approved financial institutions. Management does not expect any losses from non-performance from these counterparties.

Liquidity Risk

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

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

On 24 December 2008, to bolster its capital base, CITIC Pacific issued a convertible bond to CITIC Group. The convertible bond was converted into 1,453,125,000 shares of CITIC Pacific on the same day. CITIC Group simultaneously agreed to assume the liabilities and benefits of a number of AUD target redemption forward contracts. CITIC Group paid approximately HK$2.47 billion to CITIC Pacific, being the net amount payable to CITIC Pacific by way of setting off the monies due from the CITIC Group under the subscription of the 1,453,125,000 shares against the amount payable by CITIC Pacific to CITIC Group in respect of the assumption of the liabilities and benefits of the contracts novated to CITIC Group.

Group Debt and Liquidity

CITIC Pacific seeks to secure financing and resources from a diversified set of counterparties on the most competitive terms available in the market. It is our objective to retain sufficient liquidity to maintain our financial flexibility and to maintain our credit rating.

At the end of December 2008, CITIC Pacific has multiple borrowing relationships with financial institutions in Hong Kong, mainland China and internationally. The Group's policy is to diversify funding sources through bank lending and tapping the capital markets. It seeks to maintain a mix of short and long term borrowing to stagger maturities and minimise refinancing risk.

The Group's subsidiaries and affiliates secure their own debt facilities to fund their investments, to the extent possible, without recourse to the Group. The major exceptions are CITIC Pacific's guarantee for the US$1.3 billion syndicated loan to fund its mining operations which will be released upon fulfillment of certain conditions subsequent, and its guarantee for interest rate and foreign exchange hedging transactions entered into by Sino Iron Pty Ltd. CITIC Pacific has also provided a guarantee for a 20-year US$1.1 billion corporate loan to the phase II project company for the mining operations.

The financial position of the Group as at 31 December 2008 as compared with 31 December 2007 is as follows:

HK$ million	**2008**	2007
Total debt	**57,234**	28,654
Cash and bank deposits	**18,296**	8,045
Net debt	**38,938**	20,609

Total debt increased significantly due to investments in the Group's steel and property businesses in mainland China, purchases of vessels as well as significant capital expenditure outlays for the Australian mining business, for which construction intensified in the past year.

The Company's cash position was bolstered by the issuance of a convertible bond to CITIC Group which was converted into 1,453,125,000 shares, with the Company receiving a net amount of HK$2.5 billion, HK$3.4 billion from the sale of listed investments and HK$917 million from the sale of Air China Cargo.

Changes in Financing

During the year, bilateral facilities totalling HK$14 billion were established or renewed at the Company and subsidiary level.

For the development of the Australian iron ore mining project, a 20-year US$1.3 billion project finance loan was signed. In addition, a 20-year US$1.1 billion corporate loan was arranged, which is intended to be converted into a project finance loan in due course. As at 31 December 2008, US$792 million of the project finance loan was drawn down.

The Company has also completed a ship financing transaction for US$380 million 12-year term (from delivery of the ships) loan facilities for the purchase of twelve 115,000 DWT capesize dry bulk carriers for iron ore transportation.

Currency Profile

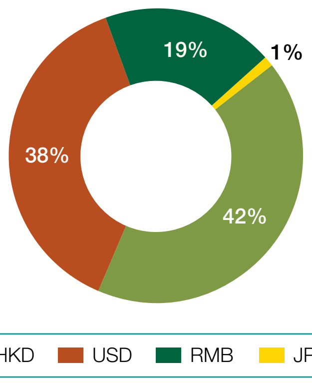
The denomination of the Group's borrowings and cash and deposit balances by currency as at 31 December 2008 is summarised as follows:

	Denomination					
HK$ million equivalent	HK$	US$	RMB	JPY	Other	**Total**
Total debt in original currency	14,886	30,165	10,970	1,134	79	**57,234**
Total debt after hedging	23,768	21,812	10,970	605	79	**57,234**
Cash and bank deposits	3,813	4,972	6,668	206	2,637	**18,296**
Net debt / (cash) after hedging	19,955	16,840	4,302	399	(2,558)	**38,938**

The Group actively seeks to diversify its funding sources so as not to be reliant on any one market. The Group uses cross currency swaps to manage foreign exchange rate risk from borrowings denominated in USD and JPY and convert the cash flows into HKD.

Total debt after hedging

As at 31 December 2008



Available Sources of Financing

In addition to the cash and deposits balance of HK$18.3 billion as at 31 December 2008, the Group had available loan and trade facilities totalling HK$20.3 billion and HK$3.4 billion respectively. Borrowings by source of financing as at 31 December 2008 are summarised as follows:

HK$ million	Total facilities	Outstanding	Available facilities	Percentage available
Committed facilities				
Short term loan *	4,290	3,198	1,092	25%
Term loans	63,469	46,056	17,413	27%
Global bonds *(USD Bond)*	3,510	3,510	–	0%
Private placement *(JPY Bond)*	529	529	–	0%
Total committed	71,798	53,293	18,505	26%
Uncommitted facilities				
Money market lines and short term facilities	5,645	3,833	1,812	32%
Trade facilities	4,536	1,163	3,373	74%

* *This is a USD short term bridging loan to support the funding requirement of the iron ore mining project Phase II.*

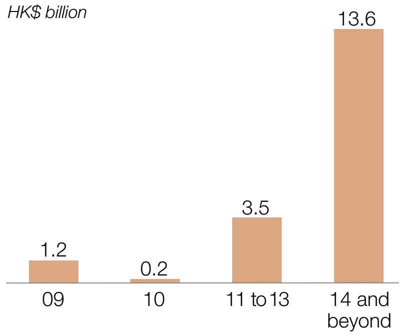
As at 31 December 2008, total committed facilities amounted to HK$71.8 billion, of which HK$18.5 billion (26%) remain undrawn. In addition to the above facilities, the Company has established Cooperative Agreements with major banks in mainland China. Under these Cooperative Agreements, CITIC Pacific's 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.

Leverage

Net debt divided by total capital was 44% as at 31 December 2008 compared with 26% at the end of 2007.

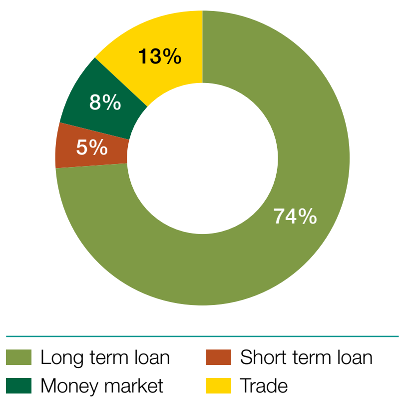
Available committed facilities by maturity (total HK$18.5 billion)

As at 31 December 2008
HK$ billion



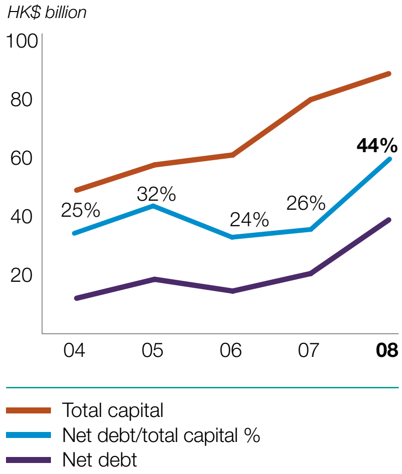
Available facilities by type (total HK$23.7 billion)

As at 31 December 2008



Leverage

HK$ billion



Maturity Profile of Outstanding Debt

The Group prefers raising long term debt over short term debt and actively manages its debt portfolio to ensure that the debt maturing in each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year. As at 31 December 2008, outstanding loans that will mature at the end of 2009 amounted to HK$9.4 billion, against a cash and deposits balance totaling HK$18.3 billion.

The weighted average life of the Group's debt was 5.6 years (2007: 6.0 years).

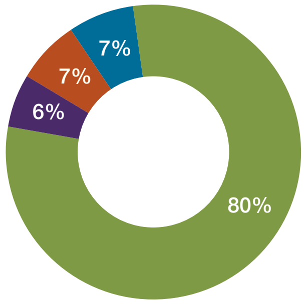
HK$ million	2009	2010	2011	2012	2013	2014 and beyond	Total	Percentage
Parent company	4,601	2,992	7,690[1]	7,550	4,245	8,799[2]	35,877	63%
Subsidiaries	4,781	2,633	3,896	1,005	991	8,051	21,357	37%
Total maturing debt	9,382	5,625	11,586	8,555	5,236	16,850	57,234	100%

1. Includes a US$450 million global bond due in 2011 which was issued by a wholly owned special purpose vehicle.

2. Includes a JPY 8.1 billion floating rate note due in 2035 which was issued by a wholly owned special purpose vehicle.

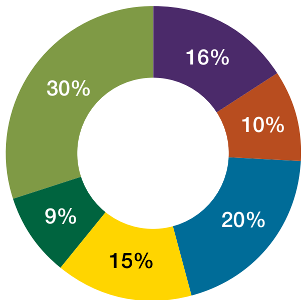
Outstanding debt by type

As at 31 December 2008



Outstanding debt by maturity

As at 31 December 2008



Debt / Cash in Jointly Controlled Entities and Associated Companies

For accounting purposes, some of the Group's businesses are classified as jointly controlled entities and associated companies. The following table shows the debt / cash position of jointly controlled entities and associated companies by business sector as at 31 December 2008 which, under Hong Kong generally accepted accounting standards, are not consolidated into the Group's accounts.

Business Sector *HK$ million*	Total net debt / (cash)	Proportion of net debt / (cash) attributable to CITIC Pacific
Special steel	3,317	2,320
Property		
Mainland China	101	50
Hong Kong	(508)	(248)
Aviation	25,198	4,407
Power generation	57,640	14,576
Civil infrastructure	2,969	1,023
Dah Chong Hong	(11)	(5)
Other investments	4,728	1,984
Total	93,434	24,107

The debt amounts shown in the above table were arranged by jointly controlled entities and associated companies without recourse to their shareholders. None of these debts is guaranteed by CITIC Pacific or its subsidiaries, except for a HK$27 million bank facility from a JCE is guaranteed by CITIC Pacific. Certain of the Group's investments, such as Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

Pledged Assets

As at 31 December 2008, assets with a net book value of HK$746 million (2007: HK$423 million) were pledged to secure banking facilities, mainly related to Dah Chong Hong's overseas business and to a property subsidiary in mainland China. In addition, assets of HK$15.1 billion of the iron ore mining project were pledged under its project finance arrangement. Shipbuilding contracts of HK$5.1 billion for the 12 ships relating to the project were also pledged as security for the ships financing.

Contingent Liabilities

Details of the Group's contingent liabilities as at 31 December 2008 are stated under Note 38 to the Financial Statements.

Loan Covenants

Over the years, CITIC Pacific has developed a set of standard loan covenants to facilitate the management of its loan portfolio and debt compliance. The financial covenants are generally limited to three major categories, namely, a minimum net worth undertaking, a maximum ratio of total borrowings to net worth and a limit on the amount of pledged assets as a percentage of the Group's total assets. CITIC Pacific monitors these ratios on a regular basis and has been in compliance with these ratios.

	Covenant limits	Actual 2008
Minimum consolidated net worth		
Consolidated net worth	≥ HK$25 billion	HK$51.7 billion
Gearing		
Consolidated borrowing / consolidated net worth	≤ 1.5	1.11
Negative pledge		
Pledged assets / consolidated total assets	≤ 30%	0.5%

For the purpose of the above covenant limits, as defined in the relevant borrowing agreements:

'Consolidated net worth' means the aggregate of shareholders' funds, goodwill from acquisitions and developments having been written off against reserves or the profit and loss account, convertible debt and subordinated debt (including perpetual debt).

'Consolidated Borrowing' means the aggregate of all consolidated indebtedness for borrowed money (includes indebtedness arising under acceptances and bills of exchange other than in respect of goods or services acquired in the ordinary course of business) and all contingent obligations in respect of indebtedness for borrowed money other than aforesaid consolidated indebtedness for borrowed money.

'Negative Pledge' allows certain exceptions including but not limited to any security over any asset acquired or developed, which security is created to finance or refinance the acquisition or development of such asset.

Credit Ratings

In November 2008 Moody's and Standard & Poor's downgraded their long-term credit ratings for the Company to Ba2 and BB respectively, following losses on the Company's derivative portfolio. Following the issuance and conversion of the convertible bond into shares to CITIC Group, in February 2009, Moody's and Standard & Poor's upgraded the Company's credit rating to Ba1 and BB+ respectively.

One of the Group's risk management objectives is to maintain a stable credit profile. Despite the uncertain economic environment, the stability of our core businesses will ensure that we meet all our commitments to our lenders and allow us to secure replacement or additional financing to support our funding needs in the future.

Forward Looking Statements

This Annual Report contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company'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.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

Ten Year Statistics

At year end (HK$ million)	1999	2000	2001	2002	2003	2004	2005	2006	As restated 2007	**2008**
Shareholders' funds	37,580	40,650	40,781	41,742	37,848	36,921	39,103	46,510	59,793	**49,971**
per share *(HK$)*	17.67	18.51	18.62	19.07	17.29	16.84	17.83	21.18	27.03	**13.70**
Debt										
Debt	18,563	15,709	14,639	9,267	10,528	14,580	21,218	18,293	28,654	**57,234**
Bank deposits	8,044	5,201	4,631	2,545	5,511	2,417	2,579	3,679	8,045	**18,296**
Net debt / total capital	22%	21%	20%	14%	12%	25%	32%	24%	26%	**44%**
Interest cover	4x	5x	6x	12x	8x	15x	11x	20x	50x	**(13)x**
Capital employed	56,143	56,359	55,420	51,009	48,376	51,501	60,321	64,803	88,447	**107,205**
Property, plant and equipment	3,556	4,983	6,293	4,174	4,335	6,066	8,871	9,491	12,154	**23,028**
Investment properties	5,374	5,531	5,357	8,493	7,923	8,115	8,645	9,604	10,895	**11,230**
Properties under development	240	246	460	586	679	1,672	1,849	2,712	4,288	**9,848**
Leasehold land	1,123	1,102	1,076	1,094	1,194	1,596	1,618	1,712	1,641	**2,320**
Jointly controlled entities	1,396	2,019	2,365	3,582	4,085	7,852	10,413	14,922	17,446	**21,140**
Associated companies	20,859	23,497	22,704	22,183	22,584	21,439	23,239	16,416	17,941	**15,084**
Other financial assets	14,511	9,264	8,070	7,092	1,027	1,121	929	2,819	7,502	**1,063**
Intangible assets	1,601	1,547	1,842	1,697	1,619	1,785	1,795	3,581	4,602	**8,979**
Stock market capitalisation	62,230	60,720	37,993	31,514	43,332	48,444	47,038	58,952	96,338	**30,556**
Number of shareholders	13,506	9,808	11,044	12,260	12,198	11,554	11,262	10,433	8,571	**8,712**
Staff	10,490	11,354	11,733	11,643	12,174	15,915	19,174	23,822	24,319	**28,654**
For the year (HK$ million)										
Net profit / (loss) after tax										
Net profit / (loss) after tax	2,729	3,283	2,084	3,835	1,148	3,534	3,989	8,272	10,843	**(12,662)**
per share *(HK$)*	1.28	1.49	0.95	1.75	0.52	1.61	1.82	3.77	4.91	**(5.68)**
Contribution by major businesses										
Special steel	22	29	95	126	178	438	808	1,333	2,242	**1,617**
Iron ore mining	–	–	–	–	–	–	–	–	–	**(123)**
Property										
Mainland China	–	–	–	103	112	125	154	308	197	**523**
Hong Kong	734	414	625	783	243	434	952	1,727	534	**490**
Power generation	440	314	281	245	229	439	368	268	494	**(1,198)**
Aviation	659	1,475	324	1,263	421	1,398	1,058	3,288	1,263	**(994)**
Civil infrastructure	1,292	1,320	1,362	1,238	635	329	413	469	490	**523**
Dah Chong Hong	230	221	105	234	253	284	233	297	417	**320**
CITIC 1616	–	39	129	252	116	120	122	191	157	**181**
Other investments	831	439	181	530	337	220	(117)	174	128	**1,530**
Net gain from listing of subsidiary companies	–	–	–	–	–	–	–	–	4,552*	**–**
Fair value change of investment properties	–	–	–	–	(587)	181	755	1,077	1,217	**(33)**
EBITDA	4,763	5,238	3,921	5,691	3,126	5,666	6,412	11,882	15,160	**(9,925)**
Dividends per share *(HK$)*										
Regular	0.75	0.85	0.80	1.00	1.00	1.10	1.10	1.10	1.20	**0.30**
Special	2.00	–	–	1.00	–	–	–	0.60	0.20	**–**
Cover	1.7x	1.8x	1.2x	1.8x	0.5x	1.5x	1.7x	3.4x	4.1x	**(18.9)x**

Note:

1. *2007' figures have been restated to reflect the Group's adoption of HK(IFRIC) – Int 12 'Service Concession Arrangement'.*
2. *Prior years' figures have been restated to reflect the Group's adoption of Hong Kong Financial Reporting Standards except the figures have not been adjusted for years 2001 and before following the adoption of revised accounting standard of HKAS 12 'Income Tax' in year 2002.*

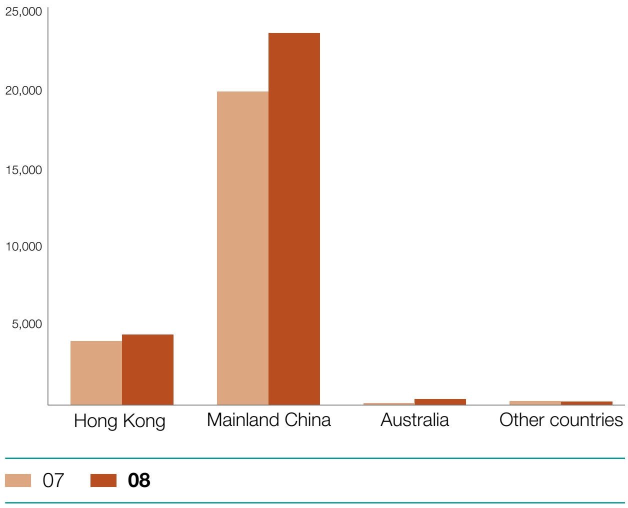
* *Include spin-off profit from the listing of subsidiary companies, Dah Chong Hong and CITIC 1616 in 2007.*

Human Resources

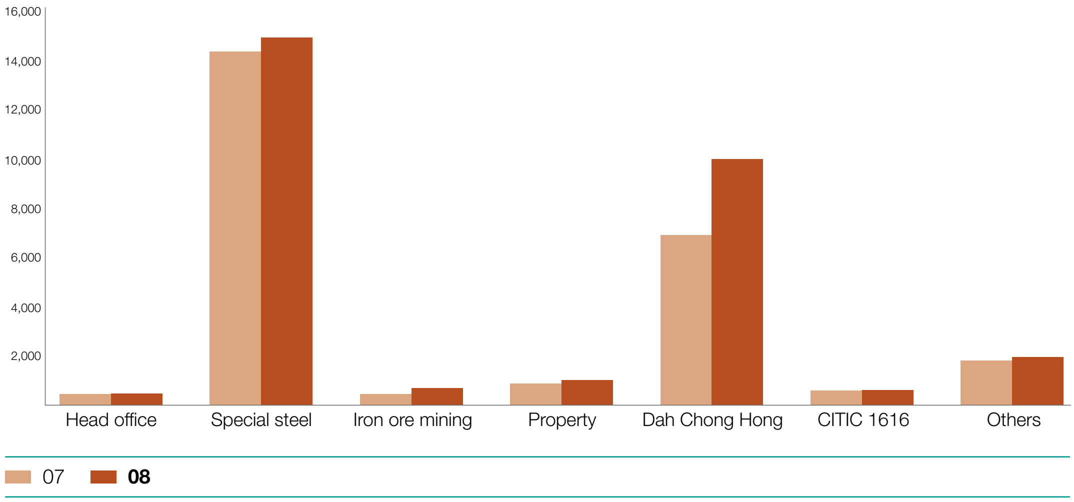
As at the end of December 2008, the Group employed a total of 28,654 staff (2007: 24,319) in its headquarters in Hong Kong and principal subsidiaries worldwide. The two main areas of concentration are in Hong Kong employing 4,456 (2007: 4,043) and in mainland China employing 23,559 (2007: 19,868). Another 639 (2007: 408) staff are employed in subsidiaries in Australia, Japan, Singapore, Taiwan and Canada.

The majority of the increase in employees was due to Dah Chong Hong's acquisition of new businesses in mainland China.

Employees by location



Employees by business segment



Human Resources Management

CITIC Pacific recognises and respects each individual's rights and adopts equal rights policies giving equal opportunities to all appropriately qualified candidates. The Group strives to be consistent and fair in administering its human resources practices to the mutual benefit of its employees and the Group. CITIC Pacific upholds an extremely high standard of business ethics and expects a similarly high level of personal conduct from its employees. Every employee is required to adhere to the Group's Code of Conduct which covers the required professional and technical standard. It is the responsibility of all business unit heads to disseminate the Group's requirements to the people concerned. Any violation or non-compliance with the Code is subject to an established disciplinary procedure. To ensure the proper enforcement of the Code of Conduct Policy, the Group requires all business units to report the compliance status of the Policy on a bi-annual basis.

Employee Compensation

CITIC Pacific aims to drive business results by implementing performance-related pay schemes. This also helps ensure alignment of employee and shareholders' interests. Employee's cash remuneration typically comprises a base salary and a discretionary bonus which is based on a combination of the Company's results and the individual's performance. This variable pay policy allows the top-performers adequately rewarded and under-performers properly addressed. The senior management of the Group receives a substantially higher portion of their remuneration in performance related bonus, reflecting their contribution to the business and the Group's financial performance.

Remuneration Committee

The Remuneration Committee, established in August 2003, comprises three Non-Executive Directors, two of whom are Independent Non-Executive Directors. The Committee is chaired by Mr. Norman Ho and meets at least once a year.

The principal role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and key executives. This includes salaries, bonuses, benefits in kind and the terms on which they participate in any share option or other plans considering factors such as salaries paid by comparable companies. The committee also takes into account the time commitment and responsibilities of the directors and key executives and the employment conditions elsewhere in the group. A key focus is the desirability of performance-based remuneration to align management incentives with shareholder interests.

Details of the CITIC Pacific Share Incentive Plan 2000 and the granting of options are reported on pages 91 to 93. Given the difficulties faced by the Company and the resulting performance in 2008 total remuneration paid to directors was substantially reduced to HK$26.59 million (2007: 294.07 million). Further information on Directors' Emoluments can be found on page 131.

Retirement Benefits

For Hong Kong employees, the Group has setup the CITIC Group Mandatory Provident Fund Scheme ('MPF Scheme'). Employees are offered the option to enrol in one of the three MPF Master Trust Schemes under the CITIC Group MPF Scheme. The three master trust schemes are Hang Seng MPF SuperTrust Plus, Fidelity Retirement Master Trust and RCM MPF Plan which was introduced in February 2008. All these master trust schemes are administered in accordance with the terms and provisions of respective trust deed and are subject to the Mandatory Provident Fund Schemes Ordinance.

The CITIC Group Retirement Plan ('ORSO Plan') which was previously the primary retirement plan of Hong Kong employees was replaced by the CITIC Group Mandatory Provident Fund Scheme ('MPF Scheme') in August 2003. All new contributions are made to the MPF Scheme and the ORSO Plan is now a closed fund.

Employees of the Group's subsidiaries in mainland China and other locations are required to participate in defined contribution retirement schemes administered and operated by the respective local authorities and contributions are made according to the local mandatory requirements.

Training & Development

CITIC Pacific is committed to providing a healthy organisational environment that is conducive to each individual's development. Employees are encouraged to commit to continuous improvement by initiating their own self-development plan with financial sponsorship from the Group. Seminars, courses by professional institutions and in-house training are also organised regularly to help employees improve performance and prepare for future development. Where applicable, the Group arranges public institutions to conduct customised talks on specific subjects such as new legislative issues, work place safety and updates on new technology.

With the continuing growth in cross-border business activities between Hong Kong and the mainland, the Group encourages and promotes business integration, knowledge sharing and skills transfer between staff in the two territories.

CITIC Pacific fully supports investing in the training and development of our younger generations. The Group has implemented various management trainee and apprentice training programs. It also provides training opportunities to young school leavers and college students by participating in the Youth Pre-employment Training Programme held by Hong Kong Labour Department and internship programmes of universities.

In the Community

CITIC Pacific is proud to be a socially-responsible organisation, and as such is committed to contributing to the community by supporting and sponsoring different kind of activities, such as charitable work, promotion of education, environment protection, sports, culture and the arts in Hong Kong, mainland China and overseas. In 2006, the Group became one of the first corporations to support the Wage Protection Movement for cleaning workers and security guards. CITIC Pacific has been a 'Caring Company' since 2007 under the scheme set up by the Hong Kong Council of Social Service.

CITIC Pacific and its subsidiary companies are long-term supporters of the Community Chest of Hong Kong by making donations and participating in their campaigns and fund raising activities. The Group has also continued to be the sole sponsor of a performance of Hong Kong Arts Festival. In 2008, to provide financial assistance to the victims of Sichuan earthquake, the Group and its employees donated generously to the relief fund.

During the year, CITIC Pacific and its subsidiaries have fully supported the territory-wide anti-drug campaign organised by the Hong Kong Government and the Action Committee Against Narcotics. To help promote the campaign, the Eastern Tunnel and Western Tunnel companies provided advertising walls and bill board. Besides supporting the 'Youth Pre-employment Training Programme' the Group also offered workplace attachment and on-the-job training places under the 'Youth Work Experience and Training Scheme' run by Hong Kong Labour Department. The aim of these placements is to support the 'Path Builders' initiative which aims to tackle drug and other youth problems at grassroots level by fostering a caring culture for young people. The Group has also worked with the Hong Kong Federation of Youths Group to provide a 40-hour pre-employment training course for selected trainees.

Corporate Governance

(This section was adopted at the board meeting of the Company held on 25 March 2009 for approving 2008 final results. Information in this section does not reflect the changes to the board composition which took effect on 8 April 2009.)

Corporate Governance Practices

CITIC Pacific is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are important for maintaining and promoting investor confidence. During the year, the Company faced the issues associated with the leveraged foreign exchange contracts entered into by the Group. Following this incident, the Board took actions to improve the financial risk management function and examine other corporate controls of the Group. The Board will continue to review its corporate governance practices to meet the latest local and international standards.

Throughout the year of 2008, CITIC Pacific has complied with all Code Provisions in the Code of Corporate Governance Practices ('the Code') contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ('the Model Code') contained in Appendix 10 of the Listing Rules. All Directors have fully complied with the required standard set out in the Model Code throughout the year of 2008.

Board of Directors

After the appointment of Messrs Zhang Jijing and Ju Weimin as directors of the Company, the Board comprises ten executive and nine non-executive directors of whom four are independent (the biographies of the directors, together with information about the relationships among them, are set out on pages 80 to 82). Non-executive directors are more than 47% of the Board and independent non-executive directors are 21%. The reasons why five non-executive directors are not independent (as defined by the Stock Exchange) are that one is the President of a shareholder having an interest of over 1% stake in the Company, one does professional work for the Company and the other three are directors of CITIC Group.

