Financial Highlights

in HK$ million	**2006**	2005
Profit Attributable to Shareholders	**8,272**	3,989
Major Businesses' Contribution		
Special Steel	**1,333**	808
Property	**2,035**	1,106
Aviation	**3,288**	1,058
Power Generation	**268**	368
Civil Infrastructure	**469**	413
Marketing & Distribution	**275**	232
Communications	**367**	(31)
Fair Value Change of Investment Properties	***1,077***	*755*
Cash Contributed from all Businesses	**15,468**	4,488
Capital Employed	**64,803**	60,321
Shareholders' Funds	**46,510**	39,103
Net Debt	**14,614**	18,639
Cash & Available Committed Loan Facilities	**18,371**	11,065
in HK$		
Earnings per Share	**3.77**	1.82
Dividends per Share		
Regular	**1.10**	1.10
Special	**0.60**	–
Staff	**23,822**	19,174

Please refer to Definition of Terms on page 65

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 business activities on the mainland of China. Our major businesses are special steel manufacturing and iron ore mining which supplies the raw material needed in the making of special steel, and property development in mainland China.

Special Steel and Iron Ore Mining

Special Steel CITIC Pacific Special Steel, which operates through three steel groups in mainland China with total production capacity of over seven million tonnes annually, is a leader in the manufacturing of special steel used in bearings and gears among others. Its customer coverage reaches 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 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 CP 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 one billion tonnes of magnetite iron ore with options to another five billion tonnes in the Pilbara region of Western Australia. The one billion tonnes of ore is capable of producing 12 million tonnes of product annually to supply mainland China and CITIC Pacific's steel groups 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 The 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, totaling over three million square metres of gross floor area for development.

Chairman's Letter to Shareholders

I am pleased to report that CITIC Pacific achieved excellent results in 2006. Net profit for the year was a historic high of HK$8,272 million, a 107% increase compared with 2005. Earnings per share were HK$3.77. In light of this good performance, our sufficient financial resources, and at the same time considering the need to further expand our businesses in the future, the board has recommended paying a special dividend of HK$0.30 per share in addition to a final dividend of HK$0.80 per share. Including the regular (HK$0.30) and special (HK$0.30) dividend per share already paid at the interim, total dividend per share for the year is HK$1.70.

All of CITIC Pacific's businesses performed well in 2006, in particular the three core businesses, which made outstanding profit contribution. The Special Steel business recorded an impressive growth in profit of 65% compared to last year. Benefiting from the sale of Festival Walk, profit contribution from our property business rose 84% compared with last year. Also, in accordance with accounting standards, fair value gains on revaluation of the Group's investment properties were HK$1.08 billion. Infrastructure businesses such as Aviation, Power Generation, Tunnels, and Environmental businesses all recorded growth in recurrent earnings. These businesses provide stable and recurring cash flows to the Group. The restructuring of the aviation industry in 2006 provided CITIC Pacific's shareholders a satisfactory return on investment. Cash realized from this transaction further strengthened the Group's financial position for future new investments.

Special Steel

CITIC Pacific's special steel business had excellent performance in 2006. Through both organic growth and acquisitions, a plan implemented a few years ago, the Group has expanded its operations rapidly. In just a few years, CITIC Pacific's production capacity has reached over seven million tonnes, commanding a leading position in both product quantity and quality producing a variety of products such as bearing steel, gear steel, spring steel, and other alloy steel. Today, our special steel business has become a highlight in the Group's profit growth and is expected to continue its rapid development in the foreseeable future.

Jiangyin Xingcheng's new production line, in partnership with Sumitomo Metals of Japan, is near completion, with the steel smelting section of the production line already completed and profitable. The steel rolling section is scheduled to complete and become fully operational in 2007. This production line, equipped with the most advanced technologies of similar types both domestically and internationally, is the foundation for the production of high quality and highly energy efficient special steel products in the future.

Through effective management and integration, the businesses of Hubei Xin Yegang (95%) and Daye Special Steel (56.6%), which the Group acquired in 2004 and 2005, improved greatly with significant increases in profitability. A newly built 900,000 tonne coking plant will be completed and become fully operational in 2007. This plant will not only satisfy demand at Xin Yegang and Daye Special Steel, but it can also supply coke to other sister plants within the Group. This will reduce costs and increase the Group's investment return.

Shijiazhuang Steel Mill officially became a member of the CITIC Pacific group in July 2006. Today, CITIC Pacific has three special steel manufacturing bases that are ideally located in Eastern (Jiangyin Xingcheng), Central (Xin Yegang/Daye Special Steel) and Northern (Shijiazhaung Steel) China. Our plants are positioned to take advantage of the high demand in these three industrial centres. The plants can also utilize the well developed transportation networks nearby to supply products to all regions in China. At the same time, these strategic locations are also beneficial in facilitating product realignment and centralizing purchasing, transportation and sales functions among the plants.

In 2006, the Group's steel plants sold a total of 5.9 million tonnes of special steel, a 60% increase from 2005. Even though prices of raw materials stayed at high levels, profitability of the Group's steel business remained at a satisfactory level. CITIC Pacific is optimistic on the future development of this business. The above mentioned three locations will continue to support each other in the coming year to fully realize synergies, and to further strengthen our leading position in China's special steel industry.

Iron Ore Mining

As previously reported, in March 2006, CITIC Pacific acquired mining rights to one billion tonnes of magnetite ore, and rights and options to a further five billion tonnes in the Western Pilbara region of Western Australia. Stage One, which includes the right to the first billion tonnes of reserves, received approval from the Australian government in June 2006. It will be capable of producing 12 million tonnes of concentrate annually once operational. Pre-construction design work is underway. We have signed a general construction contract with China Metallurgical Group Corporation ('MCC'). Work on the development of mining, beneficiation plant, pellet plant, desalination plant, power station and material handling system has begun. First shipment of product is expected to be in 2009.

Management and technical teams with Chinese, Australian and international experience have been assembled and will be strengthened step-by-step. The financing framework for the project has been signed, and the bank has undertaken to support the project by providing long-term project finance to shareholders and the project companies. Once completed, this mining project will provide a long-term stable supply of iron ore for the Group's steel plants.

Property

Property development in mainland China is an important focus in the Group's businesses. We believe that with the rapid development of the Chinese economy and rising living standards, market demand for high quality commercial and residential properties will continue to be strong. From a long-term perspective, fundamentals of the Chinese property market remain positive. CITIC Pacific is confident in the long-term prospects of the property development business in China. We will continue to actively invest and increase our land bank in order to establish a solid foundation for the Group's property development in the long-term.

CITIC Pacific's property development in mainland China is mainly in the Yangtze River Delta area centered around Shanghai, and large scale development projects in the coastal city of Wanning in Hainan Province.

The Shanghai Lu Jiazui Financial District Project will be one of the Group's most important development projects in the coming years. The design for Phase I has been finalized comprising of a top grade hotel and two landmark office towers. Government review of Phase I building scheme is in progress, and foundation work will then begin. Meanwhile, preparation work is underway.

Construction of 'CITIC Square' in Ningbo is progressing well and foundation work has been completed. Work has also begun on the Group's projects at Qingpu in Shanghai, Yangzhou, Wuxi and Jiangyin in Jiangsu Province. These development projects will be completed in the coming few years to provide the Group with satisfactory investment returns.

CITIC Pacific's large scale 'Shenzhou Peninsula' project, in the city of Wanning in Hainan is progressing well. A master plan for the development of about 2.5 million square metres in gross floor area received government approval. Infrastructure development related to the project has commenced. Design and commercial negotiation for Phase I, which includes four grade A hotels and auxiliary facilities, are in progress. Site work is expected to commence shortly as well as work on a world class golf course and other related facilities.

Our investment properties in Shanghai, CITIC Square and Royal Pavilion, remain well let and are providing the Group with satisfactory returns. The Group now wholly owns CITIC Square, a well-known building in Shanghai, after acquiring interests from two minority shareholders.

In 2006, the Hong Kong property market remained active with rentals rising steadily, in particular those of premium properties. As current market rates need to be paid by new tenants and renewals, returns on the Group's overall investment properties will continue to improve. Phase 13 (Chianti) of the Discovery Bay development was completed at the end of 2006 and to date, over half of the units have been sold and delivered. The remaining units will be sold gradually in 2007. The project company has submitted an application to the Government on the development of the next phase. CITIC Pacific's properties in Kowloon Bay and Yuen Long all have re-development potential and we are exploring opportunities and discussing with the Government regarding the relevant approvals. We believe the re-development of these properties will increase their value and in turn bring better returns for the Group.

Aviation

The restructuring of the aviation industry in the second half of 2006 resulted in a HK$2 billion profit for CITIC Pacific, a satisfactory return on investment for our shareholders. At the same time, the Group realized over HK$5 billion of cash from the transaction, further strengthening our financial position. After the restructuring, CITIC Pacific remains a major shareholder of Cathay Pacific, holding a 17.5% interest.

The business of HACTL performed well with an increase in annual profit.

Power Generation

Ligang Phase III (2 x 600MW) passed testing and formally commenced commercial operation in the fourth quarter of 2006. Construction of Ligang Phase IV (2 x 600MW) is progressing well with commercial operation expected in 2007. As the flagship of CITIC Pacific's power generation business, the Ligang Power Station will have installed capacity of 3,800MW, making it one of the largest coal fired power stations in China.

