CITIC PACIFIC

annual report 2007

Financial Highlights

in HK$ million	**2007**	2006
Profit Attributable to Shareholders	**10,843**	8,272
Major Businesses' Contribution		
Special Steel	**2,242**	1,333
Property	**731**	2,035
Infrastructure	**2,327**	4,201
Listed Subsidiaries		
CITIC 1616	**2,085**	191
Dah Chong Hong	**3,041**	297
Fair Value change of Investment Properties	***1,217***	*1,077*
Cash Contributed from all Businesses	**14,550**	15,941
Capital Employed	**88,447**	64,803
Shareholders' Funds	**59,793**	46,510
Net Debt	**20,609**	14,614
Cash & Available Committed Loan Facilities	**26,589**	18,371

in HK$		
Earnings per Share	**4.91**	3.77
Dividends per Share		
Regular	**1.20**	1.10
Special	**0.20**	0.60
Staff	**24,319**	23,822

Please refer to Definition of Terms on page 142

Major Businesses

CITIC Pacific has unrivalled experience and expertise in operating businesses in China both on the mainland and in Hong Kong. With the rapid development of the Chinese economy, CITIC Pacific is increasingly focusing its businesses activities on the mainland of China. Our major businesses are special steel manufacturing; iron ore mining which supplies the raw material needed in the making of special steel, and property development in mainland China.

Special Steel

CITIC Pacific Special Steel operates through three steel plants in mainland China with total annual production capacity of over seven million tonnes. It is a leader in the manufacturing of special steel used in bearings and gears among others. The three plants are ideally located to cover the main markets for special steel in Eastern, Central and Northern China.

Jiangyin Xingcheng Special Steel is a leader in China specializing in the making of high-grade special steel used in bearings, gears, springs and high-pressurized piping steel. Its new line, in cooperation with Sumitomo Metals of Japan, has the most advanced technology in the industry.

Xin Yegang Steel is located in Central China, it has a long history dating back to 1908. Its seamless steel tubes, one of its major products, continues to receive strong demand and remains very profitable.

Shijiazhuang Steel Mill became a member of CITIC Pacific Special Steel in 2006. Built in 1957, it is now a manufacturer of special steel with 2.2 million tonnes in production capacity. Its products are mainly supplied to the auto component industry.

Iron Ore Mining

CITIC Pacific owns the mining rights to two billion tonnes of magnetite iron ore with options to another four billion tonnes in the Pilbara region of Western Australia. The two billion tonnes of ore is capable of producing 27.6 million tonnes of product annually to supply mainland China and CITIC Pacific's steel plants in particular.

Property

CITIC Pacific's property team has extensive experience in building and managing medium and large scale residential and commercial projects including Shanghai's CITIC Square and New Westgate Garden, and Hong Kong's CITIC Tower.

In the past few years, the Group has been active in investing in properties in mainland China. Currently CITIC Pacific has a large quality land bank in Shanghai, major secondary cities in the Yangtze Delta area and Hainan Island.

Chairman's Letter to Shareholders

I am pleased to report that our group recorded a net profit of HK$10,843 million for the year 2007, surpassing the HK$10 billion mark for the first time. This represents a growth of 31% from the historic high of HK$8,272 million set in 2006. Earnings per share were HK$4.91. The board has recommended paying a final dividend of HK$0.80 per share. Including the regular (HK$0.40) and special (HK$0.20) dividend per share already paid at the interim, the total dividend per share for the year will be HK$1.40.

In 2007, we continued to focus on developing our three core businesses – special steel manufacturing, iron ore mining and property development in mainland China – and increased our investments in them. We also continued to divest our non-core businesses. This included the listings of CITIC 1616 and Dah Chong Hong. By listing these companies as separate entities, we are further demonstrating our focus on our core businesses. In addition, this helped to further unlock the true value of our Group as a whole.

Now let me report on our businesses, which all performed well in 2007. Detailed descriptions of them can be found in the 'Business Review' section of our annual report.

Special Steel

CITIC Pacific's special steel business has expanded rapidly in recent years, and has become the main growth driver for our recurring earnings. Profit contribution from this business was HK$2,242 million in 2007, an increase of 68% from 2006.

Jiangyin Xingcheng Special Steel's new production line was completed and full production began in 2007. The equipment and technology employed by this line are the most advanced of their type in not just China, but globally. Its products are of high quality and will be highly competitive. Profitability is expected to rise as a result.

Xin Yegang and Daye Special Steel continued their solid performance and increased profits. A newly constructed 900,000 tonne coking plant was completed in 2007 and is already profitable. A production line for the manufacturing of steel tubes with a diameter of 460mm is being constructed and is progressing well. Once completed, it will become a new contributor to Xin Yegang's profit growth.

Since becoming a member of CITIC Pacific in the second half of 2006, Shijiazhuang Steel has been integrated into our special steel operation. In 2007, its productivity improved and profit grew significantly. Located in Northern China, Shijiazhuang Steel will cooperate with and complement Jiangyin Xingcheng Special Steel in Eastern China and Xin Yegang / Daye Special Steel in Central China. Together they form an 'iron triangle,' ideally located to cover the primary special steel markets in the major industrial regions of China.

CITIC Pacific Special Steel, through its three production bases, will continue to increase investment, improve its product mix, and expand its production capacity to further solidify its leading position in the production of special steel in China and globally.

We recently acquired a 30% interest in a coal mine located in Shandong Province. Once built, the mine will be capable of producing up to six million tonnes per annum of high quality coal for use in the production of coking coal. Surging demand in recent years for iron ore and coke, which are key raw materials needed in the steel manufacturing process, resulted in a tight supply and a significant increase in their prices. To ensure the supply of these important raw materials, we invested in iron ore mining, coking coal mining and coke production facilities. After the completion of our iron ore mine in Australia in the next two years, we will have a secure supply of iron ore and coke for our steel business. As such, our overall competitive advantage will be further enhanced. These investments are strategically important to the expansion of our special steel business.

Iron Ore Mining

Progress is being made at our iron ore mine in the Pilbara region of Western Australia. We obtained the right to mine an additional one billion tonnes of ore after the reserve was proven, increasing our total mining rights to two billion tonnes. This large scale magnetite ore project has world class technologies and is capable of producing 27.6 million tonnes of products per annum. Production is expected to begin in 2009 – 2010.

Our mine, upon completion, will provide a long-term stable supply of iron ore to our steel plants and to other steel manufacturers in China. CITIC Pacific also holds options to purchase the mining rights up to an additional four billion tonnes.

To transport the ore, we purchased twelve 115,000 DWT bulk carriers. These ships are specially designed with wide bodies, and can travel from Australia to the Yangtze River and dock at our own port in Jiangyin Xingcheng Special Steel without the need to transship. This will lower transportation costs and improve efficiency. We are also studying the possibility of building an ore piling facility in the Yangtze River area to establish an iron ore logistics system.

Property Development

Property development in mainland China is one of our core businesses. The Chinese government recently implemented measures to prevent the overheating of the property market and sharp increases in property prices. We believe that in the long-term, with the continuing development of the Chinese economy, market demand for quality properties will remain strong. We have confidence in the long-term prospects of the property market in mainland China and we will continue to seek opportunities to increase our land bank.

Phase One (260,000 square metres) of our Shanghai Lu Jia Zui New Financial District Project includes two landmark office towers each with a gross floor area of 100,000 square metres, a top quality hotel and serviced apartments. All buildings will be on top of a large retail podium. The project will also include underground vehicular access, a large car park and other related facilities. Completion of Phase One is targeted for 2010. Preparation for Phase Two and Three are ongoing. Demand for Grade A offices and commercial properties in Shanghai remain strong. This project has attracted the attention of large institutions in China and internationally, and many of them have expressed keen interests in buying or leasing the buildings.

Our large residential and commercial development in the Qingpu District in Shanghai is progressing well. Units with a gross floor area of about 10,000 square metres were launched for pre-sale at the end of 2007 and all units were quickly sold. Located at the junction of Jiangsu Province, Zhejiang Province and Shanghai, Qingpu enjoys convenient transportation and a nice living environment and good potential for value appreciation. The project also includes a five-star hotel which will be managed by a well-known international hotel group.

Progress is also being made at our residential development project in the city center of Yangzhou in Jiangsu Province. Pre-sale of 265 units in Phase One began in the fourth quarter of 2007. As a result of the positive response from the market, most of these units were sold.

In our New Westgate Garden Phase One residential development, with the exception of a few units, most have been sold.

Our large integrated development project in Wanning City in Hainan Province is going well. Phase One will include four hotels and auxiliary facilities. These hotels will be managed by internationally renowned hotel groups. Construction of the hotels has begun. Work has also commenced on a world class golf course, a club house and other related facilities. Our goal is to develop the project into a large integrated community that is suitable for both tourists and residents. As living standards rise, we believe that demand will surely increase for high quality properties that provide an excellent environment and unique design. Our Hainan Island project has tremendous potential and will meet this demand.

Our investment properties in Shanghai and Hong Kong remain well let and have recorded good growth in rental income.

Units in Phase 13 (Chianti) of our Discovery Bay development in Hong Kong are mostly sold. Foundation work for Phase 14 has been completed and superstructure work will begin soon.

Other Businesses

Our aviation, power generation and cross harbour tunnel businesses all performed well in 2007. Benefiting from an increase in passengers, Cathay Pacific's profit for the full year rose a significant 72% to reach HK$7,023 million, which is a historic high. Phase IV (2x600MW) at our Ligang Power Station began commercial operation recently. Together with other units that are in operation, Ligang is now one of the largest coal-fired power plants in China with a total installed capacity of 3,800MW. The Eastern and Western Harbour Tunnels in Hong Kong operated smoothly and total tunnel profits as well as cash flow increased compared with last year.

CITIC 1616 and Dah Chong Hong performed well in 2007 and had good profit growth. Following their listings, the ability of both companies to raise capital was enhanced with the establishment of their own capital markets platforms. This should be beneficial to the long-term development of these two companies.

Looking to the Future

After years of hard work, our three core businesses – special steel manufacturing, iron ore mining and property development in mainland China are becoming more mature. Our market leading position in special steel will continue to improve, and we expect this business to remain a major contributor to our group's recurring earnings in the next two years. Once our iron ore mine in Australia is completed, it will become a new source of earnings growth for us. We are confident that our property projects in the Yangtze River Delta area centered around Shanghai and our land bank in Hainan Island are of high quality and have excellent growth potential. Even though the recent sub-prime problems have resulted in uncertainties in other markets, we believe that the Chinese economy will maintain its growth momentum for the foreseeable future. We will be able to capture opportunities and leverage our expertise to expand and develop our core businesses to achieve higher returns for our shareholders.

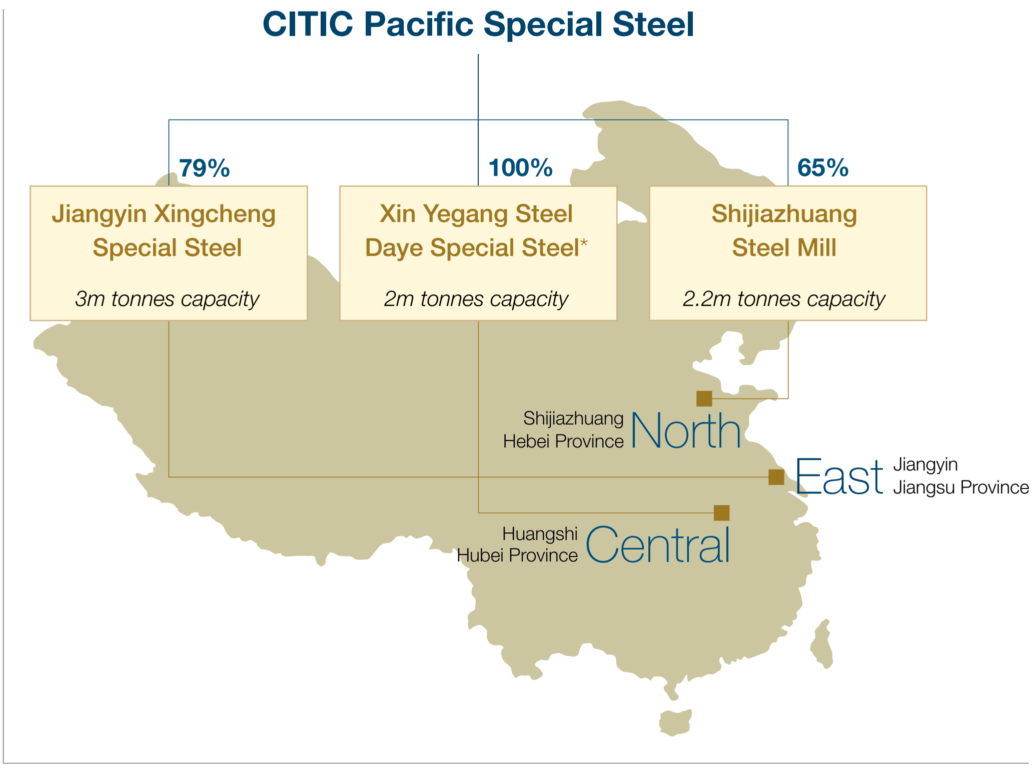
On behalf of all the directors, I would like to express my sincere thanks to everyone at CITIC Pacific for their hard work and contribution, and to our investors, bankers and everyone else for their continuing support.

Larry Yung Chi Kin
Chairman
Hong Kong, 17 March 2008

Special Steel

- *Largest manufacturer of special steel in China*
- *Over 7 million tonnes of annual production capacity*
- *Producing products such as bearing steel, gear steel, spring steel and seamless steel tubes*
- *Supplying to high growth industries such as auto, industrial manufacturing and power generation*

HK$ million	**2007**	2006
Turnover	**18,501**	15,278
Contribution	**2,242**	1,333
Proportion of total contribution	**22%**	17%
Net assets	**12,617**	9,129
Capital expenditure	**1,442**	3,674



* CITIC Pacific owns 58% of Daye Special Steel

CITIC Pacific Special Steel is the largest special steel manufacturer in China. Annual production capacity of the Group's three plants, Jiangyin Xingcheng Special Steel, Xin Yegang Steel and Shijiazhuang Steel Mill was over seven million tonnes at the end of 2007. Major products are used in the auto component, industrial manufacturing, oil and petrochemical industries for making products such as bearings, gears, springs and seamless steel tubes. The three plants are ideally located to cover the main markets for special steel located in Eastern, Central and Northern China.

Solid performance

In 2007, CITIC Pacific Special Steel's three plants produced a total of 6.5 million tonnes of special steel products, a 9% increase compared with 2006. All three plants operated near full capacity. The rise in production was attributed to continued strong demand for the Group's products both domestically in China and overseas, and the new production line in Jiangyin Xingcheng Special Steel which became fully operational in June 2007.

Exports rose 52% to 1.1 million tonnes. This increase is primarily due to solid demand and higher prices in the overseas markets.

Profit of the special steel business rose 68% compared with 2006 as a result of increased production volume, a larger proportion of higher-end products which commanded higher profit margins, as well as increased exports which had higher prices than products sold domestically. The good performance of Shijiazhuang Steel Mill, which the Group acquired in the second half of 2006, was another significant factor. CITIC Pacific Special Steel's continuing effort in improving the product mix, enhancing coordination in raw material purchasing, and expanding product sales and marketing are all important factors in achieving an excellent bottom line.

Products

Special steel refers to steel that has properties such as heat resistance, anti corrosion and anti fatigue. Categorized by shape, special steel includes bar steel, plate and strip steel, tube steel and wire steel. Approximately 90% of CITIC Pacific Special Steel's products are bar steel which are manufactured to order based on customers' specific requirements. As a result, there is little inventory. These bars are sold to manufacturers who turn this steel into products such as gears, bearings and springs.

Key products of CITIC Pacific Special Steel

products	2007 market share	sale ('000 tonnes) 2007	2006*
Gear steel	40%	**831**	746
Bearing steel	35%	**789**	594
Alloy spring steel	35%	**463**	397
Other alloy steel	27%	**1,835**	1,588
Carbon structure	19%	**1,471**	1,595

** Includes full year production of Shijiazhuang Steel Mill in which CITIC Pacific had no equity interest until July 2006.*

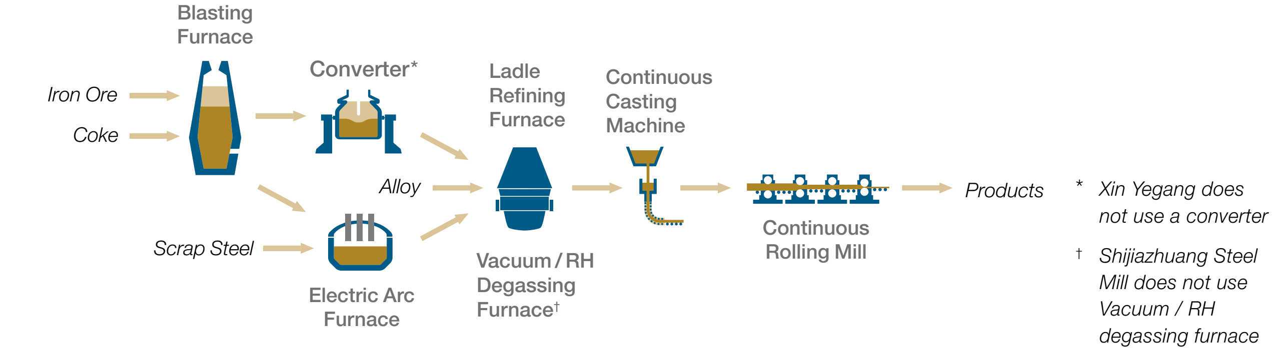
Statistics are from the China Special Steel Enterprises Association, and include only registered enterprises.

The Group's products are sold to these industries

industries	2007 sales ('000 tonnes)	percentage
Auto components	2,599	40%
Industrial manufacturing	1,319	20%
Metal works	1,076	17%
Power generation	384	6%
Others	555	9%
Oil and petrochemical	350	5%
Railway	140	2%
Shipbuilding	94	1%
Total	6,517	100%

The rapid growth of these industries, in particular the auto industry, continues to support the strong growth in the demand for special steel. The Group's products are used by Toyota, General Motors, Honda, Volkswagen and Volvo.

Special steel manufacturing process



Production of special steel

The manufacturing process employed by the Group's three special steel plants includes a blasting furnace, either a converter or an electric arc furnace, a ladle refining furnace and a vacuum / RH degassing furnace. This is then followed by a continuous casting and rolling process.

Raw materials

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

Major raw materials

type	2007 ('000 tonnes)	percentage of total value
Iron ore	9,197	39%
Scrap steel	1,863	21%
Coke	2,218	13%
Coal	2,047	7%
Alloy	200	17%

The price of raw materials increased significantly in 2007, in particular for iron ore, as a result of a sharp rise in its price on the spot market and high shipping costs. In 2007, 55% of CITIC Pacific Special Steel's iron ore was sourced from outside China, with Australia being the largest supplier with 33% of total imports. The remainder was mainly sourced from Brazil, India and Russia. Of the total 9.2 million tonnes of iron ore used in 2007, appropriately 25% was contracted and the rest was purchased on the spot market.

Securing a stable source of iron ore is a top priority for the management of the plants. The requirement for iron ore will be met by the Group's iron ore mine in Australia when the mine reaches full production in 2011.

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

Pricing of special steel products

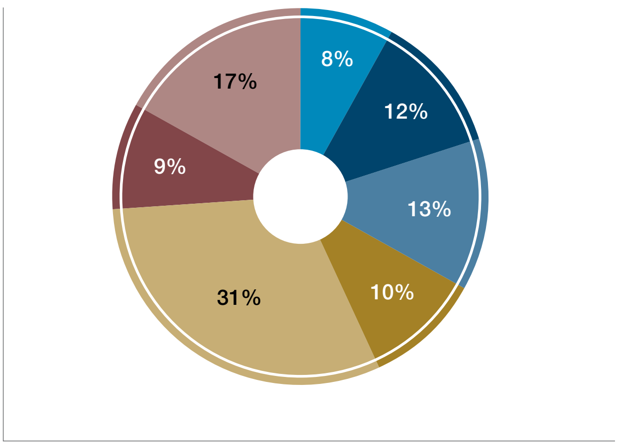
In 2007, the price of special steel products in all three of the Group's plants rose significantly. Average prices of products in 2007 were approximately 17% higher than in 2006. This is due to a combination of the market's strong demand and higher raw material costs, which traditionally tend to push up special steel product prices as manufacturers usually pass the cost increases on to customers. During the year, prices were adjusted periodically to reflect the surge in raw material costs and this trend continued into first two months of 2008.

The challenge for CITIC Pacific Special Steel going forward is to operate more efficiently and to improve the product mix in favor of higher quality steels. For 2007, 36% of the Group's products were high-end. This compared with 25% in 2006.

Jiangyin Xingcheng Special Steel

Located in Jiangsu Province in the Eastern part of China, Jiangyin Xingcheng Special Steel is a leader in special steel manufacturing in China. With the newly finished production line built in partnership with Sumitomo Metals Kokura of Japan, its annual production capacity is now three million tonnes. This new line 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 600mm for use in industrial manufacturing. The plant's other high-grade products are used in the making of bearings, gears, springs and high-pressurized tube steel. 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 vessels that will be transporting iron ore from the Group's mine in Australia in 2010.

Jiangyin Xingcheng Special Steel's products



Wire · Bearing steel · Gear steel · Alloy spring steel · Alloy steel · Carbon structure steel · Others

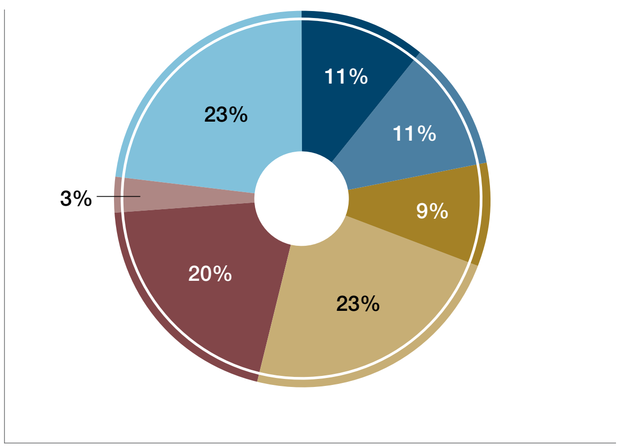
In 2007, Jiangyin Xingcheng Special Steel produced a total of 2.7 million tonnes of steel, up 19% compared to 2006. Exports grew 61% to reach 490,000 tonnes. Many of the products are certified by renowned users worldwide, such as SKF, FAG and Caterpillar.

Xin Yegang Steel (Xin Yegang)

Annual production capacity at Xin Yegang at the end of 2007 was two million tonnes which includes the capacity of Daye Special Steel, an A-share listed company in which CITIC Pacific holds a 58% interest. Xin Yegang's products include bearing steel, gear steel, spring steel, alloy steel, carbon structure steel and seamless steel tubes that are used in the auto, oil, petrochemical, power and industrial manufacturing sectors.

Located in the city of Huangshi in Hubei Province, Xin Yegang is the oldest steel plant in China, dating back to 1908. It is located 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 115,000 DWT vessels will transport the iron ore from Western Australia to ports on the Yangtze River where it will be loaded onto smaller vessels which can travel to Xin Yegang and dock at its port. As a result, transshipment costs should be reduced. Currently larger vessels dock at the Beilun and Shanghai ports where transshipments are sometimes delayed due to over capacity.

Xin Yegang Steel's products



Tube · Bearing steel · Gear steel · Alloy spring steel · Alloy steel · Cartoon structure steel · Others

In 2007, Xin Yegang produced 1.9 million tonnes of steel, a 9% increase compared with 2006. Exports were 277,000 tonnes which was 15% of total sales and an increase of 52% from the previous year. One of Xin

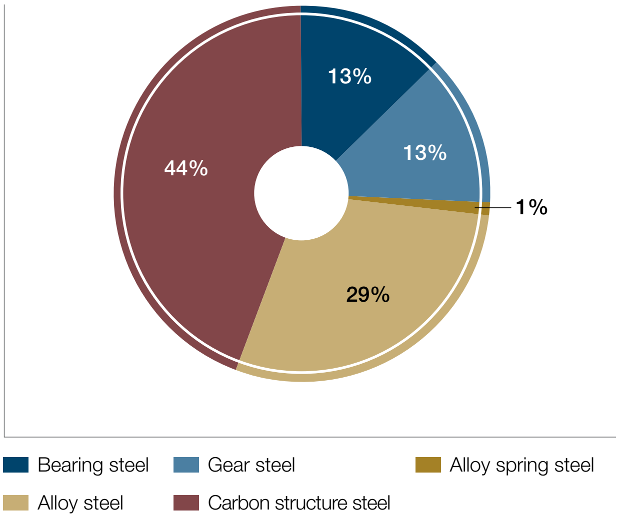
Yegang's main products, seamless steel tube, continued to achieve excellent returns supported by strong demand. Its production is now 23% of Xin Yegang's product portfolio and is expected to expand further.

Shijiazhuang Steel Mill (Shigang)

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 the neighboring 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, alloy steel and spring steel, and are supplied mainly to the auto components and industrial manufacturing sectors.

Shijiazhuang Steel Mill's products



Since becoming a member of the CITIC Pacific Special Steel group in the second half of 2006, Shigang's performance has improved significantly, primarily as a result of improved product quality mix.

Total steel produced in 2007 was 2 million tonnes, a 2% growth from 2006. Exports were 17% of total products sold.

CITIC Pacific Special Steel's success

Jiangyin Xingcheng's bearing steel, high pressurized tube steel and spring steel, Xin Yegang's seamless steel tubes and high alloy content bar steel, together with Shijiazhuang Steel Mill's high quality structure steel for autos, provide CITIC Pacific Special Steel with the widest range of products among special steel makers in China.

The Group's ability to command a leading position in many of the products it makes lies in the management's ability to focus on brand building, product quality improvement, effective cost controls and improved efficiency. Many of the Group's products are certified by worldwide users such as SKF of Sweden, FAG and Schaeffler of Germany, NSK, KOYO and NTN of Japan and Delphi and Caterpillar of the United States. Jiangyin Xingcheng Special Steel, Xin Yegang and Shigang are well recognized and respected brands in China's special steel market.

Strategically located to cover three main markets of special steel in China, the Group's three plants can provide customers with convenient after sales services.

Centralized technology development is essential to continued improvement in product mix and quality.