Under Article 104(A) of the Company's Articles of Association, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's businesses is delegated to the executive director or officer in charge of each division. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management in order to fulfil their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

The Board meets regularly to review the financial and operating performance of the Group and other business units, and approve future strategy. Four regular board meetings were held in 2008. Because of the issues associated with the leveraged foreign exchange contracts entered into by the Group, 5 special board meetings were held during the year. Individual attendance of each director at the Board meetings during 2008 is set out below:

Directors	Attendance / Number of Board Meetings Regular	Special
Executive Directors		
Mr Larry Yung Chi Kin – Chairman	4/4	5/5
Mr Henry Fan Hung Ling – Managing Director	4/4	5/5
Mr Peter Lee Chung Hing	4/4	5/5
Mr Carl Yung Ming Jie	4/4	5/5
Mr Vernon Francis Moore	4/4	5/5
Mr Li Shilin	1/4	0/5
Mr Liu Jifu	4/4	3/5
Mr Milton Law Ming To	4/4	5/5
Mr Wang Ande	4/4	5/5
Mr Kwok Man Leung (appointed on 1 April 2008)	3/3	5/5
Mr Leslie Chang Li Hsien (resigned on 20 October 2008)	3/3	2/2
Mr Chau Chi Yin (resigned on 20 October 2008)	3/3	2/2
Independent Non-executive Directors		
Mr Hamilton Ho Hau Hay	4/4	5/5
Mr Alexander Reid Hamilton	3/4	4/5
Mr Hansen Loh Chung Hon	4/4	5/5
Mr Norman Ho Hau Chong	4/4	4/5
Non-executive Directors		
Mr Willie Chang	4/4	5/5
Mr André Desmarais (Two of the regular meetings and three of the special meetings were attended by his alternate)	4/4	5/5
Mr Chang Zhenming	1/4	1/5

To implement the strategies and plans adopted by the Board effectively, an executive committee of selected executive directors and senior managers meets monthly to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions.

There is also a finance committee of selected executive directors to review and establish or renew financial and credit facilities and undertake financial and credit transactions that rank, where they constitute obligations, pari passu with the Company's other unsecured obligations.

Chairman and Chief Executive Officer

The Group has appointed a Chairman, Mr Larry Yung and a Managing Director, Mr Henry Fan, who is the Chief Executive Officer described in Appendix 14 of the Listing Rules. The roles of the Chairman and the Managing Director are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Managing Director is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which has been approved and adopted by the Board.

Remuneration Committee

The Remuneration Committee was established by the Board in August 2003. The full terms of reference can be found in the Group's website (http://www.citicpacific.com/eng/about/governance_remun.html).

Responsibility

The principal role of the Remuneration Committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option and other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

Membership and Attendance

Members	Attendance / Number of Meetings
Independent Non-executive Directors	
Mr Norman Ho Hau Chong (Chairman)	2/2
Mr Alexander Reid Hamilton	2/2
Non-executive Director	
Mr Willie Chang	2/2

Work Done

The Remuneration Committee reviewed the remuneration policies applicable to and approved the salaries and bonuses of the executive directors and senior management. No executive director has taken part in any discussion about his own remuneration.

Details of CITIC Pacific's remuneration policies are set out in the Human Resources section on page 69. Directors' emoluments and retirement benefits are disclosed on pages 131 to 132. Details of the CITIC Pacific Share Incentive Plan 2000 and the granting of options are disclosed on pages 91 to 93.

Nomination of Directors

There is no nomination committee of the Board. During 2008, Mr Kwok Man Leung was appointed as a director by the Board. He was re-elected by shareholders at the first annual general meeting after his appointment. Messrs Zhang Jijing and Ju Weimin were appointed as non-executive directors by the Board with effect from 1 April 2009.

Audit Committee

The Board established an Audit Committee in 1995. The Audit Committee's terms of reference can be found in the Group's website (http://www.citicpacific.com/eng/about/governance_audit.html).

Responsibility

The Audit Committee assists the Board in meeting its responsibilities for ensuring an adequate system of internal control and compliance, and in meeting its external financial reporting obligations.

Membership and Attendance

The Audit Committee members possess diversified industry experience and the Chairman has appropriate professional qualifications and experience in accounting matters. The Audit Committee meets regularly four times each year, together with the Group Finance Director, and auditors, both internal and external. Other executive directors do not attend the meeting unless by invitation. Because of the issues associated with the leveraged foreign exchange contracts entered into by the Group, the Audit Committee held five special meetings.

	Attendance / Number of Meetings	
Members	Regular	Special
Independent Non-executive Directors		
Mr Alexander Reid Hamilton (Chairman)	4/4	5/5
Mr Hansen Loh Chung Hon	4/4	5/5
Non-executive Director		
Mr Willie Chang	4/4	5/5

Work Done

The Audit Committee considered the external auditors' projected audit fees; discussed with the external auditors their independence and the nature and scope of the audit; reviewed the interim and annual financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal audit programme, findings and management's response; and reviewed the Group's adherence to the Code Provisions in the Code. The Audit Committee recommended the Board adopt the interim and annual reports for 2008. The Audit Committee undertook an internal investigation of the entering into of the leveraged foreign exchange contracts and reported its findings to the Board. The Audit Committee also commissioned PricewaterhouseCoopers ('PwC') to undertake reviews of the Company's financial risk management and of its entity-level corporate controls and to make recommendations to improve the Group's internal controls.

Pursuant to the revised Code Provisions which became effective on 1 January 2009, the Audit Committee's oversight function in its annual review of the system of internal control will include consideration of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, including their training programmes and budget. The terms of reference of the Audit Committee are under review and will be revised appropriately.

Asset and Liability Management Committee

In October 2008, the Board established an Asset and Liability Management Committee accountable to the Board to review monthly the financial position of the Company and to be responsible for establishing its financial risk management policy. Its members consist of the Group Finance Director who chairs the Committee and the executives from various departments of the Company. Three formal meetings have been held. The Committee is in its formative stage but has established policies for approved transaction types and counterparty risk and has set up a framework for monitoring interest rate risk, foreign exchange risk and commodity price risk and exposures.

The terms of reference of the Asset and Liability Management Committee are as follows:

a) reviewing regularly the asset and liability balance of the Company in aggregate, and at subsidiary / affiliate level;

b) setting limits on exposure at group, subsidiary or business unit level in relation to:
   i) assets and liability mismatches;
   ii) counter-parties;
   iii) currencies;
   iv) interest rates;
   v) commitments and contingent liabilities;

c) reviewing and approving financing plans;

d) approving the use of new financial products; and

e) establishing hedging policies.

Committee to deal with the Group's Leveraged Foreign Exchange Contracts

The Board established a Committee to deal with the Group's Leveraged Foreign Exchange Contracts in November 2008. The Committee is empowered to receive recommendations from internal and external parties as to how to improve the Group's internal management and risk controls, monitor the Group's ongoing and future leveraged foreign exchange contracts and negotiate terms of the novation contracts with the relevant counterparties. Mr Chang Zhenming, a Non-executive Director of the Company and the Vice Chairman and President of CITIC Group is the chairman of the Committee. Other members include the Group Finance Director, an Executive Director and two Non-executive Directors of the Company.

Auditor's Remuneration

PwC has been CITIC Pacific's independent auditor since 1989. The audit engagement partner is changed every several years to ensure independence and the current audit partner was first appointed for the 2006 accounts. During the year, the fees estimated for PwC's statutory audit amounted to approximately HK$15 million (2007: HK$10 million). In addition, approximately HK$10 million (2007: HK$2 million) was charged for other services, which included mainly special audits, review of treasury internal control, review of internal controls in relation to financial reporting, agreed upon procedures and other reporting in respect of announcements and circulars in relation to the leveraged foreign exchange contracts and issuance of convertible bond in 2008 (approximately HK$3 million), review of the half year financial statements and tax compliance. The cost of recurring audit services to subsidiaries performed by other auditors amounted to approximately HK$22 million (2007: HK$16 million) and the fees for other services were approximately HK$22 million (2007: HK$31 million).

Internal Controls

The Board has overall responsibility for maintaining a sound and effective system of internal control. Internal control is designed to provide reasonable, but not absolute, assurance of the effectiveness and efficiency of operations, safeguarding of assets, maintenance of proper accounting records, reliability of financial information, and compliance with laws and regulations, which is a process to manage rather than eliminate the risk of failure to achieve the business objectives of the Group.

Following the substantial foreign exchange exposures incurred during the year, the Board took action to improve the financial risk management function and examine other corporate controls of the Group. A major on-going objective is restructuring and strengthening the resources of the finance and financial control teams, including recruitment of seasoned professionals with a view to identifying, reporting and managing the Group's treasury activities, foreign exchange, interest rates and other financial risks on a continual and structured basis. Major initiatives taken encompassed the following:

1. Established the Asset and Liability Management Committee to directly oversee financial risk management and related internal control areas, and a separate Committee to specifically address issues in relation to the leveraged foreign exchange contracts;
2. Appointed PwC to undertake reviews of the Group's financial risk management and entity-level corporate controls to which the head of Group Internal Audit was assigned to participate and assist;
3. Engaged a highly experienced financial consultant to supervise various projects on internal control improvements, including implementation of the recommendations made by PwC;
4. Appointed a board member with extensive experience to be the Group Finance Director;
5. Launched a programme (which is continuing) to formalize and enhance the Group's corporate controls, policy and procedures, including treasury and financial risk management policies as part of the internal control improvement project.

Apart from the above special reviews carried out during the year, the Board has also reviewed the effectiveness of the Group's internal control system in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. Such annual review of internal control system was conducted by considering the work performed by the executive management as well as Group Internal Audit, details of which are set out in the following paragraphs.

The executive management of major subsidiaries and operational business units are required to conduct a self-assessment of their material controls and risk management functions by reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, with results of the self-assessments consolidated and reported to the Audit Committee and the Board on an annual basis. During the year, no material exceptions were required to be brought to the Board's attention as a result of these self-assessments. These businesses have also provided a letter of representation to the Board that their accounts are prepared in accordance with the Group's accounting policies, and their earlier internal control self-assessment remains correct. The process of these self-assessments will be further enhanced and Group Internal Audit will perform regular validations of management's assessments.

Group Internal Audit conducts independent internal control evaluations of selected business units and functions according to its annual work plan. The Audit Committee reviews major findings reported by Group Internal Audit at the Audit Committee meetings and reports to the Board on such reviews where appropriate.

Internal Audit

Reporting to the Audit Committee, Group Internal Audit assists in the Board's oversight function by carrying out independent internal audits designed to provide assurance as to the effectiveness of internal controls of the Group's operations, including its risk management activities. Focusing on major business units at the subsidiary level, the annual internal audit plan for the year was formulated and prioritized using a risk assessment methodology. The Audit Committee reviews and endorses the internal audit plan annually, pursuant to which individual internal audit assignments are carried out. Under the Internal Audit Charter, Group Internal Audit has unrestricted access to information, properties and all levels of management to facilitate the execution of the internal audit work. Group Internal Audit issues detailed reports following completion of each audit visit that requires management's corrective action, and submits summary reports for the Audit Committee's review and discussion at the Audit Committee meetings. Group Internal Audit also initiates a quarterly follow-up review to determine the extent of the completion of the recommended actions taken by management. Major outstanding issues are discussed at the Audit Committee meetings until they have been satisfactorily resolved.

In response to the development of the Group's operations and the recent recommendations made by PwC, the Group Internal Audit function is undergoing a transformation process whereby an enhanced scope of risk-based internal audit services will be provided to the Audit Committee and the Board.

Codes

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees, and the Group's non-discriminatory employment practices. Induction briefing of the Code of Conduct is held for all employees and the Audit Committee receives a report on the operation and compliance of the Code of Conduct every year.

The Group has followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to promote good and responsible employment standards.

Notifiable Transactions, Connected Transactions, Annual Reports and Interim Reports

During 2008, CITIC Pacific has issued press announcements and circulars in respect of a number of notifiable transactions and connected transactions which can be viewed on the Group's website (http://www.citicpacific.com/eng/inv/announce/announce_index.php).

The annual and interim reports of the Company can also be viewed on the Group's website.

Communication with Shareholders

The Company's Annual General Meeting ('AGM') is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions were proposed for each substantially separate issue at the AGM.

The Company's Articles of Association allow voting by poll on resolutions at shareholders' meetings and contain the procedures for the poll voting. Details of demanding poll voting and the poll procedures have been included in all circulars in relation to shareholders' meetings and explained during the proceedings of shareholders' meetings. Poll voting was conducted at all shareholders' meetings during 2008 and the poll results have been posted on the websites of the Stock Exchange and the Company on the same day of the shareholders' meeting.

Fair Disclosure and Investor Relations

CITIC Pacific uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Hong Kong Stock Exchange the same information will be available on the Company's website.

CITIC Pacific recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In addition, questions received from the general public and individual shareholders were answered promptly. In all cases great care has been taken to ensure that no price sensitive information is disclosed selectively.

Information about CITIC Pacific can be found on the Group's website including descriptions of each business and the Annual Reports for last ten years.

Financial Reporting

The Directors acknowledge their responsibility for preparing accounts which give a true and fair view of the Group's affairs and of its results and cash flows for the period in accordance with Hong Kong Financial Reporting Standards. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently and judgments and estimates made are prudent and reasonable. The adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2008, the details of which are disclosed on page 109.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 177.

Directors and Senior Managers

(Information in this section reflects the position as at the date of announcing 2008 final results. Subsequently on 8 April 2009, Mr Larry Yung Chi Kin and Mr Henry Fan Hung Ling resigned from the Board; Mr Chang Zhenming was appointed as Chairman and Managing Director of the Company.)

Executive Directors

Larry Yung Chi Kin (Chairman), aged 67, a Director since 1990, is the Vice Chairman and Managing Director of CITIC Hong Kong (Holdings) Limited ('CITIC HK') and an Executive Director of CITIC Group. He worked for 14 years with the Ministry of Electric Power in the People's Republic of China ('PRC') before coming to Hong Kong in 1978, and had extensive management experience before establishing CITIC HK in 1987.

Henry Fan Hung Ling (Managing Director), aged 60, a Director since 1990, is a Deputy Chairman of Cathay Pacific Airways Limited ('Cathay') and a Deputy Managing Director of CITIC HK. Before joining CITIC HK in 1987, Mr Fan held senior management positions with a number of corporations and also practised law as a barrister.

Peter Lee Chung Hing (Deputy Managing Director), aged 55, is a director of CITIC Pacific Mining Management Pty Ltd ('CITIC Pacific Mining') and several Group companies involved in special steel projects. Before joining CITIC HK in 1988, Mr Lee was with major banking and shipping groups in Hong Kong. He joined CITIC Pacific Limited ('CITIC Pacific') in 1990.

Carl Yung Ming Jie (Deputy Managing Director), aged 40, a Director since 2000, is the Chairman of Shanghai CITIC Square Co., Ltd. and Shanghai New Westgate Garden Property Co., Ltd. He is also a director of CITIC Pacific China Holdings Limited ('CP China') and other Group companies concerned with property, infrastructure and special steel projects in the PRC. He joined CITIC Pacific in 1993. He is the son of Mr Larry Yung Chi Kin.

Vernon Francis Moore (Group Finance Director), aged 62, a Director since 1990, is a director of CITIC Pacific Mining, the Chairman of New Hong Kong Tunnel Company Limited ('NHKTC') and Western Harbour Tunnel Company Limited ('WHT') and a non-executive director of Cathay and CLP Holdings Limited ('CLP Holdings'). Mr Moore joined CITIC HK in 1987 after holding senior management positions with a number of financial institutions and acted as an executive director of CITIC HK until August 2007.

Li Shilin (Executive Director), aged 59, a Director since 2000, is an Executive Director and a Vice President of CITIC Group. He is also the Chairman of CITIC Guoan Group, CITIC Guoan Information Industry Co., Ltd. and CITIC Offshore Helicopter Co., Ltd.

Liu Jifu (Executive Director), aged 65, a Director since 2001, is a director of CITIC HK and CITIC International Financial Holdings Limited. Before joining CITIC HK in 2000, Mr Liu worked with the Financial and Economics Research Institute in the China Academy of Social Sciences for 5 years. Formerly, he was an Executive Director of China Everbright Group Limited, the Chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.

Milton Law Ming To (Executive Director), aged 45, a Director since 2006, is a director of NHKTC, WHT, Hong Kong Transport, Logistics and Management Company Limited, Daye Special Steel Co., Ltd. ('Daye Special Steel'), CITIC Pacific Mining and other Group companies concerned with infrastructure, environmental, special steel, iron ore mining and property projects. Before joining CITIC Pacific in 1992, he worked in the banking industry.

Wang Ande (Executive Director), aged 59, a Director since 2006, is the Managing Director of CP China and a director of other Group companies concerned with property projects in the PRC. Before joining CITIC Pacific in 2003, he served in the Shanghai Municipal Government and Pudong New Area Government responsible for lands and property development of the city.

Kwok Man Leung (Executive Director), aged 40, a Director since 2008, is a director of NHKTC and other Group companies concerned with special steel and environmental projects and a non-executive director of CITIC 1616 Holdings Limited ('CITIC 1616') and Dah Chong Hong Holdings Limited ('DCH Holdings'). He joined CITIC Pacific in 1993 after gaining experience in sales and business development with a major Hong Kong listed company.

Non-Executive Directors

Willie Chang, aged 65, a Director since 1987, is a member of both Audit Committee and Remuneration Committee of the Company. Mr Chang is the sole proprietor of Willie Chang & Co., Solicitors, with over 39 years' experience in legal practice, including as a partner of Johnson, Stokes and Master.

Hamilton Ho Hau Hay, aged 58, a Director since 1992, is a non-executive director of DCH Holdings and King Fook Holdings Limited. Mr Ho is also an independent non-executive director of New World Development Company Limited, an executive director of Honorway Investments Limited ('Honorway') and Tak Hung (Holding) Company Limited ('Tak Hung'). He is the brother of Mr Norman Ho Hau Chong.*

Alexander Reid Hamilton, aged 67, a Director since 1994, is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr Hamilton was a partner of PricewaterhouseCoopers where he practised for 16 years. He is an independent non-executive director of China COSCO Holdings Company Limited, Shangri-La Asia Limited, Esprit Holdings Limited and Octopus Cards Limited.*

Hansen Loh Chung Hon, aged 71, a Director since 1994, is a member of the Audit Committee of the Company. Mr Loh is the Managing Director of Wyler Textiles, Limited and an independent non-executive director of CLP Holdings.*

Norman Ho Hau Chong, aged 53, a Director since 1994, is the Chairman of the Remuneration Committee of the Company. Mr Ho is an Executive Director of Honorway, Tak Hung, Miramar Hotel and Investment Company, Limited and New World Mobile Holdings Limited, a director of Hong Kong Ferry (Holdings) Company Limited, Lee Hing Development Limited, Shun Tak Holdings Limited, Starlight International Holdings Limited and Taifook Securities Group Limited. He is the brother of Mr Hamilton Ho Hau Hay.*

André Desmarais, aged 52, a Director since 1997, is the President and Co-Chief Executive Officer of Power Corporation of Canada. He is a Senior Advisor to the International Advisory Council of China Association for the Promotion of Industrial Development.

Chang Zhenming, aged 52, a Director since 2006, is the Vice Chairman and President of CITIC Group, the Vice Chairman of CITIC International Financial Holdings Limited and China CITIC Bank Corporation Limited. From March 2000 to June 2005, he was an executive director of CITIC Pacific. He has over 20 years' broad range of experience in banking, finance and securities business. He was formerly the Vice Chairman and President of China Construction Bank Corporation.

Zhang Jijing, aged 53, a Director with effect from 1 April 2009, is a director, the assistant president and the director-general of the Strategy and Planning Department of CITIC Group. He is also an executive director of CITIC Resources Holdings Limited, a non-executive director of CITIC Securities Co., Ltd. and China CITIC Bank Corporation Limited. Mr Zhang has previously been the managing director of CITIC Australia Group, a director and vice president of CITIC Australia Pty. Ltd., and the deputy division chief of the overseas investment department of China International Trust and Investment Corporation. He has over 23 years' experience in corporate management, industrial investment, business finance and the aluminium industry.

Ju Weimin, aged 46, a Director with effect from 1 April 2009, is a director and the chief financial officer of CITIC Group. He is also the chairman of CITIC Trust Co. Ltd., a non-executive director of CITIC Securities Co., Ltd., China CITIC Bank Corporation Limited and Asia Satellite Telecommunications Holdings Limited. He has over 20 years' experience in finance, investment and corporate management.

Peter Kruyt (Alternate Director to Mr André Desmarais), aged 53, an alternate director since 2003, is Vice President of Power Corporation of Canada, Chairman of Power Pacific Corporation Limited, the Canada-China Business Council and Concordia University and President and Chief Executive Officer of Victoria Square Ventures Inc.

* *Independent Non-executive Director*

Senior Managers

Stella Chan Chui Sheung (Company Secretary), aged 46, is a non-executive director of DCH Holdings and CITIC 1616. Before joining CITIC HK in 1988 and CITIC Pacific in 1990, she worked in the company secretarial field. She has over 20 years of experience in the company secretarial aspect.

Paul Lo Kai Sing (Director, Group Human Resources and Administration), aged 53, joined CITIC Pacific in January 2005. He has many years experience in human resources management in a variety of industries, including electronics manufacturing, multinational trading conglomerates and integrated multi-media services, and once served as the General Manager, Group Human Resources and Communications of Dah Chong Hong from 1997 to 2000.

Aaron Wong Ha Hang (Director, Property Department), aged 50, is an Executive Director of HK Resort, a director of NHKTC and other Group companies concerned with property and environmental projects. Before joining CITIC Pacific in 1996, he worked for an international consulting firm in the United Kingdom and in Hong Kong.

Cai Xinghai (Director, Industries), aged 64, is a Deputy Managing Director of CITIC HK, the Chairman of Daye Special Steel, the Vice Chairman of Jiangyin Xingcheng Special Steel and Hubei Xin Yegang Steel Co., Ltd. and a director of other Group companies concerned with special steel projects. He is also the chief representative of CITIC Pacific's Wuxi Office. He joined CITIC Pacific in 1994 and has extensive experience in the management of special steel manufacturing in mainland China.

Holly Chen Meng (Director, Group Investor Relations), aged 42, joined CITIC Pacific in 2001. Prior to that she had over 10 years experience working for several major global investment banks, where she obtained extensive experience in corporate finance and corporate communications.

Wang Gongcheng (Director, Mineral Resources), aged 63, is a director of CITIC Pacific Mining. He joined CITIC Pacific in 2006 and has extensive experience in the management of mining corporations in Australia and mainland China.

Kevin Kwan Kit Tong (Director, Financial Control), aged 50, joined CITIC Pacific in January 2009. Before joining CITIC Pacific, he was the Executive Director, Chief Executive Officer and Group Controller of a Hong Kong listed company in the semi conductor industry. He has over 20 years experience in financial management and has worked for CITIC Group companies in Hong Kong and Australia as management staff of Financial Control between 1992 to 1999.

Directors' Report

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is to hold the subsidiaries, associates and joint venture through which its business operations are carried out, employing staff and raising finance. Their major areas of operation are set out in the Business Review on pages 6 to 43.

Dividends

No final dividend was recommended for the year ended 31 December 2008. An interim dividend of HK$0.30 per share was paid on 26 September 2008. This represents a total distribution for the year of HK$658 million.

Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in Note 28 to the financial statements.

Donations

Donations made by the Group during the year amounted to HK$17 million.

Fixed Assets

Movements of fixed assets are set out in the Financial Statements on pages 133 to 137.

Major Customers and Suppliers

The aggregate percentage of purchases from the Group's five largest suppliers is less than 30%. The aggregate percentage of sales to the Group's five largest customers is less than 30%.

No directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

Subsidiary Companies

The names of the principal subsidiary companies, their principal places of operation, their countries of incorporation and particulars of their issued share capital are set out in Note 44 to the financial statements.

Issue of Debt Securities

On 1 June 2001, CITIC Pacific Finance (2001) Limited, a wholly owned subsidiary of the Company, issued and sold a total of US$450 million principal amount of 7.625% guaranteed notes due 2011 ('Guaranteed Notes') for refinancing the indebtedness of the Company and for general corporate purposes, to investors pursuant to the purchase agreements dated 24 May 2001 and 1 June 2001. All of the Guaranteed Notes remained outstanding at the end of the year.

On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of the Company, issued and sold JPY8.1 billion in aggregate principal amount of guaranteed floating rate notes due 2035 ('JPY Notes') to investors for general corporate purposes pursuant to a subscription agreement dated 26 October 2005. The coupon and principal of the JPY Notes was swapped into Hong Kong Dollar through cross currency swap and net proceeds equivalent to HK$400 million was received. The JPY Notes holders have a one time right to put the JPY Notes to the issuer at 81.29% of the principal amount together with accrued interest on 28 October 2015. All of the JPY Notes remained outstanding at the end of the year.

Save as aforesaid, neither the Company nor its subsidiary companies have issued any debt securities.

Borrowings

Particulars of borrowings of the Group are set out in Note 29 to the financial statements.

Issue of Convertible Bond and New Shares

On 12 November 2008, the Company entered into an agreement ('the Agreement') with CITIC Group, the largest shareholder of the Company holding approximately 29% of the issued shares of the Company as at the date of the Agreement, in connection with, inter alia, the issue by the Company of the Convertible Bond to CITIC Group with an aggregate principal amount of HK$11.625 billion convertible into the Shares at an initial conversion price of HK$8.00 per share. An interest coupon of 2% per annum would be payable from the time of issue of the Convertible Bond up to but excluding the date the Convertible Bond was to be converted into shares of the Company.

The Agreement was approved by the shareholders of the Company on 19 December 2008. Completion took place on 24 December 2008 on which the Convertible Bond was issued and automatically fully converted into shares of the Company. An aggregate of 1,453,125,000 shares of the Company at the price of HK$8.00 per share were allotted and issued on conversion to certain subsidiaries of CITIC Group which, as a result, became the controlling shareholder of the Company holding approximately 57.56% interest in the Company. The consideration for 1,453,125,000 shares of the Company (being HK$11.625 billion) was paid as to HK$2.47 billion in cash with the remaining amount being set off against the amount payable by the Company to CITIC Group in respect of the novation of certain AUD target redemption forward contracts entered into by the Group. The cash received was to be used as general working capital for the Group.

Directors

Mr Kwok Man Leung was appointed as an executive director of the Company with effect from 1 April 2008 and Messrs Leslie Chang Li Hsien and Chau Chi Yin resigned as directors with effect from 20 October 2008. Messrs Zhang Jijing and Ju Weimin were appointed as non-executive directors of the Company with effect from 1 April 2009. Except for these changes, the directors of the Company whose names and biographical details appear on pages 80 to 82 were the directors in office during the whole of financial year ended 31 December 2008.

In accordance with Article 95 of the New Articles of Association of the Company, Messrs Zhang Jijing and Ju Weimin will hold office only until the forthcoming Annual General Meeting and are then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs Larry Yung Chi Kin, Peter Lee Chung Hing, Milton Law Ming To, Wang Ande, Alexander Reid Hamilton and Hansen Loh Chung Hon shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('Listing Rules') and that the Company still considers such directors to be independent.

Management Contract

The Company entered into a management agreement with CITIC Hong Kong (Holdings) Limited ('CITIC HK') on 11 April 1991 but with retrospective effect from 1 March 1990 in which CITIC HK agreed to provide management services to the Company and its subsidiary companies for a management fee calculated on a cost basis to CITIC HK payable quarterly in arrears. The management agreement is terminable by two months' notice by either party. Messrs Larry Yung Chi Kin, Henry Fan Hung Ling and Liu Jifu had indirect interests in the management agreement as they are directors of CITIC HK. A copy of the management agreement will be available for inspection at the Annual General Meeting of the Company to be held on 25 May 2009.

Directors' Interests in Contracts of Significance

None of the directors of the Company has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any contract with the Company, any of its subsidiary companies, its holding company or any of its fellow subsidiary companies, which was significant in relation to the business of the Company, and which was subsisting at the end of the year or which had subsisted at any time during the year.

Competing Interests

Mr Zhang Jijing is an executive director of CITIC Resources Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange. CITIC Resources Holdings Limited is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing and oil exploration, development and production. Further details of its nature, scope and size of its business as well as its management could be found in the latest annual report of CITIC Resources Holdings Limited. In the event that there are transactions between CITIC Resources Holdings Limited and CITIC Pacific Limited, Mr Zhang will abstain from voting. Save as disclosed above, Mr Zhang is not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

Connected Transactions

Connected transactions disclosed in accordance with the Listing Rules are as follows:

1. On 16 May 2008, Jiangyin Xingcheng Special Steel Works Co., Ltd. ('Xingcheng', a 79% owned subsidiary of the Company), Ipson Investments Limited ('Ipson', a wholly owned subsidiary of the Company) and Perfect Future International Limited ('Perfect Future') entered into a joint venture agreement for the formation of Jiangsu Fasten Zhangyuan Metalwork Co., Ltd. ('Jiangsu Metalwork', subsequently renamed as Jiangyin Xingcheng Metalwork Co., Ltd.) which is engaged in the development and production of alloy and metal hardware for construction, instrument and daily use. Jiangsu Metalwork is owned as to 51% by Xingcheng, 39.2% by Ipson and 9.8% by Perfect Future. The total consideration paid by the Group (i.e. Xingcheng and Ipson) for the 90.2% aggregate interest in Jiangsu Metalwork was RMB 126,036,460. The registered capital and the total investment of Jiangsu Metalwork are US$12,000,000 and US$29,800,000 respectively.