Zhengzhou Phase III (2 x 200MW) also passed testing and entered commercial operation at the end of 2006. We anticipate that profit contribution from our power business will increase greatly in 2007. CITIC Pacific will continue to seek new investment opportunities to further expand the power business.

Civil Infrastructure

The Group's environmental, water projects and tunnels also performed well in 2006. These infrastructure projects provide CITIC Pacific with stable income and cash contribution.

Marketing and Distribution

The businesses of Dah Chong Hong and Sims performed well with increased market share in Hong Kong motor vehicles sales, while the distribution networks in mainland China improved. Profit from our joint venture with Shiseido increased substantially to reach yet another high.

Looking to the Future

Looking ahead, we are confident in the future development of the Group. The continuing rapid and healthy growth of the Chinese economy created excellent investment opportunities and a favorable operating environment for us. CITIC Pacific will continue to leverage our expertise and capture business opportunities. We will also focus more on our core businesses such as Steel, Mining, Property in mainland China and infrastructure projects 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 to our investors, bankers and everyone else for their continuing support.

Let me also take this opportunity to welcome Mr. Chang Zhenming's return to CITIC Pacific's board as a Director, effective August 2006. Mr. Chang resigned from CITIC Pacific in June 2005 as an Executive Director when he was appointed as President of China Construction Bank. Mr. Chang returned to CITIC Group in 2006 as Vice Chairman and President. His return to the board is an important asset to CITIC Pacific. In January 2007, Mr. Yuen Kee Tong resigned as Deputy Managing Director of CITIC Pacific to take on the position of CEO at CITIC 1616 Holdings Limited which is to be listed. I would like to thank Mr. Yuen Kee Tong for his valuable contribution to our company.

Larry Yung Chi Kin
Chairman
Hong Kong, 15 March 2007

Special Steel and Iron Ore Mining

With an annual production capacity of seven million tonnes, CITIC Pacific Special Steel is a leader in the manufacturing of special steel in China. Major products are used in the making of bearings, gears and seamless steel pipes. With the aim to ensure constant supply of iron ore, one of the major raw materials used in the steel making process, CITIC Pacific is undertaking to mine iron ore in Western Australia.

Special Steel

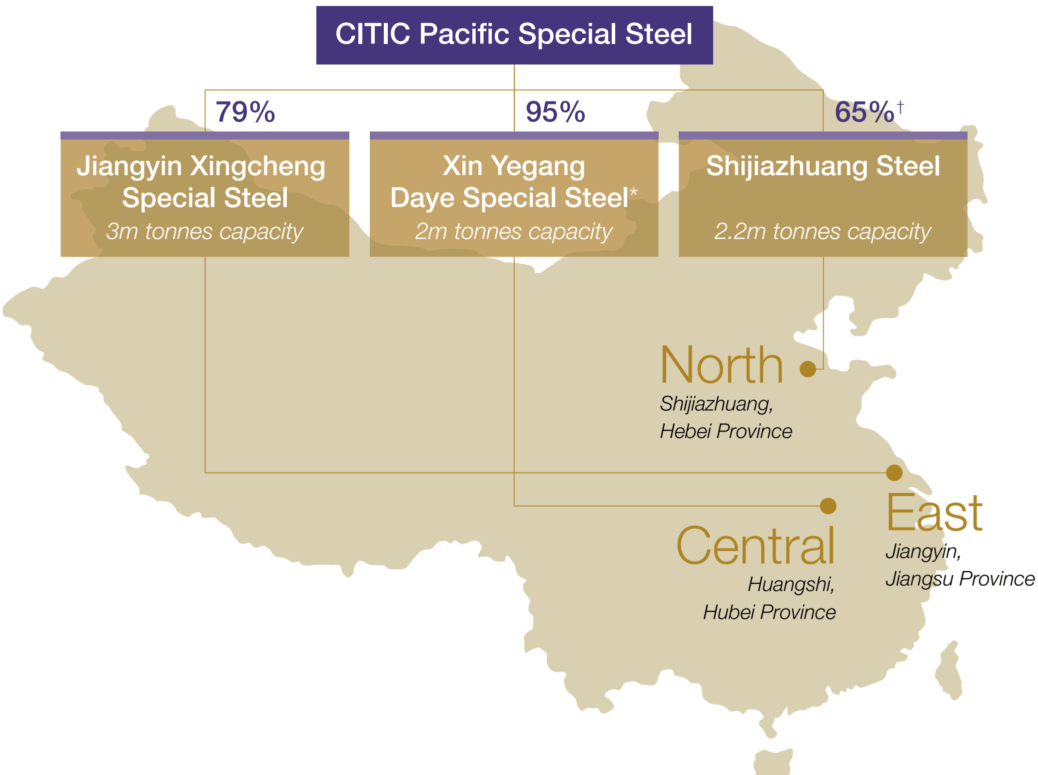
HK$ million	**2006**	2005
Turnover	**15,278**	12,160
Contribution	**1,333**	808
Proportion of total contribution	**17%**	20%
Net assets	**9,129**	5,781
Capital expenditure	**3,674**	2,063

CITIC Pacific Special Steel's ('CP Special Steel') profit increased 65% in 2006 compared to 2005 due to a first time contribution from the Shijiazhuang Steel Mill in the second half of the year, strong growth in exports and increased production. An improved product mix and synergies created from better coordination of raw material purchasing, product sales and marketing also contributed to the profit increase.

In 2006, CP Special Steel sold a total of 5.9 million tonnes of special steel, a 60% increase from 2005. This was due primarily to the acquisition of the Shijiazhuang Steel Mill, which became a member of the Group in July 2006. Exports rose 98% to 725,962 tonnes. Excluding Shijiazhuang Steel, the increase in sales was 6.5%, and the increase in exports was 33%. All three plants operated at close to full capacity.

CP Special Steel, with production capacity of over seven million tonnes, is the largest manufacturer in China of special steel that is used in the making of bearings, gears, springs and steel pipes. The locations of the three steel plants, Jiangyin Xingcheng Special Steel, Xin Yegang Steel and Shijiazhuang Steel, are ideal for market coverage of Eastern, Central and Northern China.

Converter of Jiangyin Xingcheng Special Steel



** CITIC Pacific owns 56.6% of Daye Special Steel*

† Ultimate shareholding after the registered capital expansion awaiting PRC government approval

Key products of CITIC Pacific Special Steel*

products	2006 market share	production ('000 tonnes) 2006	2005
Alloy tube blank	77%	**575**	557
Alloy spring steel	59%	**385**	326
Gear steel	42%	**716**	560
Bearing steel	31%	**604**	410

** Includes full year production of Shijiazhuang Steel in which CITIC Pacific had no equity interest until July 2006. Statistics from China Special Steel Enterprises Association, and include only registered enterprises.*

Our products are sold to these industries

industries	2006 sales ('000 tonnes)	percentage
Auto components	2,159	37%
Industrial manufacturing	1,372	23%
Metal works	1,030	17%
Power generation	440	8%
Oil and petrochemical	369	6%
Others	237	4%
Railway	185	3%
Shipbuilding	80	1%
Construction	67	1%
Total	5,939	100%

In 2006, the price of special steel products in China declined on average compared with 2005, mainly due to excess capacity in lower quality products. However, for higher quality products, pricing remained firm. Pricing of CP Special Steel's products reflected the overall market trend.

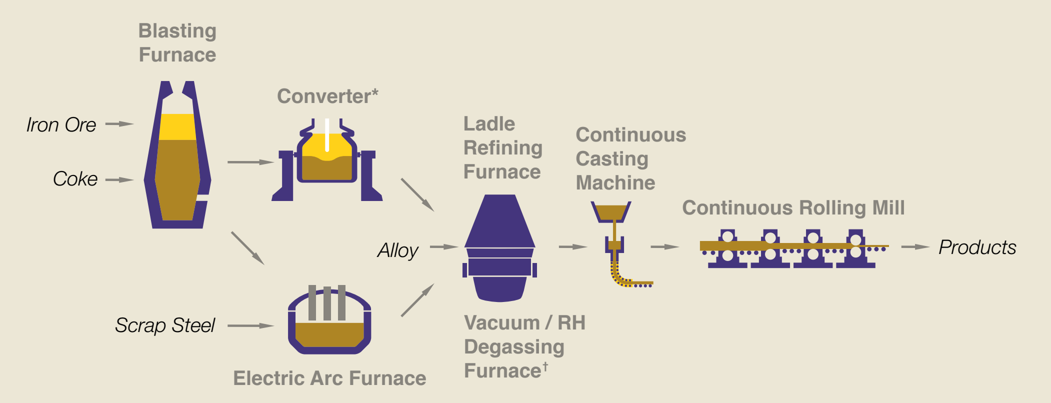
The key to the success of CP Special Steel in a challenging market is the effort management has placed on building brands, and assuring consistent high quality of its products. Jiangyin Xingcheng Special Steel and Xin Yegang are two well recognized and respected brands in China's special steel market. Many of their products are certified by worldwide users such as SKF (Sweden), FAG (Germany), and Caterpillar (United States). Strong brands and trusted product quality are essential in the market's continued demand for CP Special Steel's products. The construction of a new production line at Jiangyin Xingcheng, in co-operation with Sumitomo Metals of Japan, will be completed by the end of the first half of 2007. It will produce premium quality steel for auto components that will be a substitute for similar products that are currently imported. As a result, overall product quality will further improve.