Looking ahead

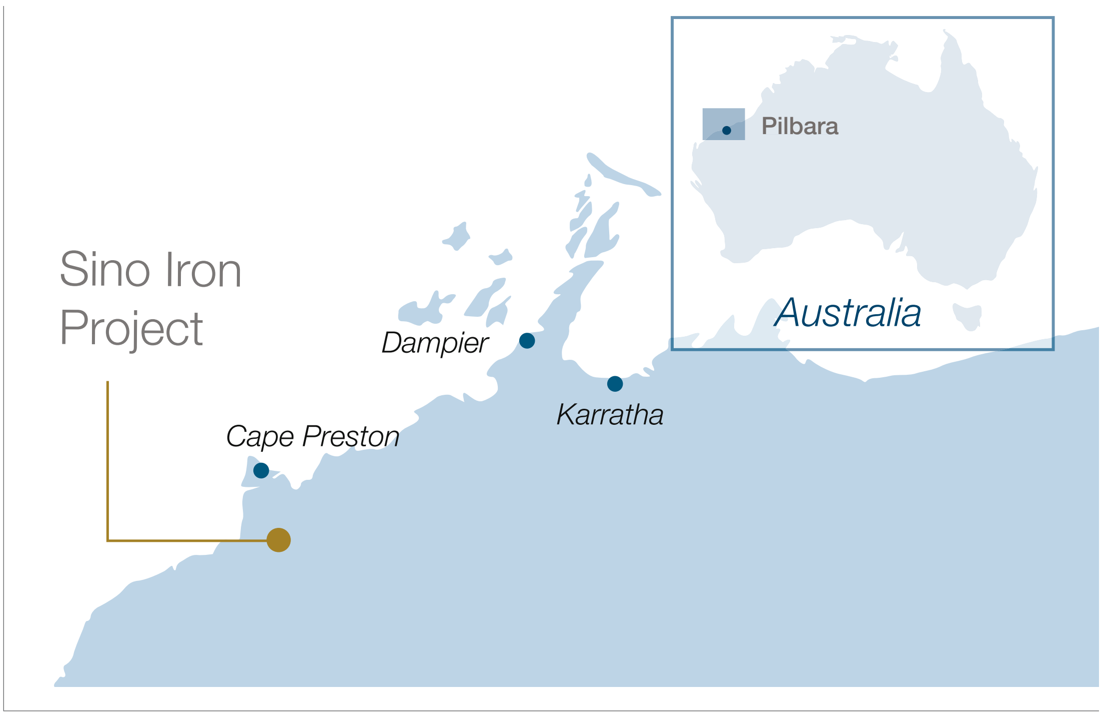
Total production of special steel products in China in 2007 reached 60 million tonnes, a growth of 23% compared with 2006 supported by demand from both the domestic Chinese market and from users in the international markets. As China continues to grow, more special steel will be needed.

CITIC Pacific Special Steel will continue to achieve excellence in products we make. At the same time, the Group is also exploring opportunities to expand into other products that have good market potential.

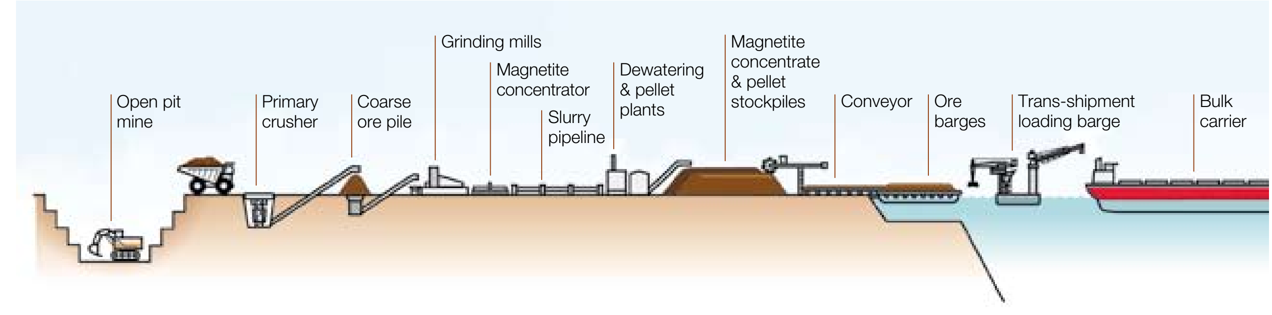
Iron Ore Mining

- *2 billion tonnes of magnetite ore reserves to produce 27.6 million tonnes annually of concentrate and / or pellets*
- *Largest planned magnetite project in Australia and first to include large scale downstream processing*
- *Scheduled to provide a secure supply of iron ore to CITIC Pacific's special steel plants from 2009 / 2010*
- *Potential to increase production to over 70 million tonnes per annum*

HK$ million	**2007**	2006
Net assets	**7,067**	1,852
Capital expenditure	**4,808**	1,754



Sino Iron Project – Magnetite mining and processing for export



Sino Iron Project

CITIC Pacific's Sino Iron Project will be a world class, large-scale magnetite iron ore mining and processing operation. Located near Cape Preston, 100km southwest of Karratha, in Western Australia's Pilbara region, the project has over two billion tonnes of identified magnetite resources which can produce 27.6 million tonnes of concentrate and / or pellets annually (mtpa) for about 25 years. These products will be exported to CITIC Pacific's three special steel plants in China and to other Chinese steel manufacturers.

In addition to the existing identified resources, CITIC Pacific has options to purchase the mining rights to a further four billion tonnes if the reserve is proven, therefore, taking potential production to over 70mtpa.

Processing on a new scale

Managed by CITIC Pacific Mining, a wholly owned Australian subsidiary of CITIC Pacific, the US$4.2 billion Sino Iron Project is the largest magnetite project planned in Australia. It will be a highly technical operation requiring significant processing and supporting infrastructure.

Processing infrastructure will include primary crushers, grinding mills, a concentrator and pellet plant. Supporting infrastructure will include a new port, port facilities, a 25 kilometre slurry pipeline, a product stockyard, a 450 megawatt gas fired power station and a 51 gigalitre desalination plant.

CITIC Pacific Mining will conduct its own mining and has sourced some of the world's largest mining handling equipment including hydraulic excavators and diesel-electric haul trucks.

The new port will include a transshipment facility to load ships with the product for export to China.

The original estimated capital expenditure for the project was US$2.5 billion. The latest estimated capital expenditure is likely to be approximately US$3.5 billion. This increase is due to an expanded planned production of concentrate by 15% (production volume was originally anticipated to be 24mtpa and has now been increased to 27.6mtpa); specification modifications as a result of ore body characteristics; industry wide cost pressures and inflation in the global mining industry, especially in Australia; depreciation of the US dollar to the Australian dollar and to the RMB; and cost pressures and inflation in China where certain supplies are sourced. Since the commencement of our project in the second quarter of 2006, the global price of iron ore (fines) has increased from US cents 61.7 per dry metric tonne unit (dmtu) to US cents 132.7 per dmtu, amounting to a 115% increase, which is more than sufficient to cover the escalation in capital costs. Given the current price trend of iron ore, we believe there will be further positive impact on the business model. CITIC Pacific's steel plants would also benefit from the stable supply.

Timeline

2003	October	Environmental approval given (to previous proponent company)
2006	March	CITIC Pacific purchases initial mining rights
	May	CITIC Pacific Mining formed
	June	Foreign Investment Review Board approval granted
	November	Exploration drilling progam commenced
	December	Major Project Status granted by Australian Government
2007	January	Signed construction contract with MCC
	August	MCC acquired 20% equity in project
	December	Bulk sample of ore for production testing commenced
2008 to 2010		Geotechnical drilling continues
		Further environmental management plans approved
		State Agreement Act amendments
		Construction commences
		First shipment of product to China

Progress in 2007

CITIC Pacific's mining rights were increased from one to two billion tonnes in a further agreement signed in 2007.

In August 2007, the lead engineering construction contractor for the Sino Iron Project, China Metallurgical Group Corp. ('MCC'), entered into a sales and purchase agreement to acquire a 20% equity interest in the project (subject to the approval of the Chinese and the Australian governments). The construction contract with MCC was also extended from the initial one billion tonne to the current two billion tonnes.

Key government approvals for mining and environmental components were advanced in consultation with the Western Australian government.

In November 2007, CITIC Pacific Mining and the Sino Iron Project were publicly launched in Australia.

At the Pilbara mine site in December 2007, a bulk sample started that will move seven million tonnes of material. A representative sample will be sourced from this material to confirm earlier test work carried out using drill core samples. These results will be used to confirm the technical specifications for the processing equipment design.

Major design work in both Australia and China on the processing elements of the project is advanced, as well as resource development and mine planning. Construction has commenced on the first of six mill lines and crushers at CITIC Heavy Machinery in Luoyang and the magnetite concentrator at NETC in Anshan.

Long lead items, including gas turbines and gas line pipe, have already been ordered, and key construction contractors have been identified for the gas pipeline, power plant and desalination plant.

Also in 2007, CITIC Pacific Mining purchased the Mardie pastoral station, on which the mine area and processing infrastructure is located. Ownership of the station will improve access to land and also presents opportunities for environmental improvement programs to be implemented.

Looking ahead

Subject to relevant Western Australian government approvals, construction is scheduled to begin in 2008 to allow production of the first magnetite concentrate from the first mill line in 2009 / 2010. The remaining mill lines will be commissioned progressively from 2010. The desalination plant engineering and procurement is progressing and some of the long lead items have been ordered. First water from the desalination plant is expected to be available in 2009.

Additional geotechnical drilling will also take place to further define the mine's ore body.

2500 jobs are expected to be created during the project's construction phase, and 600 operational jobs over the mine's 25-year life.

In 2008, CITIC Pacific Mining plans to sign a joint venture agreement with Central Mining and Contracting, a Pilbara-based indigenous mining contractor who is currently providing various mine services to the project. This joint venture will ensure local indigenous people benefit through employment, training and business opportunities in the future.

Strategic value to CITIC Pacific

The Sino Iron project, in conjunction with CITIC Pacific's recent order of 12 ships for its iron ore delivery, will guarantee a secure supply and transportation of raw materials for the Group's steel making operations in China.

Magnetite is one of the principal ores of iron and the most magnetic of all the naturally occurring minerals on earth. Its magnetic properties allow it to be readily refined into an iron ore concentrate for use in steel making. In the conversion process, significantly less carbon dioxide is produced than with other iron ore types, making magnetite increasingly desirable in this era of environmental awareness.

The iron ore products from the Sino Iron project will be suitable for specialty steel making where customers are seeking low levels of phosphorous and alumina.

Building on the expertise that has been developed within the CITIC Pacific Mining team, in the future, CITIC Pacific will look at acquisitions or expansions that will build the company's iron ore / resources portfolio.

Property

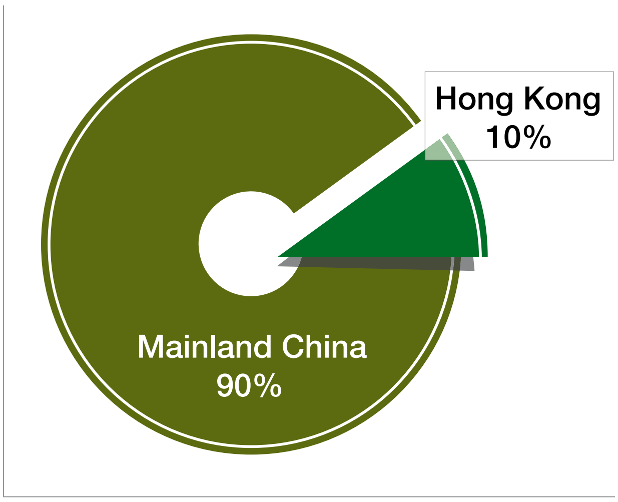
- *Focuses on developing projects in mainland China*
- *Employs a team of experienced professionals in mainland China and Hong Kong working on all aspects of property projects*
- *Specializes in medium and large scale integrated projects*

HK$ million	**2007**	2006
Turnover	**1,321**	8,320
Contribution	**731**	2,035
Proportion of total contribution	**7%**	25%
Net assets	**26,367**	20,299
Capital expenditure	**4,525**	2,873

Headquarters
CITIC Tower

CITIC Pacific's Properties

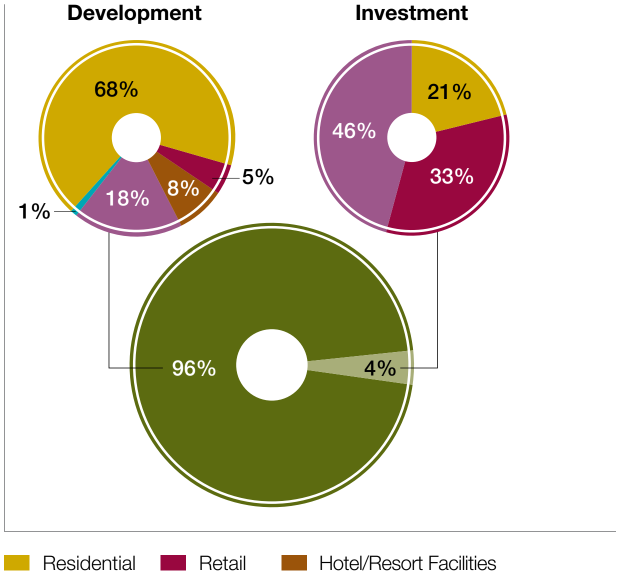
by gross floor area



Mainland China

- Developing 4.2 million square metres of gross floor area in the coming years
- Strategically focusing on Shanghai, major secondary cities in the Yangtze Delta area as well as in the Shenzhou Peninsula on Hainan Island
- Actively sourcing additions to land bank

Mainland China Properties



Total gross floor area 4.4 million square metres

★ Cities in which CITIC Pacific has land bank

Development Properties

projects	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	11,000 (on sale)	Completed
Phase II			35,300	137,000	2014
Qingpu Residential Development, *Shanghai*	Residential, hotel, retail	100%	665,900	485,000	2008 to 2011
Lu Jia Zui New Financial District Project, *Shanghai*	Office, hotel, residential, retail	50%	251,400	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
Site at No.10, Hainan Rd. Hongkou, *Shanghai*	Office, retail	100%	16,400	66,000	2010 to 2011
Jiang Dong District *Ningbo, Zhejiang Province*	Office, retail	99%	39,500	98,000	2008 to 2009
Yangzhou, Jiangsu Province	Residential, retail	100%	328,600	437,000	2008 to 2011
Jiangyin, Jiangsu Province	Residential, retail	56%	91,300	178,000	2009 to 2010
Binhu District *Wuxi, Jiangsu Pronvince*	Residential, retail	70%	2,110,300	243,000	In phases from 2009 onwards
Shenzhou Peninsula *Wanning, Hainan Province*	Hotel, retail, residential	80% – 99.9%	6,710,100	1,653,000	In phases from 2009 onwards
Total			10,295,000	4,208,000	

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:	251,400 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
Current status:	Phase I construction in progress

Previously used as a shipyard, this site occupies the last significant prime area in Pudong, 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, residential and hotels. The entire project will be developed in three phases and takes advantage of the river view, convenient transportation and comprehensive master planning. The buildings will become a prominent landmark on the bank of the Huangpu River.

Clearance of the site was completed in January, 2008. The five star hotel in Phase I will be managed by an internationally renowned hotel operator. As the financial centre of China, Shanghai, and in particular the Lu Jia Zui Financial District in Pudong, is attracting an increasing number of financial institutions that intend to set up their regional headquarters in the area. Some large international financial institutions have already expressed interest in taking up space in the office towers in various phases.

Zhujiajiao New Town – Qingpu Residential Project

100% owned

Site area:	665,900 square metres
Gross floor area:	485,000 square metres
Usage:	Low density residential, retail and hotel
Expected completion:	2008 – 2011
Current status:	approx. 30,000 square metres GFA under construction 61 units launched in September, 2007; all sold 455,000 square metres – under planning

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

Adjacent to two scenic lakes, Dadian Lake and Dianshan Lake, this project will take full advantage of the cultural traditions and history of the area to create a unique living environment. The project consists of villas, semi-detached houses, town houses, retail shops and a hotel. The hotel will be managed by a well known international hotel operator. This development will form the new core area of Zhujiajiao.

New Westgate Garden

100% owned

Phase I

Site area:	32,900 square metres
Gross floor area:	117,000 square metres (11,000 square metres on sale)
Usage:	Residential
Number of units:	709
Completed:	June, 2006
Current status:	90% of units sold as of early March, 2008

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 high-class residential development is within walking distance of the Lao Xi Men subway station of the new Metro Line 8. It includes residential towers, retail shops, and 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:	Design in progress

CITIC Pacific and Shanghai Shentong Metro Assets Management Co. jointly acquired the site in early 2007 located in Hongkou District. Situated above the Sichuan Beilu Metro Station currently under construction, the project is comprised of office buildings and retail outlets that take advantage of the pedestrian flow generated by the metro line.

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:	2010 – 2011
Current status:	Design in progress

The site was acquired in December, 2007. On the east side of the Sichuan Beilu Station development, it will be designed and developed into a combined landmark project for this thriving district.

Zhejiang Province

CITIC Square, city of Ningbo

99% owned

Site area:	39,500 square metres
Gross floor area:	98,000 square metres
Usage:	Office and retail
Expected completion:	2008 – 2009
Current status:	Superstructure works in progress

This development is in the Jiangdong District of Ningbo, the provincial capital as well as the centre of economic development of Zhejiang Province. The site is very close to 'Ningbo Eastern New City', the future political and economic centre of Ningbo. CITIC Square will be a Grade A office and retail development.

Jiangsu Province

Binhu District Residential Project, city of Wuxi

70% owned

Site area:	2,110,300 square metres
Gross floor area:	243,000 square metres
Usage:	Residential and retail
Expected completion:	In phases from 2009 onwards
Current status:	Foundation works in progress

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 from 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 advantage of the extensive landscape and scenic view of the Tai Lake.

Yangzhou Residential Project, city of Yangzhou

100% owned

Site area:	328,000 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:	2008 – 2011
Current status:	Phase I construction in progress

Located in the western part of the city centre, the site will be developed with the connotation of 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. The project has been well received by the market with over 99% (262 units) of the units launched in Phase I sold as of early March, 2008, during the pre-sale which began in September 2007.

Hainan Province

Jiangyin Project, city of Jiangyin

56% owned

Site area:	91,300 square metres
Gross floor area:	178,000 square metres
Usage:	Residential and retail
Expected completion:	2009 – 2010
Current status:	Foundation works commencing soon

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.

Shenzhou Peninsula Development, city of 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 2009 onwards
Current status:	Construction in progress

CITIC Pacific is developing a resort-type real estate project on the Shenzhou Peninsula. The site has a planning area of 38 square kilometres, with four south facing beaches and 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 cities of Haikou and Sanya, a railway station will be built in Wanning City, which is about five to six kilometres from the Shenzhou Peninsula site. This new express railway line, constructed by the Hainan government with a completion target of 2011, will greatly improve the accessibility of the Shenzhou Peninsula site from Hainan's international airports in Haikou and Sanya.

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

As of early March, CITIC Pacific had acquired 6.71 square kilometres of land. Design and construction of Phase I, which consists of four hotels, retail and resort facilities, is progressing. All four hotels will be managed by well-known international hotel operators.

Investment Properties

projects	usage	ownership	approx. site area (sq. metre)	approx. GFA (sq. metre)	expected completion date
CITIC Square, *Shanghai*	Office, retail	100%	14,500	114,000	Completed
Royal Pavilion, *Shanghai*	Serviced apartment	100%	8,800	35,000	Completed
New Westgate Garden Retail Portion (Phase I), *Shanghai*	Retail	100%	32,900	18,000	Completed
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 be fully let and experience steady rental increases.

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 luxury serviced apartment with 81% occupancy in early March, 2008 and stable rental income.

New Westgate Garden – Retail Portion

100% owned

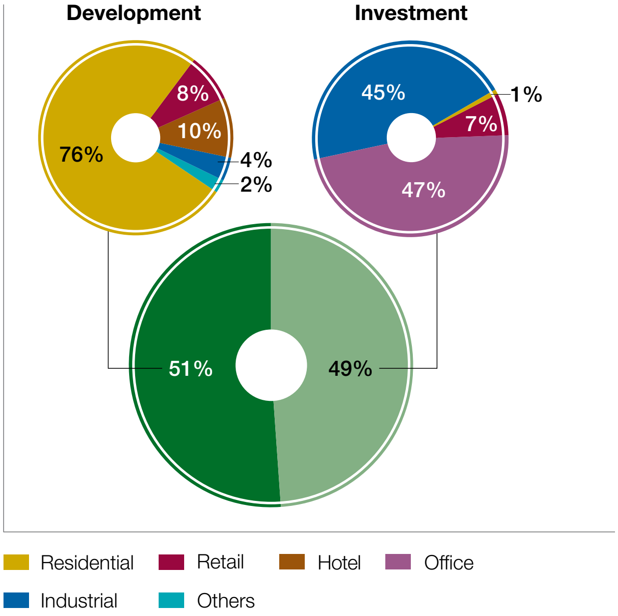
Site area: 32,900 square metres
Gross floor area: 18,000 square metres
Usage: Retail
Completed: 2006

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 the DCH Commercial Centre

Hong Kong Properties



Total gross floor area 479,000 square metres

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 become a fully integrated, self-contained suburban multinational residential community. Situated on the northeastern shore of Lantau Island, and 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 217,000 square metres, of which 91,000 square metres have been developed as Siena One (Phase 11) and Siena Two (Phase 12). The occupation permit for Chianti (Phase 13), which has a gross floor area of 50,000 square metres, was obtained in April 2006. Sales began in March 2006. As of early March, 2008, 518 units out of 530 had been sold.

A hotel development of 25,000 square metres of gross floor area at the northern part of Discovery Bay is under construction and scheduled to open in the second half of 2009.

Investment Properties

projects	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*

Aviation

	location	ownership
Cathay Pacific	Hong Kong	17.5%
HACTL	Hong Kong	10%

HK$ million	**2007**	2006
Contribution	**1,263**	3,288
Proportion of total contribution	**12%**	41%
Net assets	**10,616**	9,843

Cathay Pacific

www.cathaypacific.com

An international passenger and freight carrier based in Hong Kong, Cathay Pacific, together with its subsidiary Dragonair and Air Hong Kong, operates a fleet of 163 aircraft providing services to more than 130 destinations in 37 countries around the world as of 5 March 2008.

More than a year after the restructuring of the Hong Kong aviation industry in which Dragonair became a wholly owned subsidiary of Cathay Pacific, the enlarged airline registered a profit increase of 72% in 2007 from its 2006 level. A total of 23 million passengers and 1.6 million tonnes of cargo were carried, an increase of 29% and 26%, respectively, compared with 2006.

HACTL

www.hactl.com

HACTL operates SuperTerminal 1, the largest air cargo terminal in the world. Total cargo tonnage throughput for 2007 was 2.6 million tonnes, up 2.7% from 2006. This new handling record is due to export growth from the region, in particular to Europe and the United States.

Power Generation

HK$ million	2007	2006
Contribution	**494**	268
Proportion of total contribution	**5%**	3%
Net assets	**6,361**	6,244

At the end of 2007, CITIC Pacific owned a total attributable capacity of 5,287MW, an increase of 10% from 2006 due to the commission of Ligang Phase IV (2x600MW) and capacity addition at North United Power.

Total electricity generated in 2007 by all power plants in which CITIC Pacific had an interest was 96 billion kwh, an increase of 15% compared with 2006. This was driven by the market's overall increase in demand for electricity. To satisfy this, generation capacity increased in many parts of China. For CITIC Pacific, new capacity in Ligang, Zhengzhou and North United drove the rise of electricity generation.

The price of coal rose approximately 15% in 2007 from its level in 2006. However, tariffs were not adjusted accordingly by the government and therefore created margin pressure on Chinese power producers. The strong demand for electricity somewhat compensated for the coal price rise, enabling profits from the Group's power business to increase.

In December 2007, CITIC Pacific purchased five 57,000DWT vessels to be delivered in 2010 and 2011. These vessels will be used to transport coal to Ligang Power Station.

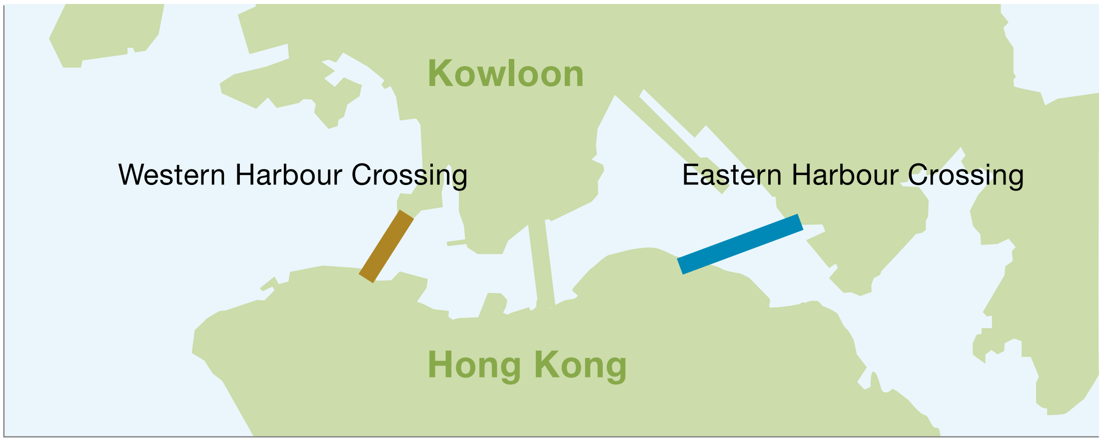
Operational statistics of CITIC Pacific's power plants

						electricity generated			heat generated		
power plant	location (province)	installed capacity (MW)	% ownership	type	utilisation hours	2007 (m kWh)	2006 (m kWh)	% change	2007 (kGJ)	2006 (kGJ)	% change
Ligang	Jiangsu			Coal fired							
I & II		1,440	65		6,075	8,748	8,064	8	NA	NA	NA
III		1,260	71.4		5,029	6,165	NA	NA	NA	NA	NA
Hanfeng	Hebei	1,320	15	Coal fired	5,626	7,427	7,931	-6	NA	NA	NA
Huaibei	Anhui	620	12.5	Coal fired	5,326	3,302	3,026	9	NA	NA	NA
Kaifeng	Henan	125	50	Coal fired	4,700	588	595	-1	NA	NA	NA
North United	Inner Mongolia	12,533	20	Coal fired	5,549	64,609	57,834	12	29,696	43,268	-31
Zhengzhou	Henan	1,000	50	Co-generation	4,874	4,874	3,328	46	5,545	5,082	9
Hohhot	Inner Mongolia	400	35	Co-generation	6,181	2,472	2,741	-10	2,273	2,078	-9
Weihai	Shandong	36	49	Co-generation	4,558	164	155	6	3,694	3,592	3
Chenming	Shandong	24	49	Co-generation	5,304	154	183	-16	3,158	3,275	-4

Civil Infrastructure

	location	ownership	franchise till
Eastern Harbour Tunnel	Hong Kong		
Road		71%	2016
Rail		50%	2008
Western Harbour Tunnel	Hong Kong	35%	2023

HK$ million	**2007**	2006
Contribution	**490**	469
Proportion of total contribution	**5%**	6%
Net assets	**2,055**	2,533



Eastern Harbour Tunnel

www.easternharbourtunnel.com.hk

Registered average daily traffic of 64,005 vehicles in 2007, a 5% increase from 2006.

Western Harbour Tunnel

www.westernharbourtunnel.com

A key section of the Route 3 highway linking Hong Kong Island with mainland China and Chek Lap Kok Airport. In 2007, average daily traffic was 48,816 vehicles, up 10% over 2006. On January 6, 2008 a toll increase was implemented.