Perfect Future is a connected person of the Company as it is a substantial shareholder of certain subsidiaries of the Company engaging in steel manufacturing business and is also an associate of a director of certain subsidiaries of the Company.

2. On 2 July 2008, 湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited) ('Zhanjiang Junkai'), a wholly owned subsidiary of DCH Holdings, entered into an enterprise purchase agreement with 雲南中凱集團有限公司(Yunnan Zhongkai Holdings Limited) ('Yunnan Zhongkai'), Ms Qu Guijing and 雲南聯致汽車服務有限公司 (Yunnan Lianzhi Motors Service Limited) ('Yunnan Lianzhi') under which Zhanjiang Junkai agreed to purchase, and Yunnan Zhongkai agreed to sell, (i) the 80% equity interest in the registered capital of Yunnan Lianzhi held by Yunnan Zhongkai at the consideration of RMB 5,477,374.37 which was calculated with reference to the net assets of Yunnan Lianzhi as at 30 April 2008 subject to adjustment when the financial statements of Yunnan Lianzhi as at 30 June 2008 were finalised; and (ii) the benefit of the amount payable by Yunnan Lianzhi to Yunnan Zhongkai as a result of the advances made by Yunnan Zhongkai for Yunnan Lianzhi as at 30 June 2008 at book value. As a reference, the said amount payable as at 30 April 2008 was RMB 9,476,548.07. The consideration of RMB 5,477,374.37 was subsequently adjusted to RMB 5,406,677.28 with reference to the net assets of Yunnan Lianzhi as at 30 June 2008 whereas the amount payable by Yunnan Lianzhi to Yunnan Zhongkai as at 30 June 2008 was RMB 7,576,548.07. Yunnan Lianzhi is engaged in motor vehicle dealing. The aforesaid acquisition was completed during the year. Since completion, Yunnan Lianzhi had been accounted for as a non-wholly owned subsidiary of DCH Holdings.

Yunnan Zhongkai is a connected person of DCH Holdings and the Company as it is (i) a substantial shareholder of certain subsidiaries of DCH Holdings; and (ii) an associate of a director of various subsidiaries of DCH Holdings engaged in motor vehicle dealing. Ms Qu Guijing is also a connected person of DCH Holdings and the Company by virtue of her being an associate of the said director. The abovesaid acquisition constituted a connected transaction of DCH Holdings and the Company under the Listing Rules.

3. On 26 August 2008, DCH Holdings and its wholly owned subsidiary Delight Star Enterprises Limited ('DSE') entered into a sale and purchase agreement ('the 4S Acquisition Agreement') with Denker Investment Limited ('DIL') and Mr Mak Hing Lung, pursuant to which DSE (or its nominee) agreed to acquire from DIL 49% and 50% equity interests in Strong Step Holdings Limited and Star Partner Holdings Limited (collectively 'the 4S Target Companies') respectively, and the related shareholders' loans for a total consideration of HK$143,716,000. The 4S Target Companies are DIL's holding vehicles for its interests in the businesses relating to the provision of vehicle sales, spare parts, maintenance services and customer survey services in respect of the 'FAW Toyota' brand in Guangzhou and Foshan, the PRC and 'Lexus' brand in Guangzhou, the PRC.

The abovesaid acquisition was completed during the year. After completion, the existing guarantees in favour of the 4S Target Companies were to be replaced by replacement guarantees provided by DSE and DIL. Such replacement guarantees were expected not to exceed HK$80,000,000. In addition, each of DIL and DSE would contribute an expected amount not exceeding HK$100,000,000 to the 4S Target Companies by way of equity or loan in proportion to their existing interests in the 4S Target Companies for working capital purpose.

Since completion, DSE had a 50% economic interest in each of the 4S Target Companies and the 4S Target Companies had been accounted for as non-wholly owned subsidiaries of DCH Holdings.

As DIL is a substantial shareholder and Mr Mak Hing Lung is a director of various subsidiaries of DCH Holdings, both DIL and Mr Mak Hing Lung are connected persons of DCH Holdings and the Company. The 4S Target Companies are also connected persons of DCH Holdings and the Company by virtue of their being associates of Mr Mak Hing Lung. The transactions contemplated by the abovesaid acquisition and financial assistance constituted connected transactions for DCH Holdings and for the Company under the Listing Rules.

After completion, certain subsidiaries of the 4S Target Companies ('the 4S OPCOs') were held by persons which have the legal capacity under the regulation as registered shareholders ('the Registered Owners') for the benefits of the respective 4S Target Companies and its subsidiaries ('the 4S Target Group') through a series of contractual arrangements implemented by the 4S Target Group prior to the conversion of relevant 4S OPCOs into companies which could be owned by foreign enterprises. Such contractual arrangements are fundamental to the legal structure and business operations of the 4S Target Group and are specifically designed for the purpose of allowing the 4S Target Group (a) to enjoy all the economic benefits, to exercise management control over the operations and to prevent leakages of assets and values to the registered owners of the relevant 4S OPCOs; and (b) to acquire, if and when permitted by the relevant PRC laws, the equity interests in the relevant 4S OPCOs at the minimum transfer price permitted under the relevant PRC laws and regulations (i.e. at nil consideration or at a nominal value).

The Registered Owners are connected persons of DCH Holdings and the Company by virtue of his/her directorship and/or substantial shareholding in certain subsidiary(ies) of DCH Holdings. The abovesaid contractual arrangements also constituted connected transactions for DCH Holdings and for the Company.

Pursuant to the 4S Acquisition Agreement, DIL and Mr Mak Hing Lung had guaranteed that the aggregate of (i) 100% of the audited net profit after taxation of Guangzhou Guangbao Toyota Motors Sale and Service Limited ('Guangzhou Guangbao') (excluding Foshan Junan Toyota Motors Sale and Service Limited and any of its subsidiaries and investments) and (ii) 55% of the audited net profit after taxation of Guangzhou Junjia Lexus Motors Sale and Service Limited ('Guangzhou Junjia') (excluding any of its subsidiaries and investments), for the period from 1 August 2008 to 31 December 2008 and each of the two years ending 31 December 2010 shall be no less than RMB 12.9 million, RMB 31 million and RMB 31 million respectively (together 'the Guaranteed Profits'). In the event that the adjusted pro-rata net profit after taxation from Guangzhou Guangbao and Guangzhou Junjia ('the Adjusted Pro-rata Net Profit') for the aforesaid period(s) is / are less than the Guaranteed Profits, 50% of such shortfall shall be indemnified by DIL and Mr Mak Hing Lung to the DCH Holdings group on a dollar-to-dollar basis in cash. The Adjusted Pro-rata Net Profit for the period from 1 August 2008 to 31 December 2008 had met with the Guaranteed Profits.

Each of DIL and Mr Mak Hing Lung had undertaken to DCH Holdings that, upon completion, the aggregate of 100% and 55% of the net asset value of Guangzhou Guangbao and Guangzhou Junjia (excluding any of their respective subsidiaries and investments), respectively, would be no less than approximately HK$63.8 million ('the Guaranteed Net Asset Value'). In the event the actual net asset value of Guangzhou Guangbao and Guangzhou Junjia (excluding their respective subsidiaries and investments) attributable to DCH Holdings group ('the Target Net Asset Value') falls below the Guaranteed Net Asset Value, DIL and Mr Mak Hing Lung had undertaken that 50% of such shortfall shall be indemnified. The Target Net Asset Value was more than the Guaranteed Net Asset Value on completion.

4. On 27 August 2008, Joy Talent Holdings Limited ('Joy Talent', a wholly owned subsidiary of the Company) entered into a capital increase agreement with Tongling Industrial Stated-owned Assets Operation Co., Ltd. ('Tongling Industrial'), pursant to which (i) the registered capital of Tongling Xin Yaxing Coking & Chemical Co., Ltd. ('Tongling Xin Yaxing', a non-wholly owned subsidiary of the Company), which is engaged in the construction and operation of a coking project to provide coking coal and chemical by-products, would be increased from US$50 million to US$99.8 million; and (ii) the total investment amount of Tongling Xin Yaxing would be increased from US$99.8 million to US$199.6 million. Joy Talent would solely contribute the full amount of the increase in registered capital, being US$49.8 million, in stages. Upon completion of the said capital increase, Tongling Industrial's equity interest in Tongling Xin Yaxing was diluted from 15% to approximately 7.515%, and Joy Talent's equity interest in Tongling Xin Yaxing increased from 85% to approximately 92.485%.

Tongling Industrial, being a substantial shareholder of Tongling Xin Yaxing before completion of the said capital increase, is a connected person of the Company.

5. On 12 November 2008, the Company entered into an agreement ('the Agreement') with CITIC Group in connection with:

i) the issue by the Company of a convertible bond ('the Convertible Bond') to CITIC Group with an aggregate principal amount of HK$11.625 billion which would be convertible into shares of the Company at an initial conversion price of HK$8.00 per share. An interest coupon of 2% per annum would be payable from the time of issue of the Convertible Bond up to but excluding the date the Convertible Bond was to be converted into shares of the Company; and

ii) the novation to CITIC Group of the liabilities and benefits under certain AUD target redemption forward contracts entered into by the Group ('Novation').

The Agreement including the conversion price and the terms of the Novation was negotiated on an arm's length basis. The Agreement was approved by the shareholders of the Company on 19 December 2008. Completion of the Agreement took place on 24 December 2008 on which the Convertible Bond was issued and automatically converted in full into shares of the Company. Following the conversion of the Convertible Bond on completion, an aggregate of 1,453,125,000 shares of the Company at the price of HK$8.00 per share were allotted and issued to certain subsidiaries of CITIC Group which became the controlling shareholder of the Company holding approximately 57.56% interest in the Company. CITIC Group paid approximately HK$2.47 billion to the Company, being the net amount payable by way of setting off monies due from CITIC Group under the subscription of the 1,453,125,000 shares of the Company (being HK$11.625 billion) against the amount payable by the Company to CITIC Group in respect of the Novation (being approximately HK$9.155 billion).

CITIC Group is a substantial shareholder of the Company as at the date of Agreement and is therefore a connected person of the Company. The transactions are also disclosed as material related party transactions under note 39 to the financial statements.

Continuing Connected Transactions

Continuing connected transactions disclosed in accordance with the Listing Rules are as follows:

1. On 19 March 2008, Jiangsu Ligang Electric Power Company Limited and Jiangyin Ligang Electric Power Generation Company Limited (collectively the 'Power Companies'), principally engaged in the construction and operation of the power station(s) in Ligang, the PRC, entered into an agreement ('Coal Transportation Agreement') with Shanghai CITIC Shipping Corporation Limited ('CITIC Shipping'), pursuant to which CITIC Shipping agreed to provide the Power Companies with coal transportation services for the 3 years ending 31 December 2010. The service fee payable under the Coal Transportation Agreement was negotiated on an arm's length basis and shall be equal to the prevailing market rate of transportation fee per ton as confirmed by the parties from time to time. The annual caps for the service fees (nett of demurrage fee) to be incurred for the transaction was estimated to be RMB 500 million (approximately HK$550 million) for each of the 3 years ending 31 December 2010.

CITIC Shipping is a subsidiary of CITIC HK, a substantial shareholder of the Company, and thus a connected person of the Company.

The actual amount paid by the Power Companies to CITIC Shipping for the year ended 31 December 2008 under the Coal Transportation Agreement was approximately RMB 327.65 million.

2. 廣東偉德利電器製造有限公司 (Guangdong Victory Electrical Appliances Manufacturing Co., Ltd.) ('Guangdong Victory') was previously a 20% associate of DCH Holdings and became a wholly owned subsidiary of DCH Holdings on 29 August 2008. Before DCH Holdings' acquisition of all the interests in Guangdong Victory, an agency agreement was entered into between Guangdong Victory and its then intermediate holding company, Anping Holdings Inc. ('Anping'), on 1 August 2008 for a term of 6 months under which Anping agreed to act as the selling agent for Guangdong Victory. Under the agency agreement, goods of Guangdong Victory would be sold to Anping at such prices as might be mutually agreed by the parties provided that such prices should not be lower than the prevailing market prices or, if there were no such market prices, those prices that were offered by Guangdong Victory to other third parties. Guangdong Victory is principally engaged in the manufacturing of small electrical appliances in the PRC, focusing in producing electrical kettle and non-stick kitchenware for worldwide brands covering Europe, North America, Australia and New Zealand markets. Anping is engaged in investment holding and trading of small electrical appliances.

Anping is an associate of a director of Guangdong Victory and therefore is a connected person of DCH Holdings and the Company. After DCH Holdings' acquisition of all the interest in Guangdong Victory, transactions under the agency agreement became post-completion continuing connected transactions for DCH Holdings and for the Company.

An aggregate amount of approximately HK$63.5 million was payable by Anping to Guangdong Victory during the period from the completion of the acquisition to 31 December 2008 under the agency agreement.

3. Pursuant to a contract for unit load device ('ULD') maintenance and repair entered into between DAS Nordisk Limited ('DAS Nordisk'), a non-wholly owned subsidiary of DCH Holdings, and Cathay Pacific Airways Limited ('CX') dated 1 July 2005 (with a term which expired on 30 June 2008) ('the Old ULD Maintenance Services Agreement'), DAS Nordisk agreed to carry out maintenance and repair services on CX's ULD equipment. CX is the holding company of Hong Kong Dragon Airlines Limited ('KA'), which is a substantial shareholder of certain subsidiaries of DCH Holdings, and therefore a connected person of the Company. DAS Nordisk is engaged in the provision of maintenance services for air cargo containers, sale of related spare parts and letting of air cargo equipment. CX is engaged in the operation of scheduled airline services, airline catering, aircraft handling and engineering.

The arrangements under the Old ULD Maintenance Services Agreement were renewed under a contract entered into between DAS Nordisk and CX dated 17 September 2008, pursuant to which CX agreed to appoint DAS Nordisk to provide ULD maintenance and repair services for a term of three years from 1 July 2008 to 30 June 2011 ('the New ULD Maintenance Services Agreement').

The pricing for such maintenance services was determined with reference to the relevant costs associated with the estimated maintenance hours and the frequency of visit of the relevant type of ULD. The amount of maintenance fees payable by CX to DAS Nordisk was expected to be subject to an annual cap of HK$60 million for the financial year ended 31 December 2008 and for each of the financial years ending 31 December 2009, 2010 and 2011.

An aggregate amount of approximately HK$34 million was payable by CX to DAS Nordisk during the year.

4. Pursuant to an outsourcing master agreement entered into between DAS Nordisk and Dah Chong Hong – Dragonair Airport GSE Service Limited ('DAS') dated 28 September 2007 (with a term expiring on 31 December 2009) ('the Original Outsourcing Master Agreement'), DAS Nordisk agreed to outsource part of its maintenance services on ULD to DAS. DAS is an associate of KA and therefore a connected person of the Company. DAS is engaged in the provision of airport ground support equipment maintenance services.

On 17 September 2008, DAS Nordisk entered into a supplemental agreement with DAS to supplement and amend certain provisions of the Original Outsourcing Master Agreement for the purpose of revising the annual caps for the financial year ended 31 December 2008 and for the financial year ending 31 December 2009 to HK$41 million and HK$58 million respectively. The above annual caps were determined with reference to historical transaction values with DAS at market price, the estimated potential cargo growth, the expected increase in business volume, particularly in view of the renewal of the transactions pursuant to the New ULD Maintenance Services Agreement, and the expected increase in labour cost.

An aggregate amount of approximately HK$26 million was payable by DAS Nordisk to DAS during the year.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions (the 'Transactions') and confirm that the Transactions have been entered into:

a) in the ordinary and usual course of business of the Company;

b) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed that:

a) the Transactions have been approved by the board of directors of the Company;

b) the Transactions have been entered into in accordance with the relevant terms of the relevant agreement governing the Transactions; and

c) the total amounts of the Transactions have not exceeded the relevant caps as disclosed in the relevant announcements.

Transactions numbered 2 to 4 were entered into by subsidiaries of DCH Holdings. The auditors of the Company further found that the Transactions numbered 2 to 4 have been entered into in accordance with the pricing policy of DCH Holdings for these Transactions.

5. On 20 August 2007, Catak Enterprises Corp. (a wholly owned subsidiary of the Company) entered into a sale and purchase agreement with China Metallurgical Group Corp. ('MCC') for the disposal of a 20% interest in Sino Iron Pty Ltd ('Sino Iron', a wholly owned subsidiary of the Company) ('Disposal') at cost, i.e. for a consideration equivalent to 20% of all the funds provided to Sino Iron Holdings Pty Ltd ('Sino Iron Holdings') by the Group up to the date of completion of the Disposal together with interest. The Group's shareholding in Sino Iron would be reduced to 80% as a result of the Disposal.

Upon completion of the Disposal, MCC will be a substantial shareholder of Sino Iron Holdings and will become a connected person of the Company. The construction contract and the supplemental agreement thereto previously entered into between Sino Iron and MCC and the transactions contemplated thereunder will constitute a continuing connected transaction for the Company.

As at 31 December 2008, the Disposal had not yet been completed. Accordingly the construction contract as supplemented and the transactions contemplated thereunder did not constitute a continuing connected transaction for the Company during the year.

The continuing connected transaction in items 2 and 3 are also disclosed as material related party transactions under note 39 to the financial statements. Apart from this and the transactions with CITIC Group described in item 5 under the section 'Connected Transactions', the material related party transactions for 2008 did not constitute connected transactions subject to disclosure for the Company.

Share Option Plan Adopted by the Company

The Company adopted the CITIC Pacific Share Incentive Plan 2000 ('the Plan') on 31 May 2000. The major terms of the Plan are as follows:

1. The purpose of the Plan is to promote the interests of the Company and its shareholders by (i) providing the participants with additional incentives to continue and increase their efforts in achieving success in the business of the Company, and (ii) attracting and retaining the best available personnel to participate in the on-going business operation of the Company.

2. The participants of the Plan are any director, executive or employee of the Company or its subsidiaries as invited by the Board.

3. The maximum number of shares over which options may be granted under the Plan shall not exceed 10% of (i) the issued share capital of the Company from time to time or (ii) the issued share capital of the Company as at the date of adopting the Plan, whichever is the lower. As at 25 March 2009, the maximum number of shares available for issue under the Plan is 163,757,616, representing approximately 4.49% of the issued share capital.

4. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue.

5. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The exercise price determined by the Board will be at least the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ('Stock Exchange') on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares.

8. The Plan shall be valid and effective till 30 May 2010.

Since the adoption of the Plan, the Company has granted four lots of share options:

Date of grant	Number of Share Options	Exercise price HK$
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

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 such options were cancelled, but options for 50,000 shares have lapsed during the year ended 31 December 2008. A summary of the movements of the share options during the year ended 31 December 2008 is as follows:

A. Directors of the Company

Name of Director	Date of grant	Exercise price HK$	Number of Share Options: Balance as at 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08	Percentage to issued share capital
Larry Yung Chi Kin	05.12.05	20.50	100,000,000	–	– *(Note 1)*	
	16.10.07	47.32	2,000,000	–	2,000,000	
					2,000,000	0.055
Peter Lee Chung Hing	01.11.04	19.90	1,000,000	–	1,000,000	
	20.06.06	22.10	1,200,000	–	1,200,000	
	16.10.07	47.32	1,200,000	–	1,200,000	
					3,400,000	0.093
Carl Yung Ming Jie	01.11.04	19.90	500,000	–	500,000	
	20.06.06	22.10	600,000	–	600,000	
	16.10.07	47.32	800,000	–	800,000	
					1,900,000	0.052
Vernon Francis Moore	01.11.04	19.90	1,000,000	–	1,000,000	
	20.06.06	22.10	700,000	–	700,000	
	16.10.07	47.32	600,000	–	600,000	
					2,300,000	0.063
Li Shilin	16.10.07	47.32	500,000	–	500,000	0.014
Liu Jifu	20.06.06	22.10	700,000	–	700,000	
	16.10.07	47.32	700,000	–	700,000	
					1,400,000	0.038
Milton Law Ming To	01.11.04	19.90	334,000	–	334,000	
	20.06.06	22.10	800,000	–	800,000	
	16.10.07	47.32	800,000	–	800,000	
					1,934,000	0.053
Wang Ande	20.06.06	22.10	500,000	150,000 *(Note 2)*	350,000	
	16.10.07	47.32	800,000	–	800,000	
					1,150,000	0.032
Kwok Man Leung	16.10.07	47.32	600,000 *(Note 3)*	–	600,000	0.016
Chang Zhenming	16.10.07	47.32	500,000	–	500,000	0.014
Leslie Chang Li Hsien	01.11.04	19.90	350,000	–	N/A *(Note 4)*	N/A *(Note 4)*
	20.06.06	22.10	800,000	–		
	16.10.07	47.32	800,000	–		
Chau Chi Yin	01.11.04	19.90	500,000	–	N/A *(Note 4)*	N/A *(Note 4)*
	20.06.06	22.10	800,000	–		
	16.10.07	47.32	800,000	–		

Note:

1. *These share options were granted by CITIC HK, a substantial shareholder of the Company, and were waived.*
2. *The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$35.4.*
3. *Mr Kwok Man Leung was appointed as director of the Company on 1 April 2008. Thus, this is in respect of the balance as of 1 April 2008.*
4. *The directors have resigned with effect from 20 October 2008.*

B. Employees of the Company working under continuous contracts (as defined in the Employment Ordinance), other than the Directors

		Number of Share Options		
Date of grant	Exercise price HK$	Balance as at 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08
1 November 2004	19.90	1,030,000	–	1,030,000
20 June 2006	22.10	2,239,000	193,000 *(Note 5)*	2,046,000
16 October 2007	47.32	6,750,000	–	6,750,000

Note:

5. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$36.62.

C. Others

		Number of Share Options		
Date of grant	Exercise price HK$	Balance as at 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08
1 November 2004	19.90	1,050,000 *(Note 6)*	–	1,050,000
20 June 2006	22.10	1,600,000 *(Note 6)*	–	1,600,000
16 October 2007	47.32	1,650,000 *(Notes 6 and 7)*	–	1,600,000

Note:

6. These are in respect of options granted to former directors or employee under continuous contract, who have subsequently resigned or retired.

7. Out of 1,650,000 options, 50,000 options have lapsed during the year.

Share Option Plans Adopted by the Subsidiaries of the Company

CITIC 1616 Holdings Limited

CITIC 1616 Holdings Limited ('CITIC 1616') adopted a share option plan ('CITIC 1616 Share Option Plan') on 17 May 2007. The major terms of the CITIC 1616 Share Option Plan are as follows:

1. The purpose of the CITIC 1616 Share Option Plan is to attract and retain the best quality personnel for the development of CITIC 1616's businesses; to provide additional incentives to Employees (as defined herebelow); and to promote the long term financial success of CITIC 1616 by aligning the interests of grantees to shareholders of CITIC 1616.

2. The grantees of the CITIC 1616 Share Option Plan are any person employed by CITIC 1616 or any subsidiary and any person who is an officer or director (whether executive or non-executive) of CITIC 1616 or any subsidiary ('Employee') as the board of CITIC 1616 may in its absolute discretion select.

3. The maximum number of shares of CITIC 1616 ('CITIC 1616 Shares') over which options may be granted under the CITIC 1616 Share Option Plan must not exceed 10% of (i) the CITIC 1616 Shares in issue from time to time; or (ii) the CITIC 1616 Shares in issue as at the date of adopting the CITIC 1616 Share Option Plan, whichever is the lower. As at 25 March 2009, the maximum number of CITIC 1616 Shares available for issue under the CITIC 1616 Share Option Plan is 169,280,000, representing approximately 8.56% of the issued share capital of CITIC 1616.

4. The total number of CITIC 1616 Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the CITIC 1616 Shares in issue. Where any further grant of options to a grantee would result in the CITIC 1616 Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the CITIC 1616 Shares in issue, such further grant shall be subject to separate approval by the shareholders of CITIC 1616 in its general meeting.

5. The exercise period of any option granted under the CITIC 1616 Share Option Plan must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The subscription price determined by the board of CITIC 1616 will not be less than the higher of (i) the closing price of CITIC 1616 Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of CITIC 1616 Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of CITIC 1616 Shares.

8. The CITIC 1616 Share Option Plan shall be valid and effective till 16 May 2017.

On 23 May 2007, options to subscribe for a total of 18,720,000 shares in CITIC 1616, representing approximately 1% of the issued share capital, at the exercise price of HK$3.26 per share, were granted under the CITIC 1616 Share Option Plan. All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant. All were accepted, and none were exercised or cancelled but options for 3,555,000 shares have lapsed during the year ended 31 December 2008. No further options were granted during the year ended 31 December 2008. The grantees were certain directors or employees of CITIC 1616 working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of the Company.

Dah Chong Hong Holdings Limited

Pre-IPO Share Option Scheme

DCH Holdings adopted the Pre-IPO Share Option Scheme ('Pre-IPO Scheme') on 28 September 2007. The major terms of the Pre-IPO Scheme are as follows:

1. The purpose of the Pre-IPO Scheme is to attract and retain the best quality personnel for the development of DCH Holdings' businesses; to provide additional incentives to the employees of the DCH Holdings group and to promote the long term success of DCH Holdings.

2. The participants of the Pre-IPO Scheme are any employee of DCH Holdings group as the board of DCH Holdings may in its absolute discretion select.

3. The maximum number of shares over which options may be granted under the Pre-IPO Scheme shall not exceed 18,000,000 shares, being 1% of the total number of issued shares immediately following the commencement of dealings of DCH Holdings' shares on the Stock Exchange.

4. The grantee shall not, within 6 months from the listing of DCH Holdings, exercise any of the options granted under the Pre-IPO Scheme.

5. The exercise period of any option granted under the Pre-IPO Scheme must not be more than five years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

7. The subscription price shall be HK$5.88 per share which is equal to the initial public offer price of DCH Holdings' shares upon listing.

8. No options will be offered or granted under the Pre-IPO Scheme upon the commencement of dealings in DCH Holdings' shares on the Stock Exchange.

On 3 October 2007, options to subscribe for a total of 18,000,000 shares in DCH Holdings at the exercise price of HK$5.88 per share were granted under the Pre-IPO Scheme.

All options granted and accepted fully vested on the date of grant but have a lock-up period of 6 months from the listing of DCH Holdings and are then exercisable in whole or in part within 5 years from the date of grant.

None of the options granted under the Pre-IPO Scheme were exercised or cancelled but options for 600,000 shares have lapsed during the year.

Post-IPO Share Option Scheme

DCH Holdings adopted the Post-IPO Share Option Scheme ('Post-IPO Scheme') on 28 September 2007. The major terms of the Post-IPO Scheme are as follows:

1. The purpose of the Post-IPO Scheme is to attract and retain the best quality personnel for the development of DCH Holdings' businesses; to provide additional incentives to the employees and to promote the long term success of DCH Holdings.

2. The participants of the Post-IPO Scheme are any employee of DCH Holdings group as the board of DCH Holdings may in its absolute discretion select.

3. The maximum number of shares over which options may be granted under the Post-IPO Scheme and any other schemes of DCH Holdings shall not in aggregate exceed 10% of (i) the shares of DCH Holdings in issue immediately following the commencement of dealings in DCH Holdings' shares on the Stock Exchange or (ii) the shares of DCH Holdings in issue from time to time, whichever is the lower. As at 25 March 2009, the maximum number of shares available for issue under the Post-IPO Scheme is 161,783,300, representing approximately 9% of the issued share capital of DCH Holdings. Options lapsed in accordance with the terms of the Post-IPO Scheme or any other schemes of DCH Holdings will not be counted for the purpose of calculating the 10% limit.