In addition, management's effort in assessing market needs, anticipating and forecasting future demand has also benefited CP Special Steel. 236% growth in the production of steel used in the fast growing railway industry was the result of such effort. Coordinated effort among the three plants in sales and marketing also proved to be important.

To manufacture special steel, essential raw materials such as iron ore, coke, scrap steel, and alloy are used in a process that employs a blasting furnace, either a converter or an electric arc furnace, a ladle refining furnace and a vacuum degassing furnace. This is followed by an efficient continuous casting and rolling process, which is a technology used by all three of CP Special Steel's plants.

Major raw material prices in 2006 remained at high levels. CP Special Steel mainly purchased its scrap steel from the domestic Chinese market. Iron ore was primarily imported from the three major producers – BHP Billiton and Rio Tinto in Australia and CVRD in Brazil, while some was also sourced from India and locally. Even though the FOB price of iron ore supplied to the Asian market that is set by major Australian and Brazilian exporters rose 19.5%, increased Chinese domestic supply and the lower cost of sea freight meant that the overall cost of iron ore did not rise as much. Prices of other raw materials such as scrap steel, coke and alloy declined slightly. For CP Special Steel's three plants, raw material prices in 2006 were lower relative to 2005 due to the above mentioned reasons. Increased direct imports of iron ore from overseas suppliers was another factor.

Special steel manufacturing process



* *Xin Yegang does not use a converter*
† *Shijiazhuang Steel Mill does not use RH degassing*

Consumption of major raw materials

type	2006 ('000 tonnes)	percentage
Iron ore	8,248	57%
Scrap steel	1,896	13%
Coke	1,961	14%
Coal	2,111	15%
Alloy	204	1%

Jiangyin Xingcheng Special Steel ('Jiangyin Xingcheng'): With production capacity of three million tonnes, Jiangyin Xingcheng is a leader in China, manufacturing high-grade special steel used in bearings, gears, springs and high-pressurized tubes. Located in Jiangsu Province, it is strategically situated next to the Yantze River with two 50,000 tonne wharfs, providing efficient transport of its raw materials and finished products.

The plant is equipped with advanced and modern technologies. Its new production line, built in partnership with Sumitomo Metals Kokura of Japan, employs cutting edge technology with the most advanced equipment. Its high-end products will be a substitute for similar products currently imported for use in the manufacturing of auto components. The line is partially operational and will be fully completed by the end of the first half of 2007.

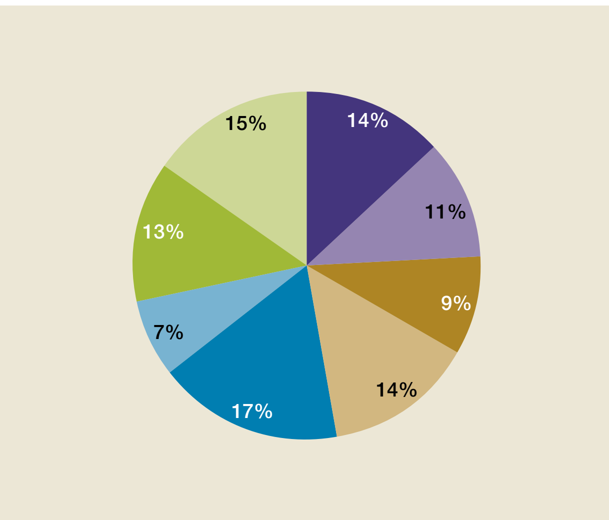
In 2006, Jiangyin Xingcheng sold a total of 2.2 million tonnes of steel, an increase of 17% over 2005. Exports were 304,812 tonnes, a 22% growth. Many of the products have received certification from renowned users worldwide, such as SKF, FAG, and Caterpillar.

Xin Yegang Steel ('Xin Yegang'): Xin Yegang has production capacity of two million tonnes, which includes the capacity of Daye Special Steel, an A-share company in which CITIC Pacific effectively holds a 56.6% interest. Its products include bearing steel, gear steel, spring steel, alloy structure steel, carbon structure steel and seamless steel tubes that are used in the auto, oil, petrochemical, power and industrial manufacturing sectors.

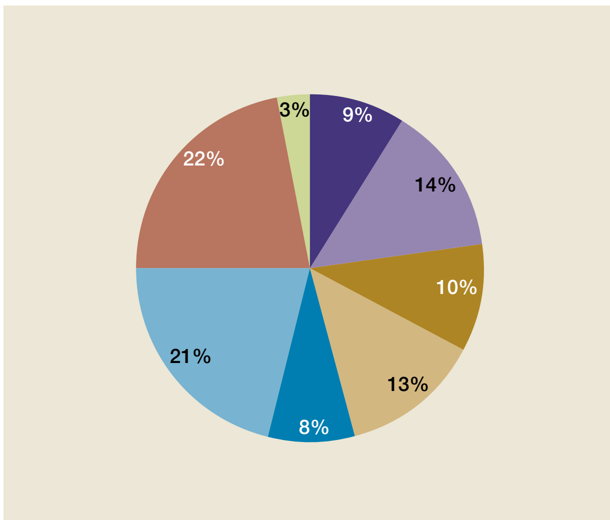
Located in the city of Huangshi in Hubei Province, it is the oldest steel plant in China, dating back to 1908. It is located next to the Yangtze River, with three 5,000 tonne wharfs enabling it to enjoy an advantage in transportation.

In 2006, Xin Yegang sold 1.7 million tonnes of products, a 4% decline from 2005 due to approximately two months of regular maintenance of certain equipment. Exports grew 57% to 181,036 tonnes. One of Xin Yegang's main products, seamless steel tube, continued to achieve excellent returns supported by strong demand. Its production is now 22% of Xin Yegang's product portfolio and is expected to expand further.

Jiangyin Xingcheng Special Steel's products



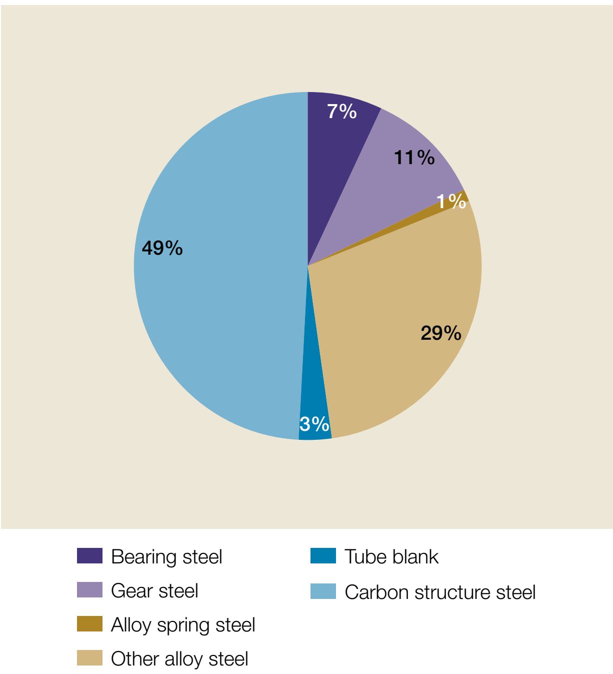
Xin Yegang Steel's products



Shijiazhuang Steel Mill ('Shijiazhuang Steel'): Located in the city of Shijiazhuang in Hebei Province, Shijiazhuang Steel benefits from the efficient transportation network around Beijing and Tianjin. Established in 1957, Shijiazhuang Steel is now a manufacturer of special steel with a production capacity of over two million tonnes. Its main products, including bearing steel, gear steel, alloy structure steel, carbon structure steel and tube blank, are supplied mainly to the auto component and oil industries.

In July 2006, the Shijiazhuang Steel became a member of the CITIC Pacific Special Steel group. Its performance has improved significantly since then with improvements in product quality, direct sales and marketing. Its new rolling line will further upgrade product quality. The central government's plans for supporting the Bohai Economic Development Zone is expected to trigger a new wave of industrial activity in the region, and Shijiazhuang Steel is well positioned to take advantage of this. Total sales for 2006 were two million tonnes, an 11% increase over 2005. Profitability increased 177%.

Shijiazhuang Steel Mill's products



Looking ahead: The market for special steel in China has been growing steadily with balanced demand and supply supported by not only domestic demand but also international users. The latter is evident in the sharp increase in exports of CP Special Steel in 2006. In 2006, production of special steel was about 10% of total Chinese steel production of 466 million tonnes. This compares to an average 15–20% in industrialized countries. Demand is from fast growing sectors such as auto, shipping, industrial manufacturing, power generation and railways. As the Chinese economy continues to grow, there is little doubt that more special steel will be needed.

Over the past year, CITIC Pacific has spent much effort setting up infrastructure to further integrate the three steel plants under the CP Special Steel umbrella in order to improve management, product quality and market share. CP Special Steel has also made progress in raw material purchasing and marketing.

Going forward, CP Special Steel aims to become a competitive special steel manufacturer globally, and will work accordingly to improve the quality of its products and services. CP Special Steel will also explore opportunities in down stream products in order to achieve vertical integration. Management is confident that CP Special Steel will continue to be a leader in China's special steel sector.