CITIC Pacific has a 35% interest in the company that manages the Cross Harbour Tunnel under contract from the government.

Listed Subsidiaries

Dah Chong Hong

56.6% owned

Stock code: 1828 (The Stock Exchange of Hong Kong)

HK$ million	**2007**	2006
Contribution	**3,041**	297
Proportion of total contribution	**29%**	4%
Net assets	**2,399**	4,004

Dah Chong Hong *(www.dch.com.hk)* is a major distributor of motor vehicles and consumer and food commodity products. It has operations in Hong Kong and mainland China, as well as businesses in Japan, Singapore and Canada.

CITIC 1616

52.6% owned

Stock code: 1883 (The Stock Exchange of Hong Kong)

HK$ million	**2007**	2006
Contribution	**2,085**	191
Proportion of total contribution	**20%**	2%
Net assets	**740**	375

CITIC 1616 *(www.citic1616.com)* is a leading telecom hub-based provider in Asia and is interconnected to approximately 260 international telecom operators in more than 50 countries.

Financial Review

Introduction

CITIC Pacific's 2007 Annual Report includes a letter from the Chairman to shareholders, the final accounts and other information required by accounting standards, legislation, and the Hong Kong Stock Exchange. This Financial Review is designed to assist the reader in understanding the statutory information by discussing the contribution of each business segment, and the financial position of the company as a whole.

Pages 76 to 84 of the Annual Report contain the Consolidated Profit and Loss Account, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity. Following these financial statements, on pages 85 to 138 of the Annual Report, are Notes that further explain certain figures presented in the statements.

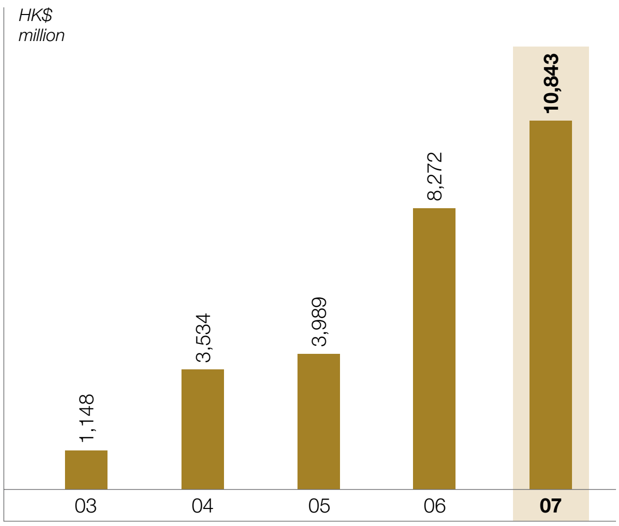
On page 139 is the report of CITIC Pacific's auditor – PricewaterhouseCoopers – of their independent audit of CITIC Pacific's Annual Accounts.

Basis of Accounting

CITIC Pacific prepares its financial statements in accordance with generally accepted accounting standards issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') which have been converged with International Financial Reporting Standards.

Profit Attributable to Shareholders

The net profit attributable to shareholders for the year ended 31 December 2007 was HK$10,843 million, an increase of 31% compared with HK$8,272 million in 2006. The reasons for the increase in profit are described below.



Business Segments Contribution

The Contribution (Note) made by major business segments in 2007, compared with 2006, were:

	actual		change
HK$ million	**2007**	2006	2007–2006
Special Steel	**2,242**	1,333	909
Property	**731**	2,035	(1,304)
Infrastructure	**2,327**	4,201	(1,874)
Listed Subsidiaries			
CITIC 1616	**2,085**	191	1,894
Dah Chong Hong	**3,041**	297	2,744
Fair Value change of Investment Properties	***1,217***	*1,077*	*140*

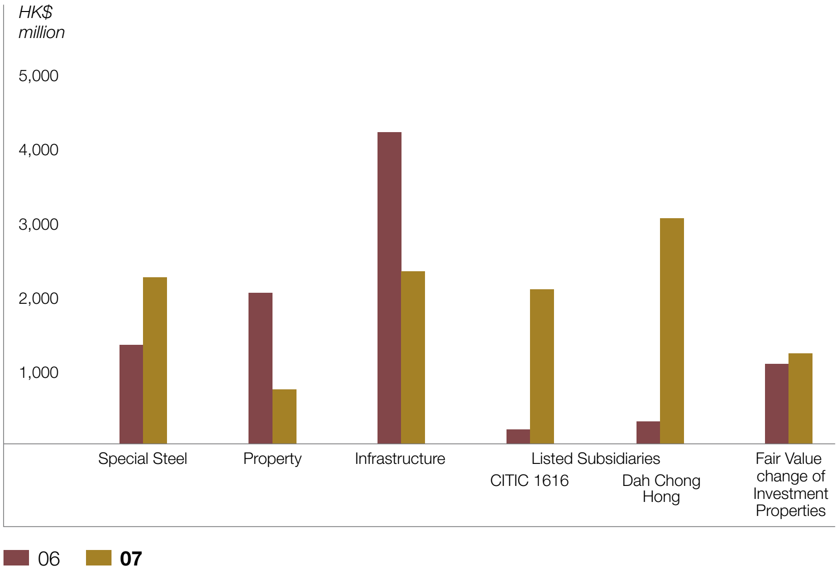
Note: Please refer to Definition of Terms on page 142.

Compared the contribution for the year 2007 with last year:

- Special Steel: Contribution increased by more than 60% due to the continuing good performance of Jiangyin Steel Plant, Xin Yegang Steel and Daye Special Steel. The growth of various industries in the PRC continues to support the demand for special steel. Shijiazhuang Steel Plant which was acquired in the second half of 2006 also made good contribution in 2007.
- Property: Contribution decreased by almost 70%. In 2006, the profit included the sale of 50% interest in Festival Walk. Rental income of both CITIC Tower and CITIC Square recorded good growth during the year.
- Infrastructure: Cathay Pacific reported an excellent results for the year with 72% increase in net profit. Despite the decrease of the Group's shareholding in Cathay Pacific from 25.4% to 17.5%, contribution from Cathay for the year increased by approximately 30% compared to the combined contribution from Cathay and Dragonair in last year. In 2006, a profit of HK$2.2 billion was recognized from the restructuring of aviation business.

  Contribution from Power Generation increased by more than 80% mainly due to the increased contribution from Ligang Power Stations and North United Power. Ligang Phase III had its first full year operation and has made profit contribution for the year. Contribution from tunnels in Hong Kong remained stable in 2007.
- CITIC 1616: A profit of HK$1.9 billion was realized in connection with the spin off of CITIC 1616 in 2007. The profit of CITIC 1616 increased by 38% compared to 2006.
- Dah Chong Hong: A profit of HK$2.6 billion was recognized in connection with the spin off of Dah Chong Hong in 2007. The profit of Dah Chong Hong increased by approximately 60% in 2007.
- Fair Value change of Investment Properties: The increase in fair value of investment properties as a result of a revaluation reflected the strong current property market conditions in both Hong Kong and the PRC.

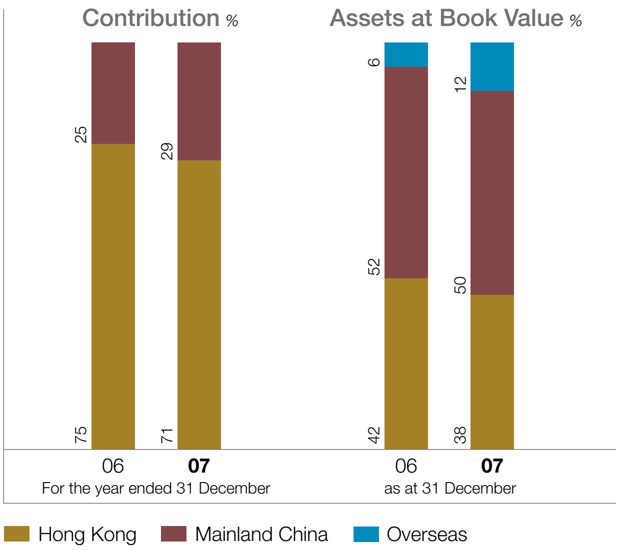
Contribution



Page 94 of the Annual Report contains business segment information for turnover and profit before net finance charges and taxation for consolidated activities, jointly controlled entities and associated companies.

Geographical Distribution

The division of contribution and assets between Hong Kong, mainland China and overseas is shown below based on the location of the base of each business's operations.



Interest Expense

The Group's interest expense net of amount capitalised decreased from HK$590 million to HK$305 million. Capitalised interest increased from HK$323 million to HK$680 million mainly due to various PRC property projects under development and the iron ore project. The weighted average cost of debt in 2007 was 5.5% compared to 5.2% last year which was mainly due to the increase in RMB borrowing rates.

Taxation

As a result of the revision in China's Corporate Income Tax Law, the corporate income tax rate for PRC property companies will be reduced from 33% to 25% from the year 2008 onwards. As a result, the deferred taxation liabilities brought forward from the year 2006 has been adjusted downwards by HK$180 million for the current year.

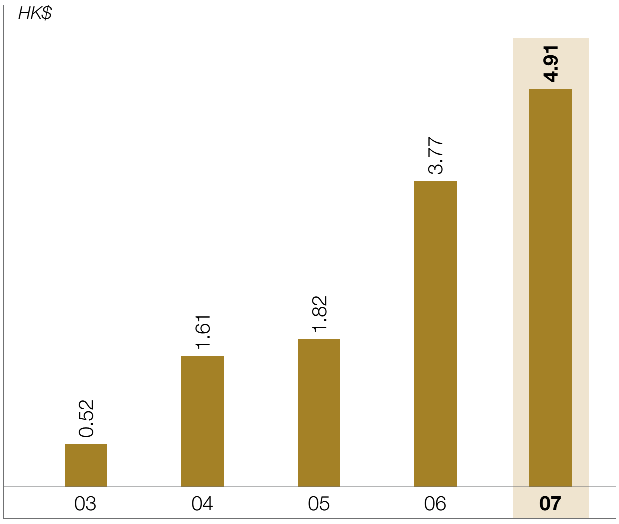
Current tax increased from HK$497 million to HK$758 million due to increased profit from operations.

Shareholders' Returns

CITIC Pacific's primary objective is to increase shareholder value for which it has used earnings per share as a proxy. The Company expects its businesses to provide returns on investment over their lives that will provide shareholders with an adequate return on equity.

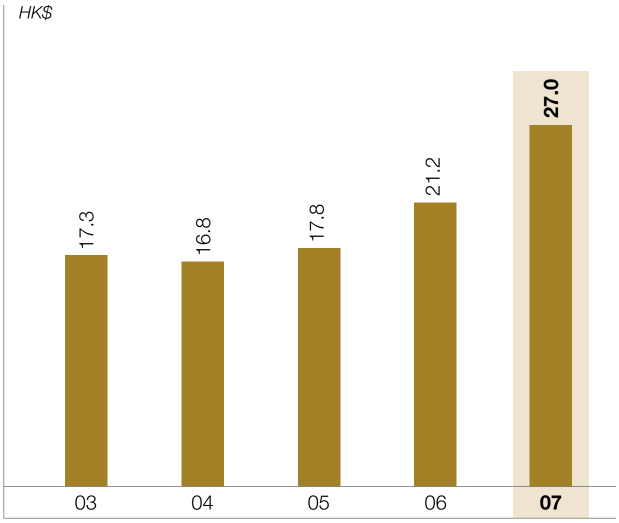
Earnings per Share

Earnings per Share was HK$4.91 for 2007, an increase of 30% compared with HK$3.77 in 2006. The increases in Earnings per Share was mainly attributable to the increase in profit as the number of shares outstanding in the two years was substantially the same.



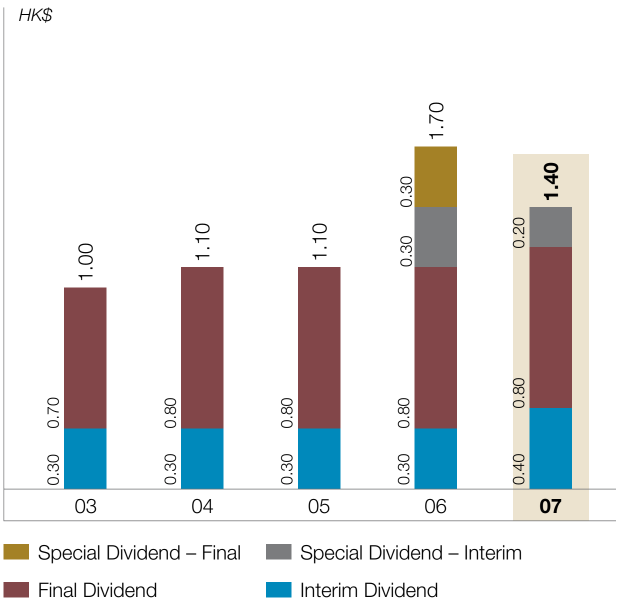
Shareholders' Funds per Share

Shareholders' Funds per share at 31 December 2007 was HK$27. The increase was due to profit during the year less dividend paid.



Dividend per Share

A final dividend of HK$0.8 per share is proposed for 2007.

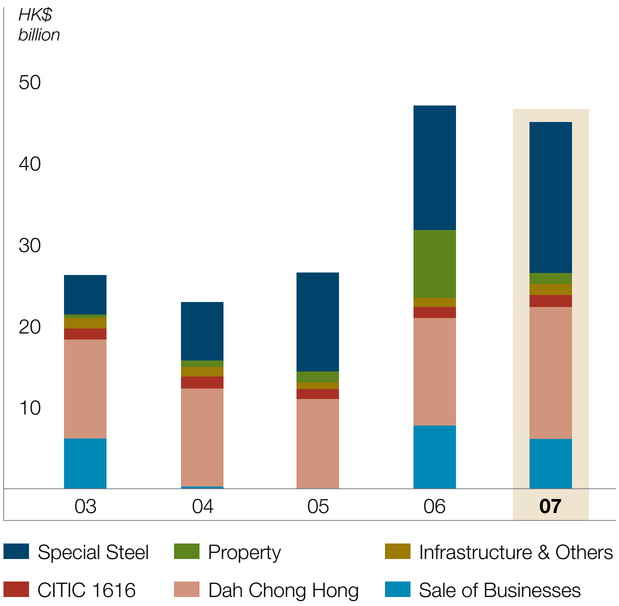


Turnover

Special Steel turnover increased by 21%. The sales of all steel plants recorded a good growth.

Turnover of Dah Chong Hong operations increased by 22% mainly due to increased sales in mainland China particularly for the motor business. The proceeds on disposal of approximately 43% interest in Dah Chong Hong in connection with the spin off amounted to approximately HK$4 billion.

The proceeds on disposal of approximately 50% interest in CITIC 1616 in connection with the spin off amounted to approximately HK$2 billion.



Capital Expenditure

The construction of the infrastructure for the iron ore mining project in Australia is continuing. For the purchase of seven vessels, a total deposit of HK$2 billion was paid in 2007.

The property development projects in the Mainland, including Shanghai Lu Jia Zui New Financial District project, Qingpu, Ningbo, Yangzhou, and Hainan Island are continuing. A new investment in Sichuanbeilu Station Project was also made during 2007.

Under 'Others' in 2007 includes investment in the listed shares of Country Garden, China Molybdenum, SOHO China, KWG Property and Sinotruk. The Group also invested in the listed shares of Industrial and Commercial Bank and China Coal Energy in 2006.

HK$ million	**2007**	2006
Iron Ore Mining	**6,844**	1,754
Property	**4,525**	2,873
Special Steel	**1,442**	3,674
Infrastructure	**71**	530
Listed Subsidiaries		
CITIC 1616	**62**	33
Dah Chong Hong	**323**	291
Others	**1,042**	1,007

Treasury Policy and Risk Management

General Policies

- Maintain a high degree of financial control and transparency;
- Centralised financing and cash management activities at head office level;
- Enhance risk management, control and the best utilisation of financial resources of the Group;
- Diversify funding sources through utilisation of both banking and capital markets;
- Arrange financing to match business characteristics and cash flow to the extent it is possible; and
- Employ limited or non-recourse project finance when it is available and appropriate.

Risk Management

The Group employs a combination of financial instruments, including derivative products, to manage its exposure to fluctuations in interest and currency rates. Derivative transactions are only used for interest rate and currency hedging purposes, speculative trading activity is prohibited. Counterparties' credit risks are carefully reviewed and the Group only deals with financial institutions with investment grade credit rating. The amount of counterparties' lending exposure to the Group is also an important consideration as a means to control credit risk.

Foreign Currency Exposure

CITIC Pacific conducts business mainly in Hong Kong, mainland China and Australia, therefore it is subject to the market risk of foreign exchange rates in HK Dollar, US Dollar, Renminbi and Australia Dollar. To minimise currency exposure, non HK Dollar assets are usually financed in the same currency as the asset or cash flow from it, either by borrowing or using foreign exchange contracts. 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 free 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 US dollars. As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi. As at 31 December 2007, the Group had net RMB exposure of approximately HK$46 billion (2006: HK$30 billion).

The functional currency and future cash flow for the Australian Iron Ore Mining project is denominated in USD. Substantial portion of the project infrastructure / pre-completion operating expenditure is projected to be denominated in non-USD currencies. Foreign exchange forward contracts and structured forward instruments are employed to hedge or minimise the currency exposure. As at 31 December 2007, projected non-USD currencies expenditures amounted to HK$2,659 million (2006: Nil) was hedged through foreign exchange forward contracts and HK$882 million (2006: Nil) was hedged by structured forward instruments.

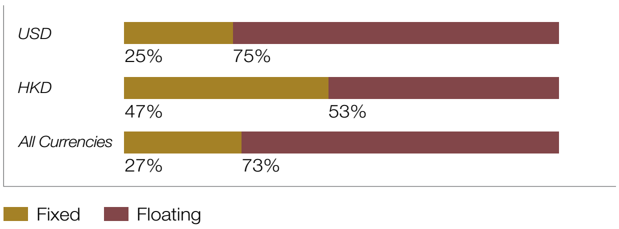
On liability management, CITIC Pacific funded the Iron Ore Mining project and the acquisition of vessels by USD loans to match the future cash flow of these assets. Foreign exchange forward contracts are employed to minimise currency exposure for other USD debts and a Yen Bond. As at 31 December 2007, such contracts outstanding amounted to HK$5,853 million (2006: HK$6,116 million).

In addition, foreign exchange forward contracts were employed by our trading subsidiary to hedge currency fluctuations. As at 31 December 2007, such contracts outstanding amounted to HK$968 million (2006: HK$707 million).

Interest Rate Exposure

The Group aims to maintain a suitable mixture of fixed and floating rate borrowings in order to stabilise interest costs despite rate movements. Interest rate hedging ratio is determined after taking into consideration of general market trend, the Group's cash flow pattern, interest coverage ratio and etc.

The Group uses interest rate swaps, forward rate agreements, interest rate option contracts and other instruments to hedge exposures or to modify the interest rate characteristics of its borrowings. As at 31 December 2007, CITIC Pacific had outstanding interest rate swap / option contracts with a notional amount of HK$12.8 billion. After the swaps, HK$7.8 billion or 27% of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying floating rate of interest. The Group's overall weighted average all-in cost of borrowings (including fees and hedging costs) for the year ended 31 December 2007 was about 5.5%, compared with 5.2% for the last year.



Cash Flow

By design, majority of the Group's debt is raised at the holding company level (except for project based financing or arrangement limited by regulation such as RMB borrowings). As such, the actual net amount of cash flow from each business to the Group is an important indicator as to the Group's ability to service its debts. Following is a summary of cash contributions by each business segment:

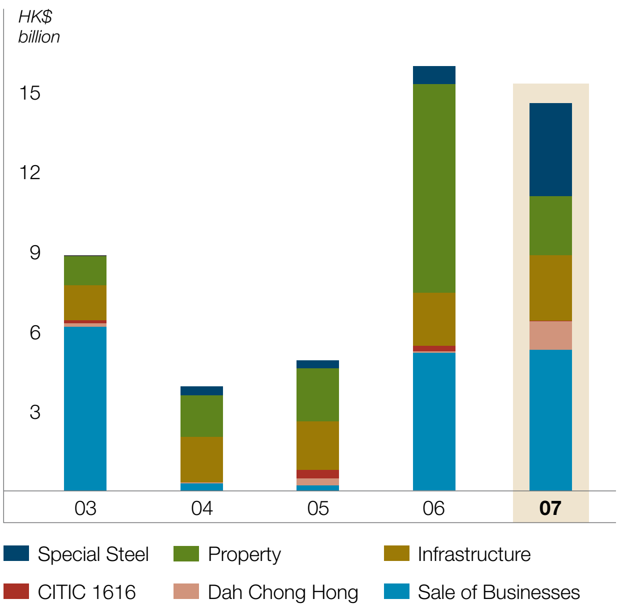
HK$ million	**2007**	2006
Special Steel	**3,506**	687
Property	**2,201**	7,821
Infrastructure		
Aviation	**508**	5,975
Power Generation	**660**	499
Civil Infrastructure	**990**	476
Others	**241**	144
CITIC 1616	**1,919**	222
Dah Chong Hong	**4,448**	57
Others	**77**	60
Total	**14,550**	15,941

For the year ended 31 December 2007, the Group's cash flow was very strong. Special Steel sector declared prior years' retained profits through dividend and most of them were re-invested for expansion of the sector. Property sector continued to generate strong cash flow from both recurring rental income and property sale. The comparative figure in 2006 was higher because of the disposal of Festival Walk and the land in Tung Chau Street during the year. Under Infrastructure sector, Aviation and Power Generation contributed stable cash flow to the Group. The comparative figure in 2006 for Aviation was higher because of cash receipt from aviation restructuring. Contribution from Civil Infrastructure was higher mainly due to Western Harbour Crossing's repayment of HK$560 million shareholders' loan to the Group as a result of a successful restructure of the project loan during the year. During the period, substantial cash flow was also realised from the separate listing of CITIC 1616. Cash contribution from Dah Chong Hong was higher as a result of its separate listing. Significant cash flow was realised from pre-IPO dividend and IPO proceeds.

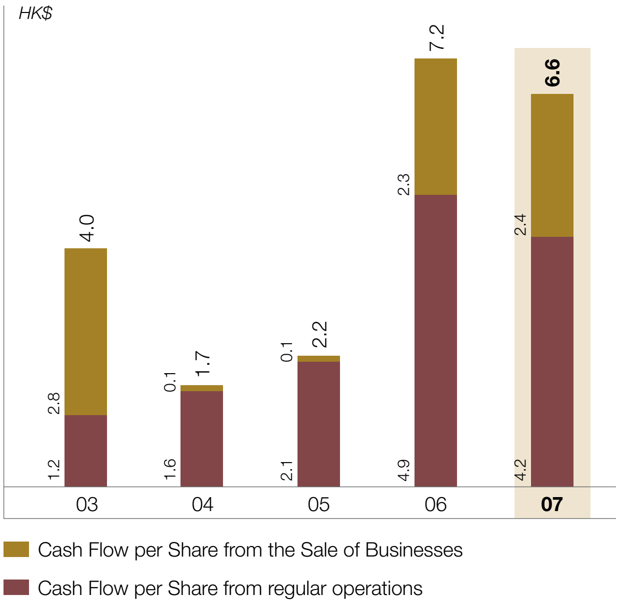
Summary of Consolidated Cash Flow Statement

HK$ million	**2007**	2006
Net Cash generated from / (invested in) consolidated activities	**4,803**	4,302
jointly controlled entities	**1,594**	220
associated companies	**1,036**	1,132
other financial assets	**86**	11
Sale of business interests and marketable securities	**6,807**	12,313
Capital expenditure and investment in new businesses	**(15,557)**	(9,451)
Tax	**(459)**	(315)
Net interest paid	**(797)**	(751)
	(2,487)	7,461
Dividends paid	**(3,756)**	(3,072)
Increase / (Decrease) in borrowings	**10,049**	(3,376)
Repurchase of shares	**(110)**	(35)
Share options exercised	**430**	87
	6,613	(6,396)
Increase in cash and cash equivalents	**4,126**	1,065

Cash Flow from Operations



Cash Flow per Share



Group Debt and Liquidity

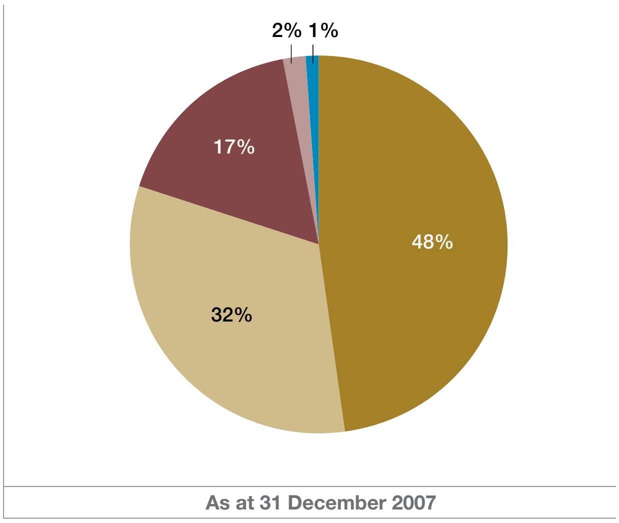
The financial position of the Group as at 31 December 2007, as compared to 31 December 2006, is summarised as follows:

HK$ million	**2007**	2006
Total debt	**28,654**	18,293
Cash and bank deposits	**8,045**	3,679
Net debt	**20,609**	14,614

The original denomination of the Group's borrowings as well as cash and deposit balances by currencies as at 31 December 2007 is summarised as follows:

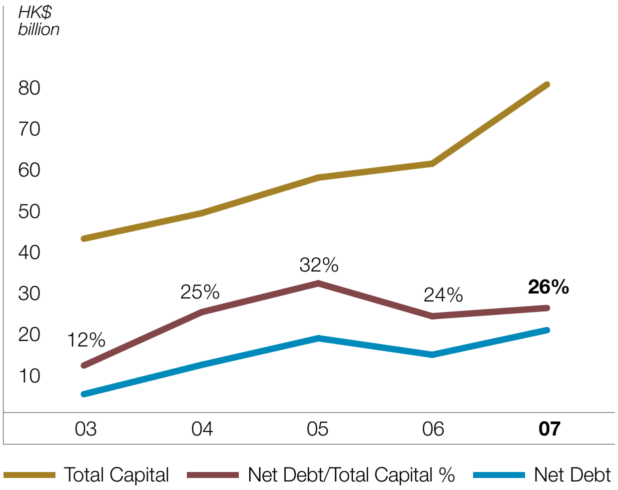
	denomination					
HK$ million equivalent	HK$	US$	RMB	Yen	other	total
Total debt in original currency	8,575	14,016	4,833	1,107	123	28,654
Total debt after hedging	13,802	9,219	4,833	677	123	28,654
Cash and bank deposits	1,559	1,172	4,957	97	260	8,045
Net debt / (cash) after hedging	12,243	8,047	(124)	580	(137)	20,609

Total Debt after Hedging



Leverage

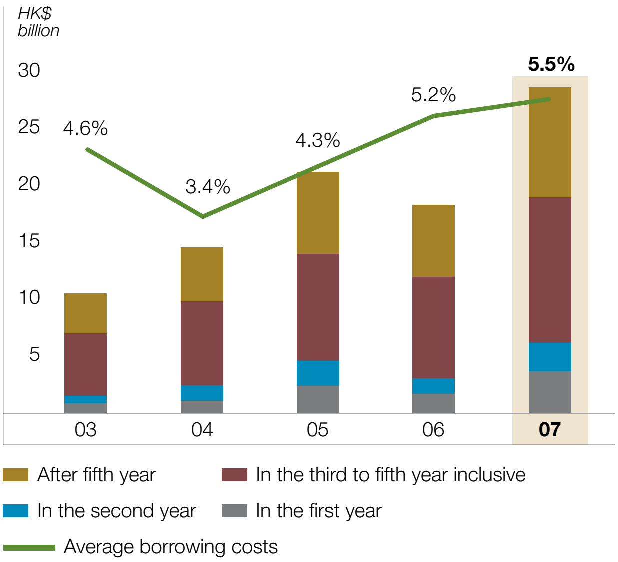
Net debt divided by total capital was 26% at 31 December 2007 compared with 24% at the end of 2006.