4. The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of DCH Holdings in issue.

5. The exercise period of any option granted under the Post-IPO Scheme must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

7. The subscription price determined by the board of DCH Holdings will not be less than whichever is the higher of (i) the closing price of DCH Holdings' shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of DCH Holdings' shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of DCH Holdings.

8. The Post-IPO Scheme shall be valid and effective till 27 September 2017, after which no further options will be granted.

DCH Holdings has not granted any options under the Post-IPO Scheme.

Directors' Interests in Securities

The interests of the directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) as at 31 December 2008 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in the Company and Associated Corporations

	Number of shares Personal interests unless otherwise stated	Percentage to issued share capital
CITIC Pacific Limited		
Larry Yung Chi Kin	418,418,000 *(Note 1)*	11.475
Henry Fan Hung Ling	50,640,000 *(Note 2)*	1.389
Peter Lee Chung Hing	1,000,000	0.027
Carl Yung Ming Jie	300,000	0.008
Vernon Francis Moore	4,200,000 *(Note 3)*	0.115
Li Shilin	300,000	0.008
Liu Jifu	840,000	0.023
Wang Ande	400,000	0.011
Hansen Loh Chung Hon	1,550,000 *(Note 4)*	0.043
André Desmarais	10,145,000 *(Note 5)*	0.278
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.001
CITIC 1616 Holdings Limited		
Vernon Francis Moore	200,000 *(Note 3)*	0.010
Dah Chong Hong Holdings Limited		
Li Shilin	12,000	0.001
Liu Jifu	33,600 *(Note 6)*	0.002
Hansen Loh Chung Hon	62,000 *(Note 7)*	0.003
CITIC Guoan Information Industry Co., Ltd.		
Li Shilin	92,466	0.006

Note:
1. *Corporate interest*
2. *Corporate interest in respect of 5,640,000 shares and trust interest in respect of 45,000,000 shares*
3. *Trust interest*
4. *Personal interest in respect of 1,050,000 shares; corporate interest in respect of 500,000 shares and family interest in respect of 500,000 shares which duplicate each other*
5. *Corporate interest in respect of 10,000,000 shares and family interest in respect of 145,000 shares*
6. *Family interest*
7. *Corporate interest in respect of 20,000 shares and joint interest in respect of 42,000 shares*

2. Share Options in the Company

The interests of the directors in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of Share Option Plan.

3. Share Options in an associated corporation, CITIC Capital Holdings Limited

		Number of share options				
Name of Director	Date of grant	Balance as at 01.01.08	Granted during the year ended 31.12.08	Lapsed / cancelled / exercised during the year ended 31.12.08	Balance as at 31.12.08	Percentage to issued share capital
Peter Lee Chung Hing	02.03.05	15,000	–	–	15,000	
	04.04.06	10,000	–	–	10,000	
	11.12.07	10,000	–	–	10,000	
					35,000	0.125
Vernon Francis Moore	02.03.05	15,000	–	–	15,000	
	04.04.06	10,000	–	–	10,000	
	11.12.07	10,000	–	–	10,000	
					35,000	0.125
Chang Zhenming	11.12.07	125,000	–	–	125,000	0.446

Save as disclosed above, as at 31 December 2008, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Save as disclosed above, at no time during the year were there any subsisting agreements enabling the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate, which at the relevant time, the Company, any of its subsidiary companies, its holding company or any of its fellow subsidiary companies was a party.

Substantial Shareholders

As at 31 December 2008, the interests of the substantial shareholders, other than the directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

1. Interest in the Shares

Name	Number of Shares of the Company	Percentage to issued share capital
CITIC Group	2,098,736,285	57.558
CITIC HK	747,486,203	20.500
Heedon Corporation	598,261,203	16.407
Full Chance Investments Limited	450,416,694	12.353
Newease Investments Limited	450,416,694	12.353
Skyprofit Holdings Limited	450,416,694	12.353
Honpville Corporation	310,988,221	8.529

CITIC Group is a substantial shareholder of the Company holding indirect interest in the Company through the following wholly owned subsidiary companies:

Name of subsidiary companies of CITIC Group	Number of Shares of the Company	Percentage to issued share capital
CITIC HK	747,486,203	20.500
Full Chance Investments Limited	450,416,694	12.353
Newease Investments Limited	450,416,694	12.353
Skyprofit Holdings Limited	450,416,694	12.353

CITIC HK is a substantial shareholder of the Company holding indirect interest in the Company through the following wholly owned subsidiary companies:

Name of subsidiary companies of CITIC HK	Number of Shares of the Company	Percentage to issued share capital
Affluence Limited	46,089,000	1.264
Winton Corp.	30,718,000	0.842
Westminster Investment Inc.	101,960,000	2.796
Jetway Corp.	122,336,918	3.355
Cordia Corporation	32,258,064	0.885
Honpville Corporation	310,988,221	8.529
Hainsworth Limited	93,136,000	2.554
Southpoint Enterprises Inc.	10,000,000	0.274
Raymondford Company Limited	2,823,000	0.077

CITIC Group is the holding company of CITIC HK, Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited. 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. Kotron Company Ltd. is the direct holding company of Cordia Corporation. Affluence Limited is the direct holding company of Man Yick Corporation which is the direct holding company of Raymondford Company Limited. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc.

Accordingly,

i) the interests of CITIC Group in the Company duplicate the interests of CITIC HK, Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited in the Company;

ii) 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;

iii) 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;

iv) the interests of Kotron Company Ltd. in the Company duplicate the interests of Cordia Corporation in the Company;

v) the interests of Affluence Limited in the Company duplicate the interests in the Company of its direct and indirect subsidiary companies as described above;

vi) the interests of Man Yick Corporation in the Company duplicate the interests of Raymondford Company Limited in the Company; and

vii) the interests of Barnsley Investments Limited in the Company duplicate the interests of Southpoint Enterprises Inc. in the Company.

Share Capital

During the year ended 31 December 2008, the Company made the following repurchases of its own shares on the Stock Exchange for purpose of enhancing its earnings per share:

Month / Year	Number of Shares repurchased	Price Per Share Highest (HK$)	Price Per Share Lowest (HK$)	Aggregate price paid (HK$)
January 2008	15,484,000	37.90	32.25	545,205,150
June 2008	2,837,000	30.40	28.50	83,689,450
September 2008	1,000,000	25.55	24.90	25,236,050

These repurchased shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against retained profit. An amount equivalent to the nominal value of the shares cancelled of approximately HK$7.7 million was transferred from retained profit to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2008 and the Company has not redeemed any of its shares during the year ended 31 December 2008.

During the year ended 31 December 2008, 1,453,125,000 shares were issued upon conversion of the Convertible Bond and 343,000 shares were issued under the Share Option Plan, both of which have been described in the sections above.

Service Contracts

As at 31 December 2008, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director proposed for re-election at the forthcoming Annual General Meeting.

Continuing Disclosure Requirements under Rule 13.22 of the Listing Rules

The Company has included a proforma combined balance sheet of the relevant affiliated companies as required therein under Rule 13.22 of the Listing Rules. Affiliated companies include associated companies and jointly controlled entities.

Proforma combined balance sheet of affiliated companies

in HK$ million	Group's attributable interest as at 31 Dec 2008
Fixed Assets	5,334
Jointly Controlled Entities	306
Deferred Tax Assets	57
Intangible Assets	8
Other Non Current Assets	4,337
Net Current Assets	4,582
Total Assets Less Current Liabilities	14,624
Long Term Borrowings	(3,597)
Deferred Tax Liabilities	(325)
Loan from Shareholders	(5,733)
	4,969

Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who shall retire and, being eligible, shall offer themselves for re-appointment.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2008.

By Order of the Board,
Larry Yung Chi Kin *Chairman*
Hong Kong, 25 March 2009

Contents of Financial Statements and Notes

Consolidated Profit and Loss Account

for the year ended 31 December 2008

in HK$ million	Note	**2008**	As restated 2007
Turnover	3	**46,420**	38,534
Cost of sales		**(38,367)**	(30,880)
Gross profit		**8,053**	7,654
Other income and net gains	4	**2,131**	4,870
Distribution and selling expenses		**(1,477)**	(1,025)
Other operating expenses		**(3,028)**	(3,733)
Change in fair value of investment properties		**12**	1,002
Profit from consolidated activities before (loss) / gain from leveraged foreign exchange contracts		**5,691**	8,768
(Loss) / gain from leveraged foreign exchange contracts	5	**(15,891)**	22
(Loss) / profit from consolidated activities	6 & 7	**(10,200)**	8,790
Share of results of	6		
Jointly controlled entities		**200**	1,344
Associated companies		**(1,736)**	2,257
(Loss) / profit before net finance charges and taxation		**(11,736)**	12,391
Finance charges		**(1,095)**	(280)
Finance income		**499**	226
Net finance charges	8	**(596)**	(54)
(Loss) / profit before taxation		**(12,332)**	12,337
Taxation	9	**578**	(770)
(Loss) / profit for the year		**(11,754)**	11,567
Attributable to:			
Shareholders of the company	10	**(12,662)**	10,843
Minority interests		**908**	724
		(11,754)	11,567
Dividends	11	**(658)**	(3,097)
(Loss) / earnings per share for (loss) / profit attributable to shareholders of the company during the year (HK$)	12		
Basic		**(5.68)**	4.91
Diluted		**(5.68)**	4.90

Consolidated Balance Sheet

as at 31 December 2008

in HK$ million	Note	2008	As restated 2007
Non-current assets			
Fixed assets	16		
Property, plant and equipment		**23,028**	12,154
Investment properties		**11,230**	10,895
Properties under development		**9,848**	4,288
Leasehold land		**2,320**	1,641
		46,426	28,978
Jointly controlled entities	18	**21,140**	17,446
Associated companies	19	**15,084**	17,941
Other financial assets	20	**1,063**	7,502
Intangible assets	21	**8,979**	4,602
Deferred tax assets	33	**1,967**	100
Derivative financial instruments	32	**235**	150
Non-current deposits	22	**8,709**	5,723
		103,603	82,442
Current assets			
Properties held for sale		**733**	440
Other assets held for sale	23	**–**	1,127
Inventories	24	**5,605**	5,982
Derivative financial instruments	32	**1,016**	251
Debtors, accounts receivable, deposits and prepayments	25	**9,931**	8,041
Cash and bank deposits		**18,296**	8,045
		35,581	23,886
Current liabilities			
Bank loans, other loans and overdrafts			
secured	29	**490**	328
unsecured	29	**8,892**	3,326
Creditors, accounts payable, deposits and accruals	26	**13,500**	10,661
Derivative financial instruments	32	**3,043**	66
Provision for taxation		**274**	590
Liabilities held for sale		**–**	2
		26,199	14,973
Net current assets		**9,382**	8,913
Total assets less current liabilities		**112,985**	91,355
Non-current liabilities			
Long term borrowings	29	**47,852**	25,000
Deferred tax liabilities	33	**1,710**	1,587
Derivative financial instruments	32	**6,682**	69
Provisions	34	**734**	–
		56,978	26,656
Net assets	6	**56,007**	64,699
Equity			
Share capital	27	**1,458**	885
Reserves	28	**48,513**	57,138
Proposed dividend		**–**	1,770
Equity attributable to shareholders of the company		**49,971**	59,793
Minority interests in equity		**6,036**	4,906
Total equity		**56,007**	64,699

Peter Lee Chung Hing
Director

Vernon Francis Moore
Director

Balance Sheet

as at 31 December 2008

in HK$ million	Note	**2008**	As restated 2007
Non-current assets			
Fixed assets			
Property, plant and equipment	16	**16**	19
Subsidiary companies	17	**65,026**	57,062
Jointly controlled entities	18	**5,305**	4,016
Associated companies	19	**5,551**	5,632
Derivative financial instruments	32	**1,113**	127
		77,011	66,856
Current assets			
Derivative financial instruments	32	**1,376**	240
Amounts due from subsidiary companies	17	**1,577**	2,964
Debtors, accounts receivable, deposits and prepayments	25	**190**	278
Cash and bank deposits		**7,289**	297
		10,432	3,779
Current liabilities			
Bank loans, other loans and overdrafts			
Unsecured	29	**4,601**	1,686
Amounts due to subsidiary companies	17	**9,801**	9,426
Creditors, accounts payable, deposits and accruals	26	**300**	153
Derivative financial instruments	32	**1,749**	271
Provision for taxation		**–**	13
		16,451	11,549
Net current liabilities		**(6,019)**	(7,770)
Total assets less current liabilities		**70,992**	59,086
Non-current liabilities			
Long term borrowings	29	**27,237**	15,799
Derivative financial instruments	32	**3,885**	70
		31,122	15,869
Net assets		**39,870**	43,217
Equity			
Share capital	27	**1,458**	885
Reserves	28	**38,412**	40,562
Proposed dividend		**–**	1,770
Equity attributable to shareholders of the company		**39,870**	43,217

Peter Lee Chung Hing
Director

Vernon Francis Moore
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2008

in HK$ million	**2008**	2007
Cash flows from operating activities		
(Loss) / profit before taxation	**(12,332)**	12,337
Share of results of jointly controlled entities and associated companies	**1,536**	(3,601)
Net finance charges	**596**	54
Income from other financial assets	**(96)**	(86)
Depreciation and amortisation	**1,091**	1,185
Impairment losses	**650**	863
Net gain from sale of other financial assets	**(1,215)**	–
Loss / (gain) on foreign exchange contracts	**15,891**	(22)
Expected losses on construction contracts	**–**	8
Share-based payment	**–**	184
(Gain) / loss on disposal of property, plant and equipment	**(47)**	271
Negative goodwill from acquisition of a jointly controlled entity	**(73)**	–
Change in fair value of investment properties	**(12)**	(1,002)
Profit on disposal of interests in subsidiary companies and associated companies	**(170)**	(4,600)
Profit on disposal of jointly controlled entities	**(422)**	(1)
Operating profit before working capital changes	**5,397**	5,590
Decrease / (increase) in inventories	**934**	(1,904)
Increase in debtors, accounts receivable, deposits and prepayments	**(91)**	(1,634)
Increase in creditors, accounts payable, deposits and accruals	**859**	2,872
Effect of foreign exchange rate changes	**(34)**	(11)
Cash generated from operating activities	**7,065**	4,913
Payment for leveraged foreign exchange contracts	**(1,691)**	–
Interest received	**457**	230
Interest paid	**(1,840)**	(1,027)
Other finance charges	**(47)**	(39)
Income taxes paid	**(1,021)**	(459)
Net cash from consolidated activities	**2,923**	3,618

in HK$ million	**2008**	2007
Cash flows from investing activities		
Purchase of		
Subsidiary companies (net of cash and cash equivalents acquired) (Note 37)	**(392)**	–
Additional interests in subsidiary companies	**–**	(165)
Property under development	**(3,990)**	(1,460)
Property, plant and equipment	**(10,199)**	(3,604)
Leasehold land	**(292)**	(331)
Intangible assets	**(2,756)**	(886)
Other financial assets	**(393)**	(1,409)
Proceeds of		
Disposal of property, plant and equipment	**486**	125
Sale of other financial assets	**3,368**	4
Disposal of interests in jointly controlled entity	**978**	–
Disposal of interests in subsidiary companies (net of cash and cash equivalents disposed) (Note 37)	**525**	55
Increase in pledged deposit with banks	**(102)**	(71)
Gross proceeds from listing of subsidiary companies	**–**	6,083
Issue of subsidiaries' shares	**–**	665
Payments in non-current deposits	**(4,584)**	(5,707)
Investment in jointly controlled entities and associated companies	**(2,547)**	(1,871)
(Increase) / decrease in loans to jointly controlled entities and associated companies	**(815)**	708
Dividend received from jointly controlled entities and associated companies	**824**	1,673
Income received from other financial assets	**96**	86
Net cash used in investing activities	**(19,793)**	(6,105)

in HK$ million	**2008**	2007
Cash flows from financing activities		
Proceeds from issue of shares net of amount payable under Novation Contracts (see Note)	**2,470**	–
Issue of shares pursuant to the Plan	**8**	430
Repurchase of shares	**(656)**	(110)
New borrowings	**32,800**	14,992
Repayment of loans	**(5,226)**	(4,966)
(Decrease) / increase in minority interests	**(265)**	23
Dividends paid	**(2,415)**	(3,756)
Net cash from financing activities	**26,716**	6,613
Net increase in cash and cash equivalents	**9,846**	4,126
Cash and cash equivalents at 1 January	**8,017**	3,634
Effect of foreign exchange rate changes	**254**	257
Cash and cash equivalents at 31 December	**18,117**	8,017
Analysis of the balances of cash and cash equivalents		
Cash and bank deposits	**18,296**	8,045
Bank overdrafts and pledged deposits	**(179)**	(28)
	18,117	8,017
Major non-cash transaction		
Consideration from issue of new shares	**11,625**	
Less: amount payable by the Company to CITIC Group in respect of the Novation Contracts	**9,155**	
Net cash proceeds	**2,470**	

Note:
The Novation Contracts are described in details under Note 5.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

in HK$ million	Note	**2008** Group	**2008** Minority interest	2007 Group	2007 Minority interest
At 1 January		**59,793**	**4,906**	46,510	1,499
Share of reserves of jointly controlled entities and associated companies		**(140)**	**–**	112	–
Fair value (loss) / gain on other financial assets		**(453)**	**–**	3,292	–
Transfer from investment revaluation reserve to profit and loss account on disposal of other financial assets		**(4,095)**	**–**	–	–
Reserves released on disposal of jointly controlled entities		**(93)**	**–**	–	–
Exchange translation differences		**1,701**	**278**	2,168	102
Transfer to profit and loss account on impairment of other financial assets		**98**	**–**	77	–
(Loss) / gain on cash flow hedge of financial instruments		**(3,459)**	**–**	57	–
Disposal of interest in subsidiaries companies (Note)		**–**	**–**	(46)	2,285
Net (loss) / income recognised in equity		**(6,441)**	**278**	5,660	2,387
(Loss) / profit for the year		**(12,662)**	**908**	10,843	724
Total recognised (loss) / income for the year		**(19,103)**	**1,186**	16,503	3,111
Share of capital reserves of jointly controlled entities and associated companies		**79**	**–**	36	–
Dividends to shareholders of the Company	11	**(2,415)**	**–**	(3,756)	–
Dividends paid to minority shareholders of subsidiaries		**–**	**(439)**	–	(157)
Share repurchase		**(656)**	**–**	(110)	–
Share-based payment		**–**	**–**	179	7
Expiration of put options granted by a subsidiary company to the minority shareholders of a subsidiary company		**–**	**–**	–	585
Acquisition of interest from minority shareholders		**–**	**(2)**	–	(162)
Minority interest arising from acquisition of subsidiaries		**–**	**251**	–	–
Capital injection by minority shareholders		**–**	**136**	–	23
Purchase of own shares by a subsidiary		**–**	**(2)**	–	–
Share options exercised					
Premium received		**7**	**–**	423	–
Share capital issued		**–**	**–**	8	–
Issue of shares upon full conversion of the convertible bond	27				
Premium received		**11,685**	**–**	–	–
Share capital issued		**581**	**–**	–	–
At 31 December		**49,971**	**6,036**	59,793	4,906
Representing					
At 31 December after proposed final and special dividend		**49,971**	**6,036**	58,023	4,906
Proposed final and special dividend	11	**–**	**–**	1,770	–
		49,971	**6,036**	59,793	4,906

Note:
Minority interests in 2007 included the financial impact of the listing of two subsidiary companies during that year.

1 Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Basis of Preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), and under the historical cost convention, except as disclosed in the accounting policies below.

i) Amendments and interpretations effective in 2008

In 2008, the Group adopted certain new or revised standards and amendments of HKFRSs which were issued and became effective during the year ended 31 December 2008, and among which the following has an impact on the accounts.

- HK(IFRIC)-Int 12 'Service Concession Arrangements'

In accordance with HK(IFRIC)-Int 12, a vehicular tunnel is regarded as a service concession arrangement. As such, the Group has recognised The Eastern Harbour Tunnel as an intangible asset instead of property, plant and equipment under fixed assets with retrospective effect from 1 January 2007. The carrying amount as at 1 January 2007 of HK$1,102 million, and as at 31 December 2007 and 1 January 2008 of HK$1,004 million have also been restated respectively.

The adoption of the above interpretation did not result in substantial changes to the Group's accounting policies and has no effect on the Group's results reported for the year ended 31 December 2008.

With effect from 1 January 2008, the Group changed the presentation of Turnover by not including the proceeds from sale of investments. Amounts included in Turnover and Cost of sales for the year ended 31 December 2007 aggregating HK$6,124 million and HK$1,529 million respectively have been reclassified accordingly.

During the year, the Group revised the estimated useful lives of the property, plant and equipment in its special steel business. As a result of this, the depreciation expenses have decreased by approximately HK$264 million for the year ended 31 December 2008.

1 Significant Accounting Policies *continued*

a Basis of Preparation *continued*

ii) 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 2008 may impact the Group in future years but are not yet effective for the year ended 31 December 2008:

	Application date
HKAS 1 (Revised) – Presentation of financial statements	1 January 2009
HKAS 16 (Amendment) – Property, plant and equipment	1 January 2009
HKAS 23 (Revised) – Borrowing costs	1 January 2009
HKAS 27 (Revised) / (Amendment) – Consolidation and separate financial statements	1 July 2009
HKAS 28 (Amendment) – Investments in associates	1 January 2009
HKAS 36 (Amendment) – Impairment of assets	1 January 2009
HKAS 39 – Financial instruments: Recognition and measurement – Amendments for eligible hedged items	1 July 2009
HKAS 40 (Amendment) – Investment property	1 January 2009
HKFRS 2 (Amendment) – Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised) – Business combinations and consequential amendments	1 July 2009
HKFRS 8 – Operating segments	1 January 2009
HK(IFRIC) Interpretation 13 – Customer loyalty programmes	1 July 2009
HK(IFRIC) Interpretation 16 – Hedges of a net investment in a foreign operation	1 October 2008

The Group has not early adopted the above standards, amendments or interpretations and is in the process of assessing their impact on future accounting periods.

b Basis of Consolidation

The consolidated accounts incorporate the accounts of the Company and all its subsidiary companies made up to the balance sheet date. The results of subsidiary companies acquired or disposed of during the year are included as from the effective dates of acquisition or up to the effective dates of disposal respectively.

c Goodwill

Positive goodwill arising on the acquisition of subsidiary companies, jointly controlled entities and associated companies represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Negative goodwill arising on the acquisition of subsidiary companies, jointly controlled entities and associated companies represents the excess of the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of the acquisition.

Positive goodwill will be stated in the consolidated balance sheet as a separate asset or included within jointly controlled entities and associated companies at cost less accumulated impairment losses and is subject to impairment testing at least annually. Impairment losses on goodwill are not reversed. Negative goodwill is recognised in profit and loss account immediately on acquisition.

1 Significant Accounting Policies *continued*

d Subsidiary Companies

A subsidiary company is a company which is controlled by the Company through share ownership or otherwise. Control represents the power to govern the financial and operating policies of that company.

The purchase method of accounting is used to account for the acquisition of subsidiary companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interests.

Minority interests in the balance sheet comprise the outside shareholders' proportion of the net assets of subsidiary companies. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity interests to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases of equity interests from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company.

Investments in subsidiary companies are carried in the Company's balance sheet at cost less any impairment. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

e Jointly Controlled Entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year adjusted by impairment losses, if any. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition.

When the Group's share of losses equals or exceeds its interest in the jointly controlled entity, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less any impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

1 Significant Accounting Policies *continued*

f Associated Companies

Associated companies are companies, other than subsidiary companies and jointly controlled entities, in which the Group holds not more than 50 per cent of the equity share capital for the long term and over whose management it can exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year adjusted by impairment losses, if any. The consolidated balance sheet includes the Group's share of net assets of the associated companies, after attributing fair values to the net assets at the date of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

Accounting policies of associated entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associated companies are stated at cost less any impairment. The results of associated companies are only reflected to the extent dividends are received or are receivable.

g Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment.

Assets in the course of construction for production, rental or administrative purposes are carried at cost, less any recognised impairment. Cost includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Construction in progress in respect of the iron ore mining project includes expenditure such as bank charges, interest costs, equipment hire costs, consultants' costs and depreciation costs. Such costs are capitalised in the balance until commencement of mine production and then amortised in accordance with Note 1(n).

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rate specified below.

Property, plant and equipment are depreciated at rates sufficient to write off their cost, less impairment losses, if any, over their estimated useful lives on a straight line basis at the following annual rates:

Freehold land is not amortised.

• Buildings:	2% – 4% or the remaining lease period of the land where applicable
• Plant and machinery:	9% – 20%
• Other property, plant and equipment, comprising telecommunications equipment, traffic equipment, cargo lighters, computer installations, motor vehicles, furniture, fixtures and equipment:	10% – 25%

Assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1 Significant Accounting Policies *continued*

h Investment Properties

Investment properties are interests in land and / or buildings in respect of which construction work and development have been completed and which are held for their investment potential. These include land held for a currently undetermined future use. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss account.

i Properties under Development

Properties under development consist of investments in land for development and buildings under construction and development pending any positive intention either to retain them for investment purposes or to sell them for proceeds. Investments in leasehold land are amortised over the lease term, and are stated at cost less accumulated amortisation and any accumulated impairment. Amortisation of leasehold land will be capitalised as the cost of buildings during the construction period. The investments in buildings under construction and development are stated at cost less any accumulated impairment losses.

j Capitalisation of Development Costs

Property development expenditure, inclusive of interest and professional fees, is capitalised as cost of development.

Borrowing costs incurred on assets under development that take a substantial period of time to get ready for their intended use or sale are capitalised into the carrying value of the assets under development.

The capitalisation rate applied to funds borrowed for the development of the assets is based on the attributable cost of funds to the Group.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

k Properties Held for Sale

Properties held for sale consisting of leasehold land and buildings are classified under current assets and stated at the lower of cost and net realisable value. Leasehold land is stated at cost less accumulated amortisation and any impairment. Building costs are stated at cost less any impairment.

l Leasehold Land

Leasehold land comprises land held under operating lease arrangements and is amortised on a straight-line basis over the lease term.

m Intangible Assets

Intangible assets comprise goodwill, expenditure on mining rights and a vehicular tunnel concession. The accounting policies for goodwill and exploration, evaluation and development expenditure of mining rights are outlined in accounting policies 1(c) and 1(n).

Amortisation of the vehicular tunnel concession is based on the actual traffic volume in the year compared to the projected traffic volume for the remainder of the concession period.

1 Significant Accounting Policies *continued*

n Mining Exploration, Evaluation and Development Expenditure

Mining exploration, evaluation and development expenditures incurred are capitalised and carried forward in respect of each identifiable area of interest where the rights to mine are current and:

- It is expected that the expenditure will be recouped by future development and commercial exploitation or sale; or,
- At the balance sheet date, exploration and evaluation activities have not reached a stage, which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations are continuing.

Amortisation of costs carried forward is not charged until production commences. When production commences, capitalised expenditures on exploration, evaluation and development are amortised over the life of the area of interest to which they relate. Amortisation is recognised in consolidated profit or loss on a unit of production method over the estimated useful lives of intangible assets from the date that they are available for use. As the intangible assets are not yet available for use, no amortisation expenses have been recognised in 2008. Unamortised expenditure relating to that area of interest is written off in the period that abandonment is decided.

Provision for restoration costs is made at the time when the activities which give rise to the need for restoration occur, and would form part of the costs of the respective phase of operations. The need for a provision is assessed annually such that full provision is made by the end of the exploration life of each area.

The ultimate recoupment of costs carried forward for exploration, evaluation and development phases is dependent on the successful development and commercial exploitation of sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration phase and accordingly, production has not commenced.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in consolidated profit or loss when incurred.