Iron Ore Mining

HK$ million	**2006**	2005
Net assets	**1,852**	–
Capital expenditure	**1,754**	–

CITIC Pacific's three steel plants currently consume approximately eight million tonnes of iron ore annually. In order to secure a stable supply of iron ore for the steel business, CITIC Pacific acquired from an Australian company 100% of a mining right to one billion tonnes of magnetite ore, with rights and options to a further five billion tonnes. The reserve is located in the Pilbara region of northern Western Australia, near the mouth of the Fortescue River. Cape Preston is the name of a point on the coastline about 25km from the inland site of the mine.

Structure of mining rights

	Stage One	Stage Two	Stages Three – Six
Assets	Right to mine 1bn tonnes of iron ore	Right to mine 1bn tonnes of iron ore	Options to mining rights to 4bn tonnes of iron ore subject to proceeding with Stage Two
Status	Proven & approved by the Australian Government	To be proven. Extensive drilling/assessment to be completed by June, 2007	Resources to be proven
Consideration	Paid	Obligated to pay once resources proven	Obligated to pay once resources proven and options exercised
Acquisition cost	USD215m paid	USD200m (adjusted by Australian CPI) not yet paid	USD800m (adjusted by Australian CPI) not yet paid
Planned production capacity of processed ore	12mt per annum	12mt per annum	12mt per annum for each 1bn tonnes of iron ore
Production target	2009/2010	2010/2011	–

The right to the first billion tonnes (Stage One) of reserves received approval from the Australian government in June 2006, and the project ('Cape Preston Iron Ore Project') was granted Major Project Facilitations status in December 2006. This was a significant milestone and will be extremely helpful in the project's development.

Additional drilling and tests are being carried out to confirm another one billion tonnes of reserves (Stage Two). This work is expected to be completed in June 2007. Once proven, CITIC Pacific will be under obligation to pay US$200 million for the right.

CITIC Pacific's plan is to sell at cost part of Stage One and Two to partners who will be major users of iron ore in China. Negotiations with potential partners are progressing and are expected to be completed by mid 2007. CITIC Pacific will take the lead managing the project. According to the current plan, the first shipment from Stage One is expected to be in 2009, with full production in 2010.

The project company, CP Mining Management Pty Limited, was incorporated in Australia in May 2006. An experienced Chief Executive and other senior personnel have been appointed. Offices in both Beijing, China, and Perth, Western Australia have been established and are now working closely together.

Magnetite is a ferromagnetic form of iron ore. It is low in iron content and needs to be processed further into concentrate or pellets, which can then be used as raw material in the steel manufacturing process. The estimated conversion ratio of magnetite ore to concentrate/pellet is 3.4 to 1 for the Cape Preston Iron Ore Project. This translates into an annual production of concentrate of 12 million tonnes over an expected mine life of 25 years.

Despite the requirement for processing, the ore body of this project is attractive as it is near the surface and with low variability. In addition, the project is located within close proximity to a natural gas supply line and will be just 25 km from a planned port. Therefore a rail line and train unloading facilities are not required and this should reduce the cost. A slurry pipeline will be built to transport the concentrate. The project will also benefit from China's position as the world leader in magnetite ore processing technology.

In January 2007, CITIC Pacific signed a general construction contract for US$1.1 billion with the China Metallurgical Group Corp. ('MCC') under which MCC is responsible for the project's infrastructure development. This will include the design, construction and installation of the primary crushing plant, concentrator, pellet plant, material handling system, camp and other auxiliary infrastructure facilities. It also includes procurement of certain mining equipment. Other infrastructure such as a dedicated power station and a desalination plant will be negotiated separately. Based in Beijing, MCC is a construction company that has extensive experience and expertise in similarly large scale iron ore projects in China, Brazil, Iran and Venezuela. MCC has already established an office in Australia.

The success of this project will bring significant economic benefits to CITIC Pacific's special steel business – ensuring a stable supply of this essential raw material, and also, providing a natural hedge to the Group's overall profitability.

Exploration drilling at the Cape Preston Iron Ore Project, Pilbara area of Western Australia

Property

CITIC Pacific, with its experience and expertise in building and managing properties, is increasingly focusing its effort on mainland China where the Group has a large high quality land bank.

The New Westgate Garden

HK$ million	**2006**	2005
Turnover	**8,320**	1,409
Contribution	**2,035**	1,106
Proportion of total contribution	**25%**	28%
Net assets	**20,299**	21,766
Capital expenditure	**2,873**	2,526

Over the past few years, CITIC Pacific has been increasingly focusing on developing properties in mainland China. The Group's property team has extensive experience in building and managing medium and large-scale residential, commercial and hotel projects. CITIC Pacific has a large quality land bank mainly in Shanghai, major secondary cities of the Yangtze Delta area and on Hainan Island.

At the end of February 2007, the Group has approximately 7.8 million square metres of land that can be developed into about 3.3 million square metres of gross floor area over the coming years. In addition, CITIC Pacific is also the prime developer for a site on Hainan Island.

Properties in mainland China

	usage	ownership	approx. site area (sq. metre)	approx. GFA (sq. metre)	expected completion date
Investment Property					
CITIC Square, Shanghai	Commercial	100%	14,500	109,000	Completed
Royal Pavilion, Shanghai	Serviced apartment	100%	8,800	35,000	Completed
The New Westgate Garden, Retail portion (Phase I), Shanghai	Retail	100%	32,900	16,000 (includes basement)	Completed
Development Property					
New Westgate Garden, Shanghai	Residential	100%			
Phase I			32,900	41,000*	Completed
Phase II			35,300	137,000	2011
Qingpu Residential Development, Shanghai	Residential, hotel, commercial	100%	617,500	438,000	2008 to 2011
Lu Jia Zui Financial District Project, Shanghai	Commercial, hotel, residential	49%	251,400	847,000	2010 to 2015
Jiang Dong District Ningbo, Zhejiang Province	Commercial	99.3%	39,500	98,000	2008 to 2009
Yangzhou, Jiangsu Province	Residential, commercial	100%	328,600	437,000	2008 to 2010
Jiangyin, Jiangsu Province	Residential, commercial	56%	87,200	140,000	2009 to 2010

continued on next page

Properties in mainland China *continued*

	usage	ownership	approx. site area (sq. metre)	approx. GFA (sq. metre)	expected completion date
Development Property					
Binhu District Wuxi, Jiangsu Province	Residential, commercial	70%	2,110,300	240,000 (Phase I)	In phases from 2008 onwards
Shenzhou Peninsula Wanning, Hainan Province	Hotel, retail, residential	80%–99.9%	4,280,400	919,000	In phases from 2008 onwards
Site at Sichuan Beilu Station of Metro Line No. 10, Hongkou, Shanghai	Commercial	90%	13,300	53,000	2010

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

Shanghai

Shanghai Lu Jia Zui Financial District Project: This project occupies the last significant prime site in Pudong on the south shore of Huangpu River. Once completed, the project will include commercial, residential, hotels and grade-A office buildings.

CITIC Pacific formed a joint venture with the China State Shipbuilding Corporation to develop the site. CITIC Pacific's interest in the joint venture is 49% and is responsible for managing the project.

The project site, previously used as a shipyard, is about 251,400 square metres and a total gross floor area of about 847,000 square metres is approved to be built. Development of the site will be in phases. Phase I (about 260,000 square metres) will have two landmark office towers, a hotel and serviced apartments. Design work for this phase is in progress while site preparation for the foundation work is underway. Subject to government approval of a building scheme, foundation work for this phase could begin as soon as the third quarter of 2007.

Qingpu Residential Project: Through the end of February 2007, CITIC Pacific had acquired a total of 617,500 square metres of land in the Qingpu District in the western part of Shanghai. This area will be developed into low density residential and commercial buildings with a gross floor area of approximately 438,000 square metres. The approval of the master planning design for the entire development was obtained in October 2006. Foundation work for Phase I (about 10,100 square metres) has been completed, and construction is scheduled to begin in the second quarter of 2007.

The New Westgate Garden residential project is located in the Huangpu District of Shanghai, adjacent to Xizang Nanlu and Jianguo Donglu. It is within walking distance of a future subway station of the new Metro Line 8.

Shanghai Lui Jia Zui Financial District Project

Phase I (gross floor area of 127,000 square metres) was completed in June 2006, and, through the end of February 2007, 68% of the residential units had been sold. Phase II will commence after the remaining site is cleared.

Once completed, this project, with a gross floor area of approximately 264,000 square metres, will include residential towers, a multi-storey commercial complex with retail shops, and a basement car park.

Sichuan Beilu Station of Metro Line No. 10, located in Hongkou District, is situated above the Sichuan Beilu Metro Station currently under construction. The development has an area of about 13,300 square metres and will be an office and retail complex with a gross floor area of about 53,000 square metres.

CITIC Pacific and Shanghai Shentong Metro Assets Management Co. jointly acquired the site in January 2007. The design of this property will take advantage of the pedestrian flow generated by the Sichuan Beilu Metro Station. Preliminary design is underway, and completion of the development is planned for 2010, which should coincide with the operational launch of Metro Line No.10.

CITIC Square, 100% owned by CITIC Pacific, is a Grade A office tower in Nanjing Xi Lu. It has an occupancy rate of 100% and rentals have been rising steadily.

Royal Pavilion, 100% owned by CITIC Pacific, is a luxury serviced apartment with 86% occupancy and stable rental income.