Total Debt

Total debt increased mainly due to capital expenditure and new investments in the Group's core businesses of about HK$12.8 billion during the year.

For the year ended 31 December 2007, the Group's average borrowing costs was about 5.5% compared with 5.2% for the last year. For the description on the Group's average borrowing costs, please refer to 'Interest Rate Exposure'.



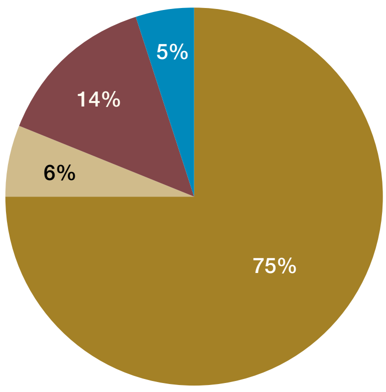
Maturity Profile of Outstanding Debt

The Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt 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 2007, outstanding loans that will mature to the end of 2008 amounted to HK$3.7 billion or 13% of the total debt. On the other hand, the Group had cash and deposits with banks of HK$8.0 billion on that date.

HK$ million	2008	2009	2010	2011	2012	2013 and beyond	total	percentage
Parent Company	1,686[1]	570	2,890	4,461[2]	2,150	9,668[3]	21,425	75%
Subsidiaries	1,968	1,957	1,934	1,009	352	9	7,229	25%
Total Maturing Debt	3,654	2,527	4,824	5,470	2,502	9,677	28,654	100%
Percentage	13%	9%	17%	19%	9%	33%	100%	

1. *Including a US$216 million short term bridging loan for the Iron Ore Mining project due in 2008.*
2. *Including a US$450 million global bond due in 2011 which was issued by a wholly owned special purposes vehicle.*
3. *Including a JPY8.1 billion floating rate note due in 2035 which was issued by a wholly owned special purposes vehicle.*

Outstanding Debt by Type



As at 31 December 2007

Long Term Loan, Short Term Loan, Bond, Money Market

	2007	2006
Weighted average life of debt	**6.0 years**	5.2 years

Analysis on the Group's Financial Obligations

category	description	**2007** *HK$ million*	2006 *HK$ million*
Borrowings of Holding Company	Include bond and notes issued by wholly owned special purposes vehicles.	**21,425**	13,515
Borrowings of Subsidiaries	Mainly related to the RMB borrowings of steel subsidiaries and Dah Chong Hong. According to PRC regulations, RMB borrowings must be raised at the operating subsidiary level.	**7,229**	4,778
Borrowings of Jointly Controlled Entities and Associated Companies	Share of net debt of jointly controlled entities and associated companies. All the debts are non-recourse to the Company and its subsidiaries.	**12,010**	16,465

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 2007 which, under Hong Kong generally accepted accounting standards, are not consolidated into the Group's accounts.

The debt amounts shown in the following 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. Certain Group's investments, such as Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

Business Sector *HK$ million*	total net debt / (cash)	proportion of net debt / (cash) attributable to CITIC Pacific
Special Steel	2,059	1,338
Property	(289)	(135)
Infrastructure		
Aviation	15,591	2,786
Power Generation	16,228	5,826
Civil Infrastructure	3,245	1,096
Others	857	429
Listed Subsidiary		
Dah Chong Hong	208	71
Others	1,188	599
Total	39,087	12,010

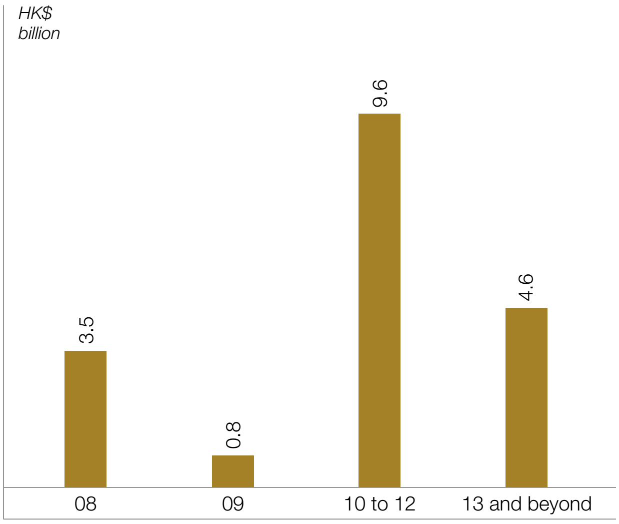
Available Sources of Financing

In addition to cash and deposits balance of HK$8.0 billion as at 31 December 2007, the Group had undrawn available loan facilities totaling HK$20.5 billion, of which HK$16.0 billion was committed long term loans, HK$2.5 billion was committed short term loan and HK$2.0 billion was money market lines. Besides, trade facilities amounting to HK$2.4 billion was available. Borrowings by sources of financing as at 31 December 2007 is summarised as follows:

HK$ million	total facilities	outstandings	available facilities
Committed Facilities			
Short Term Loan*	4,212	1,686	2,526
Term Loans	37,480	21,462	16,018
Global Bonds	3,510	3,510	0
Private Placement	430	430	0
Total Committed	45,632	27,088	18,544
Uncommitted Facilities			
Money Market Lines and Short Term Facilities	3,591	1,545	2,046
Trade Facilities	3,810	1,426	2,384

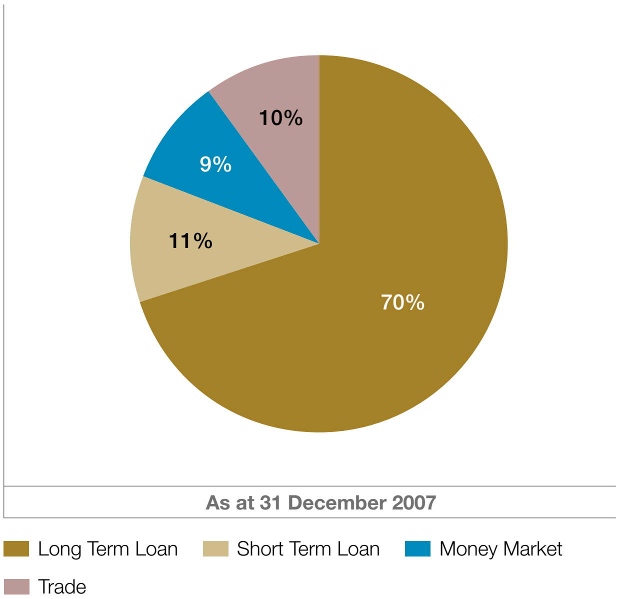
* *This is a USD short term bridging loan to support the funding requirement of the Iron Ore Mining project.*

Undrawn Available Committed Facilities by Maturity (Total HK$18.5 billion)



As at 31 December 2007

Undrawn Available Facilities by Type (Total HK$22.9 billion)



In addition to the above summarised facilities, the Company established Cooperative Agreements with several major PRC banks. Under such agreements, general credit limits were granted to us to support the Group's funding requirements. Utilisation of these facilities will be subject to the banks' approval on a project-by-project basis in accordance with PRC banking regulations. As at 31 December 2007, total credit limit of around RMB64.6 billion under such arrangements remained available, of which RMB30.0 billion have been specifically allocated by the banks to various projects, mainly for Iron Ore Mining, Special Steel and Power Generation projects. These arrangements will further support the Group's expansion strategy in the mainland.

Financing Activities

During the year, CITIC Pacific successfully completed a HK$2.1 billion, 7-year club loan facility. In addition, newly established, renewed or extended bilateral loan facilities amounted to HK$450 million. To support the funding requirement of the Iron Ore Mining project, a US$371 million 25-year equity loan facility (in addition to the US$467 million 25-year equity loan facility signed in 2006) and a US$540 million one-year bridging loan facility were established. The project loan for Phase I of the Iron Ore Mining project has been finalised and signing is being arranged. For the project loan for Phase II, lending commitment was received, financing arrangement will be finalised pending on the completion of the Phase II acquisition.

Pledged Assets

As at 31 December 2007, subsidiaries' assets of HK$327 million (2006: HK$696 million) were pledged to secure banking facilities, these arrangements mainly related to Dah Chong Hong's business overseas.

Contingent Liabilities

Details of the Group's contingent liabilities as at 31 December 2007 was stated under Note 33 to the Accounts.

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 has been in compliance with all of its loan covenants.

	covenant limits	actual 2007
Minimum Consolidated Net Worth:		
Consolidated Net Worth	≥ HK$25 billion	HK$61.5 billion
Gearing:		
Consolidated Borrowing / Consolidated Net Worth	≤ 1.5	0.47
Negative Pledge:		
Pledged Assets / Consolidated Total Assets	≤ 30%	0.3%

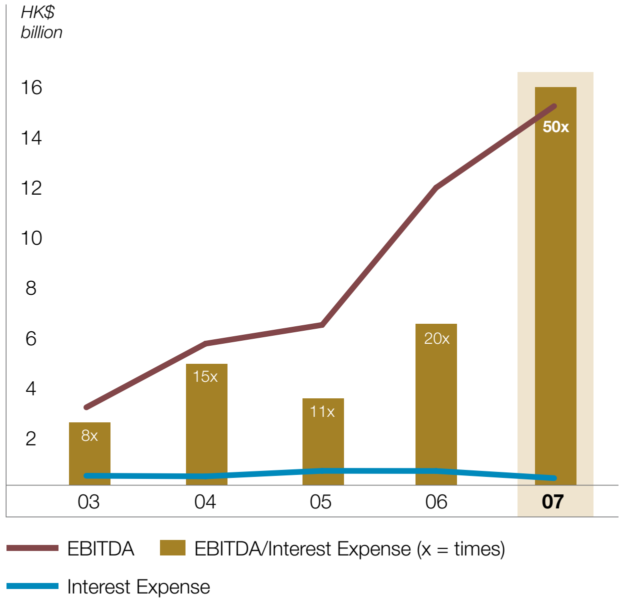
For the purpose of the above covenant limits, as defined in the relevant borrowing agreements:

'Consolidated Net Worth' means the aggregate of shareholders' funds and goodwill from acquisitions and developments having been written off against reserves or profit and loss account.

'Consolidated Borrowing' means the aggregate of all consolidated indebtedness for borrowed money and all contingent obligations in respect of indebtedness for borrowed money other than aforesaid consolidated indebtedness for borrowed money.

Interest Cover

EBITDA divided by interest expense for the year ended 31 December 2007 was 50 times compared to 20 times in 2006, due to the 27% increase in EBITDA and a 48% decrease of interest expenses.



Credit Ratings

Moody's and Standard & Poor's have reaffirmed the long-term credit ratings of the Company as Ba1 and BB+ respectively, both with a stable credit outlook. The Group's new investments focus mainly on the areas where CITIC Pacific has greatest expertise, of which the Special Steel plants and PRC properties have already commenced contributing in both profit and cash flow to the Group, while the Iron Ore Mining project are expected to commence making contribution in the coming few years. As a result, the credit profile of the Group is going to improve steadily in due course. The Group's objective is to maintain its financial discipline when expanding its businesses.

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)	1998	1999	2000	2001	2002	2003	2004	2005	2006	**2007**
Shareholders' funds	41,426	37,580	40,650	40,781	41,742	37,848	36,921	39,103	46,510	**59,793**
per share (HK$)	19.47	17.67	18.51	18.62	19.07	17.29	16.84	17.83	21.18	**27.03**
Debt										
Debt	22,075	18,563	15,709	14,639	9,267	10,528	14,580	21,218	18,293	**28,654**
Bank deposits	900	8,044	5,201	4,631	2,545	5,511	2,417	2,579	3,679	**8,045**
Net debt / total capital	34%	22%	21%	20%	14%	12%	25%	32%	24%	**26%**
Interest cover (times)	4	4	5	6	12	8	15	11	20	**50**
Capital employed	63,501	56,143	56,359	55,420	51,009	48,376	51,501	60,321	64,803	**88,447**
Property, plant and equipment	5,085	5,157	6,530	7,782	5,601	5,696	7,344	10,063	10,593	**13,158**
Investment properties	5,299	5,374	5,531	5,357	8,493	7,923	8,115	8,645	9,604	**10,895**
Properties under development	227	240	246	460	586	679	1,672	1,849	2,712	**4,288**
Leasehold land	1,135	1,123	1,102	1,076	1,094	1,194	1,596	1,618	1,712	**1,641**
Jointly controlled entities	831	1,396	2,019	2,365	3,582	4,085	7,852	10,413	14,922	**17,446**
Associated companies	38,732	20,859	23,497	22,704	22,183	22,584	21,439	23,239	16,416	**17,941**
Other financial assets	11,548	14,511	9,264	8,070	7,092	1,027	1,121	929	2,819	**7,502**
Stockmarket capitalisation	35,530	62,230	60,720	37,993	31,514	43,332	48,444	47,038	58,952	**96,338**
Number of shareholders	14,987	13,506	9,808	11,044	12,260	12,198	11,554	11,262	10,433	**8,571**
Staff	11,871	10,490	11,354	11,733	11,643	12,174	15,915	19,174	23,822	**24,319**

For the year (HK$ million)	1998	1999	2000	2001	2002	2003	2004	2005	2006	**2007**
Net profit after tax										
Net profit after tax	2,622	2,729	3,283	2,084	3,835	1,148	3,534	3,989	8,272	**10,843**
per share (HK$)	1.23	1.28	1.49	0.95	1.75	0.52	1.61	1.82	3.77	**4.91**
Contribution by major businesses										
Special Steel	18	22	29	95	126	178	438	808	1,333	**2,242**
Property	264	734	414	625	886	355	559	1,106	2,035	**731**
Infrastructure	1,666	2,442	3,162	2,115	3,015	1,399	2,179	1,686	4,201	**2,327**
Listed subsidiaries										
CITIC 1616	–	–	39	129	252	116	120	122	191	**2,085**
Dah Chong Hong	330	230	221	105	234	253	284	233	297	**3,041**
Fair value change of investment properties	–	–	–	–	–	(587)	181	755	1,077	**1,217**
EBITDA	4,739	4,763	5,238	3,921	5,691	3,126	5,666	6,412	11,882	**15,135**
Dividends per share (HK$)										
Regular	0.70	0.75	0.85	0.80	1.00	1.00	1.10	1.10	1.10	**1.20**
Special	–	2.00	–	–	1.00	–	–	–	0.60	**0.20**
Cover (times)	1.8	1.7	1.8	1.2	1.8	0.5	1.5	1.7	3.4	**4.1**

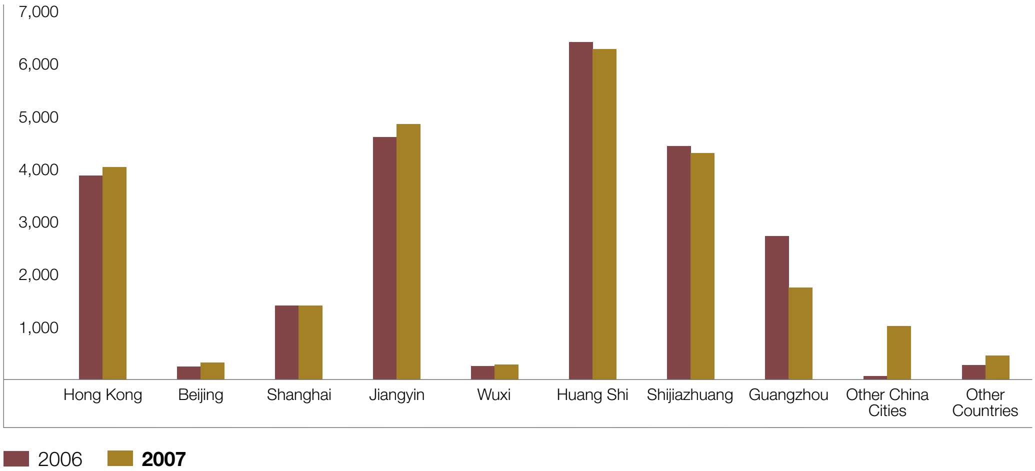
Note:
Prior years' figures have been restated to reflect the Group's adoption of Hong Kong Financial Reporting Standards except the figures have not been adjusted for years 2001 and before following the adoption of revised accounting standard of HKAS 12 'Income Tax' in year 2002.

Human Resources

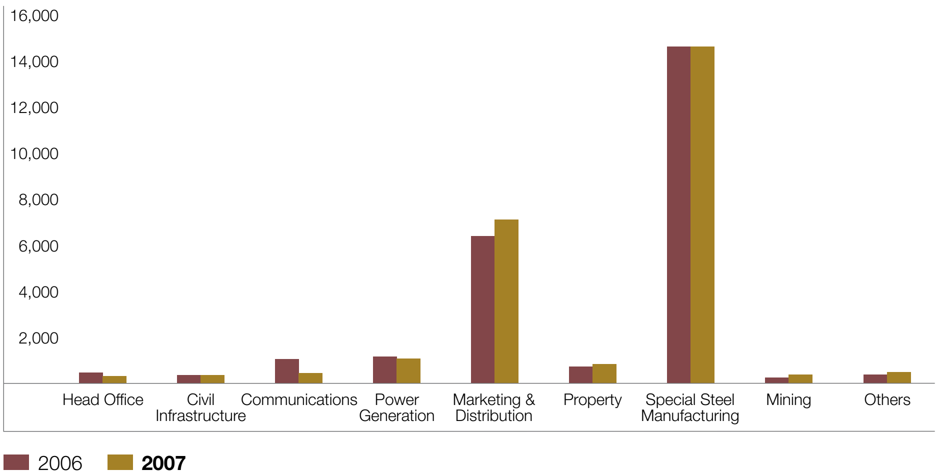
As at the end of December 2007, the Group employed 24,319 staff (2006: 23,822) in its headquarters in Hong Kong, principal subsidiaries and joint venture companies. Employees working in the mainland of China and Hong Kong increased slightly to 19,868 (2006: 19,720) and 4,043 (2006: 3,846) respectively. With the rapid development of the iron ore mining business in Australia, the number of employees in other countries has significantly increased to 408 (2006: 256).

The mainland China's robust economic growth as well as the continuous upturn of Hong Kong's economy in 2007 have provided a stable, yet challenging employment environment for staff to operate effectively and efficiently to attain a better level of performance.

Headcount by Major City



Headcount by Business Segment



Human Resources Management

CITIC Pacific is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognizing and respecting the rights of all individuals. Striving to administer a fair and consistent human resources management policy to the mutual benefit of its employees and the Group, CITIC Pacific also upholds a high standard of business ethics and expects a similarly high level of personal conduct of its employees. Every employee of the Group is required to strictly follow the Code of Conduct which covers the professional and technical standard of requirements in conducting business. All business unit heads are charged with the responsibility of disseminating the Group's requirements to the people concerned. 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 attract, retain and motivate employees who have the relevant skills, knowledge and competencies to develop, support and sustain the continued success of the Group. Employee's cash remuneration typically comprises a base salary and variable compensation, mainly in the form of a performance-linked discretionary bonus which is based on the company's results and the individual's performance. Senior management of the Group receives a substantially higher portion of their cash remuneration in performance bonus, reflecting their contribution to the business and the Group's financial performance. The compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. The replacement of the Group's many forms of guaranteed and fixed bonuses with performance-based variable compensation has been implemented effectively by having the top-performers adequately rewarded and under-performers properly addressed. On an annual basis, the Group reviews the cash compensation and benefit programs provided for its employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy. Towards this end, Group companies are largely in conformity with this policy.

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, including 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, time commitment and responsibilities of the directors and key executives, employment conditions elsewhere in the group and desirability of performance-based remuneration so as 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 64 to 67. Total remuneration paid to directors was HK$294.07 million (2006: HK$213.71 million) and further information on Directors' Emoluments can be found on page 99.

Retirement Benefits

For Hong Kong employees, the CITIC Group Retirement Plan ('ORSO Plan') was replaced by the CITIC Group Mandatory Provident Fund Scheme ('MPF Scheme') in August 2003. While the new contributions are all made to the MPF Scheme, investments of the contributed benefits and vesting still continue under the ORSO Plan as a closed fund until the existing ORSO members cease their employment or have their vested benefits transferred to the MPF Scheme no later than 1 August 2008. The Group has appointed HSBC Trustee (Hong Kong) Limited as Trustee of the ORSO Plan to ensure that the closed Plan is operated in accordance with provisions of the Trust Deed and Rules. HSBC Asset Management (Hong Kong) Limited and Fidelity Investment Management (Hong Kong) Limited are appointed as investment managers.

To enable staff to manage their retirement funds effectively and flexibly, the Group offers two options within the MPF Master Trust Scheme – a Hang Seng Mandatory Provident Fund Plan and a Fidelity Retirement Master Trust Plan. The options were introduced in 2003 and the Hang Seng MPF Plan has been further upgraded from the 5 funds SuperTrust Plan to the 10 funds SuperTrust Plus Plan in May 2007. The Fidelity Retirement Master Trust currently provides 14 fund choices to members. HSBC Provident Fund Trustee (Hong Kong) Limited and HSBC Institutional Trust Services (Asia) Limited are the appointed Trustees of the 2 Schemes, respectively.

The CITIC Group Retirement Plan Committee meets with the service providers of both the ORSO Plan and MPF Schemes twice a year to review their service and performance for the protection of staff interests.

Retirement benefits for employees in the mainland and other locations are based primarily on local mandatory requirements.

Training & Development

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

With the ever growing cross-border business activities between Hong Kong and the mainland, the Group encourages and is actively promoting business integration, knowledge sharing and skills transfer between staff in the two territories.

CITIC Pacific also believes in investing in the training and development of the younger members of society. The Group has implemented various apprentice training programs in different industries of subsidiary companies. It also sponsors a scholarship prize for the Hong Kong Air Cadet Corps in the preparatory pilot training program and supports local university initiatives by providing internship opportunities in both Hong Kong and in the Group's mainland China operations.

To support the business growth as well as to prepare for management succession, the Group has launched the 'Management Trainee Program' by recruiting a pool of talented young graduates to undergo structured training with intensive on-the-job coaching and professional management training courses.

In the Community

As a socially-responsible organization, CITIC Pacific is committed to contributing to the community by supporting and sponsoring different kind of activities in Hong Kong, the mainland and overseas, such as charitable work, promotion of education, environment protection, sports, culture and the arts etc..

Most notably, the Group and its subsidiary companies have been 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 one of the sponsors of the Hong Kong Arts Festival.

Additionally, for delivering real benefits to the local community, the Group's subsidiary in Western Australia has entered into a joint venture with a local mining contractor to provide employment opportunities for mainly indigenous people. The Company has also sponsored the Australia-China Business Council to provide a year-long series of seminars, focusing on cooperative opportunities for infrastructure development between Australia and China.

Corporate Governance

Corporate Governance Practices

CITIC Pacific is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices to ensure they meet stakeholders' expectations, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year of 2007, 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. CITIC Pacific has also applied all the principles in the Code and the manner in which they are applied are explained in the following parts of the Corporate Governance Report.

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ('the Model Code') contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2007.

Board of Directors

The Board currently comprises twelve executive and seven non-executive directors of whom four are independent as defined by the Stock Exchange (the biographies of the directors, together with information about the relationship among them, are set out on pages 55 to 57). Independent non-executive directors are nearly one-quarter and the non-executive directors are about one-third of the Board.

Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

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. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. 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 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 Board meetings were held in 2007. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2007 is set out below:

	Attendance / Number of Meetings		
Director	Board	Audit Committee	Remuneration Committee
Executive Director			
Mr Larry Yung Chi Kin – Chairman	4/4		
Mr Henry Fan Hung Ling – Managing Director	4/4		
Mr Peter Lee Chung Hing	4/4		
Mr Carl Yung Ming Jie	3/4		
Mr Leslie Chang Li Hsien	4/4		
Mr Vernon Francis Moore	4/4		
Mr Li Shilin	3/4		
Mr Liu Jifu	3/4		
Mr Chau Chi Yin	4/4		
Mr Milton Law Ming To	4/4		
Mr Wang Ande	4/4		
Independent Non-executive Director			
Mr Hamilton Ho Hau Hay	4/4		
Mr Alexander Reid Hamilton (Chairman of the Audit Committee)	3/4	4/4	5/5
Mr Hansen Loh Chung Hon	4/4	4/4	
Mr Norman Ho Hau Chong (Chairman of the Remuneration Committee)	4/4		5/5
Non-executive Director			
Mr Willie Chang	4/4	4/4	5/5
Mr André Desmarais (Two of the meetings were attended by the alternate of Mr André Desmarais)	4/4		
Mr Chang Zhenming	0/4		

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.

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 the discharge of 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.

Non-executive Directors

There are currently seven non-executive directors of whom four are independent. Under Article 104(A) of the Company's Articles of Association, every director, including the non-executive director, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a director cannot exceed three years.

Remuneration of Directors

The Remuneration Committee, established in August 2003, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website (www.citicpacific.com). 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 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.

During 2007, the Remuneration Committee reviewed the remuneration policies and approved the salary and bonus of the executive directors and senior management. No executive director has taken part in any discussion about his own remuneration. Its members comprise:

Mr Norman Ho Hau Chong – Chairman
Mr Alexander Reid Hamilton
Mr Willie Chang

Five meetings were held in 2007. All Committee members are non-executive directors and a majority including the Chairman are independent.

Details of CITIC Pacific's remuneration policies are set out in the Human Resources section on page 46. Directors' emoluments and retirement benefits are disclosed on pages 99 to 100. Details of the CITIC Pacific Share Incentive Plan 2000 and the granting of options are disclosed on pages 64 to 67.

Nomination of Directors

There is no nomination committee in the Group for the time being.

Candidates to be nominated as directors are experienced, high calibre individuals. During the year, there was no appointment of new directors. After the year end, Mr Kwok Man Leung was appointed as an executive director with effect from 1 April 2008 after going to the full board for approval.