Mining exploration, evaluation and development expenditure is written down to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

o Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit and loss account.

p Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1 Significant Accounting Policies *continued*

q Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

r Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

In respect of the Group's iron ore mining operations:

i) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, the Group has an obligation to conduct rehabilitation works in respect of disturbed areas comprising the waste rock dumps, open areas, open pits and abandonment buds. A non-current provision has been made for site restoration commitment with the corresponding Intangible Assets increased by an equivalent amount.

ii) Mining rights

In accordance with the mining right / lease agreements entered into by two subsidiaries of the Company, the Group is committed to pay a defined royalty if either of the two subsidiaries' production is less than 6 million tonnes by March 2013. A non-current provision has been made for this commitment with the corresponding Intangible Assets increased by an equivalent amount.

s Share Capital

Share capital issued by the Company is recorded at the proceeds received, net of direct issue costs.

t Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

1 Significant Accounting Policies *continued*

u Revenue Recognition

i) Sales of goods

Revenue arising from the sale of goods is generally recognised on the delivery of goods to customers. Revenue is determined after deduction of any trade discounts.

Sales arising from the sale of motor vehicles is recognised when the registration document is issued or on delivery of the vehicle, whichever is earlier. This is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Sales excludes any government taxes and is after deduction of any trade discounts.

ii) Rendering of services

Commission income is recognised when the goods concerned are sold to customers. Revenue arising from the rendering of repairing services is recognised when the relevant work is completed.

Revenue from the provision of telecommunications services is recognised upon delivery of the service.

iii) Sales of properties under development and properties held for sale

Revenue from sales of properties under development is only recognised when the significant risks and rewards of ownership have been transferred to the buyer. The Group considers that the significant risks and rewards of ownership are transferred when the buildings contracted for sale are completed and the relevant permits essential for the delivery of the properties have been issued by the authorities.

Income from properties held for sale is recognised at the date when the sales agreement is signed.

iv) Toll income

Toll income is recognised when the service is provided.

v) Rental income

Rental income is recognised on a straight-line basis over the period of the relevant lease.

vi) Dividend income

Dividend income is recognised when the right to receive the dividend is established.

Dividends proposed or declared after their balance sheet date by companies in which the Group has an investment are not recognised as revenue at the balance sheet date but on the date when the right to receive the dividend is established.

v Financial Instruments

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) available-for-sale financial assets and, (iv) derivative financial instruments. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at every reporting date.

Purchases and sales of financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been legally transferred and the Group has transferred substantially all risks and rewards of ownership.

1 Significant Accounting Policies *continued*

v Financial Instruments *continued*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, unless maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors, accounts receivable, deposits and prepayments in the balance sheet.

Loans and receivables and held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are carried at fair value, or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the profit and loss account.

iv) Derivative financial instruments

Derivatives are stated at fair value. The gain or loss on change in fair values is recognised in the profit and loss account unless the derivative qualifies for hedge accounting. Where a derivative qualifies for hedge accounting and is designated as a cash flow hedge, the effective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and the ineffective part in the profit and loss account. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in hedging reserve will be recognised in the profit and loss account in the same period or periods during which the transaction it hedges is recognised in the profit and loss account. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in the case of fixed assets.

1 Significant Accounting Policies *continued*

v Financial Instruments *continued*

iv) Derivative financial instruments *continued*

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 32. Movements on the hedging reserve in shareholders' equity are shown in Note 28. When the remaining maturity of the hedge item is more than 12 months, the full fair value of a hedging derivative is classified as a non-current asset or liability.

A one time loss due to losses on leveraged foreign exchange derivative contracts (some of these contracts still remain with the Group as at 31 December 2008) which do not qualify for hedge accounting was reflected as a separate charge to the consolidated profit and loss account for the year ended 31 December 2008. Other gains / losses on financial instruments relating to the Group's financial activities, which do not qualify as effective accounting hedges, are dealt with in the net finance charges in the consolidated profit and loss account.

w Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are accounted for on a straight line basis over the respective periods of the leases.

x Impairment of Assets

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication the carrying value of these assets may not be recoverable. If such assets are considered to be impaired, the impairment to be recognised in the profit and loss account is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (called cash-generating units).

y Inventories

Inventories comprise mainly iron ore, scrap metal, steel, motor vehicles, spare parts, electrical appliances, food and other trading items. They are valued at the lower of cost and net realisable value. Cost represents the actual cost of purchase or production and is calculated on the first-in first-out, specific identification or weighted average basis as appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

z Foreign Currencies

The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

Transactions in foreign currencies are translated into the functional currency at the rates ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as a qualifying cash flow hedge or net investment hedge.

Assets and liabilities of subsidiary companies, jointly controlled entities and associated companies, together with all other monetary assets and liabilities expressed in foreign currencies, are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Results in foreign currencies are translated at the average rates of exchange ruling during the year. All resulting exchange differences are recognised as a separate component of equity – exchange fluctuation reserve.

Exchange differences arising from the translation of the net investment in foreign entities, and of financial instruments which are designated as hedges of such investment, are taken directly to exchange reserve. On the disposal of these investments, such exchange differences are recognised in the consolidated profit and loss account as part of the profit or loss on disposal.

1 Significant Accounting Policies *continued*

z Foreign Currencies *continued*

When a gain or loss on a non-monetary item is recognised directly in equity, any translation difference on that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the profit and loss account any translation difference on that gain or loss is recognised in the profit and loss account.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the rate of exchange ruling at the balance sheet date. Such differences are taken directly to exchange reserve.

aa Deferred Taxation

The balance sheet liability method is adopted whereby deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Provision for withholding tax that will arise on the remittance of retained earnings is only made where there is a current intention to remit such earnings. Deferred tax assets are recognised to the extent that the future utilisation is probable.

Deferred tax arising from revaluation of the investment properties is recognised on the basis that the recovery of the carrying amount of the properties would be through use and calculated at the applicable profits tax rate.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

bb Employee Benefits

i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The Group operates a share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period with a corresponding increase in capital reserve. Fair values of share option awards, measured at the date of grant of the award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The fair value excludes the impact of any non-market services and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of the revision, if any, in the consolidated profit and loss account.

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Investment properties

The fair values of investment properties are determined annually by independent qualified valuers on an open market value on an existing use basis calculated on the net income allowing for reversionary potential.

In the determination of the fair value, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(x). For the purposes of impairment testing goodwill acquired has been allocated to individual cash-generating units which are reviewed for impairment based on forecast operating performance and cash flows. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. Cash flow projections are prepared on the basis of reasonable assumptions reflective of prevailing and future market conditions, and are discounted appropriately.

iii) Impairment of assets

The Group has made substantial investments in tangible and intangible assets. The Group considers impairment assessment as an area requiring extensive application of judgement and estimation. Assets that have an indefinitive useful life are tested for impairment annually. Other assets are reviewed for impairment when there is an indication that the carrying value of these assets may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in profit or loss.

Mining operation

The Group's mining operation is considered as a separate cash generating unit. Whenever events or circumstances indicate an impairment may have occurred, the Group tests whether assets attributable to the Group's mining operations have suffered any impairment. The recoverable amount of the mining operation is determined based on fair value less costs to sell which is based on cashflow projections that incorporate best estimates of selling prices, ore grades, exchange rates, production rates, future capital expenditure and production costs over the life of the mine. In line with normal practice in the mining industry, the cash flow projections are based on long term mine plans covering the expected life of the operation. Therefore, the projections cover periods well in excess of five years. Assumptions about selling prices, operating costs, exchange rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The Group derives the required undiscounted cash flow estimates from historical experience and internal business plans. To determine fair value, the Group uses cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate.

2 Critical Accounting Estimates and Judgements *continued*

iii) Impairment of assets *continued*

Properties under development

The Group writes down properties under development to their recoverable amount based on the assessment of recoverability which takes into account cost to completion based on past experience and cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate. Write downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value of properties under development is adjusted in the period in which such estimate is changed.

Jointly controlled entities and associated companies

The Group regularly reviews investments in jointly controlled entities and associates for impairment based on both quantitative and qualitative criteria. Such analysis typically includes various estimates and assumptions, the intent and ability to hold to maturity or until forecasted recovery, the financial health, cash flow projections and future prospects of the companies.

Debtors, accounts receivables, deposits and prepayments

Impairment losses for bad and doubtful debts are assessed and provided based on regular review of the ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the impairment loss would affect the net profit in future years.

iv) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

v) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in Note 1(y). Management estimates the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

vi) Fair value of derivative financial instruments

The Group relies on bank valuations to determine the fair value of derivatives which in turn are determined using various valuation techniques, including discounted cash flow models and option pricing models. Judgment is required in the calculation of such valuations. Changes in the underlying assumptions could materially impact profit and loss or equity.

vii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

3 Turnover and Revenue

The principal activities of the Company are holding its subsidiary companies, jointly controlled entities and associated companies (collectively the 'Investee Companies'), employing staff and raising finance. Revenue generating activities of the Group are conducted through the Investee Companies. The principal activities of the Investee Companies are set out in Note 44 to the financial statements.

Turnover of the Group comprises the total invoiced value of goods supplied net of government taxes where applicable, services rendered to customers, gross proceeds from sale of properties, gross property rental and godown and cold storage income, fees from toll income and provision of telecommunication services, analysed as follows:

	Group	
in HK$ million	**2008**	2007
Sales of goods	**41,257**	33,768
Services rendered to customers	**1,102**	831
Properties sales	**96**	763
Rental income	**745**	604
Toll income	**701**	708
Telecommunications	**2,486**	1,804
Others	**33**	56
	46,420	38,534

4 Other Income and Net Gains

in HK$ million	Group 2008	2007
Other income		
Commission income, subsidy income and rebates	**160**	93
Dividend income from other financial assets		
Listed shares	**89**	81
Co-operative joint ventures	**7**	5
	256	179
Other net gains		
Net gain from disposal of subsidiary company	**170**	45
Net gain from disposal of jointly controlled entities	**422**	1
Net gain from disposal of an associated company	**–**	2
Net gain from listing of subsidiary companies, Dah Chong Hong and CITIC 1616	**–**	4,552
Net gain from sale of other financial assets, mainly listed investments	**1,215**	–
Others	**68**	91
	1,875	4,691
	2,131	4,870

5 (Loss) / Gain from Leveraged Foreign Exchange Contracts

in HK$ million	Group 2008	2007
Leveraged foreign exchange contracts		
Fair value loss on the Novation Contracts immediately before their transfer to CITIC Group	**(9,796)**	–
Fair value (loss) / gain on other contracts	**(3,200)**	22
Termination costs	**(1,177)**	–
Realised Loss	**(1,718)**	–
	(15,891)	22

5 (Loss) / Gain from Leveraged Foreign Exchange Contracts *continued*

The Group entered into multiple leveraged Australian dollar (AUD) foreign exchange contracts mainly in the second half of 2008. These contracts were intended to minimise currency exposure of the Group's iron ore mining project. Due to significant movements in the AUD to USD exchange rate, these contracts gave rise to substantial losses and due to their leveraged features the amount of AUD to be delivered to the Group increased significantly and exceeded the Group's needs for AUD. Leveraged foreign exchange contracts with a maximum deliverable amount of A$5.3 billion, being contracts delivering AUD in excess of the Group's needs, were novated to CITIC Group (the 'Novation Contracts') in December 2008. Immediately before the transfer of the Novation Contracts on 24 December 2008 the Group reflected a mark to market loss of HK$9,796 million on those contracts in its profit and loss account and an equal amount of derivative liabilities in its balance sheet. The Novation Contracts were transferred to CITIC Group for a consideration of HK$9,155 million. The difference amounting to HK$641 million between the derivative liability and the consideration payable to CITIC Group was recorded in capital reserve as part of the subscription price paid for the shares of the Company issued to CITIC Group by way of issuance of a Convertible Bond (refer to Note 27) for further details.

The remaining contracts with a maximum deliverable amount of A$2.9 billion as at 31 December 2008 were retained to provide for the Group's future AUD needs. Some of these remaining contracts were restructured during the year into plain-vanilla forward contracts that qualify as accounting hedges as their maturity matches the need of the business. As at 31 December 2008, unrestructured contracts with a maximum deliverable amount of A$2.0 billion were outstanding and are intended to be restructured into plain-vanilla forward contracts in 2009.

Leveraged foreign exchange contracts in RMB were used to minimise the currency exposure of the Group's projects (including the Group's iron ore mining project) to fluctuations in RMB. In September 2008, certain of these RMB contracts were terminated in order to better match the exposures of the Australian mining operation, resulting in termination costs of approximately HK$197 million. As at 31 December 2008 the remaining outstanding contracts have a maximum notional amount of RMB 5.3 billion. Leveraged foreign exchange contracts in Euro were used to minimise currency exposure of the Group's projects (including the Group's iron ore mining project) to fluctuations in Euro. All but one of the Euro structured leveraged contracts (including dual currency contracts) were terminated in 2008 at a cost of approximately HK$627 million with the final contract terminated in January 2009. Currently Euro exposures are not hedged by the Group.

The total termination costs of the abovementioned contracts and other leveraged foreign exchange contracts amounted to approximately HK$1.2 billion. The total realised loss of HK$1.7 billion was recognised as a result of taking delivery of foreign currencies under these contracts and the restructuring of certain contracts.

The fair value of the outstanding leveraged foreign exchange contracts remaining with the Group as at 31 December 2008, is a loss of HK$3,200 million (2007: gain of HK$22 million) which amounts are included in the respective year end balances of derivative financial instruments as set out in Note 32. Those leveraged foreign exchange contracts in existence as at 31 December 2007 were either knocked-out and settled during 2008 or were restructured into plain-vanilla forward contracts that qualify as accounting hedges resulting in a net gain of HK$36 million.

6 Segment Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

a Turnover and Segment Profit

An analysis of the Group's turnover and (loss) / profit from consolidated activities and share of results of jointly controlled entities and associated companies by business is as follows:

in HK$ million	Turnover		(Loss) / profit from consolidated activities		Share of results of jointly controlled entities		Share of results of associated companies		Group total		Segment allocations		Segment (loss) / profit	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
By principal activities (Note)														
Special steel	**22,758**	18,501	**2,170**	2,418	**53**	426	**–**	–	**2,223**	2,844	**–**	–	**2,223**	2,844
Property														
Mainland China	**544**	1,090	**585**	248	**16**	(16)	**–**	–	**601**	232	**4**	4	**605**	236
Hong Kong and Others	**243**	231	**209**	157	**–**	–	**62**	335	**271**	492	**89**	93	**360**	585
Power generation	**–**	–	**(452)**	(171)	**(282)**	547	**(507)**	62	**(1,241)**	438	**–**	–	**(1,241)**	438
Aviation	**–**	–	**–**	–	**–**	(62)	**(1,407)**	1,312	**(1,407)**	1,250	**–**	–	**(1,407)**	1,250
Civil infrastructure	**734**	750	**498**	521	**175**	132	**49**	53	**722**	706	**–**	–	**722**	706
CITIC 1616	**2,486**	1,486	**400**	246	**–**	–	**(1)**	–	**399**	246	**–**	–	**399**	246
Dah Chong Hong	**19,496**	16,050	**684**	457	**64**	53	**(11)**	2	**737**	512	**(93)**	(97)	**644**	415
Other investments	**159**	426	**(144)**	(340)	**174**	264	**79**	81	**109**	5	**–**	–	**109**	5
Other income and net gains	**–**	–	**2,131**	4,870	**–**	–	**–**	–	**2,131**	4,870	**–**	–	**2,131**	4,870
Change in fair value of investment properties	**–**	–	**12**	1,002	**–**	–	**–**	412	**12**	1,414	**–**	–	**12**	1,414
Less: general and administration expenses	**–**	–	**(402)**	(640)	**–**	–	**–**	–	**(402)**	(640)	**–**	–	**(402)**	(640)
(Loss) / gain from leveraged foreign exchange contracts	**–**	–	**(15,891)**	22	**–**	–	**–**	–	**(15,891)**	22	**–**	–	**(15,891)**	22
	46,420	38,534	**(10,200)**	8,790	**200**	1,344	**(1,736)**	2,257	**(11,736)**	12,391	**–**	–	**(11,736)**	12,391
Net finance charges													**(596)**	(54)
Taxation													**578**	(770)
(Loss) / profit for the year													**(11,754)**	11,567

Note:
The current year's presentation of segment information by business segments has been reclassified to better present the results in line with how management reviews these businesses. Comparative figures have been reclassified to conform with the current year's presentation.

The presentation of segment turnover is the same as the consolidated turnover except for segment allocations attributable to the property segment as disclosed above.

6 Segment Information *continued*

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

in HK$ million	Group 2008	2007
By geographical area		
Mainland China	**33,125**	27,360
Hong Kong	**10,968**	8,959
Overseas	**2,327**	2,215
	46,420	38,534

b Assets and Liabilities

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

	Segment assets		Investments in jointly controlled entities		Investments in associated companies		Segment liabilities		Total	
in HK$ million	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
By principal activities										
Special steel	**24,286**	17,237	**4,444**	4,252	**118**	–	**(5,751)**	(5,381)	**23,097**	16,108
Iron ore mining	**20,976**	9,780	**–**	–	**–**	–	**(6,074)**	(702)	**14,902**	9,078
Property										
Mainland China	**16,879**	11,762	**5,650**	4,324	**–**	–	**(1,878)**	(1,250)	**20,651**	14,836
Hong Kong	**6,407**	6,934	**–**	–	**4,696**	5,058	**(124)**	(257)	**10,979**	11,735
Power generation	**358**	147	**3,724**	4,017	**1,775**	2,245	**(6)**	(32)	**5,851**	6,377
Aviation	**–**	585	**–**	–	**7,982**	10,104	**–**	–	**7,982**	10,689
Civil infrastructure	**931**	1,030	**1,429**	1,328	**104**	112	**(34)**	(31)	**2,430**	2,439
CITIC 1616	**1,571**	1,047	**–**	–	**5**	–	**(747)**	(472)	**829**	575
Dah Chong Hong	**9,080**	6,528	**234**	165	**148**	138	**(2,816)**	(2,185)	**6,646**	4,646
Other investments	**781**	7,127	**5,659**	3,360	**256**	284	**(129)**	(183)	**6,567**	10,588
Segment assets / (liabilities)	**81,269**	62,177	**21,140**	17,446	**15,084**	17,941	**(17,559)**	(10,493)	**99,934**	87,071
Corporate	**19,724**	8,664	**–**	–	**–**	–	**(63,634)**	(28,959)	**(43,910)**	(20,295)
Provision for taxation									**(274)**	(590)
Net deferred tax assets / (liabilities)									**257**	(1,487)
									56,007	64,699

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

in HK$ million	Group 2008	2007
By geographical area		
Mainland China	**46,348**	32,499
Hong Kong	**12,718**	18,707
Overseas – Australia	**20,979**	9,780
– Others	**1,224**	1,191
	81,269	62,177

7 (Loss) / Profit from Consolidated Activities

	Group	
in HK$ million	**2008**	2007
The (loss) / profit from consolidated activities is arrived at after crediting		
Rental income from		
investment properties		
Gross income	**745**	586
Less: direct outgoings	**(92)**	(80)
	653	506
other operating leases	**124**	133
write back of impairment loss on properties held for development	**253**	–

	Group	
in HK$ million	**2008**	2007
And after charging		
Cost of inventories	**35,206**	29,029
The following expenses which are included in cost of sales, distribution and selling expenses and other operating expenses		
Staff costs	**2,359**	2,410
Depreciation of property, plant and equipment	**940**	1,045
Amortisation of leasehold land	**44**	42
Amortisation of intangible assets	**107**	98
Other operating expenses	**3,028**	3,733
Auditor's remuneration	**34**	26
Contributions to staff retirement schemes	**95**	107
Impairment losses provision on (Note)		
Other financial assets	**177**	99
Property, plant and equipment	**2**	103
Property under development	**–**	353
Jointly controlled entities and associated companies	**403**	282
Trade and other receivable	**41**	26
Intangible assets	**27**	–
Operating lease rentals		
land and buildings	**252**	205

7 (Loss) / Profit from Consolidated Activities *continued*

Note

in HK$ million	**2008**	2007
Impairment losses by segment		
Special steel	**2**	73
Property	**–**	353
Power generation*	**449**	128
CITIC 1616	**14**	–
Dah Chong Hong	**26**	8
Other investments	**159**	301
	650	863

* *Certain power generation businesses recorded losses in 2008. The impairment provision on the power generation segment is evaluated against the values in use based on the estimated cashflows of the respective power plants in operation discounted at a rate of 10%.*

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
in HK$ million	**2008**	2007
Within 1 year	**731**	564
After 1 year but within 5 years	**763**	633
After 5 years	**94**	169
	1,588	1,366

8 Net Finance Charges

	Group	
in HK$ million	**2008**	2007
Finance charges		
Interest expense		
Bank loans and overdrafts wholly repayable within five years	**1,124**	526
Bank loans not wholly repayable within five years	**427**	237
Other loans wholly repayable within five years	**268**	201
Other loans not wholly repayable within five years	**14**	21
	1,833	985
Amount capitalised	**(1,086)**	(680)
	747	305
Exchange gain	**(192)**	(31)
Other finance charges	**47**	39
Fair value losses / (gains) on financial instruments		
Interest rate instruments	**394**	38
Foreign exchange forward instruments	**99**	(71)
	1,095	280
Finance income		
Interest income	**(499)**	(226)
	596	54

The capitalisation rates applied to funds borrowed are between 4.1% and 5.4% per annum (2007: 6.1% and 6.8% per annum).

9 Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (2007: 17.5%) 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:

	Group	
in HK$ million	**2008**	2007
Current taxation		
Hong Kong profits tax	**120**	308
Overseas taxation	**570**	450
Deferred taxation (Note 33)		
Changes in fair value of investment properties	**51**	173
Origination and reversal of other temporary differences		
arising from leveraged foreign exchange contracts of Australian subsidiary company	**(1,259)**	–
others	**(27)**	19
Effect of tax rate change	**(33)**	(180)
	(578)	770

Taxation on the Group's (loss) / profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits taxation rate as follows:

	Group	
in HK$ million	**2008**	2007
(Loss) / profit before taxation	**(12,332)**	12,337
Less: share of results of		
jointly controlled entities	**(200)**	(1,344)
associated companies	**1,736**	(2,257)
	(10,796)	8,736
Calculated at Hong Kong taxation rate of 16.5% (2007: 17.5%)	**(1,781)**	1,529
Effect of different taxation rates in other jurisdictions	**(657)**	84
Effect of non-taxable income and non-deductible expenses		
arising from leveraged foreign exchange contracts	**1,699**	–
others	**120**	(761)
Utilisation of tax losses previously unrecognised and net of tax losses not recognised	**65**	8
Over provision in prior years	**(31)**	(6)
Effect of tax rate change	**(33)**	(180)
Others	**40**	96
Taxation	**(578)**	770

10 (Loss) / Profit Attributable to Shareholders of the Company

The Group's (loss) / profit attributable to shareholders of the Company is recorded in the accounts of the Company to the extent of a loss of HK$10,302 million (2007: profit of HK$5,713 million).

11 Dividends

in HK$ million	**2008**	2007
2007 Final dividend paid: HK$0.80 (2006: HK$0.80) per share	**1,757**	1,767
2007 Special dividend paid: HK$Nil (2006: HK$0.30) per share	**–**	662
	1,757	2,429
Interim		
2008 Interim dividend paid: HK$0.30 (2007: HK$0.40) per share	**658**	885
2008 Special dividend paid: HK$Nil (2007: HK$0.20) per share	**–**	442
Final		
2008 Final dividend proposed: HK$Nil (2007: HK$0.80) per share	**–**	1,770
	658	3,097
Dividend per share (HK$)	**0.30**	1.40

12 (Loss) / Earnings per Share

The calculation of (loss) / earnings per share is based on the consolidated loss attributable to shareholders of HK$12,662 million (2007: profit of HK$10,843 million).

The basic (loss) / earnings per share is based on the weighted average number of 2,227,717,822 shares in issue during the year (2007: 2,207,542,455 shares in issue). The diluted earnings per share for 2007 is based on 2,213,084,305 shares which is the weighted average number of shares in issue during 2007 plus the weighted average number of 5,541,850 shares deemed to be issued at no consideration if all outstanding options had been exercised. Diluted loss per share for 2008 is the same as the basic loss per share as the potential additional ordinary shares are anti-dilutive.

13 Directors' Emoluments

The remuneration of each Director for the year ended 31 December 2008 is set out below:

in HK$ million Name of Director	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefits	**2008** Total	2007 Total
Larry Yung Chi Kin#	0.15	3.68	–	0.01	**3.84**	66.99
Henry Fan Hung Ling#	0.15	3.44	–	0.01	**3.60**	56.67
Peter Lee Chung Hing#	0.15	2.10	–	0.10	**2.35**	44.35
Carl Yung Ming Jie#	0.15	1.63	–	0.08	**1.86**	16.57
Vernon Francis Moore#	0.15	2.06	–	0.01	**2.22**	11.93
Li Shilin#	0.15	0.56	–	–	**0.71**	5.55
Liu Jifu#	0.15	0.65	–	0.01	**0.81**	13.21
Milton Law Ming To#	0.15	1.79	–	0.08	**2.02**	16.89
Wang Ande#	0.15	1.56	–	–	**1.71**	16.43
Steve Kwok Man Leung#	0.11	1.35	–	0.06	**1.52**	–
Chang Zhenming	0.20	–	–	–	**0.20**	4.06
Willie Chang	0.45	–	–	–	**0.45**	0.30
Hamilton Ho Hau Hay	0.20	–	–	–	**0.20**	0.15
Alexander Reid Hamilton	0.65	–	–	–	**0.65**	0.30
Hansen Loh Chung Hon	0.40	–	–	–	**0.40**	0.25
Norman Ho Hau Chong	0.25	–	–	–	**0.25**	0.20
André Desmarais	0.20	–	–	–	**0.20**	0.15
Norman Yuen Kee Tong	–	–	–	–	**–**	0.10
Leslie Chang Li Hsien	0.12	1.70	–	0.07	**1.89**	23.01
Chau Chi Yin	0.12	1.53	–	0.06	**1.71**	16.96
	4.05	22.05	–	0.49	**26.59**	294.07

None of the five highest paid individuals of the Group during the year whose emoluments are disclosed in Note 14 are directors. In 2007, the five highest paid individuals were directors and their emoluments are reflected in the analysis presented above.

During the year, no share options were granted (2007: 11,100,000 share options) to directors of the Company under the CITIC Pacific Share Incentive Plan 2000.

Mr Steve Kwok Man Leung was appointed during the year.

Mr Leslie Chang Li Hsien and Mr Chau Chi Yin resigned during the year.

Mr Norman Yuen Kee Tong resigned during 2007.

The executive directors marked '#' above are considered as key management personnel of the Group.

14 Individuals with Highest Emoluments

The aggregate emoluments of the five highest paid individuals during the year were as follows:

in HK$ million	**2008**	2007
Salaries and other emoluments	**17.90**	–
Discretionary bonuses	**15.11**	–
Retirement Scheme Contribution	**0.49**	–
	33.50	–

The numbers of these individuals with emoluments within the following bands were:

	2008	2007
5,000,001 – 6,000,000	**1**	–
6,000,001 – 7,000,000	**2**	–
7,000,001 – 8,000,000	**2**	–

15 Retirement Benefits

Hong Kong employees are offered the option to enrol in one of the MPF Master Trust Schemes under the CITIC Group MPF Scheme – the Fidelity Retirement Master Trust, the Hang Seng Mandatory Provident Fund and the RCM Mandatory Provident Fund. All these master trust schemes are administered in accordance with the terms and provisions of respective trust deed and are subject to the Mandatory Provident Fund Schemes Ordinance.

Employees of the Group's subsidiaries in mainland China and other locations are required to participate in defined contribution retirement schemes administered and operated by the respective local authorities and contributions are made according to the local mandatory requirements.