Other Cities

In **Ningbo**, Zhejiang Province, CITIC Pacific is building a commercial office and retail project with a total gross floor area of approximately 98,000 square metres. Construction of the superstructure began in March 2007, and completion is expected in 2008–2009.

In **Yangzhou**, Jiangsu Province, CITIC Pacific has 328,600 square metres for the development of a residential and commercial project with a gross floor area of 437,000 square metres. Construction of the Phase I (about 98,000 square metres) superstructure is scheduled to begin in the second quarter of 2007.

In **Jiangyin**, Jiangsu Province, CITIC Pacific and Wuxi Guolian Group are co-developing Jiangyin Xingcheng's old steel mill site in the eastern city centre into a residential and commercial property. The site is approximately 87,000 square metres with a gross floor area of about 140,000 square metres. Design work is in progress and site work is expected to begin in the second half of 2007.

In **Wuxi**, Jiangsu Province, CITIC Pacific and Wuxi Guolian Group have formed a joint venture company to develop a residential and commercial property in the Binhu District. The site, with an area of about 2,110,000 square metres, is located in front of scenic Taihu Lake, and is within 15–20 minutes driving distance from the city centre. The project will be developed in phases. Construction work for Phase I (about 240,000 square metres) is scheduled to begin in the second half of 2007. Site formation work is in progress.

In **Hainan** Province, a resort type real estate project in **Shenzhou Peninsula**, Wanning City is progressing well. 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 can be developed into a world class resort. As part of a new express railway line along the east coast of Hainan 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 2010, will greatly improve the accessibility of the Shenzhou Peninsula site from Hainan's international airports in Haikou and Sanya.

CITIC Pacific, as the prime developer, is responsible for the overall planning, design, and infrastructure.

Government approval for the conceptual master plan for the whole 38 square kilometres and the detailed master plan for 15 square kilometres were obtained.

Through the end of February 2007, CITIC Pacific had acquired 4.28 square kilometres of land. Design work for Phase I, which consists of hotels, retail space and golf courses, is in progress with site work set to begin in the second half of 2007.

Hong Kong

Discovery Bay, 50% owned by CITIC Pacific, 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). 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. Through the end of February 2007, 239 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 being planned with construction scheduled to begin in the second quarter of 2007.

CITIC Tower, 40% owned by CITIC Pacific, which serves as the Group's headquarters, is a landmark on the Hong Kong waterfront. It includes 52,200 square metres of offices, retail shops and restaurants. The building is currently 91% occupied. Rentals improved substantially in 2006.

The robust Hong Kong economy has led to an improvement in rentals of CITIC Pacific's other investment properties in 2006.

Properties in Hong Kong

	usage	ownership	approx. GFA (sq. metre)
Investment Property			
CITIC Tower	Commercial	40%	52,000
DCH Commercial Centre	Commercial	100%	36,000
Wyler Centre	Industrial	100%	37,000
Broadway Centre	Industrial	100%	32,000
Yee Lim Industrial Centre	Industrial	100%	30,000
Others	Various	100%	50,000
Development Property			
Discovery Bay	Residential township	50%	261,000
including Chianti (Phase 13)			50,000

Aviation

	location	ownership
Cathay Pacific	Hong Kong	17.5%
HACTL	Hong Kong	10%
Air China Cargo	Beijing	25%

HK$ million	**2006**	2005
Cathay Pacific	**941**	911
HACTL	**112**	103
Air China Cargo	**(1)**	44
Aviation restructuring	**2,236**	–
Contribution	**3,288**	1,058
Proportion of total contribution	**41%**	27%
Net assets	**9,843**	12,397

Cathay Pacific (www.cathaypacific.com) is an international passenger and freight carrier based in Hong Kong providing top quality services to 104 destinations around the world. Together with its subsidiaries Dragonair and Air Hong Kong, the Group serves more than 120 destinations with a fleet of 149 aircraft.

In September 2006, Air China, CNAC, Cathay Pacific, CITIC Pacific and Swire Pacific concluded the much anticipated restructuring of the Hong Kong aviation industry. As a result, Dragonair is now a wholly owned subsidiary of Cathay Pacific. CITIC Pacific's interest in the enlarged group has been reduced to 17.5%. The restructuring created one of the strongest airline groups in the world and strengthened Hong Kong and Beijing as twin aviation hubs in the Asia Pacific region. It also provides Cathay Pacific customers access to the world's fastest growing aviation market in China, strengthening Cathay's ability to compete globally.

Cathay Pacific achieved record volume in both passenger numbers and freight volume in 2006. Passengers increased by 8% to 16.7 million. Freight volume increased by 7% to 1.2 million tonnes.

HACTL (www.hactl.com) operates SuperTerminal 1, the largest air cargo terminal in the world. In 2006, it set a new record with total cargo tonnage of 2.6 million tonnes, a 5.3% increase from 2005.

SuperTerminal 1 has a potential capacity of 3.5 million tonnes per annum.

Air China Cargo Co., a joint venture in which CITIC Pacific has a 25% interest, handles all of Air China's international and domestic cargo and related ground service businesses. Total freight volume in 2006 was 817,178 tonnes, an increase of 15% from 2005. At the end of 2006, the Company employed nine freighter planes and used the belly space in Air China's 196 passenger planes to carry cargo.

Power Generation

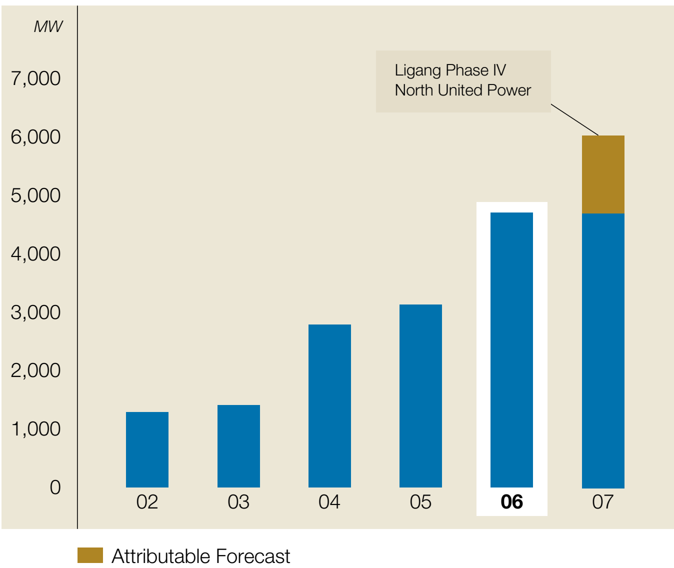
in HK$ million	**2006**	2005
Contribution	**268**	368
Proportion of total contribution	**3%**	9%
Net assets	**6,244**	5,652

In 2006, CITIC Pacific owned a total attributable capacity of 4,800MW, an increase of 50% from 2005 due to the commissioning of **Ligang Phase III** (2 x 600MW) and **Zhengzhou Phase III** (2 x 200MW) at the end of the year.

Total electricity generated in 2006 by all power plants in which CITIC Pacific had an interest was 84 billion kwh, an increase of 10.5% compared with 2005. The increase was due principally to an increase at North United Power. Utilisation rates at most plants experienced a decline as new capacity was added in most regions in China. However, even at reduced utilization levels, most plants operated above their designed utilisation rates.

During 2006, the price of coal increased modestly over 2005. Tariff increases implemented in early July brought much needed relief to power producers. In addition, management at our plants paid much attention to sourcing better quality coal which in turn lowered standard coal prices at most plants. As a result, performance improved and profitability increased compared with last year.

CITIC Pacific's attributable capacity



The reported lower contribution is a result of an impairment loss on Jilin Power Station which CITIC Pacific sold in the second half of 2006 and a loss arising from the share reform of an A-share company within North United Power.

Ligang Phase IV (2 x 600MW) is progressing on schedule with completion targeted for the second half of 2007.

CITIC Pacific's total attributable generation capacity will reach 6,161MW by the end of 2007.

Our team of power professionals continues to work to ensure a stable supply of coal and to improve the efficiency of our plants.