Auditor's Remuneration

PricewaterhouseCoopers has been appointed by the shareholders annually as CITIC Pacific's external auditors since 1989. During the year, the fees charged to the accounts of the Company and its subsidiaries for PricewaterhouseCoopers' statutory audit amounted to approximately HK$10 million (2006: HK$9 million). In addition approximately HK$2 million (2006: HK$3 million) was charged for other services. The non-statutory audit services mainly consist of special audits, tax compliance and the interim review. The cost of recurring audit services of subsidiaries performed by other auditors amounted to approximately HK$16 million (2006: HK$9 million).

Audit Committee

The Board established an Audit Committee in 1995. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website (www.citicpacific.com). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members are non-executive directors and a majority including the Chairman are independent. Its members comprise:

Mr Alexander Reid Hamilton – Chairman
Mr Hansen Loh Chung Hon
Mr Willie Chang

The Committee members possess diversified industry experience and the Chairman has appropriate professional qualifications and experience in accounting matters. The Committee meets four times each year, together with senior management and auditors, both internal and external.

During 2007, 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; reviewed the Group's adherence to the Code Provisions in the Code of Corporate Governance Practices. As a result, they recommended the Board to adopt the interim and annual report for 2007.

Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material mis-statement or loss and management rather than elimination of risks associated with its business activities.

During the year, the Board has reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions. The review is conducted annually in accordance with the requirement of the Code of Corporate Governance Practices. The responsible management of the various business divisions and subsidiaries are required to assess the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework. The result of the review has been summarised and reported through the Group Internal Audit Department to the Audit Committee and the Board.

In addition, the Group Internal Audit Department conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of Group Internal Audit Department on the effectiveness of the Group's internal control system quarterly and reports to the Board on such reviews.

Internal Audit

The Group Internal Audit Department supports management by carrying out systematic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. The frequency of review of individual business unit or subsidiary is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit programme annually. The Group Internal Audit Department has unrestricted access to all parts of the business, and direct access to any level of management including the Chairman, or the Chairman of the Audit Committee, as it considers necessary. The Group Internal Audit Department submits regular reports for the Audit Committee's review in accordance with the approved internal audit programme. Concerns which have been reported by the Group Internal Audit Department are monitored quarterly by management until appropriate remedial actions have been taken.

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. Training courses on the Code of Conduct are held regularly for all employees and the Audit Committee receives a report on the operation, and the need for revision, of the Code of Conduct every year.

Throughout the year of 2007, the Group has complied with the Code Provisions in the Code of Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited.

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

Notifiable Transactions and Connected Transactions

During the year 2007, CITIC Pacific has issued press announcements in respect of a number of 'notifiable transactions' and 'connected transactions' which can be viewed in the Group's website (www.citicpacific.com).

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 contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be posted on the websites of the Stock Exchange and the Company on the 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 sent to journalists and investment analysts where an e-mail address or fax number is known and will be available to shareholders 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.

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

Financial Reporting

The Directors acknowledge their responsibility for preparing the Company's accounts which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. 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; judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. 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 2007.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 139.

Directors and Senior Managers

Executive Directors

Larry Yung Chi Kin (Chairman), aged 66, 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 59, a Director since 1990, is a Deputy Chairman of Cathay Pacific Airways Limited ('Cathay') and a Deputy Managing Director of CITIC HK. He is a non-official member of the Executive Council of the Hong Kong Special Administrative Region, the Chairman of the Mandatory Provident Fund Schemes Authority and a non-executive director of Hong Kong Exchanges and Clearing Limited. 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 54, is the Chairman of Jiangyin Xingcheng Special Steel and Hubei Xin Yegang Steel Co., Ltd. ('Hubei Xin Yegang'), the Vice Chairman of CITIC Guoan Co., Ltd. ('CITIC Guoan'), a non-executive director of CITIC 1616 Holdings Limited ('CITIC 1616'), a director of Daye Special Steel Co., Ltd. ('Daye Special Steel') and CITIC Pacific Mining Management Pty Ltd ('CITIC Pacific Mining'). 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 39, 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.

Leslie Chang Li Hsien (Deputy Managing Director), aged 53, a Director since 2005, is a director of CITIC HK, CITIC Guoan, Hong Kong Transport, Logistics and Management Company Limited ('HKTLMC'), Western Harbour Tunnel Company Limited ('WHT'), CITIC Capital Holdings Limited ('CCHL'), CITIC Pacific Mining, Hong Kong Resort Company Limited ('HK Resort') and other Group companies concerned with financial sector and infrastructure projects. Before joining CITIC Pacific in 1994, he was a partner at KPMG specializing in the financial services industry and the Director of the firm's Chinese Practice in the United States.

Vernon Francis Moore (Executive Director), aged 61, a Director since 1990, is a non-executive director of Cathay and CLP Holdings Limited ('CLP Holdings'), a director of CITIC Pacific Mining, the Chairman of New Hong Kong Tunnel Company Limited ('NHKTC') and WHT, the Deputy Chairman of CCHL and the representative of CITIC Pacific on the Board of Companhia de Telecomunicacoes de Macau S.A.R.L.. 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 58, 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 64, 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.

Chau Chi Yin (Executive Director), aged 52, a Director since 2006. Mr Chau joined CITIC Pacific in 1990, is a non-executive director of Dah Chong Hong Holdings Limited ('DCH Holdings'), a director of CITIC HK, HK Resort and certain Group companies concerned with special steel projects. He joined CITIC HK in 1987 after experience in public accounting and in financial management with a major Hong Kong listed company.

Milton Law Ming To (Executive Director), aged 44, a Director since 2006, is a director of NHKTC, WHT, HKTLMC, CITIC Guoan, Daye Special Steel, CITIC Pacific Mining and other Group companies concerned with infrastructure, environment, 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 58, 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 39, a Director with effect from 1 April 2008, is a non-executive director of CITIC 1616 and DCH Holdings, a director of Adaltis Inc. (a Canadian listed company), CITIC Guoan and NHKTC and other group companies concerned with special steel and environmental projects. 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 64, a Director since 1987, is the sole proprietor of Willie Chang & Co., Solicitors, with over 38 years' experience in legal practice, including as a partner of Johnson, Stokes and Master.†‡

Hamilton Ho Hau Hay, aged 57, 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 66, a Director since 1994, was a partner of PricewaterhouseCoopers where he practised for 16 years. He is a director of a number of Hong Kong companies including China COSCO Holdings Company Limited, Shangri-La Asia Limited, Esprit Holdings Limited and Octopus Cards Limited.*†‡

Hansen Loh Chung Hon, aged 70, a Director since 1994, is the Managing Director of Wyler Textiles, Limited and a director of CLP Holdings.*†

Norman Ho Hau Chong, aged 52, a Director since 1994, 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 51, 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 51, 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, Mr Chang was also an executive director of CITIC Pacific. Mr Chang 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.

Peter Kruyt (Alternate Director to Mr André Desmarais), aged 52, 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.

* *Independent Non-Executive Director*
† *Member of the Audit Committee*
‡ *Member of the Remuneration Committee*

Senior Managers

Frances Yung Ming Fong (Director, Group Finance), aged 36, is the Deputy Chairman of CITIC Pacific Communications Limited ('CPC') and a director of NHKTC. She joined CITIC Pacific in 1995. She is the daughter of Mr Larry Yung Chi Kin.

Stella Chan Chui Sheung (Director, Company Secretariat), aged 45, is a non-executive director of DCH Holdings. 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 52, 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 49, 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 Xing Hai (Director, Industries), aged 63, is a Deputy Managing Director of CITIC HK, the Chairman of Daye Special Steel, the Vice Chairman of Jiangyin Xingcheng Special Steel, Hubei Xin Yegang and 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 the PRC.

Holly Chen Meng (Director, Group Investor Relations), aged 41, 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 62, 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 the PRC.

Directors' Report

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is holding its subsidiary companies and the principal activities of its subsidiary companies and associated companies and their major areas of operation are set out in the Business Review on pages 6 to 29.

Dividends

The Directors declared an interim dividend of HK$0.40 per share and a special dividend of HK$0.20 per share in respect of the year ended 31 December 2007 which were paid on 18 September 2007. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK$0.80 per share in respect of the year ended 31 December 2007 payable on 13 May 2008 to shareholders on the Register of Members at the close of business on 8 May 2008.

Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in Note 25 to the accounts.

Donations

Donations made by the Group during the year amounted to HK$7 million.

Fixed Assets

Movements of fixed assets are set out in the Financial Statements on pages 101 to 104.

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 35 to the accounts.

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 JPY 8.1 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 26 to the accounts.

Directors

Mr Norman Yuen Kee Tong resigned as director with effect from 8 January 2007 and Mr Kwok Man Leung will be appointed as executive director of the Company with effect from 1 April 2008. Except for these changes, the directors of the Company whose names and biographical details appear on pages 55 to 57 were the directors in office during the financial year ended 31 December 2007.

In accordance with Article 95 of the New Articles of Association of the Company, Mr Kwok Man Leung will hold office only until the forthcoming Annual General Meeting and is then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs Henry Fan Hung Ling, Carl Yung Ming Jie, Leslie Chang Li Hsien, Li Shilin, Hamilton Ho Hau Hay and André Desmarais 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 new 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, Leslie Chang Li Hsien, Liu Jifu and Chau Chi Yin 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 8 May 2008.

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 or any of its 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.

Connected Transactions

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

1. The Company, CITIC 1616 Holdings Limited ('CITIC 1616') and BNP Paribas Capital (Asia Pacific) Limited (for itself and on behalf of other underwriters) had entered into (i) an underwriting agreement on 21 March 2007 in respect of the Hong Kong Public Offer of shares of CITIC 1616 ('CITIC 1616 Shares'); and (ii) an underwriting agreement on 31 March 2007 in respect of the International Placing, pursuant to which the underwriters had severally agreed to subscribe or procure subscribers for, on the terms and conditions of the prospectus issued by CITIC 1616, their respective applicable proportions of CITIC 1616 Shares under the Hong Kong Public Offer and the International Placing, for a commission of 2.5% of the aggregate offer price in respect of CITIC 1616 Shares underwritten by them.

CITIC Securities Corporate Finance (HK) Limited ('CITIC Securities') was one of the underwriters in the Hong Kong Public Offer with an underwriting commitment for 9,631,440 CITIC 1616 Shares and one of the underwriters in the International Placing with an underwriting commitment of not more than 25,000,000 CITIC 1616 Shares.

CITIC Securities is an associate of CITIC Group, the holding company of CITIC HK. CITIC HK is a substantial shareholder of the Company, and therefore CITIC Securities is an associate of a connected person of the Company.

2. On 11 May 2007, the Company entered into three loan agreements (collectively 'the Loan Agreements') with Wuxi Taihu Yuan Property Co., Ltd. ('Wuxi Taihu Yuan'), Wuxi Taihu Jing Development Co., Ltd. ('Wuxi Taihu Jing') and Wuxi Taihu Mei Environmental Co., Ltd. ('Wuxi Taihu Mei') respectively. Pursuant to the Loan Agreements, the Company agreed to extend a loan facility of US$44,000,000 to Wuxi Taihu Yuan, US$4,000,000 to Wuxi Taihu Jing and US$5,000,000 to Wuxi Taihu Mei for a period of 36 months. Each of the loan facilities was interest bearing at the rate of 12-month LIBOR plus 1.5% per annum and should be repayable in full on or before 10 May 2010.

As each of Wuxi Taihu Yuan, Wuxi Taihu Jing and Wuxi Taihu Mei is an associate of Wuxi Guo Lian Development Group Co., Ltd., a connected person of the Company by virtue of its holding of 10% or more in certain subsidiaries of the Company, Wuxi Taihu Yuan, Wuxi Taihu Jing and Wuxi Taihu Mei are also regarded as connected persons of the Company.

3. On 24 January 2007, Sino Iron Pty Ltd ('Sino Iron') (a wholly owned subsidiary of the Company) entered into a general construction contract ('Construction Contract') with China Metallurgical Group Corp. ('MCC') under which MCC is responsible for design, construction, installation and testing of certain parts of the infrastructure at the mining area in the western Pilbara region of Western Australia for a contract sum of US$1,106,150,000. On 20 August 2007, Sino Iron and MCC entered into a supplemental agreement to supplement the Construction Contract under which the scope of the works was adjusted and the contract sum was revised to US$1,750 million. It was agreed that the periodic contract sum payable by Sino Iron shall be calculated in US$ and in RMB on 50:50 basis. For amounts within US$1,106,150,000, initial calculation was based on the US$ / RMB mid-price published by the People's Bank of China on the date when the Construction Contract was signed. For amounts over US$1,106,150,000, initial calculation was based on the US$ / RMB mid-price published by the People's Bank of China on the date when the supplemental agreements were signed. However, the actual periodic contract sum payable shall depend on the work progress which is recorded monthly and payment is made in US$ using the applicable exchange rate for the month. The expected time required for the completion of all works to be conducted by MCC is approximately 5 years from 24 January 2007.

On 20 August 2007, Catak Enterprises Corp. (a wholly owned subsidiary of the Company) entered into a sale and purchase agreement with MCC for the disposal of a 20% interest in Sino Iron ('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 will 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 as supplemented and the transactions contemplated thereunder will constitute a continuing connected transaction for the Company.

As at 31 December 2007, 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.

4. On 30 April 2007, each of Jiangsu Ligang Electric Power Company Limited, Jiangyin Ligang Electric Power Generation Company Limited and Jiangyin Lidian Energy Material Co. Ltd. (collectively the 'Power Companies') entered into an agreement with Shanghai CITIC Shipping Corporation Limited ('CITIC Shipping') pursuant to which CITIC Shipping agreed to provide them with coal transportation services for the year ended 31 December 2007 ('Coal Transportation Agreements'). Transportation fee was at RMB52 per tonne for coal transported by vessel Taihu No.1, No. 2 or No.3 and at RMB63 per tonne for coal transported by vessel Taihu No. 5, No.6 or No.7. If the loading or unloading time exceeded the agreed time for reasons other than the fault of CITIC Shipping or force majeure event, demurrage fee would be at RMB50,000 per day for vessels of less than 30,000 tonnage and at RMB90,000 per day for vessels of or exceeding 30,000 tonnage. The projected amount of coal to be transported for the Power Companies in 2007 was 6 million tonnes. The annual limit on the aggregate service fees payable by the Power Companies to CITIC Shipping under the Coal Transportation Agreements for the year ended 31 December 2007 was estimated at RMB349 million. The agreements were negotiated on an arm's length basis and were arrived at on commercial terms no less favourable to the Power Companies than terms available from independent third parties. 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 2007 under the Coal Transportation Agreements was approximately RMB202 million.

The independent non-executive directors of the Company have reviewed the transactions under the Coal Transportation Agreements and confirm that the transactions have been entered into:

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

b) on commercial terms no less favourable to the Power Companies than terms available from independent third parties; and

c) in accordance with the relevant agreement 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 provided a letter to the board and confirm that the continuing connected transactions:

a) have received the approval of the board of directors of the Company;

b) have been entered into in accordance with the relevant agreement governing the transactions; and

c) have not exceeded the cap disclosed in the announcement dated 30 April 2007.

5. On 14 September 2007, the following agreements were executed:

i) the agreement made between Zhanjiang Junkai Motors Technology and Service Limited (湛江市駿凱汽車技術服務有限公司) ('Zhanjiang Junkai') (a wholly owned subsidiary of Dah Chong Hong Holdings Limited ('DCH Holdings')) and Mr Li Li under which Zhanjiang Junkai agreed to acquire from Mr Li Li 10% equity interest in the registered capital of Guangzhou Hejun Motors Trading Limited (廣州合駿汽車貿易有限公司) ('Guangzhou Hejun') at the consideration of RMB3,300,000;

ii) the agreement made between Shenzhen Zhongyun Motors Trading Limited（深圳市眾運汽車貿易有限公司）('Shenzhen Zhongyun') (a wholly owned subsidiary of DCH Holdings) and Guangzhou Junyue Investment Management Limited（廣州市駿悦投資管理有限公司）('Guangzhou Junyue') under which Shenzhen Zhongyun agreed to acquire from Guangzhou Junyue 20% equity interest in the registered capital of Kunming Heda Motors Sale and Service Limited（昆明合達汽車銷售服務有限公司）('Kunming Heda') at the consideration of RMB1,400,000; and

iii) the agreement made between Zhanjiang Junkai and Guangzhou Junyue under which Zhanjiang Junkai agreed to acquire from Guangzhou Junyue 20% equity interest in the registered capital of Guangzhou Zhongxie Motors Trading Limited（廣州眾協汽車貿易有限公司）('Guangzhou Zhongxie') at the consideration of RMB1,300,000.

Upon completion, Guangzhou Hejun, Kunming Heda and Guangzhou Zhangxie would all become wholly owned subsidiaries of DCH Holdings, a subsidiary of the Company.

Both Mr Li Li and Guangzhou Junyue are connected persons of the Company by virtue of (a) Mr Li Li being a substantial shareholder of Guangzhou Hejun, a non-wholly owned subsidiary of DCH Holdings; (b) Guangzhou Junyue being a substantial shareholder of Kunming Heda and Guangzhou Zhongxie, both are non-wholly owned subsidiaries of DCH Holdings; and (c) Mr Li Li being a controlling shareholder of Guangzhou Junyue.

6. The Company, DCH Holdings and BNP Paribas Capital (Asia Pacific) Limited (for itself and on behalf of other underwriters) entered into (i) a public offer underwriting agreement on 3 October 2007 in respect of the Hong Kong Public Offer of DCH Holdings shares; and (ii) an international underwriting agreement on 10 October 2007 in respect of the International Placing, pursuant to which the underwriters had severally agreed to subscribe or procure subscribers for, on the terms and conditions of the prospectus issued by DCH Holdings on 4 October 2007, their respective applicable proportions of DCH Holdings shares under the Hong Kong Public Offer and the International Placing, for a commission of 2.5% of the aggregate offer price in respect of DCH Holdings shares underwritten by them.

CITIC Securities was one of the co-lead managers and underwriters in the global offering with an underwriting commitment for not more than 48,100,000 to 51,400,000 DCH Holdings shares in aggregate.

CITIC Securities is an associate of CITIC Group, the holding company of CITIC HK. CITIC HK is a substantial shareholder of the Company, and therefore CITIC Securities is an associate of a connected person of the Company.

7. On 26 November 2007, Ipson Investments Limited ('Ipson') (a wholly owned subsidiary of the Company) entered into two articles of association with Perfect Future International Limited ('Perfect Future') for the establishment of two new joint venture companies respectively, namely, Jiangyin CP Xingcheng Industry Gas Co., Ltd. for the production and sale of oxygen, liquefied oxygen, nitrogen and argon and Jiangyin CP Xingcheng By-products Recycling Co., Ltd. for the processing and recycling of metal slag and sale of its related recycled products (collectively 'the JV Companies'). The total investment of each of the JV Companies amounts to US$49,800,000 and the registered capital of each of the JV Companies amounts to US$49,800,000. Upon establishment, each of the JV Companies will be owned as to 80% by Ipson and 20% by Perfect Future.

Perfect Future is a connected person of the Company as Bright Trinity Enterprises Ltd., which wholly owns Perfect Future, is a substantial shareholder of Jiangsu CP Xingcheng Special Steel Co., Ltd., a subsidiary of the Company. Perfect Future is also an associate of a director of various subsidiaries of the Company engaging in steel manufacturing business.

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 17 March 2008, the maximum number of shares available for issue under the Plan is 160,931,316, representing approximately 7.33% 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 can be exercised in whole or in part within 5 years from the date of grant. The closing price of the Company's shares immediately before the grant on 16 October 2007 was HK$47.65.

None of the share options granted under the Plan were cancelled or lapsed during the year ended 31 December 2007. A summary of the movements during the year ended 31 December 2007 of the share options is as follows:

A. Directors of the Company

name of director	date of grant	exercise price HK$	number of share options: balance as at 01.01.07	granted during the year ended 31.12.07	exercised during the year ended 31.12.07 *(Note 2)*	balance as at 31.12.07	percentage of issued share capital %
Larry Yung Chi Kin	28.05.02	18.20	2,000,000	–	2,000,000	–	
	01.11.04	19.90	2,000,000	–	2,000,000	–	
	05.12.05	20.50	100,000,000 *(Note 1)*	–	–	100,000,000	
	20.06.06	22.10	2,000,000	–	2,000,000	–	
	16.10.07	47.32	–	2,000,000	–	2,000,000	
						102,000,000	4.611
Henry Fan Hung Ling	16.10.07	47.32	–	1,600,000	1,600,000	–	–
Peter Lee Chung Hing	28.05.02	18.20	1,000,000	–	1,000,000	–	
	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	0.154
Carl Yung Ming Jie	28.05.02	18.20	300,000	–	300,000	–	
	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	0.086
Leslie Chang Li Hsien	28.05.02	18.20	300,000	–	300,000	–	
	01.11.04	19.90	500,000	–	150,000	350,000	
	20.06.06	22.10	800,000	–	–	800,000	
	16.10.07	47.32	–	800,000	–	800,000	
						1,950,000	0.088
Vernon Francis Moore	28.05.02	18.20	1,000,000	–	1,000,000	–	
	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	0.104
Li Shilin	28.05.02	18.20	300,000	–	300,000	–	
	16.10.07	47.32	–	500,000	–	500,000	
						500,000	0.023
Liu Jifu	01.11.04	19.90	500,000	–	500,000	–	
	20.06.06	22.10	700,000	–	–	700,000	
	16.10.07	47.32	–	700,000	–	700,000	
						1,400,000	0.063
Chau Chi Yin	28.05.02	18.20	300,000	–	300,000	–	
	01.11.04	19.90	500,000	–	–	500,000	
	20.06.06	22.10	800,000	–	–	800,000	
	16.10.07	47.32	–	800,000	–	800,000	
						2,100,000	0.095
Milton Law Ming To	28.05.02	18.20	250,000	–	250,000	–	
	01.11.04	19.90	500,000	–	166,000	334,000	
	20.06.06	22.10	800,000	–	–	800,000	
	16.10.07	47.32	–	800,000	–	800,000	
						1,934,000	0.087
Wang Ande	01.11.04	19.90	200,000	–	200,000	–	
	20.06.06	22.10	500,000	–	–	500,000	
	16.10.07	47.32	–	800,000	–	800,000	
						1,300,000	0.059
Chang Zhenming	16.10.07	47.32	–	500,000	–	500,000	0.023

Note:

1. *These share options were granted by CITIC HK, a substantial shareholder of the Company, and can be exercised during the period from 5 December 2008 to 4 December 2010.*
2. *The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$32.316.*

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 01.01.07	granted during the year ended 31.12.07	exercised during the year ended 31.12.07 *(Note 3)*	balance as at 31.12.07
28 May 2002	18.20	750,000	–	750,000	–
1 November 2004	19.90	1,919,000	–	889,000	1,030,000
20 June 2006	22.10	4,930,000	–	2,691,000	2,239,000
16 October 2007	47.32	–	7,400,000	–	7,400,000

Note:

3. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$33.961.

C. Others

		number of share options		
date of grant	exercise price HK$	balance as at 01.01.07 *(Note 4)*	exercised during the year ended 31.12.07 *(Note 5)*	balance as at 31.12.07
28 May 2002	18.20	640,000	640,000	–
1 November 2004	19.90	1,200,000	1,000,000	200,000
20 June 2006	22.10	1,300,000	1,300,000	–

Note:

4. These are in respect of options granted to former employees under continuous contracts, who have subsequently retired or transferred to another group company. It also includes options granted to a former director.

5. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$34.997.

The fair value of an option on one CITIC Pacific share granted in the current period measured as at the date of grant of 16 October 2007 was HK$7.81 based on the following data and assumptions using Binomial Lattice Model:

- The share price at the grant date is HK$46.85
- The exercise price is HK$47.32
- The option's contractual life is 5 years
- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 4 years
- Expected volatility of CITIC Pacific's share price at 25% per annum (based on historical movements of share prices and the trend of the volatility rate in recent years)
- Expected annual dividend yield of 5% (based on historical dividend payments)
- Rate of eligible grantees leaving service assumed at 1% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 150% of the exercise price
- Risk-free interest rate of 4% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the fair value valuation can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to the Model and assumptions adopted.

All the options forfeited before expiry of the Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Plan.

The total expense to be recognised in the Company's profit and loss account for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,500,000 options is HK$144,485,000.

Share Option Plans adopted by the Subsidiaries of the Company

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 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 17 March 2008, 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.

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 of Hong Kong Limited ('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. The closing price of CITIC 1616 Share immediately before the date of grant was HK$3.14. 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, cancelled or lapsed in the period from 3 April 2007 (on which CITIC 1616 was listed on the Main Board of the Stock Exchange) to 31 December 2007. 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.

The fair value of an option on one CITIC 1616 Share granted in the current year measured as at the date of grant of 23 May 2007 was HK$0.69 based on the following assumptions using the Binomial Model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3 years
- Expected volatility of CITIC 1616's share price at 30% per annum (based on historical movements of CITIC 1616's and its comparators' share prices)
- Expected annual dividend yield of 1%
- Rate of eligible grantees leaving service assumed at 20% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 175% of the exercise price
- Risk-free interest rate of 4.05% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the Binomial Model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the Model.

All the options forfeited before expiry of the CITIC 1616 Share Option Plan will be treated as lapsed options which will not be added back to the number of CITIC 1616 Shares available to be issued under the CITIC 1616 Share Option Plan.

The total expense recognised in CITIC 1616's income statement for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,720,000 options is HK$12,917,000.

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 the 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 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.

Since the adoption of the Pre-IPO Scheme, DCH Holdings has granted one lot of options before the listing of DCH Holdings:

date of grant	number of options	exercise price per share HK$
3 October 2007	18,000,000	5.88

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, cancelled or lapsed during the year up to 31 December 2007. The grantees were certain directors or employees of the DCH Holdings group working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of the Company.

The fair value of an option on one share of DCH Holdings granted in the period under review measured as at the date of grant of 3 October 2007 was HK$1.51 based on the following assumptions using the Binomial Model:

- Expected volatility of DCH Holdings' share price at 33% per annum with reference to the historical movements of its comparators' share prices
- Expected dividend yield of 2% per annum
- Rate of eligible grantees leaving service assumed at 4% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 166% of the exercise price
- Taking into account the probability of early exercise behaviour and rate of leaving service, the average expected term of the grant was determined to be 3.61 years
- Risk-free interest rate of 3.94% per annum (based on linearly interpolated yield of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the Binomial Model can be materially affected by changes in these assumptions. So, an option's actual value may differ from the estimated fair value of the options due to limitations of the model.

All the options forfeited before expiry will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Pre-IPO Scheme.

The total expense recognised in DCH Holdings' income statement for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,000,000 options is HK$27.2 million.