16 Fixed Assets

a Group

in HK$ million	Property, plant and equipment: Self-used properties (Note ii)	Plant and machinery (Note ii)	Construction in progress (Note i & iii)	Others (Note iv)	Sub-total	Investment properties	Properties under development (Note i)	Leasehold land	Total
Cost or valuation									
At 1 January 2008, as restated	**4,869**	**7,658**	**2,484**	**2,640**	**17,651**	**10,895**	**4,699**	**1,959**	**35,204**
Exchange adjustments	**193**	**425**	**49**	**28**	**695**	**364**	**233**	**56**	**1,348**
Additions	**188**	**547**	**10,141**	**462**	**11,338**	**5**	**5,693**	**402**	**17,438**
Acquisition of subsidiary companies	**422**	**65**	**6**	**220**	**713**	**36**	**–**	**96**	**845**
Disposals	**(301)**	**(453)**	**(44)**	**(185)**	**(983)**	**(1)**	**(15)**	**(42)**	**(1,041)**
Change in fair value of investment properties	**–**	**–**	**–**	**–**	**–**	**12**	**–**	**–**	**12**
Transfer to properties held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**(367)**	**–**	**(367)**
Reclassification	**12**	**5**	**(19)**	**1**	**(1)**	**–**	**(172)**	**173**	**–**
Transfer to self-used properties / leasehold land	**101**	**–**	**–**	**–**	**101**	**(143)**	**–**	**42**	**–**
Transfer upon completion	**74**	**1,268**	**(1,358)**	**16**	**–**	**62**	**(62)**	**–**	**–**
At 31 December 2008	**5,558**	**9,515**	**11,259**	**3,182**	**29,514**	**11,230**	**10,009**	**2,686**	**53,439**
Accumulated depreciation, amortisation and impairment									
At 1 January 2008, as restated	**977**	**2,647**	**90**	**1,783**	**5,497**	**–**	**411**	**318**	**6,226**
Exchange adjustments	**59**	**167**	**5**	**16**	**247**	**–**	**4**	**4**	**255**
Charge for the year	**164**	**456**	**–**	**320**	**940**	**–**	**–**	**44**	**984**
Depreciation capitalised to construction in progress	**–**	**142**	**–**	**14**	**156**	**–**	**–**	**–**	**156**
Acquisition of subsidiary companies	**44**	**19**	**–**	**66**	**129**	**–**	**–**	**2**	**131**
Written back on disposals	**(61)**	**(245)**	**(36)**	**(142)**	**(484)**	**–**	**(1)**	**(3)**	**(488)**
Impairment loss	**1**	**1**	**–**	**–**	**2**	**–**	**–**	**–**	**2**
Written back of impairment loss	**–**	**–**	**–**	**–**	**–**	**–**	**(253)**	**–**	**(253)**
Reclassification	**(10)**	**46**	**(36)**	**(1)**	**(1)**	**–**	**–**	**1**	**–**
At 31 December 2008	**1,174**	**3,233**	**23**	**2,056**	**6,486**	**–**	**161**	**366**	**7,013**
Net book value									
At 31 December 2008	**4,384**	**6,282**	**11,236**	**1,126**	**23,028**	**11,230**	**9,848**	**2,320**	**46,426**
Represented by									
Cost	**5,558**	**9,515**	**11,259**	**3,182**	**29,514**	**–**	**10,009**	**2,686**	**42,209**
Valuation	**–**	**–**	**–**	**–**	**–**	**11,230**	**–**	**–**	**11,230**
	5,558	**9,515**	**11,259**	**3,182**	**29,514**	**11,230**	**10,009**	**2,686**	**53,439**

16 Fixed Assets *continued*

a Group *continued*

in HK$ million	Property, plant and equipment									
	Self-used properties	As restated Vehicular tunnel	Plant and machinery	Construction in progress (Note iii)	Others (Note iv)	As restated Sub-total	Investment properties	Properties under development (Note i)	Leasehold land	As restated Total
Cost or valuation										
At 1 January 2007, as previously reported	4,260	2,000	6,622	890	2,160	15,932	9,604	2,753	1,991	30,280
Adoption of HK(IFRIC)-Int 12	–	(2,000)	–	–	–	(2,000)	–	–	–	(2,000)
At 1 January 2007, as restated	4,260	–	6,622	890	2,160	13,932	9,604	2,753	1,991	28,280
Exchange adjustments	245	–	564	67	2	878	385	141	70	1,474
Additions others	172	–	657	2,528	137	3,494	–	1,851	358	5,703
Disposals through disposal of subsidiary companies	–	–	(15)	–	(231)	(246)	–	–	–	(246)
others	(29)	–	(132)	–	(186)	(347)	(27)	(24)	(238)	(636)
Change in fair value of investment properties	–	–	–	–	–	–	1,002	–	–	1,002
Transfer to assets held for sale	(37)	–	–	–	–	(37)	–	–	(336)	(373)
Transfer upon completion	258	–	(38)	(1,001)	758	(23)	(69)	(22)	114	–
At 31 December 2007	4,869	–	7,658	2,484	2,640	17,651	10,895	4,699	1,959	35,204
Accumulated depreciation, amortisation and impairment										
At 1 January 2007, as previously reported	770	898	1,946	71	1,654	5,339	–	41	279	5,659
Adoption of HK(IFRIC)-Int 12	–	(898)	–	–	–	(898)	–	–	–	(898)
At 1 January 2007, as restated	770	–	1,946	71	1,654	4,441	–	41	279	4,761
Exchange adjustments	56	–	206	6	15	283	–	3	4	290
Charge for the year	170	–	564	–	290	1,024	–	21	42	1,087
Disposal of subsidiary companies	–	–	(7)	–	(116)	(123)	–	–	–	(123)
Written back on disposals	(16)	–	(89)	–	(114)	(219)	–	(7)	–	(226)
Impairment loss	6	–	68	13	16	103	–	353	–	456
Transfer to other assets	(4)	–	(46)	–	38	(12)	–	–	(7)	(19)
Reclassification	(5)	–	5	–	–	–	–	–	–	–
At 31 December 2007	977	–	2,647	90	1,783	5,497	–	411	318	6,226
Net book value At 31 December 2007	3,892	–	5,011	2,394	857	12,154	10,895	4,288	1,641	28,978
Represented by Cost	4,869	–	7,658	2,484	2,640	17,651	–	4,699	1,959	24,309
Valuation	–	–	–	–	–	–	10,895	–	–	10,895
	4,869	–	7,658	2,484	2,640	17,651	10,895	4,699	1,959	35,204

16 Fixed Assets *continued*

a Group *continued*

Notes:

i) Interest capitalised in properties under development and construction in progress amounts to HK$242 million (2007: HK$188 million) and HK$221 million (2007: HK$Nil) respectively.

ii) As at 31 December 2008, certain of the Group's properties under development, self-used properties and plant and machinery with an aggregate carrying value of HK$320 million (2007: HK$11 million) were pledged to secure loan and banking facilities granted to certain subsidiary companies.

iii) Construction in progress comprises the development of an iron ore mine in Western Australia, and expansion of the special steel mills.

iv) Other property, plant and equipment comprise traffic equipment, cargo lighters, computer installations, telecommunications equipment, motor vehicles and furniture, fixtures and equipment.

v) Capital commitments of the Group in respect of fixed assets:

in HK$ million	**2008**	2007
Authorised but not contracted for		
property, plant and equipment, properties under development and leasehold land	**263**	254
Contracted but not provided for		
property, plant and equipment, properties under development and leasehold land	**23,955**	21,147

	Group	
in HK$ million	**2008**	2007
Additions of fixed assets by segment		
Special steel	**5,235**	1,062
Iron ore mining	**6,045**	1,990
Property	**5,581**	2,161
Civil infrastructure	**7**	56
CITIC 1616	**124**	62
Dah Chong Hong	**438**	360
Other investments	**8**	12
	17,438	5,703
Addition of fixed assets by geographical area		
Mainland China	**10,811**	2,876
Hong Kong	**582**	837
Overseas	**6,045**	1,990
	17,438	5,703
Depreciation and amortisation by segment		
Special steel	**619**	712
Property	**73**	91
Civil infrastructure	**4**	4
CITIC 1616	**99**	110
Dah Chong Hong	**183**	157
Other investments	**6**	13
	984	1,087

16 Fixed Assets *continued*

b Company

in HK$ million	Motor vehicles, equipment, furniture and fixtures **2008**	2007
Cost		
At 1 January	**106**	103
Additions	**3**	7
Disposals	**–**	(4)
At 31 December	**109**	106
Accumulated depreciation		
At 1 January	**87**	79
Charge for the year	**6**	12
Written back on disposals	**–**	(4)
At 31 December	**93**	87
Net book value		
At 31 December	**16**	19

c The tenure of the properties of the Group is as follows:

in HK$ million	Self-used properties **2008**	2007	Investment properties **2008**	2007	Properties under development **2008**	2007	Leasehold land **2008**	2007	Total **2008**	2007
Leasehold properties held										
In Hong Kong										
Leases of over 50 years	**23**	23	**852**	858	**–**	–	**–**	–	**875**	881
Leases of between 10 to 50 years	**1,046**	1,046	**3,929**	4,057	**81**	77	**1,114**	1,114	**6,170**	6,294
Leases of less than 10 years	**16**	20	**–**	–	**–**	–	**–**	–	**16**	20
In mainland China										
Leases of over 50 years	**141**	32	**1,499**	1,384	**5,251**	3,174	**–**	–	**6,891**	4,590
Leases of between 10 to 50 years	**4,087**	3,506	**4,479**	4,214	**4,677**	1,448	**1,572**	845	**14,815**	10,013
Leases of less than 10 years	**26**	24	**–**	–	**–**	–	**–**	–	**26**	24
Properties held overseas										
Freehold	**219**	218	**471**	382	**–**	–	**–**	–	**690**	600
	5,558	4,869	**11,230**	10,895	**10,009**	4,699	**2,686**	1,959	**29,483**	22,422

16 Fixed Assets *continued*

d Property valuation

Investment properties were revalued at 31 December 2008 by the following independent, professionally qualified valuers.

Properties located in	Valuers
Hong Kong and Shanghai	Knight Frank Petty Limited
Japan	Tekko Building Co., Limited

e Fixed assets and properties held for sale under current assets of the Group let under operating leases to generate rental income are as follows:

in HK$ million	Investment properties	Self-used properties	Other fixed assets	Fixed assets total	Properties held for sale
Cost or valuation	**11,230**	**6**	**217**	**11,453**	**310**
Accumulated depreciation / amortisation	**–**	**(2)**	**(123)**	**(125)**	**(64)**
Net book value at 31 December 2008	**11,230**	**4**	**94**	**11,328**	**246**
Depreciation charges / amortisation charges for the year	**–**	**–**	**34**	**34**	**3**
Cost or valuation	10,895	22	212	11,129	310
Accumulated depreciation / amortisation	–	(2)	(119)	(121)	(61)
Net book value at 31 December 2007	10,895	20	93	11,008	249
Depreciation charges / amortisation charges for the year	–	–	32	32	3

17 Subsidiary Companies

	Company	
in HK$ million	**2008**	2007
Unlisted shares, at cost less impairment losses	**1,101**	986
Amounts due by subsidiary companies (Note)	**63,925**	56,076
	65,026	57,062

Particulars of the principal subsidiary companies are shown in Note 44.

Note: Amounts due by subsidiary companies and amounts due to subsidiary companies are interest bearing at market rates except for amounts due by subsidiary companies of approximately HK$41,137 million (2007: HK$42,888 million) and amounts due to subsidiary companies of approximately HK$6,304 million (2007: HK$6,113 million), which are non-interest bearing. These loans have no fixed repayment terms and were not in default or impaired except for a provision for impairment loss of HK$1,198 million was made in 2008 (2007: HK$Nil).

18 Jointly Controlled Entities

	Group	
in HK$ million	**2008**	2007
Share of net assets	**14,333**	13,903
Goodwill and intangible assets		
At 1 January	**512**	533
Additions (Note a)	**1,574**	18
Disposal	**–**	(39)
Amortisation	**(4)**	–
Exchange differences	**137**	–
At 31 December	**2,219**	512
	16,552	14,415
Loans due from jointly controlled entities (Note c)	**4,589**	3,207
Loans due to jointly controlled entities (Note c)	**(1)**	(176)
	21,140	17,446

	Company	
in HK$ million	**2008**	2007
Unlisted shares, at cost	**4,244**	3,687
Loans due from jointly controlled entities	**1,061**	504
Loans due to jointly controlled entities	**–**	(175)
	5,305	4,016

Note:

a. During the year, the Group acquired a 30% interest in a jointly controlled entity, Shangdong Xin Ju Long Energy Co. Ltd. which owns a coal mine in Shangdong Province, China, for a consideration of RMB 1.56 billion, equivalent to approximately HK$1,766 million.

b. Jointly controlled entities include the Western Harbour Tunnel Company Limited ('WHTCL') whose year end is 31 July which is not coterminous with the Group's year end. The results of certain jointly controlled entities (including WHTCL) have been equity accounted for based on their unaudited accounts.

c. Loans due from jointly controlled entities and loans due to jointly controlled entities are interest bearing at market rates except for loans to jointly controlled entities of approximately HK$1,423 million (2007: HK$1,074 million), which are non-interest bearing. These loans have no fixed repayment terms and were not in default or impaired except for a provision for impairment loss of HK$132 million in 2007.

d. The following amounts represent the Group's share of the assets and liabilities, and revenue and results of jointly controlled entities and are included in the consolidated balance sheet and profit and loss account using the equity method:

in HK$ million	**2008**	2007
Assets		
Non-current assets	**23,087**	20,409
Current assets	**18,399**	16,328
	41,486	36,737
Liabilities		
Non-current liabilities	**(13,335)**	(10,038)
Current liabilities	**(13,583)**	(11,786)
	(26,918)	(21,824)
Net assets	**14,568**	14,913
Revenue	**20,524**	15,532
Expenses	**(20,254)**	(13,860)
	270	1,672
Taxation	**(97)**	(126)
Profit for the year	**173**	1,546
Share of jointly controlled entities' capital commitments (Note) contracted but not provided for	**1,285**	378

Note: Group's attributable portion for capital and loans to the respective jointly controlled entities have been fully contributed.

e. Particulars of the principal jointly controlled entities are shown in Note 44.

19 Associated Companies

in HK$ million	Group 2008	2007
Share of net assets	**11,280**	13,768
Goodwill		
At 1 January	**1,439**	1,444
Disposal	**(1)**	(5)
Exchange differences	**1**	–
At 31 December	**1,439**	1,439
Loans due from associated companies (Note b)	**2,375**	2,746
Loans due to associated companies (Note b)	**(10)**	(12)
	15,084	17,941
Investment at cost		
Unlisted shares	**5,051**	4,744
Shares listed in Hong Kong	**6,247**	6,252
	11,298	10,996
Market value of listed shares	**5,998**	14,033

in HK$ million	Company 2008	2007
Investment at cost		
Unlisted shares	**2,197**	2,197
Shares listed in Hong Kong	**931**	931
	3,128	3,128
Loans due from associated companies	**2,432**	2,513
Loans due to associated companies	**(9)**	(9)
	5,551	5,632
Market value of listed shares	**624**	1,461

Dividend income from associated companies during the year is as follows:

in HK$ million	Group 2008	2007
Listed associated companies	**426**	392
Unlisted associated companies	**349**	399
	775	791

Note:

a. *Associated companies includes the Hong Kong Resort Company Limited ('HKR') whose year end is 31 March which is not coterminous with the Group's year end. The results of certain associated companies including HKR have been equity accounted for based on their management accounts for the years ended 31 December 2007 and 2008.*

b. *Loans due from associated companies and loans due to associated companies are interest bearing at market rates except for loans due to associated companies of amount of approximately HK$9 million (2007: HK$9 million), which are non-interest bearing. These loans have no fixed repayment terms and were not in default or impaired except for a provision for impairment loss of HK$24 million provided in 2007 for the loans due from an associated company.*

c. *Particulars of the principal associated companies are shown in Note 44.*

19 Associated Companies *continued*

Summarised financial information of the associated companies on a gross basis:

in HK$ million	Group **2008**	2007
Assets	**208,489**	207,747
Liabilities	**151,385**	136,952
Revenue	**110,001**	95,778
(Loss) / profit	**(10,373)**	10,000

20 Other Financial Assets

in HK$ million	Group **2008**	2007
Available for sale investments		
Listed investments, at fair value		
Shares listed in Hong Kong	**683**	6,991
Shares listed overseas	**3**	35
	686	7,026
Co-operative joint ventures		
Unlisted investments, at fair value	**–**	69
Amounts due by co-operative joint ventures	**–**	3
	–	72
Others		
Unlisted investments		
Shares, at cost	**11**	26
Loans receivable	**366**	378
	1,063	7,502

Particulars of the principal co-operative joint ventures are shown in Note 44.

Other financial assets are denominated in the following currencies:

in HK$ million	Group **2008**	2007
Hong Kong dollar	**690**	7,049
Renminbi	**370**	418
Other currencies	**3**	35
	1,063	7,502

21 Intangible Assets

	Goodwill	Intangible assets			
in HK$ million		Mining assets	Vehicular tunnel	Others	Total
Cost					
At 1 January 2008, as restated	**639**	**2,984**	**2,000**	**–**	**5,623**
Exchange adjustment	**9**	**(10)**	**–**	**1**	**–**
Additions	**–**	**3,924***	**–**	**42**	**3,966**
Acquisition of subsidiaries	**318**	**–**	**–**	**222**	**540**
At 31 December 2008	**966**	**6,898**	**2,000**	**265**	**10,129**
Accumulated amortisation and impairment losses					
At 1 January 2008, as restated	**25**	**–**	**996**	**–**	**1,021**
Exchange adjustment	**–**	**(5)**	**–**	**–**	**(5)**
Charge for the year	**–**	**–**	**102**	**5**	**107**
Impairment loss	**–**	**26**	**–**	**1**	**27**
At 31 December 2008	**25**	**21**	**1,098**	**6**	**1,150**
Net book value					
At 31 December 2008	**941**	**6,877**	**902**	**259**	**8,979**
Cost					
At 1 January 2007, as previously reported	1,146	1,865	–	–	3,011
Adoption of HK(IFRIC)-Int 12	–	–	2,000	–	2,000
De-recognition of goodwill (Note)	(507)	–	–	–	(507)
At 1 January 2007, as restated	639	1,865	2,000	–	4,504
Additions	–	1,119	–	–	1,119
At 31 December 2007, as restated	639	2,984	2,000	–	5,623
Accumulated amortisation and impairment losses					
At 1 January 2007, as previously reported	25	–	–	–	25
Adoption of HK(IFRIC)-Int 12	–	–	898	–	898
At 1 January 2007, as restated	25	–	898	–	923
Charge for the year	–	–	98	–	98
31 December 2007, as restated	25	–	996	–	1,021
Net book value					
At 31 December 2007	614	2,984	1,004	–	4,602

* *Including site restoration and mining rights provisions of HK$734 million, for details see Note 34.*

21 Intangible Assets *continued*

Analysed by:

	2008				2007			
	Goodwill	Intangible assets			Goodwill	Intangible assets		
in HK$ million		Mining assets	Vehicular tunnel	Others		Mining assets	Vehicular tunnel	Others
Special steel	**66**	**–**	**–**	**–**	57	–	–	–
Iron ore mining	**–**	**6,877**	**–**	**–**	–	2,984	–	–
Property								
Mainland China	**297**	**–**	**–**	**–**	297	–	–	–
Civil infrastructure	**7**	**–**	**902**	**–**	7	–	1,004	–
CITIC 1616	**288**	**–**	**–**	**18**	83	–	–	–
Dah Chong Hong	**283**	**–**	**–**	**241**	170	–	–	–
	941	**6,877**	**902**	**259**	614	2,984	1,004	–

Note: Goodwill and a related deferred tax liability of HK$507 million arising in respect of the Group's Australian iron ore mine acquisition in 2006 have been restated as at 1 January 2007 as it was assessed that the mining right was deductible at the time of acquisition. This restatement has no impact on net profit / loss or net assets.

22 Non-Current Deposits

	Group	
in HK$ million	**2008**	2007
Non–current deposits represented deposit payments for		
Construction of cargo ships	**3,754**	2,053
Land acquisitions	**339**	1,444
Acquisition and construction of other property, plant and equipment; mainly in relation to the Group's steel plant new phases and the Australian iron ore mining project	**4,616**	2,226
	8,709	5,723

23 Other Assets Held for Sale

As at 31 December 2007, an interest in Air Cargo China, a jointly controlled entity in PRC was presented as an asset held for sale following the approval of the Group's management to dispose of the interest, which disposal was completed in 2008.

As at 31 December 2007, a property situated in Hong Kong was classified as an asset held for sale and carried at the lower of its carrying amount and fair value less costs to sell, following the approval of the Group's management to dispose of the property, which disposal was completed in 2008.

24 Inventories

in HK$ million	Group 2008	2007
Raw materials	**1,350**	1,977
Work-in-progress	**676**	947
Finished goods	**3,407**	2,971
Others	**172**	87
	5,605	5,982

An amount of HK$353 million (2007: HK$68 million) for write-down of inventories to net realisable value has been included in cost of sales in the profit and loss account.

25 Debtors, Accounts Receivable, Deposits and Prepayments

	Group		Company	
in HK$ million	**2008**	2007	**2008**	2007
Trade debtors and bills receivable aged				
Within 1 year	**5,281**	4,196	**–**	–
Over 1 year	**56**	56	**–**	–
	5,337	4,252	**–**	–
Accounts receivable, deposits and prepayments	**4,594**	3,789	**190**	278
	9,931	8,041	**190**	278

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 approximates their fair value.

iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK$181 million (2007: HK$138 million), which are unsecured, interest free and recoverable on demand, except for an amount of HK$1.3 million (2007: HK$1 million) which is interest bearing, and amounts due from associated companies of HK$27 million (2007: HK$90 million) which are unsecured, interest free and recoverable on demand.

As of 31 December 2008, trade receivables of HK$166 million (2007: HK$560 million) were past due but not impaired. These relate to a number of independent customers which have no recent history of default. The ageing analysis of these trade receivables is as follows:

in HK$ million	**2008**	2007
3 to 6 months	**131**	528
Over 6 months	**35**	32
	166	560

25 Debtors, accounts receivable, deposits and prepayments *continued*

Movements on the provision for impairment of trade receivables are as follows:

in HK$ million	**2008**	2007
At 1 January	**83**	207
Exchange adjustments	**6**	13
Provision for impairment loss	**41**	26
Receivables written off during the year	**(4)**	(158)
Unused amounts reversed	**–**	(5)
Through acquisition of subsidiary	**15**	–
At 31 December	**141**	83

The creation and release of provision for impairment losses has been included in other operating expenses in the consolidated profit and loss account. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

As of 31 December 2008, trade receivables of HK$162 million (2007: HK$91 million) were individually determined to be impaired. The individually impaired receivables mainly relate to customers which are in an unexpected difficult economic situation. It was assessed that a portion of such receivables is expected to be recovered. Consequently, specific provision for impairment loss of HK$91 million (2007: HK$60 million) was recognised. The Group does not hold any collateral over these balances.

Accounts receivable, deposits and prepayments do not contain impaired assets.

26 Creditors, Accounts Payable, Deposits and Accruals

	Group		Company	
in HK$ million	**2008**	2007	**2008**	2007
Trade creditors and bills payable aged				
Within 1 year	**5,517**	4,532	**–**	–
Over 1 year	**424**	329	**–**	–
	5,941	4,861	**–**	–
Accounts payable, deposits and accruals	**7,559**	5,800	**300**	153
	13,500	10,661	**300**	153

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

27 Share Capital

	Number of shares of HK$0.40 each	HK$ million
Authorised		
At 1 January 2007 and 2008	3,000,000,000	1,200
Increase during the year	3,000,000,000	1,200
At 31 December 2008	6,000,000,000	2,400
Issued and fully paid		
At 1 January 2007	2,195,604,160	878
Issue of shares pursuant to the Plan (ii)	19,336,000	8
Repurchased during the year (iii)	(2,813,000)	(1)
At 31 December 2007	2,212,127,160	885
At 1 January 2008	2,212,127,160	885
Issue of shares during the year (i) & (ii)	1,453,468,000	581
Repurchased during the year (iii)	(19,321,000)	(8)
At 31 December 2008	3,646,274,160	1,458

Changes during the year:

i) On 24 December 2008, a Convertible Bond was issued by the Company to CITIC Group with an aggregate principal amount of HK$11.625 billion. This bond was immediately converted in full into shares of the Company on issuance. Following the conversion, an aggregate of 1,453,125,000 shares of the Company at a price of HK$8.00 per share were allotted and issued to certain subsidiaries of CITIC Group which became the ultimate holding company of the Company holding an approximately 57.56% interest in the Company. The consideration for 1,453,125,000 shares of the Company (being HK$11.625 billion) was paid as to HK$2.47 billion in cash with the remaining amount being set off against the amount payable by the Company to CITIC Group in respect of the novation of certain AUD leveraged foreign exchange contracts entered into by the Group (see Note 5).

ii) During the year, the Company issued and allotted a total of 343,000 shares at HK$22.10 per share upon the exercise of share options which were granted under the Plan.

iii) During the year, the Company repurchased a total of 19,321,000 of its own shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled, as follows:

Month / Year	Number of shares repurchased	Total purchase prices HK$ million	Purchase price per share Highest HK$	Purchase price per share Lowest HK$
January 2008	15,484, 000	545	37.90	32.25
June 2008	2,837,000	84	30.40	28.50
September 2008	1,000,000	25	25.55	24.90
	19,321,000	654		

27 Share Capital *continued*

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 the Company or any of its subsidiary companies to subscribe for options over the Company's shares on payment of HK$1 per acceptance. The subscription price determined by the Board will be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. The maximum number of shares over which options may be granted under the Plan shall not exceed 10% of (i) the issued share capital of the Company from time to time or (ii) the issued share capital of the Company as at the date of adopting the Plan, whichever is the lower.

					Outstanding balance	
Grant date	Number of options granted	Percentage of the issued share capital	Exercise price HK$	Closing price before grant date HK$	At 31 December 2008	At 31 December 2007
28 May 2002	11,550,000	0.32%	18.20	18.10	–	–
1 November 2004	12,780,000	0.35%	19.90	19.90	4,914,000	4,914,000
20 June 2006	15,930,000	0.44%	22.10	22.50	7,996,000	8,339,000
16 October 2007	18,500,000	0.51%	47.32	47.65	16,850,000	16,900,000

All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant.

Other than the Plan, certain of the Company's subsidiary companies have issued equity-settled share-based payments to certain of their employees. The aggregate amount of the share-based payments recognised by these companies is not material to the Group.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in HK$ per share	Options	Average exercise price in HK$ per share	Options
At 1 January		**30,153,000**		30,989,000
Granted	**–**	**–**	47.32	18,500,000
Exercised	**22.10**	**(343,000)**	22.25	(19,336,000)
Lapsed	**47.32**	**(50,000)**	–	–
At 31 December		**29,760,000**		30,153,000
Weighted average remaining contractual life		**2.95 years**		3.95 years

Details of share options exercised during the year:

Exercise price HK$	Number of shares **2008**	2007
18.20	**–**	6,840,000
19.90	**–**	4,905,000
22.10	**343,000**	5,991,000
47.32	**–**	1,600,000
	343,000	19,336,000

The related weighted average share price at the time of exercise was HK$35.19 (2007: HK$32.57) per share.

28 Reserves

a Group

in HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill (Note)	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General reserve	Retained profits	Total
At 1 January 2008	**25,415**	**21**	**240**	**(1,738)**	**4,756**	**3,016**	**185**	**765**	**26,248**	**58,908**
Share of reserves of associated companies	–	–	1	–	(75)	71	(181)	–	(26)	(210)
Share of reserves of jointly controlled entities	–	–	78	–	7	86	(23)	1	–	149
Exchange translation differences	–	–	–	–	–	1,701	–	–	–	1,701
Reserves released on disposal of jointly controlled entities	–	–	–	–	–	(93)	–	–	–	(93)
Loss on cash flow hedge of financial instruments	–	–	–	–	–	–	(3,459)	–	–	(3,459)
Fair value gain on other financial assets	–	–	–	–	(453)	–	–	–	–	(453)
Fair value released on disposal of financial assets	–	–	–	–	(4,095)	–	–	–	–	(4,095)
Transfer to profit and loss account on impairment of financial assets	–	–	–	–	98	–	–	–	–	98
Transfer from retained profits	–	–	–	–	–	–	–	220	(220)	–
Issue of shares pursuant to the Plan	8	–	(1)	–	–	–	–	–	–	7
Premium on shares issued (Note 27 & 5)	11,044	–	641	–	–	–	–	–	–	11,685
Loss attributable to shareholders of the Company	–	–	–	–	–	–	–	–	(12,662)	(12,662)
Dividends (Note 11)	–	–	–	–	–	–	–	–	(2,415)	(2,415)
Share repurchase	–	8	–	–	–	–	–	–	(656)	(648)
Released upon lapse of share options of a subsidiary	–	–	(1)	–	–	–	–	–	1	–
At 31 December 2008	36,467	29	958	(1,738)	238	4,781	(3,478)	986	10,270	48,513
Retained by										
Company and subsidiary companies	36,467	29	823	(1,738)	112	4,782	(3,390)	970	(2,703)	35,352
Jointly controlled entities	–	–	103	–	16	132	(19)	16	3,573	3,821
Associated companies	–	–	32	–	110	(133)	(69)	–	9,400	9,340
	36,467	29	958	(1,738)	238	4,781	(3,478)	986	10,270	48,513

Note: The Goodwill reserve is as a result of goodwill arising on acquisitions prior to year 2001 which under the then prevailing Accounting Standards was reflected in reserves rather than as a separate assets.