Operational statistics of CITIC Pacific's power plants

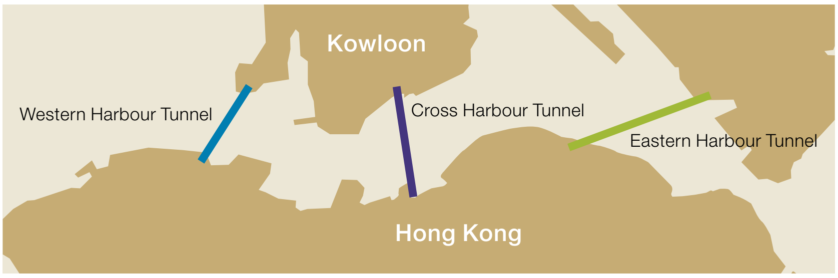
power plant	location (province)	installed capacity (MW)	% ownership	type	utilisation hours	electricity generated 2006 (m kWh)	electricity generated 2005 (m kWh)	electricity generated % change	heat generated 2006 (kGJ)	heat generated 2005 (kGJ)	heat generated % change
Ligang	Jiangsu			Coal fired							
I & II		1,440*	65		5,600	8,064	8,510	-5	NA	NA	NA
III		1,200	71.4		Operation began in late 2006						
Hanfeng	Hebei	1,320	15	Coal fired	6,009	7,931	8,552	-7	NA	NA	NA
Huaibei	Anhui	600	12.5	Coal fired	5,044	3,026	3,671	-18	NA	NA	NA
Kaifeng	Henan	125	50	Coal fired	4,761	595	671	-11	NA	NA	NA
North United	Inner Mongolia	9,988	20	Coal fired	6,490	57,834	47,091	23	43,268	39,417	10
Zhengzhou	Henan			Co-generation							
I & II		600	50		5,546	3,328	3,424	-3	5,082	5,230	-3
III		400	50		Operation began in late 2006						
Hohhot	Inner Mongolia	400	35	Co-generation	6,853	2,741	2,891	-5	2,078	2,129	-2
Weihai	Shandong	36	49	Co-generation	4,317	155	161	-4	3,592	3,323	28
Chenming	Shandong	24	49	Co-generation	7,608	183	194	-6	3,275	3,434	-5

** Additional 40MW were added to Ligang Phase II at the beginning of July 2006*

Civil Infrastructure

	location	ownership	franchise till
Eastern Harbour Tunnel	Hong Kong		
Road		71%	2016
Rail		50%	2008
Western Harbour Tunnel	Hong Kong	35%	2023
Four waste treatment facilities	Hong Kong	20 – 50%	–
Laogang Phase IV Landfill	Shanghai	30%	–

in HK$ million	**2006**	2005
Contribution	**469**	413
Proportion of total contribution	**6%**	10%
Net assets	**2,533**	2,351



The **Eastern Harbour Tunnel** (www.easternharbourtunnel.com.hk) registered an average daily traffic of 61,010 vehicles, a 4.5% decline from 2005.

The **Western Harbour Tunnel** (www.westernharbourtunnel.com) is a key section of the Route 3 highway linking Hong Kong Island with mainland China and Chek Lap Kok Airport. Average daily traffic in 2006 was 44,373 vehicles, an increase of 7.7% over 2005.

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

Environmental

CITIC Pacific has an interest in four waste treatment facilities in Hong Kong, including a chemical waste treatment plant and two refuse transfer stations, with a total of 4,000 tonnes daily waste processing capacity, and a landfill site with a 43 million cubic metre capacity. In 2006, a total of 3.1 million tonnes of waste was processed.

In Shanghai, CITIC Pacific has an interest in Phase IV of the Laogang Municipal Waste Landfill. A total of 1.8 million tonnes of municipal waste was processed in 2006.

Marketing and Distribution

	location	ownership
Dah Chong Hong	Hong Kong	100%
Sims Trading	Hong Kong	100%

in HK$ million	**2006**	2005
Turnover	**13,222**	10,984
Contribution	**275**	232
Proportion of total contribution	**3%**	6%
Net assets	**4,012**	3,636

Motor Vehicle Trading

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.

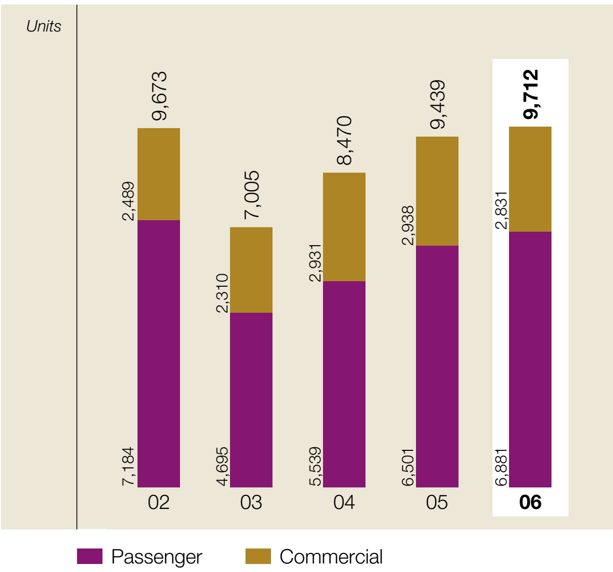
in HK$ million	**2006**	2005
Turnover	**7,738**	5,559
Contribution	**199**	146

Hong Kong Motor Vehicle Sales

With 30% market share in 2006, Dah Chong Hong is one of the largest distributors of motor vehicles in the territory. It distributes a wide range of vehicles:

type	brands
Passenger cars	Acura, Audi, Bentley, Honda, Nissan, Opel, Saab, Volkswagen
Commercial vehicles	Isuzu, MAN, Nissan, UD Nissan Diesel

Dah Chong Hong vehicle sales in Hong Kong



In 2006, Dah Chong Hong's market share increased by 1.2 percentage points, despite an overall decline of 2% in the Hong Kong market for motor vehicles.

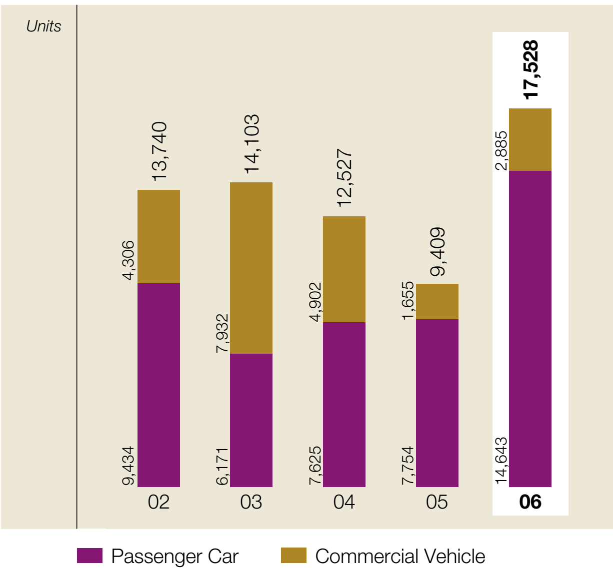
In addition to car sales, DCH Motor is engaged in after-sales service and inspection centre operations, parts retail and distribution, leasing, used-car sales, fleet management, and aviation ground support services. The Dah Chong Hong Motor Service Centre in Kowloon Bay is the largest of its type in Hong Kong.

Mainland China Motor Vehicle Sales

Dah Chong Hong distributes imported and domestically manufactured vehicles through local partners. Unlike Hong Kong, most distributorships are not exclusive in the Chinese domestic market.

type	brands (Dah Chong Hong & partners)	
Passenger cars	Imports:	Bentley, Nissan, Opel, Renault
	Domestic:	Beijing Hyundai, Dongfeng Honda, Dongfeng Nissan, FAW Toyota, Dongfeng Yuda Kia, FAW Audi, FAW Mazda, Guangzhou Honda, Haima, SGM
Commercial vehicles	Imports:	Isuzu, Iveco, MAN
	Domestic:	Naveco, Qingling

Dah Chong Hong vehicle sales in mainland China



China's motor vehicle market grew by 25% in 2006, with sales of over seven million vehicles. The passenger car market grew 30% year-on-year with sales of over five million units. Dah Chong Hong sales increased 86% over 2005. This significant increase was due to expansion of its sales and marketing network as well as to the resumption of its Isuzu import business. During the year, Dah Chong Hong successfully secured six dealerships, raising the total number of vehicle dealerships in mainland China to 24. Among the additions were Mercedes-Benz, FAW Audi, FAW Mazda and Dongfeng Honda.

China's vehicle market has experienced tremendous growth and Dah Chong Hong is committed to the long-term opportunities in China. In the near term however, the market will become increasingly competitive and challenging. With an established network and over 50 years of expertise, Dah Chong Hong is well positioned to cope with the market changes and challenges of the years ahead.

Non-Motor Trading

in HK$ million	**2006**	2005
Turnover	**5,484**	5,425
Contribution	**76**	86

The non-motor trading business includes Dah Chong Hong and Sims. **Dah Chong Hong** distributes in Hong Kong, Macau and mainland China a wide range of consumer and commodity food products including frozen meat, rice, edible oils, and Chinese foodstuffs; as well as cosmetics, home electrical appliances, and audio visual equipment.

Sims specializes in the distribution of branded fast moving consumer goods, including food, beverage, household, and healthcare products for the retail and catering markets. Some of the brands represented by Sims are Pocari Sweat, Ovaltine, Almond Roca, Barilla, and Heinz for the Hong Kong market; and Ferrero, Pringles, Wyeth, Almond Roca, Smirnoff, Guinness, and Bailey's for the domestic Chinese market. Sims also provides third party logistics services to major companies such as 7-Eleven, Heineken, Pizza Hut, Wynn Casino & Resort, Walmart, Unilever, and Lee Kum Kee.

Hong Kong and Macau: Dah Chong Hong's diversified product portfolio enables it to mitigate business risks. In 2006, animal disease had an adverse impact on its food trading business. Yet in its business selling Shiseido cosmetics, it was able to capitalize on a demand surge due to a rebound in the local economy as well as to an expansion of its distribution network. These factors resulted in record performance in both turnover and profits.

Sims also had an encouraging year in 2006. Its logistics services section won the Hong Kong Trade Development Council's 'Hong Kong Logistics Award 2006' and the Global Institute of Logistics' '2006 Best Regional Third Party Logistics Company'. In Macau, Sims is the biggest logistics services provider for Wynn Casino & Resort, and is providing services to a growing number of hotels and casinos.