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 the 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 17 March 2008, the maximum number of shares available for issue under the Post-IPO Scheme is 161,929,800, 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 2007 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

name of director	number of shares: personal interests unless otherwise stated	percentage to the issued share capital %
CITIC Pacific Limited		
Larry Yung Chi Kin	406,381,000 *(Note 1)*	18.371
Henry Fan Hung Ling	50,000,000 *(Note 2)*	2.260
Peter Lee Chung Hing	1,000,000	0.045
Carl Yung Ming Jie	300,000	0.014
Leslie Chang Li Hsien	480,000	0.022
Vernon Francis Moore	4,200,000 *(Note 3)*	0.190
Li Shilin	300,000	0.014
Liu Jifu	840,000	0.038
Chau Chi Yin	536,000	0.024
Wang Ande	250,000	0.011
Hansen Loh Chung Hon	1,550,000 *(Note 4)*	0.070
André Desmarais	10,145,000 *(Note 5)*	0.459
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.002
CITIC 1616 Holdings Limited		
Vernon Francis Moore	200,000 *(Note 3)*	0.010
Chau Chi Yin	26,750	0.001
Dah Chong Hong Holdings Limited		
Li Shilin	12,000	0.001
Liu Jifu	33,600 *(Note 6)*	0.002
Chau Chi Yin	21,000	0.001
Hansen Loh Chung Hon	62,000 *(Note 7)*	0.003

Notes:

1. Corporate interest

2. Corporate interest in respect of 5,000,000 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 concert party 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 01.01.07	granted during the year ended 31.12.07	lapsed / cancelled / exercised during the year ended 31.12.07	balance as at 31.12.07	percentage of 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
Leslie Chang Li Hsien	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 2007, 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 was the Company or any of its subsidiary companies a party or parties to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2007, 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 the issued share capital %
CITIC Group	635,919,285	28.747
CITIC HK	635,919,285	28.747
Heedon Corporation	496,386,285	22.439
Honpville Corporation	310,988,221	14.058
Power Corporation of Canada	156,220,000	7.062
Gelco Enterprises Ltd.	156,220,000	7.062
Nordex Inc.	156,220,000	7.062
Paul G. Desmarais	156,220,000	7.062

CITIC HK is a substantial shareholder of the Company indirectly through the following wholly owned subsidiary companies:

name of subsidiary companies of CITIC HK	number of shares of the Company	percentage to the issued share capital %
Affluence Limited	46,089,000	2.083
Winton Corp.	30,718,000	1.389
Westminster Investment Inc.	101,960,000	4.609
Jetway Corp.	20,462,000	0.925
Cordia Corporation	32,258,064	1.458
Honpville Corporation	310,988,221	14.058
Hainsworth Limited	83,444,000	3.772
Southpoint Enterprises Inc.	10,000,000	0.452
Raymondford Company Limited	2,823,000	0.128

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

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

Corporation in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Affluence Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above. The interests of Man Yick Corporation in the Company duplicate the interests in the Company of its direct subsidiary company as described above. The interests of Barnsley Investments Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above and the interests of Kotron Company Ltd. in the Company duplicate the interests in the Company of its direct subsidiary company as described above.

Power Corporation of Canada is a company 54.18% controlled by Gelco Enterprises Ltd. which in turn is 94.95% controlled by Nordex Inc. and the remainder by Mr Paul G. Desmarais. Nordex Inc. in turn is 68% controlled directly by Mr Paul G. Desmarais and indirectly as to 32% by the latter. Thus, the aforesaid interests of Power Corporation of Canada, Gelco Enterprises Ltd., Nordex Inc. and Mr Paul G. Desmarais in the Company duplicate each other.

2. Short Position in the Shares

name	number of shares of the Company	percentage to the issued share capital %
CITIC Group	100,000,000	4.521
CITIC HK	100,000,000	4.521

These are in respect of options granted by CITIC HK to Mr Larry Yung Chi Kin, the Chairman of the Company.

Share Capital

During the year ended 31 December 2007, the Company made the following repurchases of its own shares on the Stock Exchange for purpose of enhancing its earnings per share:

		price per share		
month / year	number of shares repurchased	highest (HK$)	lowest (HK$)	aggregate price paid (HK$)
November 2007	2,813,000	39.35	38.25	109,397,400

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$1.1 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 2007 and the Company has not redeemed any of its shares during the year ended 31 December 2007.

During the year, 19,336,000 shares were issued under the Share Option Plan as described above.

Service Contracts

As at 31 December 2007, 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 December 2007
Fixed Assets	4,999
Investment Properties	481
Leasehold Land	80
Jointly Controlled Entities	418
Deferred Tax Assets	4
Intangible Assets	17
Pension Assets	29
Other Non Current Assets	2,097
Net Current Assets	4,871
Total Assets Less Current Liabilities	12,996
Long Term Borrowings	(2,854)
Deferred Tax Liabilities	(163)
Loans from Shareholders	(4,423)
	5,556

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 2007.

By Order of the Board,
Larry Yung Chi Kin *Chairman*
Hong Kong, 17 March 2008

Consolidated Profit and Loss Account

for the year ended 31 December 2007

in HK$ million	note	**2007**	2006
Turnover	3	**44,933**	47,049
Cost of Sales		**(32,409)**	(37,019)
Distribution and Selling Expenses		**(1,025)**	(995)
Other Operating Expenses		**(3,733)**	(2,845)
Change in Fair Value of Investment Properties		**1,002**	735
Profit from Consolidated Activities	4 & 5	**8,768**	6,925
Share of Results of	4		
Jointly Controlled Entities		**1,344**	1,033
Associated Companies		**2,257**	1,882
Profit before Net Finance Charges and Taxation		**12,369**	9,840
Finance Charges		**(258)**	(640)
Finance Income		**226**	159
Net Finance Charges	6	**(32)**	(481)
Profit before Taxation		**12,337**	9,359
Taxation	7	**(770)**	(644)
Profit for the Year		**11,567**	8,715
Attributable to:			
Shareholders of the Company	8	**10,843**	8,272
Minority Interests		**724**	443
		11,567	8,715
Dividends	9	**(3,097)**	(3,731)
Earnings per Share for Profit attributable to Shareholders of the Company during the year (HK$)	10		
Basic		**4.91**	3.77
Diluted		**4.90**	3.77

Consolidated Balance Sheet

as at 31 December 2007

in HK$ million	note	**2007**	2006
Non-Current Assets			
Fixed Assets	13		
Property, plant and equipment		**13,158**	10,593
Investment properties		**10,895**	9,604
Properties under development		**4,288**	2,712
Leasehold land		**1,641**	1,712
		29,982	24,621
Jointly controlled entities	15	**17,446**	14,922
Associated companies	16	**17,941**	16,416
Other financial assets	17	**7,502**	2,819
Intangible assets	18	**4,105**	2,986
Deferred tax assets	30	**100**	103
Derivative financial instruments	29	**150**	117
Non-current deposits	19	**5,723**	–
		82,949	61,984
Current Assets			
Properties held for sale	13	**440**	705
Assets held for sale	20	**1,127**	–
Inventories	21	**5,982**	3,920
Debtors, accounts receivable, deposits and prepayments	22	**8,292**	6,377
Cash and bank deposits		**8,045**	3,679
		23,886	14,681
Current Liabilities			
Bank loans, other loans and overdrafts			
secured	26	**328**	285
unsecured	26	**3,326**	1,404
Creditors, accounts payable, deposits and accruals	23	**10,727**	8,035
Liabilities held for sale		**2**	–
Provision for taxation		**590**	319
		14,973	10,043
Net Current Assets		**8,913**	4,638
Total Assets Less Current Liabilities		**91,862**	66,622
Non-Current Liabilities			
Long term borrowings	26	**25,000**	16,604
Deferred tax liabilities	30	**2,094**	1,954
Derivative financial instruments	29	**69**	55
		27,163	18,613
Net Assets	4	**64,699**	48,009
EQUITY			
Share capital	24	**885**	878
Reserves	25	**57,138**	43,217
Proposed dividend		**1,770**	2,415
Equity attributable to Shareholders of the Company		**59,793**	46,510
Minority Interests		**4,906**	1,499
Total Equity		**64,699**	48,009

Larry Yung Chi Kin
Director

Henry Fan Hung Ling
Director

Balance Sheet

as at 31 December 2007

in HK$ million	note	**2007**	2006
Non-Current Assets			
Fixed Assets			
Property, plant and equipment	13	**19**	24
Subsidiary companies	14	**50,600**	42,134
Jointly controlled entities	15	**4,016**	2,445
Associated companies	16	**5,632**	5,626
Derivative financial instruments	29	**112**	101
		60,379	50,330
Current Assets			
Debtors, accounts receivable, deposits and prepayments	22	**304**	259
Cash and bank deposits		**297**	30
		601	289
Current Liabilities			
Bank loans, other loans and overdrafts			
unsecured	26	**1,686**	27
Creditors, accounts payable, deposits and accruals	23	**210**	99
Provision for taxation		**13**	13
		1,909	139
Net Current (Liabilities) / Assets		**(1,308)**	150
Total Assets Less Current Liabilities		**59,071**	50,480
Non-Current Liabilities			
Long term borrowings	26	**15,799**	9,572
Derivative financial instruments	29	**55**	55
		15,854	9,627
Net Assets		**43,217**	40,853
EQUITY			
Share capital	24	**885**	878
Reserves	25	**40,562**	37,560
Proposed dividend		**1,770**	2,415
Equity attributable to Shareholders of the Company		**43,217**	40,853

Larry Yung Chi Kin
Director

Henry Fan Hung Ling
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2007

in HK$ million	**2007**	2006
Cash Flows from Consolidated Activities		
Profit from Consolidated Activities after Net Finance Charges	**8,736**	6,444
Net interest expense	**79**	431
Income from other financial assets	**(86)**	(11)
Depreciation	**1,122**	1,034
Amortisation of leasehold land	**45**	47
Impairment losses on financial assets	**99**	105
Impairment losses on property, plant and equipment	**103**	120
Impairment losses on properties under development	**353**	–
Impairment losses on goodwill	**–**	25
Impairment losses on jointly controlled entities and associated companies	**282**	152
Impairment losses on loan to an associated company	**–**	8
Expected losses on construction contracts	**8**	23
Share-based payment	**184**	62
Loss / (profit) on disposal of property, plant and equipment	**271**	(17)
Change in fair value of investment properties	**(1,002)**	(735)
Fair value gain on financial instruments	**(55)**	(8)
Profit on disposal of subsidiary companies and associated companies	**(4,595)**	(3,507)
Profit on disposal of other financial assets	**–**	(3)
Profit on disposal of jointly controlled entities	**(1)**	–
Operating Profit before Working Capital Changes	**5,543**	4,170
Increase in inventories	**(1,904)**	(364)
(Increase) / decrease in debtors, accounts receivable, deposits and prepayments	**(1,666)**	38
Increase in creditors, accounts payable, deposits and accruals	**2,872**	413
Effect of foreign exchange rates	**(42)**	45
Cash Generated from Consolidated Activities	**4,803**	4,302
Interest received	**230**	152
Interest paid	**(1,027)**	(903)
Income taxes paid	**(459)**	(315)
Net cash from consolidated activities	**3,547**	3,236

in HK$ million	**2007**	2006
Cash Flows from Investing Activities		
Purchase of subsidiary companies (net of cash and cash equivalents acquired) (note a)	**–**	(1,721)
Purchase of additional interests in subsidiary companies	**(165)**	(290)
Purchase of property under development	**(1,460)**	(971)
Purchase of property, plant and equipment	**(3,604)**	(2,077)
Increase in leasehold land	**(331)**	–
Purchase of intangible assets	**(886)**	(214)
Investment in jointly controlled entities	**(2,093)**	(3,579)
Investment in associated companies	**(27)**	(7)
Increase in other financial assets	**(1,409)**	(998)
Increase in non-current deposits	**(5,707)**	–
Proceeds on disposal of property, plant and equipment	**125**	406
Proceeds on disposal of other financial assets	**4**	43
Proceeds on disposal of interests in associated companies	**–**	5,151
Disposal of subsidiary companies (net of cash and cash equivalents disposed) (note b)	**55**	7,119
Gross proceeds from spin-off of subsidiary companies	**6,083**	–
Issue of subsidiaries shares	**665**	–
Decrease in loans to jointly controlled entities	**726**	112
Decrease in loans to associated companies	**231**	190
Dividend income from associated companies	**805**	942
Dividend income from jointly controlled entities	**868**	108
Income received from other financial assets	**86**	11
Net Cash (used in) / from Investing Activities	**(6,034)**	4,225
Cash Flows from Financing Activities		
Issue of shares pursuant to the Plan	**430**	87
Repurchase of shares	**(110)**	(35)
New borrowings	**14,992**	6,592
Repayment of loans	**(4,966)**	(9,741)
Increase / (decrease) in minority interests	**23**	(227)
Dividends paid	**(3,756)**	(3,072)
Net cash from / (used in) Financing Activities	**6,613**	(6,396)
Net Increase in Cash and Cash Equivalents	**4,126**	1,065
Cash and Cash Equivalents at 1 January	**3,634**	2,524
Effect of Foreign Exchange Rate Changes	**257**	45
Cash and Cash Equivalents at 31 December	**8,017**	3,634
Analysis of the Balances of Cash and Cash Equivalents		
Cash and bank deposits	**8,045**	3,679
Bank overdrafts (note c)	**(28)**	(45)
	8,017	3,634

Notes to Consolidated Cash Flow Statement

a Purchase of Subsidiary Companies

In 2006, the Group's main acquisition was a 100% interest in Sino Iron Pty Ltd. ('Sino'). The fair value of Sino's net assets at date of acquisition in July 2006 was HK$1,170 million.

The acquired business contributed aggregate revenues of HK$1,126 million and aggregate net loss of HK$3 million since acquisition. 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$1,475 million and HK$4 million respectively.

Details of net assets acquired and goodwill are as follows:

in HK$ million	2006
Purchase consideration	
Cash paid	1,815
Amount due to a jointly controlled entity	(23)
Total purchase consideration	1,792
Fair value of net assets acquired	(1,273)
Goodwill	519

The goodwill is attributable to the development potential of business acquired.

a Purchase of Subsidiary Companies *continued*

in HK$ million	2006
Net Assets Acquired	
Property, plant and equipment	140
Intangible assets	1,737
Inventories	87
Debtors, accounts receivable, deposits and prepayments	102
Cash and bank deposits	94
Assets	2,160
Bank loans	(94)
Creditors, accounts payable, deposits and accruals	(273)
Minority interests	(13)
Deferred tax liabilities	(507)
Liabilities	(887)
	1,273
Less: Interest in a jointly controlled entity	(9)
Goodwill	519
	1,783
Satisfied by	
Cash	1,815
Amount due to a Jointly Controlled Entity	(32)
	1,783

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary companies

in HK$ million	2006
Cash consideration	1,815
Cash and bank deposits acquired	(94)
	1,721

b Disposal of Subsidiary Companies

in HK$ million	**2007**	2006
Net Assets Disposed		
Leasehold land	**–**	164
Property, plant and equipment	**65**	13
Properties under development	**–**	819
Intangible assets	**48**	–
Associated companies	**1**	4,862
Inventory	**1**	–
Debtors, accounts receivable, deposits and prepayments	**34**	5
Cash and bank deposits	**53**	–
Creditors, accounts payable, deposits and accruals	**(326)**	(34)
Minority interests	**(6)**	(3)
Goodwill	**–**	22
	(130)	5,848
Profit on disposal	**43**	1,271
Release of reserve	**64**	–
	(23)	7,119
Satisfied by		
Cash	**108**	7,119
Accounts Payable	**(131)**	–
	(23)	7,119

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary companies

in HK$ million	**2007**	2006
Cash consideration	**108**	7,119
Cash and bank deposits disposed of	**(53)**	–
	55	7,119

c Reconciliation of the Balance of Cash and Cash Equivalents in Respect of Bank Loans, Other Loans and Overdrafts

in HK$ million	**2007**	2006
Bank loans, other loans and overdrafts	**3,654**	1,689
Bank loans and other loans	**(3,626)**	(1,644)
Bank overdrafts	**28**	45

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

in HK$ million	note	2007	2006
At 1 January		**48,009**	41,196
Share of Reserves of Associated Companies			
Fair value gain on other financial assets		**28**	183
Loss on cash flow hedge of financial instruments		**(5)**	(129)
Capital reserve		**30**	–
Retained profits		**–**	106
Reserves released on disposal of associated companies		**6**	(72)
Exchange fluctuation reserve		**24**	–
Share of Reserves of Jointly Controlled Entities			
Fair value gain on other financial assets		**9**	–
Gain / (loss) on cash flow hedge of financial instruments		**3**	(1)
General reserve		**1**	1
Exchange fluctuation reserve		**46**	–
Capital reserve		**6**	17
Fair Value Gain on Other Financial Assets		**3,292**	1,064
Exchange Translation Differences		**2,168**	870
Transfer to Profit And Loss Account on Impairment of Other Financial Assets		**77**	103
Gain / (Loss) on Cash Flow Hedge of Financial Instruments		**57**	(50)
Disposal of Interest in Subsidiaries Companies		**(46)**	–
Net Gains Not Recognised in the Consolidated Profit and Loss Account		**5,696**	2,092
Profit for the year			
Attributable to shareholders of the Company		**10,843**	8,272
Minority interest		**724**	443
Dividends to Shareholders of the Company	9	**(3,756)**	(3,071)
Share Repurchase			
Par value		**(1)**	(1)
Premium paid		**(109)**	(35)
Share-based Payment		**179**	62
Minority Interests		**2,683**	(1,037)
Share Options Exercised			
Premium received		**423**	86
Share capital issued		**8**	2
At 31 December		**64,699**	48,009
Representing			
At 31 December after Proposed Final and Special Dividend		**62,929**	45,594
Proposed Final and Special Dividend	9	**1,770**	2,415
		64,699	48,009

Notes to the Accounts

1 Significant Accounting Policies

The principal accounting policies applied in the preparation of these 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.

In 2007, the Group adopted certain new or revised standards and amendments of HKFRSs which were issued and became effective during the year ended 31 December 2007, and among which the following will have disclosure impacts in the accounts.

- HKFRS 7 'Financial Instrument: Disclosures'; and
- Amendment to HKAS 1 'Presentation of Financial Statements – Capital Disclosures'

The adoption of these accounting standards or amendments does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the year ended 31 December 2007.

The Group has not early adopted the amendments, new standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') that are not yet effective for the year ended 31 December 2007, 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 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 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 subject to impairment testing at least annually. Negative goodwill is recognised in profit and loss immediately on acquisition.

1 Significant Accounting Policies *continued*

d Subsidiary Companies

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

Investments in subsidiary companies are carried in the Company's balance sheet at cost less any impairment losses. 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 and none of the participating parties has unilateral control over the economic activity.

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.

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.

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 their equity share capital for the long term and can exercise significant influence in their management.

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.

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

g Property, Plant and Equipment

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

Freehold land is not amortised.

Depreciation of the vehicular tunnel was provided with reference to projected usage of the tunnel as compared to the actual tunnel usage.

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:

- Buildings: 2% – 4% or the remaining lease period of the land
- 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%

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

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.

Investment properties are stated in the balance sheet at fair value and 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 of the land, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Such amortisation cost 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 building cost 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 loss. Building costs are stated at cost less any impairment loss.

l Leasehold Land
Leasehold land comprise land held under operating lease arrangements and are amortised on a straight-line basis over the lease terms.

m Intangible Assets
Intangible assets comprise goodwill and expenditure on mining assets. The accounting policy for goodwill is outlined in accounting policy 1(c) on page 85.

Expenditure on mining assets which gives rise to future economic benefits is capitalised as part of intangible assets and is amortised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

1 Significant Accounting Policies *continued*

n 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

o 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.

p 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.

q 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 are subject to risks and returns that are different from those of segments operating in other economic environments.

r Revenue Recognition

i) Motor vehicles

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

ii) 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 sales 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 sale agreement is signed.

1 Significant Accounting Policies *continued*

r Revenue Recognition *continued*

iii) Sales of goods

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

iv) Income from co-operative joint venture

Other income or dividend from co-operative joint venture is recognised when the right to receive is established.

Income from disposal of co-operative joint venture is recognised at the date when sale agreement is signed.

v) Rendering of services

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

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

vii) Rental income

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

viii) 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 is established.

s Financial Instruments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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 or if so designated by management. 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 realized within 12 months of the balance sheet date.

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, except for maturities 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 notes to the accounts.

1 Significant Accounting Policies *continued*

s Financial Instruments *continued*

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 recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs and are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. 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 changes in fair value is recognised generally 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 and the ineffective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and in the profit and loss account respectively. 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 gain or loss arising from the hedged transaction is recognised in the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 29. Movements on the hedging reserve in shareholders' equity are shown in Note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months.

t 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.

u Impairment of Assets

The Group reviews the carrying amounts of assets including goodwill for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset 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.

v Inventories

Inventories comprising mainly motor vehicles, spare parts, electrical appliances, food, trading items and steels 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.

1 Significant Accounting Policies *continued*

w Foreign Currencies

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling at the transaction dates.

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.

Exchange differences arising from the retranslation 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. All other exchange differences are dealt with in the consolidated 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.

x Deferred Taxation

A 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. 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.

y Share-based Payment

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. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. 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.

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 related 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 open market value in existing use basis calculated on the net income allowing for reversionary potential.

In making the judgement, considerations have been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates.

ii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(u). For the purposes of impairment testing goodwill acquired has been allocated to individual cash-generated 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 has been 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) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide 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 related 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

The principal activity of the Company is holding its subsidiary companies and the principal activities of its principal subsidiary companies are set out in Note 35 to the accounts.

Turnover of the Group comprises the total invoiced value of goods supplied net of government taxes where applicable, and services rendered to customers, fees from provision of telecommunication services, gross proceeds from sale of investments and properties, amounts received and receivable in respect of dividends in respect of investments, income from co-operative joint ventures, toll income, gross property rental and godown and cold storage income, analysed as follows:

	Group	
in HK$ million	**2007**	2006
Sales of goods	**33,957**	27,613
Services rendered to customers	**2,635**	2,214
Gross proceeds from aviation restructuring	**–**	7,731
Gross proceeds from spin-off of subsidiary companies	**6,083**	–
Properties sales and rental income	**1,362**	8,320
Toll income	**708**	679
Others	**188**	492
	44,933	47,049

4 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 profit from consolidated activities and share of results of jointly controlled entities and associated companies by business are as follows:

in HK$ million	turnover		profit from consolidated activities		share of results of jointly controlled entities		share of results of associated companies		group total		segment allocations		segment profit	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Special Steel	**18,501**	15,278	**2,418**	1,809	**426**	119	**–**	–	**2,844**	1,928	**–**	–	**2,844**	1,928
Property (Note)	**1,321**	8,320	**405**	1,942	**(16)**	–	**335**	276	**724**	2,218	**97**	84	**821**	2,302
Infrastructure	**1,221**	8,817	**265**	2,430	**673**	760	**1,553**	1,190	**2,491**	4,380	**–**	–	**2,491**	4,380
Listed Subsidiary Companies CITIC 1616	**3,625**	1,364	**2,174**	234	**–**	–	**–**	–	**2,174**	234	**–**	–	**2,174**	234
Dah Chong Hong	**20,119**	13,222	**3,270**	437	**53**	35	**2**	(1)	**3,325**	471	**(97)**	(84)	**3,228**	387
Others	**146**	48	**(126)**	(93)	**208**	119	**(45)**	(22)	**37**	4	**–**	–	**37**	4
Change in Fair Value of Investment Properties	**–**	–	**1,002**	735	**–**	–	**412**	439	**1,414**	1,174	**–**	–	**1,414**	1,174
Less: General and Administration Expenses	**–**	–	**(640)**	(569)	**–**	–	**–**	–	**(640)**	(569)	**–**	–	**(640)**	(569)
	44,933	47,049	**8,768**	6,925	**1,344**	1,033	**2,257**	1,882	**12,369**	9,840	**–**	–	**12,369**	9,840
Net finance charges													**(32)**	(481)
Taxation													**(770)**	(644)
Profit for the year													**11,567**	8,715

Note:
The presentation of segment turnover is same as turnover with an exception of segment allocations attributable to the property segment as disclosed above.

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

in HK$ million	Group **2007**	2006
Hong Kong	**15,126**	23,106
Mainland China	**27,592**	22,278
Overseas	**2,215**	1,665
	44,933	47,049

4 Segment Information *continued*

b Assets and Liabilities

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

in HK$ million	segment assets 2007	segment assets 2006	investments in jointly controlled entities 2007	investments in jointly controlled entities 2006	investments in associated companies 2007	investments in associated companies 2006	segment liabilities 2007	segment liabilities 2006	total 2007	total 2006
Special Steel	**17,237**	12,835	**4,252**	3,158	**–**	–	**(5,381)**	(3,831)	**16,108**	12,162
Iron Ore Mining	**10,287**	2,390	**–**	–	**–**	–	**(702)**	(60)	**9,585**	2,330
Property	**18,696**	14,925	**4,324**	2,347	**5,058**	4,676	**(1,507)**	(1,109)	**26,571**	20,839
Infrastructure	**1,780**	1,979	**6,955**	7,744	**12,772**	11,620	**(70)**	(227)	**21,437**	21,116
Listed Subsidiary Companies										
CITIC 1616	**1,047**	776	**–**	–	**–**	–	**(472)**	(373)	**575**	403
Dah Chong Hong	**6,528**	5,508	**165**	160	**138**	112	**(2,185)**	(1,649)	**4,646**	4,131
Others	**7,109**	2,586	**1,750**	1,513	**(27)**	8	**(176)**	–	**8,656**	4,107
Segment assets / (liabilities)	**62,684**	40,999	**17,446**	14,922	**17,941**	16,416	**(10,493)**	(7,249)	**87,578**	65,088
Corporate	**8,664**	4,225	**–**	–	**–**	–	**(28,959)**	(19,134)	**(20,295)**	(14,909)
Provision for taxation									**(590)**	(319)
Net deferred tax liabilities									**(1,994)**	(1,851)
									64,699	48,009

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

in HK$ million	Group 2007	Group 2006
Hong Kong	**18,707**	13,342
Mainland China	**32,499**	24,240
Overseas – Australia	**10,287**	2,390
– Others	**1,191**	1,027
	62,684	40,999

5 Profit from Consolidated Activities

in HK$ million	Group 2007	2006
The profit from consolidated activities is arrived at after crediting		
Dividend income from other financial assets	**86**	9
Rental income from investment properties		
Gross income	**586**	515
Less: Direct outgoings	**(80)**	(77)
	506	438
other operating leases	**133**	133
Profit on disposal of subsidiary companies and associated companies	**4,595**	3,507

in HK$ million	Group 2007	2006
And after charging		
Cost of sales		
Operating activities	**30,878**	25,638
Disposal of subsidiary companies and associated companies	**1,531**	11,381
	32,409	37,019
Cost of inventories	**29,029**	23,458
The following expenses are included in cost of sales, distribution and selling expenses and other operating expenses:		
Staff costs	**2,410**	1,868
Depreciation of property, plant and equipment	**1,122**	1,034
Amortisation of leasehold land	**45**	47
Other operating expenses	**3,733**	2,845
Auditors' remuneration	**26**	18
Contributions to staff retirement schemes	**107**	99
Impairment losses on other financial assets (Note)	**99**	105
Impairment losses on property, plant and equipment (Note)	**103**	120
Impairment losses on property under development (Note)	**353**	–
Impairment losses on jointly controlled entities and associates (Note)	**282**	152
Management fee payable to CITIC Hong Kong (Holdings) Limited ('CITIC HK'), a substantial shareholder of the Company	**2**	2
Operating lease rentals land and buildings	**205**	136

Note:
Impairment losses represents to special steel of HK$71 million (2006: HK$88 million), property of HK$353 million (2006: HK$Nil), infrastructure of HK$268 million (2006: HK$186 million) and others of HK$145 million (2006: HK$103 million).