28 Reserves *continued*

a Group *continued*

in HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General reserve	Retained profits	Total
At 1 January 2007	24,956	20	73	(2,494)	1,350	806	130	465	20,326	45,632
Share of reserves of associated companies	–	–	30	–	28	24	(5)	–	–	77
Share of reserves of jointly controlled entities	–	–	6	–	9	46	3	1	–	65
Exchange translation differences	–	–	–	–	–	2,168	–	–	–	2,168
Reserves released on disposal of associated companies	–	–	6	–	–	–	–	–	–	6
Disposal of interests in subsidiary companies	–	–	(18)	756	–	(28)	–	–	(756)	(46)
Gain on cash flow hedge of financial instruments	–	–	–	–	–	–	57	–	–	57
Fair value gain on other financial assets	–	–	–	–	3,292	–	–	–	–	3,292
Transfer from profits	–	–	–	–	77	–	–	299	(299)	77
Issue of share pursuant to the Plan	459	–	(36)	–	–	–	–	–	–	423
Profit attributable to the equity holders of the Company	–	–	–	–	–	–	–	–	10,843	10,843
Dividends (Note 11)	–	–	–	–	–	–	–	–	(3,756)	(3,756)
Share repurchase	–	1	–	–	–	–	–	–	(110)	(109)
Share-based payment	–	–	179	–	–	–	–	–	–	179
At 31 December 2007	25,415	21	240	(1,738)	4,756	3,016	185	765	26,248	58,908
Representing										
At 31 December 2007 after proposed final dividend										57,138
2007 Final dividend proposed										1,770
										58,908
Retained by										
Company and subsidiary companies	25,415	21	181	(1,738)	4,561	3,174	69	745	11,713	44,141
Jointly controlled entities	–	–	23	–	9	46	5	17	3,373	3,473
Associated companies	–	–	36	–	186	(204)	111	3	11,162	11,294
	25,415	21	240	(1,738)	4,756	3,016	185	765	26,248	58,908

28 Reserves *continued*

b Company

in HK$ million	Capital redemption reserve	Capital reserve	Hedging reserve	Share premium	Retained profits	Total
At 1 January 2008	**21**	**164**	**(50)**	**25,415**	**16,782**	**42,332**
Issue of shares pursuant to the Plan	**–**	**(1)**	**–**	**8**	**–**	**7**
Loss on cash flow hedge of financial instruments	**–**	**–**	**(2,247)**	**–**	**–**	**(2,247)**
Premium on shares issued	**–**	**641**	**–**	**11,044**	**–**	**11,685**
Loss attributable to shareholders (Note 10)	**–**	**–**	**–**	**–**	**(10,302)**	**(10,302)**
Dividends (Note 11)	**–**	**–**	**–**	**–**	**(2,415)**	**(2,415)**
Share repurchase	**8**	**–**	**–**	**–**	**(656)**	**(648)**
At 31 December 2008	**29**	**804**	**(2,297)**	**36,467**	**3,409**	**38,412**
At 1 January 2007	20	56	8	24,956	14,935	39,975
Share-based payment	–	144	–	–	–	144
Issue of shares pursuant to the Plan	–	(36)	–	459	–	423
Loss on cash flow hedge of financial instruments	–	–	(58)	–	–	(58)
Profit for the year available for distribution (Note 10)	–	–	–	–	5,713	5,713
Dividends (Note 11)	–	–	–	–	(3,756)	(3,756)
Share repurchase	1	–	–	–	(110)	(109)
At 31 December 2007	21	164	(50)	25,415	16,782	42,332
Representing						
At 31 December 2007 after proposed final dividend						40,562
2007 Final dividend proposed						1,770
						42,332

29 Borrowings

a

in HK$ million	Group 2008	Group 2007	Company 2008	Company 2007
Bank loans				
unsecured	**37,577**	21,246	**28,483**	15,799
secured	**8,478**	211	**–**	–
	46,055	21,457	**28,483**	15,799
Other loans				
unsecured	**4,040**	3,945	**–**	–
	50,095	25,402	**28,483**	15,799
Amounts repayable within one year included under current liabilities	**(2,243)**	(402)	**(1,246)**	–
Total long term borrowing	**47,852**	25,000	**27,237**	15,799
Short term borrowings				
Bank loans				
unsecured	**6,704**	2,924	**3,355**	1,686
secured	**324**	323	**–**	–
	7,028	3,247	**3,355**	1,686
Other loans				
unsecured	**6**	5	**–**	–
secured	**105**	–	**–**	–
	111	5	**–**	–
Amounts repayable within one year included under current liabilities	**2,243**	402	**1,246**	–
Total of bank and other loans included under current liabilities				
secured	**490**	328	**–**	–
unsecured	**8,892**	3,326	**4,601**	1,686
Total borrowings	**57,234**	28,654	**31,838**	17,485

Note:

i) Bank loans and other loans of the Group not wholly repayable within five years amounted to HK$16,850 million (2007: HK$9,677 million).

ii) On 1 June 2001, CITIC Pacific Finance (2001) Limited, a wholly owned subsidiary of the Company, issued and sold a total of US$450 million principal amount of 7.625% guaranteed notes due 2011 ('Guaranteed Notes') for refinancing the indebtedness of the Company and for general corporate purposes, to investors pursuant to purchase agreements dated 24 May 2001 and 1 June 2001. All of the Guaranteed Notes remained outstanding at the end of the year.

iii) On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of the Company, issued and sold JPY 8.1 billion in aggregate principal amount of guaranteed floating rate note due 2035 ('JPY Notes') to investors for general corporate purposes pursuant to the subscription agreement dated 26 October 2005. All of the JPY Notes remained outstanding at the end of the year.

iv) Bank loans and other loans, other than the JPY Notes, are fully repayable before 2032 and bear interest at the prevailing market rate.

v) As at 31 December 2008, certain of the Group's inventories, deposits, accounts receivable, properties under development and self-used properties with an aggregate carrying value of HK$746 million (2007: HK$423 million) were pledged to secure loans and banking facilities granted to certain subsidiary companies of the Group. In addition, assets of HK$15.1 billion of the iron ore mining project were pledged under the project finance arrangement. Shipbuilding contracts of HK$5.1 billion for the 12 ships relating to the project were also pledged as security for the ships financing.

29 Borrowings *continued*

b The maturity of the Group's and the Company's long term liabilities is as follows:

	Group		Company	
in HK$ million	**2008**	2007	**2008**	2007
Bank loans are repayable				
in the first year	**2,242**	397	**1,246**	–
in the second year	**5,625**	2,527	**2,992**	570
in the third to fifth years inclusive	**21,867**	9,286	**15,975**	5,991
after the fifth year	**16,321**	9,247	**8,270**	9,238
	46,055	21,457	**28,483**	15,799
Other loans are repayable				
in the first year	**1**	5	**–**	–
in the second year	**–**	–	**–**	–
in the third to fifth years inclusive	**3,510**	3,510	**–**	–
after the fifth year	**529**	430	**–**	–
	4,040	3,945	**–**	–
	50,095	25,402	**28,483**	15,799

c The exposure of the Group's total borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group	
in HK$ million	**2008**	2007
At 31 December		
Total borrowings	**51,308**	24,273
Effect of interest rate swaps	**(7,744)**	(5,342)
Exposure of borrowings to interest–rate changes	**43,564**	18,931
Repricing dates	**One year or less**	One year or less

The effective interest rate per annum on the Group's borrowings after reflecting the impact of interest rate swaps was as follows:

	2008	2007
Total borrowings	**4.7%**	5.5%

d The fair value of borrowings is HK$53,033 million (2007: HK$28,654 million). The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

29 Borrowings *continued*

e The carrying amounts of the total borrowings are denominated in the following currencies:

	Group		Company	
in HK$ million	**2008**	2007	**2008**	2007
Hong Kong dollar	**14,886**	8,575	**13,983**	7,255
US dollar	**30,165**	14,016	**17,298**	9,780
Renminbi	**10,970**	4,833	**–**	–
Other currencies	**1,213**	1,230	**557**	450
	57,234	28,654	**31,838**	17,485

The Group has the following undrawn borrowing facilities:

in HK$ million	**2008**	2007
Floating rate		
expiring within one year	**3,032**	5,572
expiring beyond one year	**17,285**	15,018
	20,317	20,590

30 Financial Risk Management

Financial Risk Factors

The Group is exposed to a variety of financial risks and manages them through a combination of financial instruments.

In response to losses arising from the Group's structured forward contracts reported elsewhere, an Asset and Liability Management Committee ('ALCO') was set up by the board in October 2008 to oversee and monitor the exposures of the Group.

Financial risk management is centralised at head office level but execution and monitoring of specific risks and raising finance may be delegated to business units.

30 Financial Risk Management *continued*

a Exposure to Interest Rate Fluctuations

The Group aims to maintain a suitable mixture of fixed rate and floating rate borrowings in order to stabilise interest costs despite rate movements. The Group uses interest rate swaps and other instruments to modify the interest rate characteristics of its borrowings. As at 31 December 2008, HK$13.7 billion (2007: HK$8.5 billion) of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying a floating rate of interest.

At 31 December 2008, if interest rates had been 100 basis points higher / lower, with all other variables held constant, the hypothetical impact is summarised as follows:

	100 basis points higher		100 basis point lower	
in HK$ million	Hypothetical impact on profit / (loss)	Hypothetical impact on equity	Hypothetical impact on profit / (loss)	Hypothetical impact on equity
Bank borrowings	**(190)**	**–**	**190**	**–**
Cash & deposits	**157**	**–**	**(157)**	**–**
Derivatives	**82**	**2,113**	**(89)**	**(2,375)**

At 31 December 2007, if interest rates had been 100 basis points higher / lower, with all other variables held constant, the hypothetical impact is summarised as follows:

	100 basis points higher		100 basis point lower	
in HK$ million	Hypothetical impact on profit / (loss)	Hypothetical impact on equity	Hypothetical impact on profit / (loss)	Hypothetical impact on equity
Bank borrowings	(91)	–	91	–
Cash & deposits	76	–	(76)	–
Derivatives	45	126	(45)	(128)

b Exposure to Foreign Currency Fluctuations

CITIC Pacific conducts its business mainly in Hong Kong, mainland China and Australia. Therefore it is subject to the risk of changes in the foreign exchange rates of the HK Dollars, US Dollars, Renminbi and Australian Dollars and to a lesser extent, Japanese Yen, Euro and Swedish Krona. To minimise currency exposure, non HK Dollar assets are usually financed by borrowings in the same currency as the asset or cash flow from it. Achieving this objective is not always possible due to limitations in financial markets and regulatory constraints, particularly on investment into mainland China as the Renminbi is currently not a freely convertible currency and 'Registered Capital', which usually accounts for no less than 25% of the total investment amount for projects in mainland China, is required to be paid in foreign currency. As the Group's investment in mainland China expands, CITIC Pacific has an increasing exposure to the Renminbi.

The future cash flow of the Group's Australian iron ore mining project is denominated in USD and this is its functional currency. A substantial portion of the project infrastructure / pre-completion operating expenditure is, and is projected to be, denominated in Australian Dollars and other non-USD currencies.

Contracts with a maximum deliverable amount of A$2.9 billion as at 31 December 2008 were retained to meet the AUD requirements of the Australian mining operations into USD. Of this A$0.9 billion has been restructured to plain-vanilla forward contracts and thus became effective hedges for accounting purposes. As at 31 December 2008, leveraged foreign exchange contracts with a maximum deliverable amount of A$2.0 billion had not been restructured and therefore changes on their fair value continue to be recognised in the profit and loss account. CITIC Pacific intends to restructure these contracts in 2009. Until restructured, a one cent movement in the Australian Dollar exchange rate to the USD will have an effect on the Group's profit / (loss) of approximately HK$150 million.

30 Financial Risk Management *continued*

b Exposure to Foreign Currency Fluctuations *continued*

Foreign exchange forward contracts are employed to manage other non-USD currency exposures where these exposures are material, and where the cost of the hedging instrument is not prohibitively expensive compared to the underlying exposure.

CITIC Pacific funded the iron ore mining project and the acquisition of vessels by USD loans to match the future cash flow of these assets. Foreign exchange forward contracts are employed to minimise currency exposure for other USD loans and a JPY Bond.

As described in Note 5, the Group entered into various leveraged foreign exchange contracts in respect of its Australian iron ore mining operation. As set out in Note 5, these contracts gave rise to significant losses and the majority of such contracts were novated to the CITIC Group.

Sensitivity analysis

The following table indicates the approximate change in the Group's profit / (loss) and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date, and that all other variables, in particular interest rates, remain constant.

	Group					
in HK$ million	Hypothetical increase in foreign exchange rates	Effect on profit / (loss)	Effect on equity	Hypothetical decrease in foreign exchange rates	Effect on profit / (loss)	Effect on equity
2008						
USD	**1%**	**(83)**	**–**	**1%**	**83**	**–**
RMB*	**2%**	**171**	**–**	**2%**	**(128)**	**–**
AUD*	**10%**	**1,264**	**473**	**10%**	**(1,264)**	**(473)**
YEN	**10%**	**(51)**	**2**	**10%**	**51**	**(2)**
SEK	**15%**	**–**	**33**	**15%**	**–**	**(33)**
EURO	**5%**	**2**	**–**	**5%**	**(3)**	**–**
2007						
USD	1%	(39)	–	1%	39	–
RMB	5%	16	–	5%	(16)	–
AUD*	5%	38	102	5%	(70)	(102)
YEN	5%	(8)	–	5%	8	–
SEK	1%	–	8	1%	–	(8)
EURO	5%	3	–	5%	(3)	–

* *Certain leveraged foreign exchange contracts were outstanding as at 31 December 2007 and 2008. The knock out features of these contracts implies that the positive impact from significant appreciation of AUD and RMB on profit and / or equity will be capped at a certain levels.*

c Price Risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. At 31 December 2008, if there had been a 5% change in the market value of available-for–sale securities with all other variables held constant, the Group's equity would have increased / (decreased) by HK$34 million (2007: HK$351 million). The Group is subject to commodity price risks such as iron ore and coal. The Group has not entered into derivatives to manage such exposures.

30 Financial Risk Management *continued*

d Credit Exposure

The Group's credit risk is primarily related to repayment of cash and deposits placed with banks and the continued ability of the banks to deliver on foreign exchange and derivatives. Operating businesses have trade and accounts receivables.

The Group's cash and deposits with bank are placed with major financial institutions. Counterparty limits are closely monitored for all financial institutions with whom the Group is doing business. The Group only deals with international financial institutions with an investment grade credit rating except for leading PRC financial institutions that do not have an international credit rating. The amount of counterparties' lending exposure to the Group is an important consideration as a means to control credit risk.

Trade receivables are presented net of allowances for bad and doubtful debts. Credit risk in respect of trade and accounts receivables is dispersed since the customers are large in number and spread across different industries and geographical areas. Accordingly, the Group has no significant concentration of such credit risk. Each major operating business has a policy of credit control in place under which credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are due within 15 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk at the reporting date is the carrying value of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. None of the financial assets that are fully performing has been renegotiated in the last year.

e Liquidity Risk

Liquidity risk is managed 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. Refinancing is allocated such that there is a reasonable amount coming due in any one period. In addition, the Company has established co-operative agreements with major PRC banks. These arrangements can substantially shorten the credit approval processes when applying for RMB loans.

The Group's liquidity management procedures involve regularly projecting cashflows in major currencies, and considering the level of liquid assets and new financings necessary to meet these cash flow requirements.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the balance sheet date to their maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, based on interest or exchange rates (where applicable) prevailing at the balance sheet date.

in HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Bank borrowings	**10,720**	**6,772**	**27,473**	**20,683**
Derivative financial instruments	**666**	**780**	**1,893**	**4,677**
Trade creditors and accounts payable	**12,985**	**507**	**8**	**–**
At 31 December 2007				
Bank borrowings	5,129	3,833	15,321	13,239
Derivative financial instruments	56	7	40	2
Trade creditors and accounts payable	10,204	156	301	–

30 Financial Risk Management *continued*

e Liquidity Risk *continued*

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, based on interest or exchange rates (where applicable) prevailing at the balance sheet date.

in HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Forward foreign exchange contracts – cash flow hedges				
outflow	**(2,275)**	**(1,334)**	**(2,561)**	**–**
inflow	**2,012**	**1,136**	**2,105**	**–**
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	**(11,207)**	**(9,788)**	**(334)**	**(201)**
inflow	**10,019**	**8,695**	**339**	**131**
At 31 December 2007				
Forward foreign exchange contracts – cash flow hedges				
outflow	(2,425)	(219)	(15)	–
inflow	2,597	216	15	–
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	(4,891)	(2,101)	(3,045)	–
inflow	4,973	2,123	3,049	–

f Fair Value Estimation

i) The fair value of outstanding derivative transactions is calculated based on the price quotations obtained from major financial institutions. Fair value of loans receivable is estimated as the present value of future cash flows, discounted at the current market interest rates for similar financial instruments.

The fair value of borrowings is disclosed in Note 29(d). The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

ii) The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

iii) The carrying value less impairment provision of trade and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

iv) Certain financial instruments that fail to demonstrate, either at inception or throughout the life of the hedge, that the hedge is highly effective, do not meet hedging requirements. The related foreign currency and interest rate exposure is evaluated at fair values at period ends with movements thereon dealt with in the profit and loss account.

31 Capital Risk Management

The Group's primary objective when managing capital is to safeguard the Group's ability to provide returns for shareholders and to support the Group's stability and growth. The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a strong shareholders' equity position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank deposits. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2008 and at 31 December 2007 were as follows:

in HK$ million	**2008**	2007
Total borrowings	**57,234**	28,654
Less: cash and bank deposits	**18,296**	8,045
Net debt	**38,938**	20,609
Equity attributable to the equity holders of the Company	**49,971**	59,793
Total capital	**88,909**	80,402
Gearing ratio	**44%**	26%

32 Derivative Financial Instruments

	Group			
	2008		2007	
in HK$ million	Assets	Liabilities	Assets	Liabilities
Qualified for hedged accounting – cash flow hedge				
Interest-rate instruments	**–**	**4,150**	3	52
Forward foreign exchange instruments	**21**	**990**	176	8
	21	**5,140**	179	60
Not qualified for hedged accounting				
Interest-rate instruments	**222**	**458**	113	53
Forward foreign exchange instruments	**1,008**	**4,127**	109	22
	1,230	**4,585**	222	75
	1,251	**9,725**	401	135
Less: current portion				
Interest-rate instruments	**50**	**63**	–	57
Forward foreign exchange instruments	**966**	**2,980**	251	9
	1,016	**3,043**	251	66
	235	**6,682**	150	69

32 Derivative Financial Instruments *continued*

	Company			
	2008		2007	
in HK$ million	Assets	Liabilities	Assets	Liabilities
Qualified for hedged accounting – cash flow hedge				
Interest-rate instruments	**–**	**2,380**	3	52
Forward foreign exchange instruments	**1,011**	**1,011**	184	184
	1,011	**3,391**	187	236
Not qualified for hedged accounting				
Interest-rate instruments	**68**	**393**	80	55
Forward foreign exchange instruments	**1,410**	**1,850**	100	50
	1,478	**2,243**	180	105
	2,489	**5,634**	367	341
	(Note)	(Note)		
Less: current portion				
Interest-rate instruments	**28**	**63**	–	57
Forward foreign exchange instruments	**1,348**	**1,686**	240	214
	1,376	**1,749**	240	271
	1,113	**3,885**	127	70

Note:
As at 31 December 2008, there was one Novation Contract (see Note 5 for definition) economically but not yet legally transferred to CITIC Group. As a result, the underlying derivative liability of this Novation Contract amounting to HK$944 million was recorded as a contractual obligation of the Company, and a related derivative asset of HK$944 million, reflecting the economic effect of the transfer of the Novation Contract to CITIC Group was also recorded. The derivative asset was first recorded at the time of economic transfer of the liability to CITIC Group. From the date of economic transfer, changes in fair value of the underlying derivative liability reflected in profit and loss account were fully off-set by equal but opposite changes in the fair value of the derivative asset. This Novation Contract was subsequently legally transferred to CITIC Group in March 2009.

i) Forward foreign exchange instruments

The notional amount of the outstanding forward foreign exchange instruments at 31 December 2008 was HK$34,513 million (2007: HK$13,463 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 48 months. Gains and losses recognised in the hedging reserve in equity (Note 28) on forward foreign exchange contracts as of 31 December 2008 shall be recognised in the profit and loss account in the period or periods during which the hedged transaction affects the profit and loss account.

32 Derivative Financial Instruments *continued*

ii) Interest rate instruments

Interest on our borrowings is mainly calculated at a margin added to the Hong Kong Inter-bank offered rate (HIBOR) or London Inter-bank offered rate (LIBOR). The notional amount of outstanding interest rate swap contracts at 31 December 2008 was HK$29,626 million (2007: HK$12,806 million). In addition, the Group had cross currency interest rate swap contracts with aggregate notional amount of HK$1,195 million (2007: HK$400 million). At 31 December 2008, the fixed interest rates under interest rate swaps varied from 3% to 7.23% per annum (2007: 2.95% to 7.23% per annum). Gains and losses on interest rate swap contracts qualifying for hedge accounting as of 31 December 2008 are recognised in the hedging reserve in equity (Note 28) and will be released to the profit and loss account to match relevant interest payments.

The Group also entered into various interest rate swaptions. Certain swaptions have been converted into plain-vanilla interest rate swaps during 2008. These swaptions do not qualify for hedge accounting and gave rise to a net loss of HK$236 million during 2008. The swaptions were converted into plain-vanilla interest rate swaps that qualify as hedges from the date of conversion.

33 Deferred Taxation

a Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%). The components of deferred tax assets and (liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation		Losses		Revaluation of investment properties and valuation of other properties		Mining assets and others		Total	
in HK$ million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Deferred tax arising from At 1 January, as previously reported	**(504)**	(528)	**239**	186	**(1,083)**	(1,010)	**(646)**	(499)	**(1,994)**	(1,851)
Derecognition of deferred tax liability (Note 21)	**–**	–	**–**	–	**–**	–	**507**	507	**507**	507
At 1 January, as restated	**(504)**	(528)	**239**	186	**(1,083)**	(1,010)	**(139)**	8	**(1,487)**	(1,344)
Exchange adjustment	**(5)**	(1)	**(4)**	–	**(61)**	(54)	**6**	1	**(64)**	(54)
Charged to reserve	**–**	–	**–**	–	**–**	–	**518**	(51)	**518**	(51)
Effect of tax rate change	**30**	–	**(9)**	–	**12**	180	**–**	–	**33**	180
Charged / (credited) to consolidated profit and loss account	**(15)**	25	**634**	53	**(51)**	(173)	**667**	(97)	**1,235**	(192)
Others	**(32)**	–	**75**	–	**30**	(26)	**(51)**	–	**22**	(26)
At 31 December	**(526)**	(504)	**935**	239	**(1,153)**	(1,083)	**1,001**	(139)	**257**	(1,487)

	Group	
in HK$ million	**2008**	2007
Net deferred tax assets recognised on the consolidated balance sheet	**1,967**	100
Net deferred tax liabilities recognised on the consolidated balance sheet	**(1,710)**	(1,587)
	257	(1,487)

33 Deferred Taxation *continued*

b Deferred Tax Assets Unrecognised

The Group has not recognised deferred tax assets in respect of the following items:

	Group	
in HK$ million	**2008**	2007
Deductible temporary differences	**42**	37
Tax losses	**2,962**	2,499
Taxable temporary differences	**(92)**	(109)
	2,912	2,427

	Company	
in HK$ million	**2008**	2007
Deductible temporary differences	**20**	19
Tax losses	**543**	494
	563	513

Note:
Deductible temporary differences and tax losses in certain tax jurisdictions of HK$167 million (2007: HK$196 million) will expire within the next five years. The remaining amounts do not expire under current tax legislation.

c Deferred Tax Liabilities not Recognised

At 31 December 2008, temporary differences relating to the undistributed profits of subsidiary companies amounted to HK$808 million (2007: HK$613 million). Deferred tax liabilities of HK$162 million (2007: HK$123 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiary companies and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

34 Provisions

		Mining assets	
in HK$ million	Site restoration	Mining rights	Total
Balance at 1 January 2008	**–**	**–**	**–**
Provisions made during the year	**54**	**680**	**734**
Balance at 31 December 2008	**54**	**680**	**734**

Site restoration

A provision of HK$54 million was made during the year ended 31 December 2008 in respect of a subsidiary's obligation to rectify environmental damage with a corresponding increase in mining intangible assets. Amortisation of this asset will occur from production date, using a units of production method.

Mining rights

In accordance with the mining right / lease agreements entered into by two subsidiaries of the Company, the Group is committed to pay a defined royalty if either of the two subsidiaries' production is less than 6 million tonnes by March 2013. A provision has been made for this commitment with a corresponding increase in mining intangible assets. Amortisation of this asset will occur from production date, using the units of production method.

35 Capital Commitments

	Group	
in HK$ million	**2008**	2007
Authorised but not contracted for (Note a)	**277**	254
Contracted but not provided for (Note b)	**25,565**	27,338

	Company	
in HK$ million	**2008**	2007
Contracted but not provided for	**459**	557

Note a

	Group	
in HK$ million	**2008**	2007
Authorised but not contracted for		
Analysis by business		
Civil infrastructure	**–**	13
CITIC 1616	**14**	9
Dah Chong Hong	**263**	232
	277	254

Note b

	Group	
in HK$ million	**2008**	2007
Contracted but not yet paid nor accrued		
Analysis by business		
Special steel	**7,954**	1,904
Iron ore mining	**14,765**	19,476
Property		
Mainland China	**2,698**	4,215
Hong Kong	**13**	14
CITIC 1616	**4**	8
Dah Chong Hong	**101**	13
Other investments	**30**	1,708
	25,565	27,338

36 Operating Lease Commitments

The future aggregate minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

	Group		Company	
in HK$ million	**2008**	2007	**2008**	2007
Properties commitments				
Within 1 year	**261**	159	**61**	2
After 1 year but within 5 years	**404**	257	**81**	–
After 5 years	**220**	137	**–**	–
	885	553	**142**	2
Other commitments				
Within 1 year	**30**	21	**–**	–
After 1 year but within 5 years	**40**	46	**–**	–
After 5 years	**4**	11	**–**	–
	74	78	**–**	–
	959	631	**142**	2

37 Business Combinations and Disposals

a Purchase of Subsidiary Companies

In 2008, Dah Chong Hong acquired certain subsidiaries engaged in food trading, manufacturing of electrical appliances and food processing businesses.

In 2008, CITIC 1616 acquired from ChinaMotion NetCom Holdings Limited the entire equity interest in ChinaMotion NetCom Limited and its subsidiaries, apart from one subsidiary of CMN Holdings in which only a 49% equity interest was acquired.

The aggregated fair value of the acquired net assets as at the dates of acquisition was HK$522 million. Since acquisition these businesses contributed aggregate revenues of HK$1,011 million and aggregate net loss of HK$20 million. The aggregate revenue and net loss of the acquired companies as though the acquisition for the business combinations effected during the year had been at the beginning of that year are HK$4,064 million and HK$34 million respectively.