Mainland China: In 2006, Dah Chong Hong and Sims made significant progress in the transition from just distribution to providing higher value-added services. A joint venture between Sims and Otsuka of Japan for the production of Pocari Sweat for domestic and export sales began operation in Southern China in July 2006. An edible oil storage and processing plant in Xinhui began operations in the same month. In terms of logistics, Sims' bonded and non-bonded warehousing, re-packing, customs clearance, and cargo forwarding establishments in Xinhui began full operations in late 2006 providing a one-stop total supply chain management ('SCM') solution to its principals and third-party customers. The Pearl River delta remains the key region for the further development of Dah Chong Hong and Sims' SCM initiatives but in time will extend to nationwide coverage by linking with the mature operations in Shanghai and Beijing.

Communications

	location	ownership
CITIC 1616	Hong Kong	100%
CPCNet	Hong Kong	100%
CITIC Guoan	Beijing	50%
CTM (Macau Telecom)	Macau	20%

in HK$ million	**2006**	2005
Turnover	**1,731**	1,219
Contribution	**367**	(31)
Proportion of total contribution	**5%**	(1)%
Net assets	**2,557**	2,218

CITIC 1616 (www.citic1616.com) is a leading telecom hub based provider in Asia, interconnected to about 240 international telecom and mobile carriers in approximately 50 countries/areas. Over 77% of its traffic is inbound to and outbound from mainland China. In January 2007, the Company applied for a listing on the Hong Kong Stock Exchange, which was approved in March.

Companhia de Telecomunicacoes de Macau ('CTM'), 20% owned by CITIC Pacific, is the provider of choice of fixed line, mobile telephone and Internet access services to the people of Macau SAR.

CITIC Guoan's primary business is its 41.6% interest in CITIC Guoan Information Industry Co., Ltd. ('Guoan Information'), a Shenzhen Stock Exchange A-share listed company. Guoan Information operates cable TV networks in 18 cities and one province in mainland China with over 6 million subscribers. Guoan Information also has interests in systems integration, software development, hotel management, salt lake consolidated resources developement and property development.

CPCNet Hong Kong (www.cpcnet.com) provides Internet services to corporate customers in the Greater China area.

Financial Review

Introduction

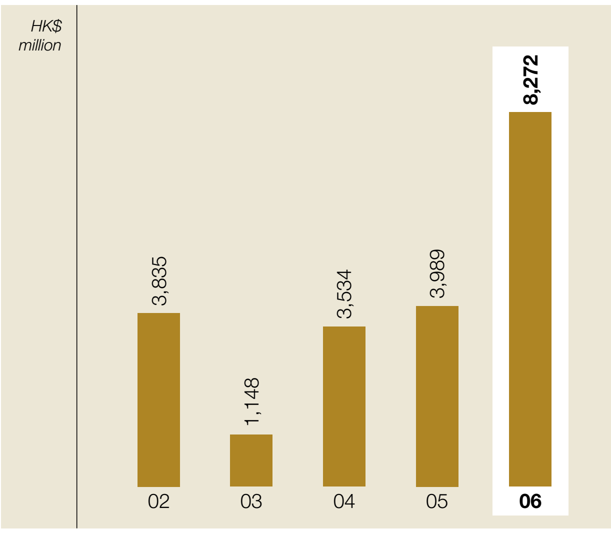
CITIC Pacific's 2006 Annual Report includes a letter from the Chairman to shareholders, the final accounts and other information required by accounting standards, legislation, and the Hong Kong Stock Exchange. This Financial Review is designed to assist the reader in understanding the statutory information by discussing the contribution of each business segment, and the financial position of the company as a whole.

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 2006 was HK$8,272 million, an increase of 107% compared with HK$3,989 million in 2005. The reasons for the increase in profit are described below.



Business Segments Contribution

The Contribution (Note) made by major business segments in 2006, compared with 2005, were:

HK$ million	actual **2006**	2005	change 2006 – 2005
Special Steel	**1,333**	808	525
Property	**2,035**	1,106	929
Aviation	**3,288**	1,058	2,230
Power Generation	**268**	368	(100)
Civil Infrastructure	**469**	413	56
Marketing & Distribution	**275**	232	43
Communications	**367**	(31)	398
Fair Value change of Investment Properties	***1,077***	*755*	*322*

Note: Please refer to Definition of Terms on page 65.

Compared the contribution for the year 2006 with last year:

- Special Steel: Turnover of Special Steel increased from HK$12 billion in 2005 to HK$15 billion in 2006. Contribution increased significantly due to continuing good performance of Jiangyin Steel Plant and Xin Yegang Steel Plant including the contribution from Daye Special Steel which was acquired in November 2005. Shijiazhuang Steel Plant acquired during the year contributed HK$119 million.

- Property: Excluding the revaluation surplus of investment properties in both year, contribution increased by 84% mainly due to the profit from the sale of 50% interest in Festival Walk, and profit recognized on completion of Shanghai Westgate Garden and Chianti at Discovery Bay in 2006. In 2005, there were also profits from the sales of properties including a piece of land at Hung Shui Kui in the New Territories. Excluding the effect due to the disposal of Festival Walk, rental income recorded good growth.

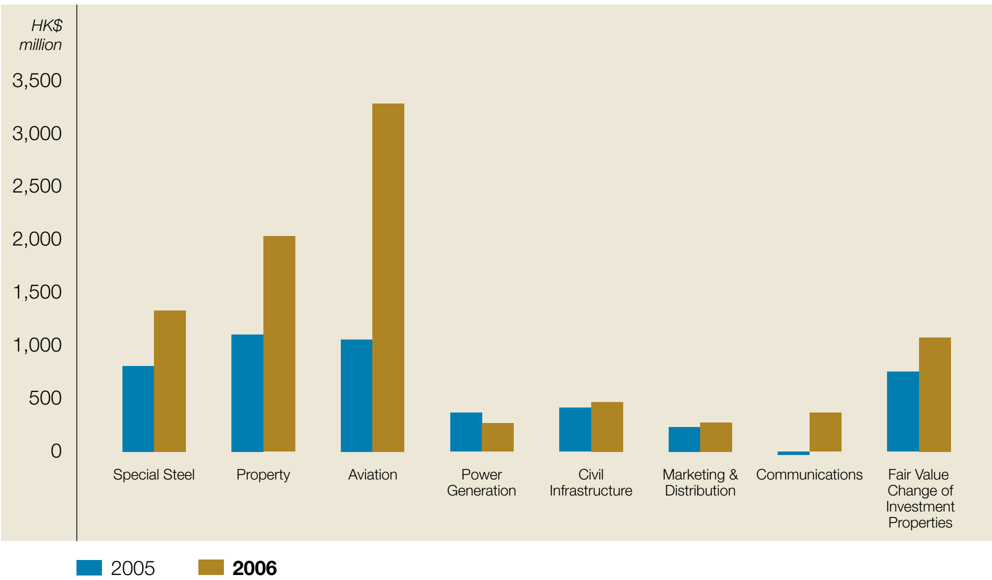
- Aviation: Cathay Pacific reported 24% increase in net profit for the year. Despite the fact the Group reduced its shareholding in Cathay Pacific from 25.4% to 17.5% and disposed all of its 28.5% interest in Dragonair during the year in connection with the restructuring of aviation business, recurring contribution in 2006 almost levelled that of 2005. In addition, profit of HK$2.2 billion was recognised from the restructuring of aviation business.

- Power Generation: Excluding the impairment loss of HK$152 million of Jilin Power Station and a loss of HK$56 million arose from the share reform plan of a mainland listed company under North United Power Group, contribution increased by 29% in 2006.

- Civil Infrastructure: Contribution from both vehicular tunnels increased. Toll charges of Eastern Harbour Tunnel have been increased since May 2005.

- Marketing & Distribution: Turnover increased by 20% to HK$13 billion in 2006 with contribution increased by 19%. The contribution from motor business in both Hong Kong and the PRC improved. The performance of non-motor businesses during the year was affected by the challenging market and project development costs.
- Communications: Profit of CITIC 1616's telecom operations increased by 93% in 2006 but was partly offset by the costs of the Group's other developing businesses. The result of CTM was relatively stable. A profit of approximately HK$170 million arose from the share placement by Guoan Information in 2006. There was a loss of approximately HK$190 million in 2005 as a result of Guoan Information's share reform plan.
- Fair value change of investment properties: Increase in fair value of investment properties as a result of a revaluation reflecting the current market condition.

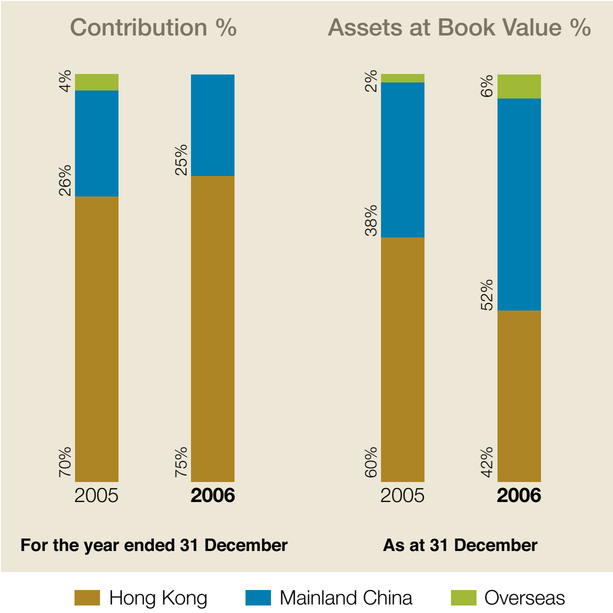
Contribution



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$596 million to HK$590 million mainly due to the increase in capitalised interest related mainly to various PRC property projects while weighted amount of borrowings increased. The weighted average cost of debt in 2006 was 5.2% compared to 4.3% last year.