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

in HK$ million	Group 2007	2006
Within 1 year	**564**	428
After 1 year but within 5 years	**633**	353
After 5 years	**169**	17
	1,366	798

6 Net Finance Charges

in HK$ million	Group 2007	2006
Finance charges		
Interest expense		
Bank loans and overdrafts wholly repayable within five years	**526**	520
Bank loans not wholly repayable within five years	**237**	35
Other loans wholly repayable within five years	**201**	338
Other loans not wholly repayable within five years	**21**	20
	985	913
Amount capitalised	**(680)**	(323)
	305	590
Exchange gain	**(31)**	(5)
Other finance charges	**39**	63
Fair value gains on financial instruments	**(55)**	(8)
	258	640
Finance income		
Interest income	**(226)**	(159)
	32	481

7 Taxation

Hong Kong profits tax has been calculated at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Overseas taxation has been 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.

in HK$ million	Group 2007	2006
Current income tax		
Hong Kong profits tax	**308**	188
Overseas taxation	**450**	309
Deferred taxation (Note 30)		
Change in fair value of investment properties	**173**	123
Origination and reversal of other temporary difference	**19**	24
Effect on tax rate change	**(180)**	–
	770	644

7 Taxation *continued*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
in HK$ million	**2007**	2006
Profit before taxation	**12,337**	9,359
Less: share of results of jointly controlled entities	**(1,344)**	(1,033)
associated companies	**(2,257)**	(1,882)
	8,736	6,444
Calculated at taxation rate of 17.5% (2006: 17.5%)	**1,529**	1,128
Effect of different taxation rates in other countries	**84**	119
Income and expenses not subject to taxation	**(761)**	(550)
Utilisation of unrecognised tax losses this year and net of tax losses not recognised	**8**	(42)
Over provision in prior years	**(6)**	(26)
Effect of tax rate change	**(180)**	–
Others	**96**	15
Taxation charge	**770**	644

8 Profit Attributable to Shareholders of the Company

The Group's profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$5,713 million (2006: HK$7,965 million).

9 Dividends

in HK$ million	**2007**	2006
2006 Final dividend paid: HK$0.80 (2005 HK$0.80) per share	**1,767**	1,755
2006 Special dividend paid: HK$0.30 (2005: HK$Nil) per share	**662**	–
	2,429	1,755
Interim 2007 Interim dividend paid: HK$0.40 (2006: HK$0.30) per share	**885**	658
2007 Special dividend paid: HK$0.20 (2006: HK$0.30) per share	**442**	658
Final 2007 Final dividend proposed: HK$0.80 (2006: HK$0.80) per share	**1,770**	1,756
2007 Special dividend proposed: HK$Nil (2006: HK$0.30) per share	**–**	659
	3,097	3,731
Dividend per share (HK$)	**1.40**	1.70

10 Earnings per Share

The calculation of earnings per share is based on profit attributable to shareholders of HK$10,843 million (2006: HK$8,272 million).

The basic earnings per share is based on the weighted average number of 2,207,542,455 shares in issue during the year (2006: 2,193,921,689 shares in issue). The diluted earnings per share is based on 2,213,084,305 shares (2006: 2,198,341,170 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 5,541,850 shares (2006: 4,419,481 shares) deemed to be issued at no consideration if all outstanding options had been exercised.

11 Directors' Emoluments

The remuneration of every Director for the year ended 31 December 2007 is set out below:

in HK$ million name of director	fees	salaries, allowances and benefits in kind	discretionary bonuses	retirement benefits	share-based payment	**2007** total	2006 total
Larry Yung Chi Kin #	0.15	3.21	48.00	0.01	15.62	**66.99**	51.21
Henry Fan Hung Ling #	0.15	3.01	41.00	0.01	12.50	**56.67**	43.43
Peter Lee Chung Hing #	0.15	1.75	33.00	0.08	9.37	**44.35**	33.62
Carl Yung Ming Jie #	0.15	1.12	9.00	0.05	6.25	**16.57**	8.38
Leslie Chang Li Hsien #	0.15	1.54	15.00	0.07	6.25	**23.01**	14.73
Vernon Francis Moore #	0.15	2.08	5.00	0.01	4.69	**11.93**	9.90
Li Shilin #	0.15	0.49	1.00	–	3.91	**5.55**	1.64
Liu Jifu #	0.15	0.58	7.00	0.01	5.47	**13.21**	10.51
Chau Chi Yin #	0.15	1.49	9.00	0.07	6.25	**16.96**	10.37
Milton Law Ming To #	0.15	1.43	9.00	0.06	6.25	**16.89**	10.28
Wang Ande #	0.15	1.03	9.00	–	6.25	**16.43**	5.47
Chang Zhenming	0.15	–	–	–	3.91	**4.06**	1.06
Willie Chang	0.30	–	–	–	–	**0.30**	0.30
Hamilton Ho Hau Hay	0.15	–	–	–	–	**0.15**	0.15
Alexander Reid Hamilton	0.30	–	–	–	–	**0.30**	0.30
Hansen Loh Chung Hon	0.25	–	–	–	–	**0.25**	0.25
Norman Ho Hau Chong	0.20	–	–	–	–	**0.20**	0.20
André Desmarais	0.15	–	–	–	–	**0.15**	0.15
Norman Yuen Kee Tong	–	0.10	–	–	–	**0.10**	11.56
Yao Jinrong	–	–	–	–	–	**–**	0.20
	3.15	17.83	186.00	0.37	86.72	**294.07**	213.71

The five highest paid individuals of the Group during the year were also directors and their emoluments are reflected in the analysis presented above.

During the year, 18,500,000 share options were granted (2006: 10,200,000 share options) to directors of the Company under the CITIC Pacific Share Incentive Plan 2000.

Mr Norman Yuen Kee Tong resigned during the year.

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

12 Retirement Benefits

With the consent of the majority of its members, the Group ceased making contributions to The CITIC Group Retirement Plan ('ORSO Plan'), one of its principal retirement schemes in Hong Kong, with effect from 1 August 2003. The ORSO Plan will be operated as a closed fund and continue to be managed by an independent trustee according to the provisions of the Trust Deed and Rules.

All ORSO Plan members were enrolled onto the CITIC Group Mandatory Provident Fund Scheme ('MPF Scheme'), with a choice of either the Fidelity Retirement Master Trust or the Hang Seng Mandatory Provident Fund – SuperTrust Plus. Contributions to the MPF Scheme as well as forfeited amounts derived from the employer voluntary contributions are administered in accordance with the terms and provisions of the master trusts.

Assets of the ORSO Plan and the MPF Scheme are held separately in funds under the custody of the respective trustees.

Retirement benefits for employees in mainland China and other locations are based primarily on local mandatory requirements.

13 Fixed Assets

a Group

in HK$ million	property, plant and equipment: self-used properties	vehicular tunnel	plant and machinery	others (Note iii)	sub-total	investment properties	properties under development	leasehold land	total
Cost or valuation									
At 1 January 2006	3,166	2,000	5,279	3,917	14,362	8,645	1,876	1,858	26,741
Exchange adjustments	81	–	219	68	368	109	37	27	541
Additions through acquisition of subsidiary companies	79	–	9	67	155	–	–	50	205
others	323	–	586	774	1,683	18	1,849	61	3,611
Capitalised leasehold land amortisation	–	–	–	–	–	–	21	–	21
Disposals through disposal of subsidiary companies	–	–	–	–	–	–	(165)	–	(165)
others	(125)	–	(289)	(216)	(630)	(18)	(313)	–	(961)
Change in fair value of investment properties	–	–	–	–	–	735	–	–	735
Transfer to properties held for sales / inventories	–	–	–	(6)	(6)	–	(442)	–	(448)
Transfer upon completion	736	–	818	(1,554)	–	115	(110)	(5)	–
At 31 December 2006	4,260	2,000	6,622	3,050	15,932	9,604	2,753	1,991	30,280
Accumulated depreciation, amortisation and impairment									
At 1 January 2006	586	808	1,353	1,552	4,299	–	27	240	4,566
Exchange adjustments	22	–	86	9	117	–	1	2	120
Charge for the year	159	90	520	265	1,034	–	28	37	1,099
Acquisition of subsidiary companies	11	–	2	6	19	–	–	–	19
Written back on disposals others	(6)	–	(105)	(135)	(246)	–	(15)	–	(261)
Impairment loss	–	–	88	32	120	–	–	–	120
Transfer to other assets	–	–	–	(4)	(4)	–	–	–	(4)
Reclassification	(2)	–	2	–	–	–	–	–	–
At 31 December 2006	770	898	1,946	1,725	5,339	–	41	279	5,659
Net book value At 31 December 2006	3,490	1,102	4,676	1,325	10,593	9,604	2,712	1,712	24,621
Represented by Cost	4,260	2,000	6,622	3,050	15,932	–	2,753	1,991	20,676
Valuation	–	–	–	–	–	9,604	–	–	9,604
	4,260	2,000	6,622	3,050	15,932	9,604	2,753	1,991	30,280

13 Fixed Assets *continued*

a Group *continued*

in HK$ million	self-used properties	vehicular tunnel	plant and machinery	others (Note iii)	sub-total	investment properties	properties under development	leasehold land	total
	property, plant and equipment								
Cost or valuation									
At 1 January 2007	**4,260**	**2,000**	**6,622**	**3,050**	**15,932**	**9,604**	**2,753**	**1,991**	**30,280**
Exchange adjustments	**245**	**–**	**564**	**69**	**878**	**385**	**141**	**70**	**1,474**
Additions others	**172**	**–**	**657**	**2,665**	**3,494**	**–**	**1,851**	**358**	**5,703**
Capitalised leasehold land amortisation	**–**	**–**	**–**	**–**	**–**	**–**	**39**	**–**	**39**
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)**	**(243)**	**(23)**	**(69)**	**(22)**	**114**	**–**
At 31 December 2007	**4,869**	**2,000**	**7,658**	**5,124**	**19,651**	**10,895**	**4,738**	**1,959**	**37,243**
Accumulated depreciation, amortisation and impairment									
At 1 January 2007	**770**	**898**	**1,946**	**1,725**	**5,339**	**–**	**41**	**279**	**5,659**
Exchange adjustments	**56**	**–**	**206**	**21**	**283**	**–**	**3**	**4**	**290**
Charge for the year	**170**	**98**	**564**	**290**	**1,122**	**–**	**60**	**42**	**1,224**
Disposal of subsidiary companies	**–**	**–**	**(7)**	**(116)**	**(123)**	**–**	**–**	**–**	**(123)**
Written back on disposals others	**(16)**	**–**	**(89)**	**(114)**	**(219)**	**–**	**(7)**	**–**	**(226)**
Impairment loss	**6**	**–**	**68**	**29**	**103**	**–**	**353**	**–**	**456**
Transfer to other assets	**(4)**	**–**	**(46)**	**38**	**(12)**	**–**	**–**	**(7)**	**(19)**
Reclassification	**(5)**	**–**	**5**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2007	**977**	**996**	**2,647**	**1,873**	**6,493**	**–**	**450**	**318**	**7,261**
Net book value At 31 December 2007	**3,892**	**1,004**	**5,011**	**3,251**	**13,158**	**10,895**	**4,288**	**1,641**	**29,982**
Represented by Cost	**4,869**	**2,000**	**7,658**	**5,124**	**19,651**	**–**	**4,738**	**1,959**	**26,348**
Valuation	**–**	**–**	**–**	**–**	**–**	**10,895**	**–**	**–**	**10,895**
	4,869	**2,000**	**7,658**	**5,124**	**19,651**	**10,895**	**4,738**	**1,959**	**37,243**

Notes:

i) Interest capitalised in properties under development amounts to HK$188 million (2006: HK$81 million).

ii) As at 31 December 2007, certain of the Group's self-used properties and plant and machinery with the aggregate carrying value of HK$11 million (2006: HK$500 million) were pledged to secure banking facilities granted to a subsidiary company.

iii) Other property, plant and equipment comprise mining assets, construction in progress, traffic equipment, cargo lighters, computer installations, telecommunications equipment, motor vehicles and furniture, fixtures and equipment.

iv) The capital commitments of authorised but not contracted for and contracted but not provided for of the Group in respect of property, plant and equipment, properties under development and leasehold land amount to HK$254 million (2006: HK$17 million) and HK$21,147 million (2006: HK$3,941 million) respectively.

13 Fixed Assets *continued*

a Group *continued*

in HK$ million	Group 2007	2006
Analysis of additions by business		
Special Steel	**1,062**	1,716
Iron Ore Mining	**1,990**	8
Property	**2,161**	1,471
Infrastructure	**56**	126
Listed Subsidiary Companies		
CITIC 1616	**62**	42
Dah Chong Hong	**360**	444
Others	**12**	9
	5,703	3,816
Analysis of additions by geographical area		
Hong Kong	**837**	215
Mainland China	**2,876**	3,580
Overseas	**1,990**	21
	5,703	3,816
Analysis of depreciation and amortisation by business		
Special Steel	**702**	652
Property	**130**	91
Infrastructure	**143**	132
Listed Subsidiary Companies		
CITIC 1616	**79**	73
Dah Chong Hong	**157**	139
Others	**13**	12
	1,224	1,099

b Company

in HK$ million	motor vehicles, equipment, furniture and fixtures 2007	2006
Cost		
At 1 January	**103**	101
Additions	**7**	7
Disposals	**(4)**	(5)
At 31 December	**106**	103
Accumulated depreciation		
At 1 January	**79**	74
Charge for the year	**12**	10
Written back on disposals	**(4)**	(5)
At 31 December	**87**	79
Net book value		
At 31 December	**19**	24

13 Fixed Assets *continued*

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

in HK$ million	self-used properties 2007	self-used properties 2006	investment properties 2007	investment properties 2006	properties under development 2007	properties under development 2006	leasehold land 2007	leasehold land 2006	total 2007	total 2006
Leasehold properties held										
In Hong Kong										
Leases of over 50 years	**23**	24	**858**	751	**–**	–	**–**	–	**881**	775
Leases of between 10 to 50 years	**1,046**	1,032	**4,057**	3,743	**77**	24	**1,114**	1,143	**6,294**	5,942
Leases of less than 10 years	**20**	76	**–**	–	**–**	–	**–**	–	**20**	76
In Mainland China										
Leases of over 50 years	**32**	–	**1,384**	1,184	**3,213**	2,333	**–**	–	**4,629**	3,517
Leases of between 10 to 50 years	**3,506**	2,875	**4,214**	3,611	**1,448**	396	**845**	848	**10,013**	7,730
Leases of less than 10 years	**24**	28	**–**	–	**–**	–	**–**	–	**24**	28
Properties held overseas										
Freehold	**218**	225	**382**	315	**–**	–	**–**	–	**600**	540
	4,869	4,260	**10,895**	9,604	**4,738**	2,753	**1,959**	1,991	**22,461**	18,608

d Property Valuation

The investment properties were revalued at 31 December 2007 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	9,604	22	232	9,858	310
Accumulated depreciation / amortisation	–	(3)	(124)	(127)	(58)
Net book value at 31 December 2006	9,604	19	108	9,731	252
Depreciation charges / amortisation charges for the year	–	1	38	39	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**

14 Subsidiary Companies

in HK$ million	Company 2007	2006
Unlisted shares, at cost less impairment losses	**986**	868
Amounts due by subsidiary companies (Note a, b)	**59,230**	48,458
Amounts due to subsidiary companies (Note a)	**(9,616)**	(7,192)
	50,600	42,134

Particulars of the principal subsidiary companies are shown in Note 35.

Note:

a. *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$42,888 million (2006: HK$39,760 million) and amounts due to subsidiary companies of an amount of approximately HK$6,113 million (2006: HK$3,687 million), which are non-interest bearing. These loans have no fixed repayment terms and were not in default or impaired.*

b. *None of these amounts are in default or impaired as at 31 December 2007 and 2006.*

15 Jointly Controlled Entities

in HK$ million	Group 2007	Group 2006
Share of net assets	**15,147**	12,632
Goodwill		
At 1 January	**533**	341
Additions	**18**	192
Disposal	**(39)**	–
At 31 December	**512**	533
	15,659	13,165
Loans due from jointly controlled entities (Note b)	**1,963**	1,902
Loans due to jointly controlled entities (Note b)	**(176)**	(145)
	17,446	14,922

in HK$ million	Company 2007	Company 2006
Unlisted shares, at cost	**3,687**	2,115
Loans due from jointly controlled entities	**504**	477
Loans due to jointly controlled entities	**(175)**	(147)
	4,016	2,445

Note:

a. Included in jointly controlled entities is Western Harbour Tunnel Company Limited ('WHTCL') whose year end is 31 July which is not coterminous with the Group. The results of WHTCL has been equity accounted for based on its management accounts for the period from 1 January 2007 to 31 December 2007.

b. 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 an amount of approximately HK$264 million (2006: HK$465 million loans to jointly controlled entities), 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$132 million (2006: HK$Nil) has been provided.

c. The following amounts represent the Group's share of the assets and liabilities, and sales 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	2007	2006
Assets		
Non-current assets	**20,409**	18,114
Current assets	**16,328**	14,620
	36,737	32,734
Liabilities		
Non-current liabilities	**(10,038)**	(10,276)
Current liabilities	**(11,786)**	(10,357)
	(21,824)	(20,633)
Net assets	**14,913**	12,101
Revenue	**15,532**	8,308
Expenses	**(13,986)**	(7,425)
Profit for the year	**1,546**	883
Proportionate share of jointly controlled entities' capital commitments	**378**	402

d. Particulars of the principal jointly controlled entities are shown in Note 35.

16 Associated Companies

in HK$ million	Group 2007	Group 2006
Share of net assets	**13,768**	12,114
Goodwill		
At 1 January	**1,444**	1,829
Disposal	**(5)**	(385)
At 31 December	**1,439**	1,444
Loans due from associated companies (Note b)	**2,746**	2,879
Loans due to associated companies (Note b)	**(12)**	(21)
	17,941	16,416
Investment at cost		
Unlisted shares	**4,744**	4,593
Shares listed in Hong Kong	**6,252**	6,253
	10,996	10,846
Market value of listed shares	**14,033**	13,194

in HK$ million	Company 2007	Company 2006
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	**2,513**	2,516
Loans due to associated companies	**(9)**	(18)
	5,632	5,626
Market value of listed shares	**1,461**	1,373

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

in HK$ million	Group 2007	Group 2006
Listed associated companies	**392**	632
Unlisted associated companies	**399**	262
	791	894

Note:

a. Included in associated companies is Hong Kong Resort Company Limited ('HKR') whose year end is 31 March which is not coterminous with the Group. The results of HKR has been equity accounted for based on its management accounts for the period from 1 January 2007 to 31 December 2007.

b. Loans due from associated companies and loans due to associated companies are interest bearing at market rates except for loans from/to associated companies of an amount of approximately HK$9 million (2006: HK$17 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$24 million (2006: HK$Nil) has been provided for the loans due from an associated company.

c. Particulars of the principal associated companies are shown in Note 35.

16 Associated Companies *continued*

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

in HK$ million	Group 2007	2006
Assets	**207,747**	176,945
Liabilities	**136,952**	114,552
Revenue	**95,778**	77,903
Profit	**10,000**	6,184

17 Other Financial Assets

in HK$ million	Group 2007	2006
Co-operative joint ventures		
Unlisted investments, at fair value	**69**	65
Amounts due by co-operative joint ventures	**3**	37
	72	102
Listed investments, at fair value		
Shares listed in Hong Kong	**6,991**	2,591
Shares listed in overseas	**35**	112
	7,026	2,703
Unlisted investments		
Shares, at cost	**26**	26
Add: Advances made	**–**	14
	26	40
Less: Impairment	**–**	(25)
	26	15
Less: Advances received	**–**	(1)
	26	14
Loans receivable	**378**	–
	7,502	2,819

Particulars of the principal co-operative joint ventures are shown in Note 35.

Other financial assets are denominated in the following currencies:

in HK$ million	2007	2006
Hong Kong dollar	**7,049**	2,635
Renminbi	**418**	72
Other currencies	**35**	112
	7,502	2,819

18 Intangible Assets

in HK$ million	goodwill	mining assets	total
Cost			
At 1 January 2007	**1,146**	**1,865**	**3,011**
Additions	**–**	**1,119**	**1,119**
At 31 December 2007	**1,146**	**2,984**	**4,130**
Accumulated impairment losses			
At 1 January 2007 and 31 December 2007	**25**	**–**	**25**
Net book value			
At 31 December 2007	**1,121**	**2,984**	**4,105**
Cost			
At 1 January 2006	603	–	603
Additions	565	1,865	2,430
Disposals	(22)	–	(22)
At 31 December 2006	1,146	1,865	3,011
Accumulated impairment losses			
At 1 January 2006	–	–	–
Impairment charge	25	–	25
At 31 December 2006	25	–	25
Net book value			
At 31 December 2006	1,121	1,865	2,986

Analysed by:

	2007		2006	
in HK$ million	goodwill	mining assets	goodwill	mining assets
Special Steel	**57**	**–**	57	–
Iron Ore Mining	**507**	**2,984**	507	1,865
Property	**297**	**–**	297	–
Infrastructure	**7**	**–**	7	–
Listed Subsidiary Companies				
CITIC 1616	**83**	**–**	83	–
Dah Chong Hong	**170**	**–**	170	–
	1,121	**2,984**	1,121	1,865

19 Non-current Deposits

Non-current deposits represented deposit payments for construction works for fixed assets and PRC land acquisitions.

20 Assets Held for Sale

As at 31 December 2007, an interest in a jointly controlled entity in PRC is presented as an asset held for sale following the approval of the Group's management to dispose of the interests and is expected to be completed in January 2008.

As at 31 December 2007, a property situated in Hong Kong is presented 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 and is expected to be completed in March 2008.

21 Inventories

in HK$ million	**2007**	2006
Raw materials	**1,977**	842
Work-in-progress	**947**	520
Finished goods	**2,971**	2,482
Others	**87**	76
	5,982	3,920

22 Debtors, Accounts Receivable, Deposits and Prepayments

	Group		Company	
in HK$ million	**2007**	2006	**2007**	2006
Trade debtors				
Within 1 year	**3,008**	2,150	**–**	–
Over 1 year	**42**	24	**–**	–
	3,050	2,174	**–**	–
Accounts receivable, deposits and prepayments	**5,242**	4,203	**304**	259
	8,292	6,377	**304**	259

Note:
i) Trade debtors are net of provision and the ageing is classified based on invoice date.
ii) The Group has a defined credit policy for the respective business units.
iii) The carrying amounts of debtors, accounts receivable, deposits and prepayments approximates their fair value.
iv) Accounts receivable, deposits and prepayments include derivative financial assets of HK$251 million (2006: HK$14 million), amounts due from jointly controlled entities of HK$138 million (2006: HK$134 million), which are unsecured, interest free and recoverable on demand, except for an amount of HK$1 million (2006: HK$65 million) which is interest bearing, and amounts due from associated companies of HK$90 million (2006: HK$90 million) which are unsecured, interest free and recoverable on demand, except for an amount of HK$Nil (2006: HK$12 million) which is interest bearing.

As of 31 December 2007, trade receivables of HK$560 million (2006: HK$700 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

in HK$ million	**2007**	2006
3 to 6 months	**528**	448
Over 6 months	**32**	252
	560	700

22 Debtors, Accounts Receivable, Deposits and Prepayments *continued*

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

in HK$ million	**2007**	2006
At 1 January	**207**	195
Exchange adjustments	**13**	–
Provision for impairment loss	**26**	24
Receivables written off during the year	**(158)**	(12)
Unused amounts reversed	**(5)**	–
At 31 December	**83**	207

The creation and release of provision for impairment loss have been included in other operating expenses (Note 5) in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

As of 31 December 2007, trade receivables of HK$91 million (2006: HK$192 million) were individually determined to be impaired. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Consequently, specific provision for impairment loss of HK$60 million (2006: HK$185 million) was recognised. The Group does not held any collateral over these balances.

23 Creditors, Accounts Payable, Deposits and Accruals

	Group		Company	
in HK$ million	**2007**	2006	**2007**	2006
Trade creditors				
Within 1 year	**4,055**	2,553	**–**	–
Over 1 year	**329**	314	**–**	–
	4,384	2,867	**–**	–
Accounts payable, deposits and accruals	**6,343**	5,168	**210**	99
	10,727	8,035	**210**	99

Note:

i) Accounts payable, deposits and accruals include derivative financial liabilities of HK$66 million (2006: HK$9 million).

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

24 Share Capital

	number of shares of HK$0.40 each	HK$ million
Authorised		
At 31 December 2006 and 2007	3,000,000,000	1,200
Issued and fully paid		
At 1 January 2007	2,195,604,160	878
Issue of shares pursuant to the Plan	19,336,000	8
Repurchase during the year	(2,813,000)	(1)
At 31 December 2007	2,212,127,160	885

Changes during the year:

During the year, the Company repurchased a total of 2,813,000 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$
November 2007	2,813,000	109	39.35	38.25

Changes subsequent to the year end:

Since 1 January 2008 to the date of this report, the Company issued and allotted a total of 270,000 shares at HK$22.10 per share upon the exercise of share options which were granted under the Plan.

Since 1 January 2008 to the date of this report, the Company repurchased a total of 15,484,000 of its own shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled. The total consideration paid for the above repurchase was approximately HK$545 million.

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 share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's share 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.

24 Share Capital *continued*

Since adoption of the Plan, the Company has granted four lots of share options on 28 May 2002, 1 November 2004, 20 June 2006 and 16 October 2007 respectively. On 28 May 2002 options to subscribe for a total of the 11,550,000 shares in the Company representing 0.52% of the issued share capital, at the exercise price of HK$18.20 per share, were granted under the Plan. The closing price of the Company's shares immediately before the date of grant was HK$18.10. On 1 November 2004 options to subscribe for a total of the 12,780,000 shares in the Company representing 0.58% of the issued share capital, at the exercise price of HK$19.90 per share, were granted under the Plan. The closing price of the Company's shares immediately before the date of grant was HK$19.90. On 20 June 2006 options to subscribe for a total of the 15,930,000 shares in the Company representing 0.72% of the issued share capital, at the exercise price of HK$22.10 per share, were granted under the Plan. The closing price of the Company's shares immediately before the date of grant was HK$22.50. On 16 October 2007 options to subscribe for a total of the 18,500,000 shares in the Company representing 0.84% of the issued share capital, at the exercise price of HK$47.32 per share, were granted under the plan. The closing price of the Company's shares immediately before the date of grant was HK$47.65. 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 cancelled or lapsed in the period up to 31 December 2007.