37 Business Combinations and Disposals *continued*

a Purchase of Subsidiary Companies *continued*

in HK$ million	**2008** Acquiree's carrying amount before combination
Net assets acquired	
Property, plant and equipment	**469**
Leasehold land	**39**
Intangible assets	**204**
Interest in associated company	**3**
Inventories	**504**
Debtors, accounts receivable, deposits and prepayments	**530**
Cash and bank deposits	**196**
Deferred tax assets	**28**
Assets	**1,973**
Bank loans and other loans	**(529)**
Creditors, accounts payable, deposits and accruals	**(1,140)**
Provision for taxation	**(2)**
Deferred tax liabilities	**(3)**
Liabilities	**(1,674)**
	299
Fair value adjustments	**223**
Fair value of net assets acquired	**522**
Gain on acquisitions	**(3)**
Minority interests	**(174)**
Goodwill	**318**
	663
Satisfied by	
Cash	**663**

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary companies

in HK$ million	**2008**
Cash consideration	**663**
Cash and bank deposits acquired	**(196)**
Repayment of debt	**(75)**
	392

37 Business Combinations and Disposals *continued*

b Proceeds on Disposal of Interests in Subsidiary Companies

in HK$ million	**2008**	2007
Net assets disposed of		
Property, plant and equipment	**25**	65
Intangible assets	**–**	48
Leasehold land	**330**	–
Associated companies	**–**	1
Inventories	**–**	1
Debtors, accounts receivable, deposits and prepayments	**–**	34
Cash and bank deposits	**–**	53
Creditors, accounts payable, deposits and accruals	**–**	(326)
Minority interests	**–**	(6)
	355	(130)
Profit on disposal	**170**	43
Release of reserve	**–**	64
	525	(23)
Satisfied by		
Cash	**525**	108
Accounts payable	**–**	(131)
	525	(23)

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary companies

in HK$ million	**2008**	2007
Cash consideration	**525**	108
Cash and bank deposits disposed of	**–**	(53)
	525	55

During the year, a property subsidiary company of the Company has been disposed of. In 2007, certain subsidiary companies in the telecommunications business were disposed.

38 Contingent Liabilities

in HK$ million	Company 2008	2007
The Company provided guarantees in respect of bank facilities as follows:		
Subsidiary companies	**29,041**	6,362
Jointly controlled entity	**27**	–
Other performance guarantees and potential penalties		
Subsidiary companies	**851**	–
Jointly controlled entity	**250**	–
	30,169	6,362

In addition, the Company together with other beneficial shareholders of Western Harbour Tunnel Company Limited ('WHTCL') have agreed jointly and severally to guarantee the Government of the Hong Kong Special Administrative Region that WHTCL will complete the Western Harbour Crossing ('Crossing'). The Crossing was completed in April 1997, pending the issuance of the Maintenance Certificate.

The Maintenance Certificate was issued subsequently in February 2009.

39 Material Related Party Transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Following the issuance of shares to CITIC Group on 24 December 2008 (see Note 27(i)), CITIC Pacific Limited is controlled by CITIC Group which owns 57.6% of the Company's shares as at 31 December 2008. CITIC Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the 'state-owned enterprises'). Therefore, transactions with state-owned enterprises are regarded as related party transactions from 24 December 2008.

For the purpose of related party disclosure, the Group has identified to the extent practicable whether its customers and suppliers are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structures and the ownership structures change over time as a result of transfers and privatisation programs. Management believes that meaningful information relating to significant related party transactions has been adequately disclosed.

In addition to information disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions between the Group and its related parties, including other state-owned enterprises, during the year and balances arising from related party transactions at the balance sheet date.

39 Material Related Party Transactions *continued*

The Group had the following significant transactions and balances with related parties:

in HK$ million	**2008**	2007
Transactions with CITIC Group		
(i) Non-recurring transactions		
Consideration received from issue of shares	**11,625**	–
Consideration paid for transferring the Novation Contracts	**(9,155)**	–
	2,470	–
(ii) Recurring transactions		
Management fee payable to CITIC Hong Kong (Holdings) Limited, a substantial shareholder of the Company	**(2)**	(2)
Transactions with jointly controlled entities		
(i) Recurring transactions		
Interest income	**56**	51
Dividend income	**314**	832
Sales	**38**	19
	408	902
Transactions with associated companies		
(i) Recurring transactions		
Interest income	**68**	109
Dividend income	**775**	790
Sales	**199**	168
Service income	**61**	6
	1,103	1,073
Purchases	**62**	31
Rental charge	**69**	41
Service charge	**21**	3
	152	75
(ii) Non-recurring transactions		
Consideration paid for acquisition of a subsidiary and a debt	**142**	–

Transactions with state-owned banks

As at 31 December 2008, there were derivative liabilities of HK$5,815 million (2007: HK$Nil) in relation to outstanding financial instrument transactions with state-owned banks. They are included in the balances disclosed in Note 32.

in HK$ million	**2008**
Balances with fellow subsidiary companies within CITIC Group	
(i) Bank balances	**1,754**
(ii) Bank loans and other loans	**734**
Balances with state-owned enterprises, including banks	
(i) Bank balances	**7,903**
(ii) Bank loans and other loans	**26,095**
(iii) Trade, other receivables and prepayments	**1,121**
(iv) Trade payables and other payables	**978**
(v) Non-current deposits: payment for construction of cargo ships with the refund guaranteed by a state-owned bank	**3,754**

39 Material Related Party Transactions *continued*

Transactions and Balances with China Metallurgical Group, a State-Owned Enterprise

On 24 January 2007, Sino Iron Pty Ltd., a wholly owned subsidiary of the Company, ('Sino Iron') entered into a general construction contract ('the Contract') with China Metallurgical Group Corp., a state-owned enterprise ('MCC'). Pursuant to the Contract, MCC is responsible for the procurement of mining equipment, design, construction and installation of the primary crushing plant, concentrator, pellet plant, material handling system, camp and other auxiliary infrastructure facilities ('the Works to be conducted by MCC') at an amount not exceeding US$1,106 million (approximately HK$8,630 million). The price for the Works to be conducted by MCC is capped and no increase to the contract sum can be made unless otherwise agreed by both parties. On 20 August 2007, Sino Iron entered into supplemental agreements with MCC in relation to, amongst other things, the adjustment to the scope of the Works to be conducted by MCC to extend to the second 1 billion tonnes of iron ore to be extracted and the revision of the contract sum to US$1,750 million (approximately HK$13,650 million).

Sino Iron and MCC also agreed that the remaining works (other than Works to be conducted by MCC) shall be contracted out to third parties directly by Sino Iron ('the Third Party Contracts') and such works shall be managed by MCC. Sino Iron agreed to pay 1% of the relevant price in respect of the Third Party Contracts (excluding any fee for training, interest, transportation, insurance and tax expenses) to MCC as management fees.

in HK$ million	**2008**
Deposit paid to MCC	**1,654**
Trade payable and other payable to MCC	**821**

On 20 August 2007, Catak Enterprises Corp., a wholly subsidiary of the Company, and MCC entered into an agreement for the disposal by the Group of a 20% interest in Sino Iron for a consideration equivalent to 20% of all the funds provided to Sino Iron Holdings Pty Limited by the Group for the development of the iron ore project up to the date of completion together with interest.

40 Ultimate Holding Company

With effect from 24 December 2008, the Directors regard CITIC Group, a state-owned enterprise established under the laws of the PRC, as being the ultimate holding company of the Company.

41 Post Balance Sheet Events

Sino Iron entered into a gas supply agreement on 6 January 2009 with Apache Northwest Pty Ltd and Santos Offshore Pty Limited. Under the contract, Apache and Santos will supply natural gas over seven years commencing in the second half of 2011. The gas will be sourced from the offshore Reindeer gas field being developed by Apache and Santos and delivered onshore close to the project's location. The contract carries an initial price with periodic adjustments for changes in the consumer price index in Australia. Beginning in the fourth year, the price is indexed to international oil prices. Assuming an oil price of US$50 per barrel, the value of the contract is estimated to be US$1.3 billion. The Gas Supply Agreement became unconditional on 5 March 2009.

42 Comparative Figures

Comparative figures have been adjusted to conform with the current presentation.

43 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 25 March 2009.

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies

The following are the principal subsidiary companies, jointly controlled entities and associated companies of the Group which in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of all companies would in the opinion of the directors result in particulars of excessive length.

			Interest in equity shares held by		Particulars of issued shares†		
Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Company %	Subsidiary %	No. of shares	Par value	Principal activities
Special Steel							
Subsidiary companies							
Daye Special Steel Co., Ltd.	People's Republic of China Sino-foreign joint stock limited company*	58.13	–	58.13	449,408,480	RMB 1	Steel making
Hubei Xin Yegang Steel Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	100	–	100	N/A	N/A	Steel making
Jiangsu CP Xingcheng Special Steel Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	77.78	–	77.78	N/A	N/A	Steel making
Jiangyin CP Xingcheng By-products Recycling Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	80	–	80	N/A	N/A	Processing and recycling of metal slag and sale of its related recycled products
Jiangyin CP Xingcheng Industry Gas Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	80	–	80	N/A	N/A	Production and sale of oxygen, liquefied oxygen, nitrogen and argon
Jiangyin Xingcheng Metalwork Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	79.49	–	79.49	N/A	N/A	Developing and production of alloy and metal hardware
Jiangyin Xingcheng Special Steel Works Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	79	–	79	N/A	N/A	Steel making
Jiangyin Xingcheng Steel Products Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	80	–	80	N/A	N/A	Steel making
Jiangyin Xingcheng Storage and Transportation Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	80	–	80	N/A	N/A	Loading and unloading business
Tongling Xin Yaxing Coking & Chemical Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	92.485	–	92.485	N/A	N/A	Production and sale of coal gas, coke and chemical related products

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares† No. of shares	Particulars of issued shares† Par value	Principal activities
Wuxi Xingcheng Steel Products Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	80	–	80	N/A	N/A	Production and sale of ferrous metal materials
江陰泰富興澄特種材料有限公司	People's Republic of China Sino-foreign equity joint venture*	79	–	79	N/A	N/A	Production and sale of hot iron and the related products
湖北中特新化能科技有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Production and sale of coal gas, coke and chemical related products
湖北新冶鋼特種鋼管有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Production of seamless steel tube
銅陵新亞星港務有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Port construction, operation and related service
Jointly controlled entities							
Shijiazhuang Iron & Steel Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	65	–	65	–	–	Production and sale of special steel and related products
中信泰富工程技術(上海)有限公司	People's Republic of China Sino-foreign equity joint venture*	70	–	70	N/A	N/A	Engineering service for metallurgy and mining
Iron Ore Mining							
Subsidiary companies							
Korean Steel Pty Ltd	Australia	100	–	100	10,000	N/A	Mining extraction and processing of magnetite
MetaGas Pty Ltd	Australia	100	–	100	5,000,010	N/A	Gas procurement and trading
Pastoral Management Pty Ltd	Australia	100	–	100	5,000,010	N/A	Pastoral lease management
Sino Iron Pty Ltd	Australia	100	–	100	11,526	N/A	Mining extraction and processing of magnetite

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

			Interest in equity shares held by		Particulars of issued shares†		
Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Company %	Subsidiary %	No. of shares	Par value	Principal activities
Property							
People's Republic of China							
Subsidiary companies							
CITIC Pacific (Yangzhou) Properties Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property development
Shanghai Super Property Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property investment and management
上海中信泰富廣場有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property investment and management
上海老西門新苑置業有限公司	People's Republic of China Sino-foreign co-operative joint venture*	100	–	100	N/A	N/A	Property development
上海珠街閣房地產開發有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	71.59	28.41	N/A	N/A	Property development
上海利通置業有限公司	People's Republic of China Sino-foreign equity joint venture*	90	85	5	N/A	N/A	Property development
中信泰富(上海)物業管理有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property management
中信泰富萬寧發展有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property development
中信泰富萬寧(聯合)開發有限公司	People's Republic of China Limited liability company*	80	–	80	N/A	N/A	Property development
江陰興澄置業有限公司	People's Republic of China Sino-foreign equity joint venture*	56	–	56	N/A	N/A	Property development
無錫太湖景發展有限公司	People's Republic of China Sino-foreign equity joint venture*	70	–	70	N/A	N/A	Sports related services
無錫太湖苑置業有限公司	People's Republic of China Sino-foreign equity joint venture*	70	–	70	N/A	N/A	Property investment and development
無錫太湖美生態環保有限公司	People's Republic of China Sino-foreign equity joint venture*	70	–	70	N/A	N/A	Environmental protection

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares† No. of shares	Particulars of issued shares† Par value	Principal activities
萬寧中意發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧中榮發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧中宏發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧仁和發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧仁信發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧百納發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧金信發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧金誠發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
萬寧創遠發展有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.9	–	99.9	N/A	N/A	Property development
寧波信富置業有限公司	People's Republic of China Sino-foreign co-operative joint venture*	99.29	–	99.29	N/A	N/A	Property development
Jointly controlled entities							
上海瑞明置業有限公司	People's Republic of China Sino-foreign equity joint venture*	50	50	–	–	–	Property development
上海瑞博置業有限公司	People's Republic of China Sino-foreign equity joint venture*	50	50	–	–	–	Property development
中船置業有限公司	People's Republic of China Sino-foreign equity joint venture*	50	50	–	–	–	Property development

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by: Company %	Interest in equity shares held by: Subsidiary %	Particulars of issued shares†: No. of shares	Particulars of issued shares†: Par value	Principal activities
Hong Kong							
Subsidiary companies							
Borgia Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Broadway Centre Property Management Company Limited	Hong Kong	100	–	100	2	HK$1	Property management
Famous Land Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Glenridge Company Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Hang Luen Chong Investment Company, Limited	Hong Kong	100	–	100	80,000	HK$100	Property investment
Hang Luen Chong Property Management Company, Limited	Hong Kong	100	–	100	2	HK$1	Property management
Hang Wah Chong Investment Company Limited	Hong Kong	100	–	100	50,000	HK$100	Property investment
Lindenford Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Linking Wisdom Ltd.	British Virgin Islands	100	–	100	1	US$1	Property development
Neostar Investment Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Pacific Grace Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Tendo Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Associated companies							
CITIC Tower Property Management Company Limited	Hong Kong	40	–	40	–	–	Property management
Goldon Investment Limited	Hong Kong	40	–	40	–	–	Property investment
Hong Kong Resort Company Limited‡	Hong Kong	50	–	50	–	–	Property development
Konorus Investment Limited	Hong Kong	15	–	15	–	–	Property development
Shinta Limited‡	Hong Kong	20	–	20	–	–	Property investment

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares† No. of shares	Particulars of issued shares† Par value	Principal activities
Power Generation							
Jointly controlled entities							
Huaibei Guoan Power Company Ltd.	People's Republic of China Sino-foreign equity joint venture*	12.5	–	12.5	–	–	Building, possession and operation of power plant and sale of electricity
Inner Mongolia Electric Power (Holdings) Company Limited	People's Republic of China Sino-foreign equity joint venture*	35	–	35	–	–	Coal-fired power station operation and management
Jiangsu Ligang Electric Power Company Limited	People's Republic of China Sino-foreign equity joint venture*	56.31	–	56.31	–	–	Electric power plant construction and operation
Jiangyin Ligang Electric Power Generation Company Limited	People's Republic of China Foreign investment stock company*	54.31	–	54.31	1,170,000,000	RMB 1	Electric power plant construction and operation
Sunburst Energy Development Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	65	–	65	–	–	Investment holding
Widewin Investments Limited ‡	British Virgin Islands	37.5	–	37.5	–	–	Investment holding
Wuxi Taihu Lake Pumped Storage Power Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	70	–	70	–	–	Pumped storage hydraulic power plant construction
Zhengzhou Xinli Electric Power Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	50	–	50	–	–	Electric power plant construction and operation
Associated companies							
North United Power Corporation	People's Republic of China Sino-foreign equity joint venture*	20	20	–	–	–	Investment holding and generation of electricity and heat and related businesses

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares† No. of shares	Particulars of issued shares† Par value	Principal activities
Aviation							
Associated companies							
Cathay Pacific Airways Limited@	Hong Kong	17.49	1.82	15.67	–	–	Airlines and related services
Swire Aviation Limited	Hong Kong	33.3	–	33.3	–	–	Investment in Hong Kong Air Cargo Terminals Limited with 10% effective interest
Civil Infrastructure							
Tunnels							
Subsidiary companies							
New Hong Kong Tunnel Company Limited	Hong Kong	70.8	–	70.8	75,000,000	HK$10	Tunnel operation
Jointly controlled entities							
Hong Kong Transport, Logistics and Management Company Limited	Hong Kong	35	–	35	–	–	Management, operation and maintenance of the Cross-Harbour Tunnel
Western Harbour Tunnel Company Limited‡	Hong Kong	35	–	35	–	–	Franchise to construct and operate the Western Harbour Crossing
Environmental							
Jointly controlled entities							
Changzhou CGE Water Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	24.01	–	24.01	–	–	Production and supply of tap water
Ecoserve Limited	Hong Kong	50	–	50	–	–	Design, construction and operation of refuse transfer station
Bloom Country Limited	Hong Kong	50	–	50	–	–	Investment holding
Veolia Water (Kunming) Investment Limited	Hong Kong	25	–	25	–	–	Investment holding

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by: Company %	Interest in equity shares held by: Subsidiary %	Particulars of issued shares†: No. of shares	Particulars of issued shares†: Par value	Principal activities
Associated companies							
Enviropace Limited	Hong Kong	20	–	20	–	–	Design, construction, operation and management of chemical waste treatment plant
Green Valley Landfill, Limited	Hong Kong	30	–	30	–	–	Landfill construction and operation
South China Transfer Limited	Hong Kong	30	–	30	–	–	Design, construction and operation of transfer station
上海老港生活垃圾處置有限公司	People's Republic of China Sino-foreign equity joint venture*	30	–	30	–	–	Design, construction and operation of landfill
CITIC 1616 Holdings Limited (Listed in Hong Kong) §	Hong Kong	52.57	–	52.57	1,977,731,283	HK$0.10	Investment holding
Dah Chong Hong Holdings Limited (Listed in Hong Kong) §	Hong Kong	56.67	–	56.67	1,797,833,000	HK$0.15	Investment holding

Other investments

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Company %	Subsidiary %	No. of shares	Par value	Principal activities
Subsidiary companies							
CITIC Pacific China Holdings Limited	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Investment holding
CITIC Pacific Communications Limited	Bermuda	100	–	100	100,000	HK$1	Investment holding
CITIC Pacific Finance (2001) Limited	British Virgin Islands	100	100	–	1,000	US$1	Financing
CITIC Pacific Finance (2005) Limited	British Virgin Islands	100	100	–	1	US$1	Financing
Dah Chong Hong (Engineering) Limited	Hong Kong	100	–	100	1,301,000	HK$100	Engineering services

44 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

Name	Place of incorporation / principal place of operation kind of legal entity*	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares† No. of shares	Particulars of issued shares† Par value	Principal activities
Jointly controlled entities							
CITIC Capital Holdings Limited	Hong Kong	50	–	50	–	–	Investment holding
CITIC Guoan Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	50	–	50	–	–	Investment holding
上海國睿生命科技有限公司	People's Republic of China Sino-foreign equity joint venture*	24.94	24.94	–	–	–	Research and development of tissue engineering products
山東新巨龍能源有限責任公司	People's Republic of China Sino-foreign equity joint venture*	30	–	30	N/A	N/A	Coal ores construction and sales
Associated companies							
Cheer First Limited‡	Hong Kong	40	–	40	–	–	Financing
Companhia de Telecomunicacoes de Macau S.A.R.L.	Macau	20	20	–	–	–	Telecommunications services
Treasure Trove Limited	Hong Kong	50	–	50	–	–	Financing
Jiangsu Wal-Mart Stores Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	35	–	35	–	–	Hypermarket business
Wal-Mart East China Stores Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	35	–	35	–	–	Hypermarket business

Note:

† *Represented ordinary shares, unless otherwise stated.*

‡ *Affiliates which have been given financial assistance by the company or its subsidiaries at 31 December 2008.*

§ *Subsidiaries separately listed on the main board of the Hong Kong Stock Exchange and including their respective group companies.*

\# *In accordance with the Joint Venture agreement, none of the participating parties has unilateral control over the economic activity.*

@ *The Group can exercise significant influence over Cathay Pacific Airways Ltd, through its representation on the board and various board committees allowing participation in financial and operating policy decisions but not necessarily control of those policies.*

Independent Auditor's Report

Independent Auditor's report to the shareholders of CITIC Pacific Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC Pacific Limited (the 'Company') and its subsidiaries (together the 'Group') set out on pages 102 to 176, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2009

Major Properties Held by the Group

as at 31 December 2008

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area (sq. m.)	Existing use
Major Properties Held for Investment				
* 1. Skyway House, 3 Sham Mong Road, Kowloon, H.K. 2604/2700th shares of KIL No. 9706 & the extension thereto	2041	100	29,000	Office and Shop
2. Block C of Yee Lim Industrial Centre, 2-28 Kwai Lok Street, and 2-6 Kwai Hei Street, Kwai Chung, H.K. 4000/9000th shares of KCTL No. 333	2047	100	30,000	Cold Storage and Godown
3. Honest Motors Building, 9-11, Leighton Road, Causeway Bay, H.K. HKIL No. 5431 and 5432	2880	100	4,000	Office and Shop
4. Wyler Centre 1, Basement 1 & 2 and Parking Spaces Nos P50 and P51 on 2nd Floor of Wyler Centre 2, 192-210 Tai Lin Pai Road, Kwai Chung, H.K. 5779/11152th shares of and in the Remaining Portion of KCTL No. 130 & the extension thereto	2047	100	37,000	Industrial
5. Broadway Centre, No. 93 Kwai Fuk Road, Kwai Chung, H.K. KCTL No. 435	2047	100	32,000	Godown and Ancillary Office
6. DCH Commercial Centre, No. 25, Westlands Road, Quarry Bay, H.K. HKIL No. 8854	2047	100	36,000	Office and Restaurants
7. CITIC Tower, No. 1 Tim Mei Avenue, Central, H.K. HKIL No. 8822	2047	40	52,000	Office and Shop
8. CITIC Square, 1168 Nanjing Xi Lu, Jingan District, Shanghai, the PRC	2044	100	114,000	Office and Shop
9. Royal Pavilion, 688 Hua Shan Lu, Jingan District, Shanghai, the PRC	2063	100	35,000	Residential
10. New Westgate Garden, Retail portion (Phase 1), Xi Zang Nan Lu / Jian Guo Dong Lu, Huang Pu District, Shanghai, the PRC	2072	100	18,000	Shop

** excluding a petrol filling station on the ground floor with an ancillary storage tank in part of the basement and a storeroom on the first floor*

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area (sq. m.)	Existing use
Major Properties Held for Sale				
1. Grand Court, 109-135 Kadoorie Avenue, Kowloon, H.K. Subsections 1 and 2 and the Remaining Portion of Section D of KIL No. 2657	2081	100	13,000	Residential
2. New Westgate Garden, Phase 1 Xi Zang Nan Lu / Jian Guo Dong Lu, Huang Pu District, Shanghai, the PRC	2072	100	9,000	Residential

Location / Lot no.	Stage of completion	Estimated completion date	Classification	Leasehold expiry	Group's interest %	Approximate site area (sq. m.)	Approximate gross floor area (sq. m.)
Major Properties Under Development							
1. New Westgate Garden, Phase 2, Xi Zang Nan Lu / Jian Guo Dong Lu, Huang Pu District, Shanghai, the PRC	Resettlement in progress	2014	Residential & Shop	2072	100	35,300	137,000
2. Shanghai Lu Jia Zui, New Financial District Project, the PRC	Phase 1 Construction in progress	2010 – 2015	Office, Hotel, Residential & Shop	2044 – 2074	50	249,400	847,000
3. Residential Development, Qing Pu District, Shanghai, the PRC	Phase 2 – 4 Construction in progress	in phases from 2009 onwards	Residential, Shop & Hotel	2045 – 2077	100	796,800	606,000
4. Commercial Development, Sichuan Bei Lu Metro Station, Hong Kou District, Shanghai, the PRC	Construction in progress	2010 – 2011	Office and Shop	2047 – 2057	90	13,300	53,000
5. Commercial Development, No 10, Hainan Road, Hong Kou District, Shanghai, the PRC	Design in progress	after 2011	Office and Shop	2047 – 2057	100	16,400	66,000
6. Residential and Commercial Development, Jiading New City Metro Station, Jiading District, Shanghai, the PRC	Design in progress	in phases from 2012 onwards	Office, Hotel, Residential & Shop	2046 – 2076	100	156,000	538,000
7. Commercial Project, Jiang Dong District, Ningbo, the PRC	Construction in progress	2009	Office and Shop	2045	99.3	39,500	98,000
8. Residential Development, Yangzhou, the PRC	Phase 1 & 2 Construction in progress	in phases from 2009 onwards	Residential & Shop	2045 – 2075	100	328,600	437,000
9. Residential Development Jiangyin, the PRC	Construction in progress	2010 – 2011	Residential & Shop	2046 – 2076	56	91,300	178,000
10. Residential Development, Binhu District, Wuxi, the PRC	Construction in progress	in phases from 2010 onwards	Residential & Shop	2043 – 2073	70	2,110,300	249,000
11. Resort Development, Shenzhou Peninsula, Wanning, Hainan, the PRC	Phase 1 Construction in progress	in phases from 2010 onwards	Residential, Shop & Hotel	2057 – 2078	80 – 99.9	6,710,100	1,653,000
12. Industrial Development Lots 392 and 393 in D.D.127, Kiu Tau Wai, Ping Shan, Yuen Long, H.K.	Design in progress	2010	Industrial	2047	100	4,300	9,000

Definition of Terms

Terms

Capital employed	Shareholders' funds + total debt
Cash contributed from all businesses	Cash inflow to CITIC Pacific Ltd. from its subsidiary companies, jointly controlled entities, associated companies, other investments, including proceeds from sale of businesses
Total debt	Short term and long term loans, notes and bonds
Net debt	Total debt less cash and bank deposits
Total capital	Shareholders' funds + net debt
EBITDA	Net profit less interest expense, taxation, depreciation and amortisation
Contribution	A business's after tax profit that contributes to unallocated central interest, overhead and goodwill

Ratios

Earnings per share

$$= \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue for the year}}$$

Shareholders' funds per share

$$= \frac{\text{Shareholders' funds}}{\text{Total issued and fully paid shares at end of the year}}$$

Leverage

$$= \frac{\text{Net debt}}{\text{Total capital}}$$

Cashflow per share

$$= \frac{\text{Cash contributed from all businesses}}{\text{Total issued and fully paid shares at end of the year}}$$

Interest cover

$$= \frac{\text{EBITDA}}{\text{Interest expense}}$$

Corporate Information

Headquarters and Registered Office

32nd Floor, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong
Telephone: +852 2820 2111   Fax: +852 2877 2771

Website

www.citicpacific.com contains a description of CITIC Pacific's business, copies of both the full and summary reports to shareholders, announcements, press releases and other information.

Stock Codes

The Stock Exchange of Hong Kong:	00267
Bloomberg:	267 HK
Reuters:	0267.HK
American Depositary Receipts:	CTPCY
CUSIP Reference No:	17304K102

Share Registrars

Shareholders should contact our Registrars, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at +852 2980 1333, or by fax: +852 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

Investor Relations

Investors, shareholders and research analysts may contact the Investor Relations Department by telephone at +852 2820 2004, by fax: +852 2522 5259 or at investor.relations@citicpacific.com.

Financial Calendar

Annual General Meeting:	25 May 2009, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong

Annual Report 2008

Our Annual Report is also available as a Summary Financial Report. Both documents are printed in English and Chinese and are available on our website at www.citicpacific.com under the 'Investor Information' section.

Shareholders may choose to receive the Summary Financial Report or the Annual Report in printed form in either English or Chinese or both or by electronic means. Shareholders may at any time change their choice on these matters by writing to the Company's Share Registrars.

Shareholders having difficulty in gaining access to these documents will promptly be sent printed copies free of charge upon request to the Company's Share Registrars.

Non-shareholders are requested to contact the Company Secretary, CITIC Pacific Limited, 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, by fax: +852 2877 2771 or by email at contact@citicpacific.com.

CITIC Pacific Ltd
32/F CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Tel: +852 2820 2111 Fax: +852 2877 2771
www.citicpacific.com

Stock Code: 00267