Other than the Plan, certain of the Company's subsidiary companies have issued equity-settled share-based payments to certain employees. The aggregate amount of the share-based payments recognised by these companies are not material to the Group.

a Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	average exercise price in HK$ per share	options	average exercise price in HK$ per share	options
At 1 January		**30,989,000**		19,370,000
Granted	**47.32**	**18,500,000**	22.10	15,930,000
Exercised	**22.25**	**(19,336,000)**	20.10	(4,311,000)
At 31 December		**30,153,000**		30,989,000

Details of share options exercised during the year:

period	exercise price HK$	number of shares **2007**	2006
26 January to 9 May 2007	18.20	**6,840,000**	1,560,000
2 January to 26 October 2007	19.90	**4,905,000**	1,151,000
12 January to 20 December 2007	22.10	**5,991,000**	1,600,000
16 October 2007	47.32	**1,600,000**	–
		19,336,000	4,311,000

24 Share Capital *continued*

b Fair value of share options and assumptions

The fair value of an option on one CITIC Pacific share granted in the current period measured as at the date of grant of 16 October 2007 was HK$7.81 based on the following data and assumptions using the Binomial Lattice Model:

- The share price at the grant date is HK$46.85
- The exercise price is HK$47.32
- The option's contractual life is 5 years
- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 4 years
- Expected volatility of CITIC Pacific's share price at 25% per annum (based on historical movements of share prices and the trend of the volatility rate in recent years)
- Expected annual dividend yield of 5% (based on historical dividend payments)
- Rate of eligible grantees leaving service assumed at 1% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 150% of the exercise price
- Risk-free interest rate of 4% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the fair value valuation can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to the Model and assumptions adopted.

All the options forfeited before expiry of the Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Plan.

The total expense to be recognised in the Company's profit and loss account for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,500,000 options is HK$144,485,000 (2006: 15,930,000 options is HK$62,445,600).

25 Reserves

a Group

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 2006	24,864	19	–	(2,494)	84	(167)	401	301	15,218	38,226
Share of reserves of associated companies	–	–	–	–	183	–	(129)	–	106	160
Share of reserves of jointly controlled entities	–	–	17	–	–	–	(1)	1	–	17
Exchange translation differences	–	–	–	–	–	870	–	–	–	870
Reserves released on disposal of associated companies	–	–	–	–	(84)	103	(91)	–	–	(72)
Loss on cash flow hedge of financial instruments	–	–	–	–	–	–	(50)	–	–	(50)
Fair value gain on other financial assets	–	–	–	–	1,064	–	–	–	–	1,064
Transfer to Profit and Loss account on impairment of other financial assets	–	–	–	–	103	–	–	–	–	103
Transfer from profits	–	–	–	–	–	–	–	163	(163)	–
Issue of share pursuant to the Plan	92	–	(6)	–	–	–	–	–	–	86
Profit attributable to shareholders of the Company	–	–	–	–	–	–	–	–	8,272	8,272
Dividends (Note 9)	–	–	–	–	–	–	–	–	(3,071)	(3,071)
Share repurchase	–	1	–	–	–	–	–	–	(36)	(35)
Share-based payment	–	–	62	–	–	–	–	–	–	62
At 31 December 2006	24,956	20	73	(2,494)	1,350	806	130	465	20,326	45,632
Representing										
At 31 December 2006 after proposed final and special dividend										43,217
2006 Final and special dividend proposed										2,415
										45,632
Retained by										
Company and subsidiary companies	24,956	20	56	(2,494)	1,192	1,034	12	446	9,392	34,614
Jointly controlled entities	–	–	17	–	–	–	2	16	2,029	2,064
Associated companies	–	–	–	–	158	(228)	116	3	8,905	8,954
	24,956	20	73	(2,494)	1,350	806	130	465	20,326	45,632

25 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 shareholders of the Company	–	–	–	–	–	–	–	–	10,843	10,843
Dividends (Note 9)	–	–	–	–	–	–	–	–	(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

25 Reserves *continued*

b Company

in HK$ million	capital redemption reserve	capital reserve	hedging reserve	share premium	retained profits	total
At 1 January 2006	19	–	63	24,864	10,077	35,023
Share-based payment	–	62	–	–	–	62
Issue of shares pursuant to the Plan	–	(6)	–	92	–	86
Loss on cash flow hedge of financial instruments	–	–	(55)	–	–	(55)
Profit for the year available for distribution (Note 8)	–	–	–	–	7,965	7,965
Dividends (Note 9)	–	–	–	–	(3,071)	(3,071)
Share repurchase	1	–	–	–	(36)	(35)
At 31 December 2006	20	56	8	24,956	14,935	39,975
Representing						
At 31 December 2006 after proposed final and special dividend						37,560
2006 Final and special dividend proposed						2,415
						39,975
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 8)	**–**	**–**	**–**	**–**	**5,713**	**5,713**
Dividends (Note 9)	**–**	**–**	**–**	**–**	**(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

26 Borrowings

a

in HK$ million	Group 2007	2006	Company 2007	2006
Bank loans				
unsecured	**21,246**	12,529	**15,799**	9,599
secured	**211**	795	**–**	–
	21,457	13,324	**15,799**	9,599
Other loans				
unsecured	**3,945**	3,920	**–**	–
	25,402	17,244	**15,799**	9,599
Amounts repayable within one year included under current liabilities	**(402)**	(640)	**–**	(27)
	25,000	16,604	**15,799**	9,572

Note:

i) Bank loans and other loans of the Group not wholly repayable within five years amounted to HK$9,677 million (2006: HK$6,294 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 the 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 JPY8.1 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 up to 2032 and bear interest at the prevailing market rate.

v) As at 31 December 2007, certain of the Group's inventories, accounts receivable and self-used properties with the aggregate carrying value of HK$327 million (2006: HK$696 million) were pledged to secure loans and banking facilities granted to certain subsidiary companies of the Group.

b The maturity of the Group's and the Company's long term liabilities is as follows:

in HK$ million	Group 2007	2006	Company 2007	2006
Bank loans are repayable				
in the first year	**397**	636	**–**	27
in the second year	**2,527**	1,359	**570**	8
in the third to fifth years inclusive	**9,286**	5,441	**5,991**	3,676
after the fifth year	**9,247**	5,888	**9,238**	5,888
	21,457	13,324	**15,799**	9,599
Other loans are repayable				
in the first year	**5**	4	**–**	–
in the second year	**–**	–	**–**	–
in the third to fifth years inclusive	**3,510**	3,510	**–**	–
after the fifth year	**430**	406	**–**	–
	3,945	3,920	**–**	–
	25,402	17,244	**15,799**	9,599

26 Borrowings *continued*

c The exposure of the Group's total borrowings to interest-rate changes and the contractual repricing dates are as follows:

in HK$ million	One year or less
At 31 December 2006	
Total borrowings	13,990
Effect of interest rate swap	5,125
At 31 December 2007	
Total borrowings	**24,273**
Effect of interest rate swap	**5,342**

Part of the interest rate exposure is hedged by interest rate swaps.

The effective interest rates per annum of the Group's borrowings were as follows:

	2007	2006
Total borrowings	**5.5%**	5.2%

d The carrying amounts of borrowings approximate their fair value. The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

e The carrying amounts of the total borrowings are denominated in the following currencies:

	Group		Company	
in HK$ million	**2007**	2006	**2007**	2006
Hong Kong dollar	**8,575**	8,147	**7,255**	7,429
US dollar	**14,016**	5,348	**9,780**	1,665
Renminbi	**4,833**	3,684	**–**	–
Other currencies	**1,230**	1,114	**450**	505
	28,654	18,293	**17,485**	9,599

The Group has the following undrawn borrowing facilities:

in HK$ million	**2007**	2006
Floating rate		
expiring within one year	**5,572**	2,184
expiring beyond one year	**15,018**	14,614
	20,590	16,798

27 Financial Risk Management

Financial Risk Factors

The Group is exposed to a variety of financial risk. The Group employs a combination of financial instruments, including derivative products, to manage its exposure to financial risk.

Risk management is centralised at head office level in accordance with the Group's risk management policy. The policy includes written principles and guidelines for financial risk management, use of derivative transactions and measurement of derivative transactions.

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. Interest rate hedging ratio is determined after taking into consideration of general market trend, the Group's cash flow patterns and interest coverage ratio. The Group uses interest rate swaps, forward rate agreements, interest rate option contracts and other instruments to hedge exposures or to modify the interest rate characteristics of its borrowings. As at 31 December 2007, after the swaps, HK$7.8 billion of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying floating rate of interest.

At 31 December 2007, if interest rates on HK dollar-denominated borrowings had been 100 basis points higher / lower with all other variables held constant, the Group's profit would have been HK$20 million (2006: HK$23 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings for operating activities. If interest rates on US dollar-denominated borrowings had been 100 basis points higher / lower with all other variables held constant, the Group's profit would have been HK$44 million (2006: HK$20 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings for operating activities. Other components of consolidated equity would not be materially affected by the changes in interest rates.

b Exposure to Foreign Currency Fluctuations

CITIC Pacific conducts business mainly in Hong Kong, mainland China and Australia, therefore it is subject to the market risk of foreign exchange rates in HK Dollar, US Dollar, Renminbi and Australia Dollar. To minimise currency exposure, non HK Dollar assets are usually financed in the same currency as the asset or cash flow from it, either by borrowing or using foreign exchange contracts. 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 free 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 US dollars. As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi.

The functional currency and future cash flow for Group's Australian Iron Ore Mining project is denominated in USD. Substantial portion of the project infrastructure / pre-completion operating expenditure is projected to be denominated in non-USD currencies. Foreign exchange forward contracts and structured forward instruments are employed to hedge or minimise the non-USD currency exposure.

On liability management, 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 Yen Bond.

At 31 December 2007, the Group had no material currency risk arising from the operating activities. Such exposures are always kept to an acceptable level by entering into foreign currency forward contracts in the subsidiary companies level and they are usually matched with anticipated future cash flows in foreign currencies.

27 Financial Risk Management *continued*

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. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

d Credit Exposure

The Group's credit risk is primarily attributable to cash and bank deposits, trade and accounts receivables, and derivative financial instruments entered into for hedging purposes. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions. Counterparties' credit risks are carefully reviewed and in general, the Group only deals with financial institutions with investment grade credit rating. The amount of counterparties' lending exposure to the Group is also an important consideration as a means to control credit risk.

Trade receivables are presented net of the allowance for bad and doubtful debts. Credit risk in respect of trade and accounts receivables is limited since the customer base is comprised of a large number of customers disperse across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. These 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 fair 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.

27 Financial Risk Management *continued*

e Liquidity Risk

Liquidity risk is prudently managed by maintaining a sufficient amount of available committed credit facilities.

In addition, the Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt each year will not exceed the Group's anticipated cash flow and the Group's ability to refinance the debt in that year.

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 at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

in HK$ million	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
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	**10,270**	**156**	**301**	**–**
At 31 December 2006				
Bank borrowings	2,596	2,187	10,760	7,525
Derivative financial instruments	5	8	25	–
Trade creditors and accounts payable	7,652	82	301	–

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 at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

in HK$ million	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
At 31 December 2007				
Forward foreign exchange contracts – cash flow hedges				
outflow	**(3,307)**	**(219)**	**(15)**	**–**
inflow	**3,489**	**216**	**15**	**–**
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	**(4,009)**	**(2,101)**	**(3,045)**	**–**
inflow	**4,081**	**2,123**	**3,049**	**–**
At 31 December 2006				
Forward foreign exchange contracts – cash flow hedges				
outflow	(718)	–	–	–
inflow	729	–	–	–
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	(1,464)	(2,025)	(2,651)	–
inflow	1,467	2,015	2,641	–

27 Financial Risk Management *continued*

f Fair Value Estimation

i) The fair value of outstanding derivative transactions is calculated at least semi-annually 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 carrying amounts of borrowings approximate their fair value. 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.

28 Capital Risk Management

The Group's policy is to maintain a high degree of financial control and transparency. Financing and cash management activities are centralised at head office level to enhance risk management, control and the best utilisation of financial resources of the Group.

We aim to diversify our funding sources through utilisation of both banking and capital markets. To the extent it is possible, financing is arranged to match business characteristics and cash flows. Limited or non-recourse project finance is employed when it is available and appropriate.

The Group monitors capital on the basis of the gearing ratio. This 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 2007 and at 31 December 2006 were as follows:

in HK$ million	**2007**	2006
Total borrowings	**28,654**	18,293
Less: cash and bank deposits	**8,045**	3,679
Net debt	**20,609**	14,614
Equity attributable to Shareholders of the Company	**59,793**	46,510
Total capital	**80,402**	61,124
Gearing ratio	**26%**	24%

29 Derivative Financial Instruments

	Group			
	2007		2006	
in HK$ million	assets	liabilities	assets	liabilities
Qualified for hedged accounting	**179**	**60**	22	13
Not qualified for hedged accounting	**222**	**75**	109	51
	401	**135**	131	64

	Group			
	2007		2006	
in HK$ million	assets	liabilities	assets	liabilities
Interest-rate swaps	**116**	**105**	120	38
Forward foreign exchange contracts	**285**	**30**	11	26
	401	**135**	131	64
Less: current portion				
Interest-rate swaps	**–**	**57**	4	5
Forward foreign exchange contracts	**251**	**9**	10	4
	251	**66**	14	9
	150	**69**	117	55

	Company			
	2007		2006	
in HK$ million	assets	liabilities	assets	liabilities
Qualified for hedged accounting	**3**	**52**	22	13
Not qualified for hedged accounting	**135**	**60**	87	48
	138	**112**	109	61

	Company			
	2007		2006	
in HK$ million	assets	liabilities	assets	liabilities
Interest-rate swaps	**78**	**105**	104	38
Forward foreign exchange contracts	**60**	**7**	5	23
	138	**112**	109	61
Less: current portion				
Interest-rate swaps	**–**	**57**	4	5
Forward foreign exchange contracts	**26**	**–**	4	1
	26	**57**	8	6
	112	**55**	101	55

29 Derivative Financial Instruments *continued*

i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 were HK$13,463 million (2006: HK$6,256 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 26 months. Gains and losses recognised in the hedging reserve in equity (Note 25) on forward foreign exchange contracts as of 31 December 2007 are recognised in the profit and loss account in the period or periods during which the hedged transaction affects the profit and loss account. This is generally within 26 months from the balance sheet date unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset.

ii) Interest rate swaps

The main floating rates of our borrowings are HIBOR and LIBOR. The notional amounts of the outstanding interest rate swap contracts at 31 December 2007 were HK$12,806 million (2006: HK$10,780 million). At 31 December 2007, the fixed interest rates under interest rate swaps varied from 2.95% to 7.23% per annum (2006: 2.65% to 7.23% per annum). Gains and losses recognised in the hedging reserve in equity (Note 25) on interest rate swap contracts qualified for hedge accounting as of 31 December 2007 will be released to the income statement until the repayment of the bank borrowings (Note 26).

30 Deferred Taxation

a Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%). The components of deferred tax (assets) and liabilities recognised in the consolidated balance sheet and the movements during the year is 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	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Deferred tax arising from										
At 1 January	**528**	573	**(186)**	(240)	**1,010**	886	**499**	10	**1,851**	1,229
Exchange adjustment	**1**	(1)	**–**	(1)	**54**	(29)	**(1)**	–	**54**	(31)
Charged to reserve	**–**	–	**–**	–	**–**	–	**51**	–	**51**	–
Charged to goodwill	**–**	–	**–**	–	**–**	–	**–**	507	**–**	507
Effect of tax rate change	**–**	–	**–**	–	**(180)**	–	**–**	–	**(180)**	–
Charged / (credited) to consolidated profit and loss account	**(25)**	(14)	**(53)**	55	**173**	123	**97**	(17)	**192**	147
Others	**–**	(30)	**–**	–	**26**	30	**–**	(1)	**26**	(1)
At 31 December	**504**	528	**(239)**	(186)	**1,083**	1,010	**646**	499	**1,994**	1,851

	Group	
in HK$ million	**2007**	2006
Net deferred tax assets recognised on the consolidated balance sheet	**(100)**	(103)
Net deferred tax liabilities recognised on the consolidated balance sheet	**2,094**	1,954
	1,994	1,851

30 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	**2007**	2006
Deductible temporary difference	**37**	309
Tax losses	**2,499**	2,360
Taxable temporary difference	**(109)**	(82)
	2,427	2,587

	Company	
in HK$ million	**2007**	2006
Deductible temporary difference	**19**	17
Tax losses	**494**	452
	513	469

Note:
Deductible temporary differences and tax losses in certain tax jurisdictions of HK$196 million (2006: HK$125 million) will expire within the next five years. The rest of the amount does not expire under current tax legislation.

c Deferred Tax Liabilities not Recognised

At 31 December 2007, temporary differences relating to the undistributed profits of subsidiary companies amounted to HK$613 million (2006: HK$627 million). Deferred tax liabilities of HK$123 million (2006: HK$128 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company 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.

31 Capital Commitments

	Group	
in HK$ million	**2007**	2006
Authorised but not contracted for (Note a)	**254**	17
Contracted but not provided for (Note b)	**27,338**	4,359

	Company	
in HK$ million	**2007**	2006
Contracted but not provided for	**557**	2,015

Note a

in HK$ million	**2007**	2006
Authorised but not contracted for		
Analysis by business		
Infrastructure	**13**	–
Listed Subsidiary Companies		
CITIC 1616	**9**	17
Dah Chong Hong	**232**	–
	254	17

31 Capital Commitments *continued*

Note b

in HK$ million	**2007**	2006
Contracted but not provided for		
Analysis by business		
Special Steel	**1,904**	289
Iron Ore Mining	**19,476**	139
Property	**4,229**	3,786
Infrastructure	**1,672**	62
Listed subsidiary companies		
CITIC 1616	**8**	24
Dah Chong Hong	**13**	32
Others	**36**	27
	27,338	4,359

32 Operating Lease Commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December are as follows:

	Group		Company	
in HK$ million	**2007**	2006	**2007**	2006
Properties commitments				
Within 1 year	**159**	147	**2**	19
After 1 year but within 5 years	**257**	187	**–**	2
After 5 years	**137**	90	**–**	–
	553	424	**2**	21
Other commitments				
Within 1 year	**21**	38	**–**	–
After 1 year but within 5 years	**46**	65	**–**	–
After 5 years	**11**	27	**–**	–
	78	130	**–**	–
	631	554	**2**	21

33 Contingent Liabilities

a 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') within budget of approximately HK$7.5 billion including repair costs to be incurred after the operation date of the Crossing but before the issuance of the Maintenance Certificate. The Crossing was completed in April 1997 with total cost of approximately HK$6.8 billion, pending the issuance of the Maintenance Certificate.

The beneficial shareholders of WHTCL have agreed that in relation to any claim made or asserted under the aforesaid guarantee, as between themselves, the total of all liabilities in respect of a claim thereunder and of all costs, charges and expenses suffered or incurred by any of them resulting therefrom or attributable thereto shall be shared by them in proportion to their respective ultimate ownership in WHTCL.

b The Company has provided a guarantee on the US$450 million Guaranteed Notes issued by a wholly owned subsidiary of the Company.

c The Company has provided a guarantee on the JPY8.1 billion Guaranteed Floating Rate Notes issued by a wholly owned subsidiary of the Company.

d The Company has provided guarantees to support banking facilities of up to HK$393 million granted to a subsidiary of the Company.

e Hubei Xin Yegang Co. Ltd., a wholly owned subsidiary of the Company, has provided guarantees to support banking facilities of up to RMB150 million granted to another subsidiary of the Company, Hubei Xin Hua Neng.

f The Company has provided guarantees to support banking facilities of up to RMB193 million granted to a wholly owned subsidiary of the Company. These facilities were not utilized as at 31 December 2007.

g The Company has provided a guarantee to support a banking facility of RMB400 million granted to a subsidiary of the Company.

h The Company has provided guarantees to support bank guarantee / standby letter of credit facilities of up to approximately HK$750 million granted to a subsidiary of the Company.

i The Company has provided a guarantee to support banking facility of US$45 million granted to a wholly owned subsidiary of the Company.

34 Approval of Accounts

The accounts were approved by the Board of Directors on 17 March 2008.

35 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	N/A	N/A	Steel making
Hubei Xin Yegang Steel Co., Ltd. (Formerly Hubei Xin Yegang Co., Ltd.)	People's Republic of China Sino-foreign equity joint venture*	100	–	100	N/A	N/A	Steel making
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
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
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
Silver Wings Enterprises Inc.	British Virgin Islands	75	–	75	100	US$1	Investment holding
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
黃石中特國貿有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Investment holding

35 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							
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

Iron Ore Mining

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							
Bolein Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Bright Treasure Assets Holdings Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Burgeon Investments Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
CITIC Pacific Mining Management Pty Ltd (Formerly CP Mining Management Pty Limited)	Australia	100	–	100	1	N/A	Mining management
Cobikin Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Cosmos Light Holdings Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Long Glory Assets Limited	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Master Champ Assets Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
MetaGas Pty Ltd	Australia	100	–	100	5,000,010	N/A	Gas procurement and trading
Palesto Holdings Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Parmigan Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Pastoral Management Pty Ltd	Australia	100	–	100	5,000,010	N/A	Pastoral lease management
Silver Bliss Enterprises Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Sino Iron Pty Ltd	Australia	100	–	100	11,526	N/A	Mining extraction and processing of magnetite
Tridot Enterprises Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Winrich Investments Holdings Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning

35 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
Property							
Subsidiary companies							
Admarch Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Admarch Property Management Company, Limited	Hong Kong	100	–	100	2	HK$1	Property management
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
CITIC Pacific (Yangzhou) Properties Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property development
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
Shanghai Super Property Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Property investment and management
Tendo Limited	Hong Kong	100	–	100	2	HK$10	Property investment
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

35 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

name	place of incorporration / 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
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
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

35 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
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
Kido Profits Limited	British Virgin Islands / Hong Kong	15	–	15	–	–	Property development
Shinta Limited‡	Hong Kong	20	–	20	–	–	Property investment

35 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
Infrastructure							
Aviation							
Jointly controlled entities							
Air China Cargo Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	25	–	25	–	–	Operation of international and domestic air-cargo services and related ground services
Associated companies							
Cathay Pacific Airways Limited	Hong Kong	17.46	1.82	15.64	–	–	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
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 (Formerly known as Inner Mongolia Fengtai Electric Power Generation Company Limited)	People's Republic of China Sino-foreign equity joint venture*	35	–	35	–	–	Coal-fired power station operation and management

35 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
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	RMB1	Electric power plant construction and operation
Kaifeng Xinli Power Generation Co., Ltd.‡	People's Republic of China Sino-foreign equity joint venture*	50	–	50	–	–	Coal-fired power station 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
江陰利電能源材料有限公司	People's Republic of China Sino-foreign equity joint venture*	54.31	–	54.31	–	–	Coal related businesses and provision of maintenance and technical services for electrical appliances
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

35 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
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							
Eastern Harbour Crossing Company Limited ‡	Hong Kong	50	–	50	–	–	Tunnel operation
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

35 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
Others							
Subsidiary companies							
CITIC Pacific Communications Limited	Bermuda	100	–	100	100,000	HK$1	Investment holding
廣州市泰富信通技術有限公司	People's Republic of China Wholly foreign-owned enterprise*	100	–	100	N/A	N/A	Provision of internet value added services
Jointly controlled entities							
CITIC Guoan Co., Ltd.	People's Republic of China Sino-foreign equity joint venture*	50	–	50	–	–	Investment holding
Associated companies							
Companhia de Telecomunicacoes de Macau S.A.R.L.	Macau	20	20	–	–	–	Telecommunications services

35 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
Listed Subsidiary Companies							
CITIC 1616 Holdings Limited (Listed in Hong Kong) §	Hong Kong	52.56	–	52.56	1,978,066,283	HK$0.10	Investment holding
Dah Chong Hong Holdings Limited (Listed in Hong Kong) §	Hong Kong	56.6	–	56.6	1,800,000,000	HK$0.15	Investment holding
Others							
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 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	951,000	HK$100	Engineering services
Idealand Investment Inc.	Republic of Panama	100	–	100	100	US$1	Financing
Jointly controlled entities							
CITIC Capital Holdings Limited	Hong Kong	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
Associated companies							
Cheer First Limited ‡	Hong Kong	40	–	40	–	–	Financing
Jiangsu Wal-Mart Stores Co., Ltd.	People's Republic of China Wholly foreign-owned enterprise*	35	–	35	–	–	Hypermarket business
Treasure Trove Limited	Hong Kong	50	–	50	–	–	Financing
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.*

‡ *The above companies are the affiliated companies have been given to financial assistance and guarantees given for facilities granted by the Company and / or its subsidiary company as at 31 December 2007.*

§ *Subsidiaries being separately listed on the main board of the Hong Kong Stock Exchange and including their respective group companies.*

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 76 to 138, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 and of the Group's profit 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, 17 March 2008

Major Properties Held by the Group

as at 31 December 2007

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 Kwai Chung Town Lot No. 130 and 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*

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.)	existing use
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	Construction Site
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	251,400	847,000	Construction Site
3. Residential Development, Qing Pu District, Shanghai, the PRC	Phase 1 Construction in progress	2008 – 2011	Residential, Shop & Hotel	2045 – 2077	100	665,900	485,000	Construction Site
4. Commercial Development, Sichuan Bei Lu Metro Station, Hong Kou District, Shanghai, the PRC	Design in progress	2010 – 2011	Office and Shop	2047 – 2057	90	13,300	53,000	Construction Site
5. Commercial Development, No 10, Hainan Road, Hong Kou District, Shanghai, the PRC	Design in progress	2010 – 2011	Office and Shop	2047 – 2057	100	16,400	66,000	Construction Site
6. Commercial Project, Jiang Dong District, Ningbo, the PRC	Construction in progress	2008 – 2009	Office and Shop	2045	99.3	39,500	98,000	Construction Site
7. Residential Development, Yangzhou, the PRC	Phase 1 Construction in progress	2008 – 2011	Residential & Shop	2045 – 2075	100	328,600	437,000	Construction Site
8. Residential Development Jiangyin, the PRC	Design in progress	2009 – 2010	Residential & Shop	2046 – 2076	56	91,300	178,000	Construction Site
9. Residential and Commercial Development, Binhu District, Wuxi, the PRC	Construction in progress	in phases from 2009 onwards	Residential & Shop	2043 – 2073	70	2,110,300	243,000	Construction Site
10. Resort Development, Shenzhou Peninsula, Wanning, Hainan, the PRC	Construction in progress	in phases from 2009 onwards	Residential, Shop & Hotel	2057 – 2077	80 – 99.9	4,280,700	919,000	Construction Site
11. 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	Construction Site

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	11,000	Residential

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 and other investments, including proceeds from sale of businesses and dividend declared
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: 2820 2111 Fax: 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: 0267
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 2980 1333, or by fax: 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 2820 2004, by fax: 2522 5259 or at investor.relations@citicpacific.com.

Financial Calendar

Closure of Register:	2 May 2008 to 8 May 2008
Annual General Meeting:	8 May 2008, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong
Dividend payable:	13 May 2008

Annual Report 2007

Our Annual Report is also available as a Summary Financial Report. Both documents are printed in English and Chinese language and are also 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, or may also choose to rely on the Summary Financial Report or the Annual Report posted on the Company's website. Shareholders may 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 write to the Company Secretary, CITIC Pacific Limited, 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, or by fax: 2877 2771 or by email: contact@citicpacific.com.

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Stock Code: 0267