Treasury Policy and Risk Management

General Policies

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.

Foreign Currency Exposure

CITIC Pacific conducts business mainly in Hong Kong and mainland China, therefore it is subject to the market risk of foreign exchange rates of the HK Dollar, US Dollar and Renminbi. To minimise currency exposure, non Hong Kong 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 limitation in financial markets and regulatory constraints, particularly on investment into mainland China as the Renminbi is currently not a free convertible currency and thus the RMB exchange swap market is not readily available or efficient at this time. In addition, '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 2006, around HK$35 billion or 52% of the Group's total assets were based in mainland China (2005: HK$23 billion, or 38%).

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 the general market trend, the Group's cash flow pattern, interest coverage ratio and etc.

Employment of Derivative Products

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 is prohibited. 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.

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 in the year 2006 compared to the year 2005:

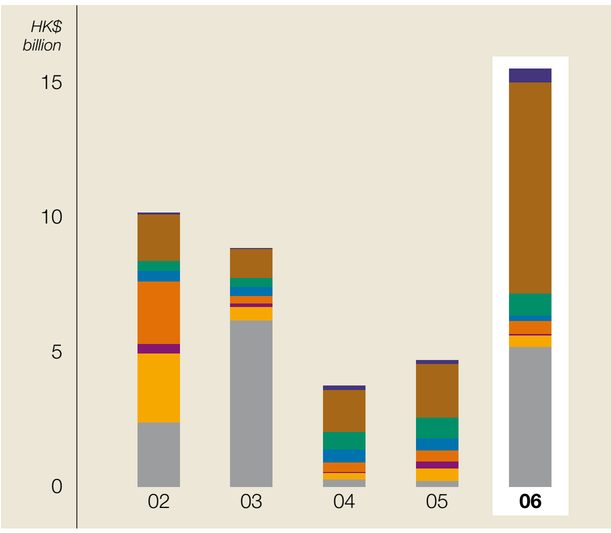
HK$ million	**2006**	2005
Special Steel	**500**	143
Property	**7,821**	1,996
Aviation	**5,975**	767
Power Generation	**213**	449
Civil Infrastructure	**476**	407
Marketing & Distribution	**57**	256
Communications	**347**	413
Others	**79**	57
Total	**15,468**	4,488

For the year ended 31 December 2006, the Group's cash flow was very strong. Special Steel sector contributed higher cash flow as prior years retained profits were distributed during the year. Property sector continued to generate strong cash flow from both recurring rental income and property sale. In addition, disposal of 50% interest in Festival Walk also contributed HK$6.1 billion. Cash contribution from Aviation sector was stable. In addition, HK$5.2 billion was received from aviation restructuring. Cash contribution from Power Generation sector decreased as the 2005 final dividend declared by Ligang Power Station was retained for reinvestment in Ligang Phase IV. Civil Infrastructure sector also contributed higher cash flow mainly attributable to the strong performance of tunnel operations. Cash contribution to the Group from Marketing & Distribution decreased for the year as cash generated from operations was utilised by the business unit to invest in new project.

Summary of Consolidated Cash Flow Statement

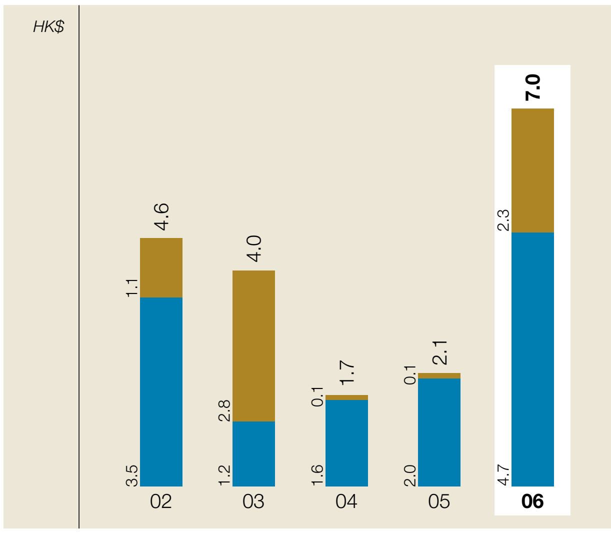
HK$ million	**2006**	2005
Net Cash generated from / (invested in) consolidated activities	**4,302**	2,063
jointly controlled entities	**220**	(59)
associated companies	**1,132**	1,504
other financial assets	**11**	1
Sale of business interests and marketable securities	**12,313**	481
Capital expenditure and investment in new businesses	**(9,451)**	(5,971)
Tax	**(315)**	(227)
Net interest paid	**(751)**	(601)
	7,461	(2,809)
Dividends paid	**(3,072)**	(2,412)
(Decrease) / Increase in borrowings	**(3,376)**	5,330
Repurchase of shares	**(35)**	–
Share options exercised	**87**	16
	(6,396)	2,934
Increase in cash and cash equivalents	**1,065**	125

Cash Flow from Operations



Special Steel
Property
Aviation
Power Generation
Civil Infrastructure
Marketing & Distribution
Communications & Others
Sale of Businesses

Cash Flow per Share



Cash Flow per Share from the Sale of Businesses
Cash Flow per Share from regular operations

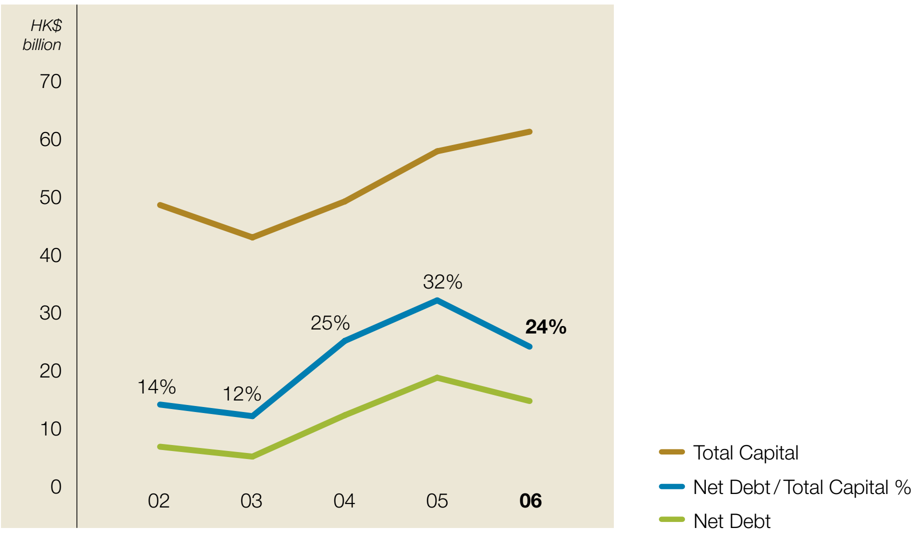
Group Debt and Liquidity

The financial position of the Group as at 31 December 2006, as compared to 31 December 2005, is summarised as follows:

HK$ million	**2006**	2005
Total debt	**18,293**	21,218
Cash and bank deposits	**3,679**	2,579
Net debt	**14,614**	18,639

Leverage

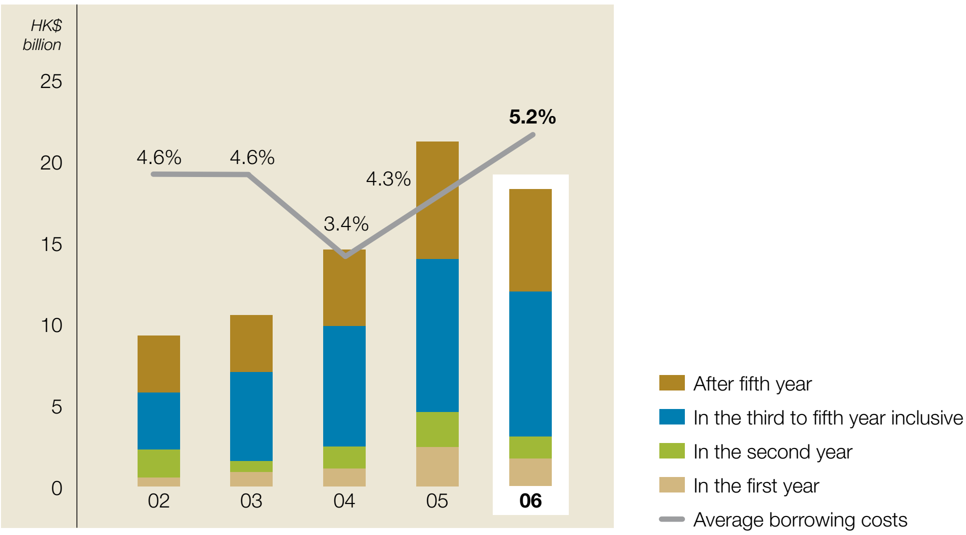
Net debt divided by total capital was 24% at 31 December 2006 compared with 32% at the end of 2005.



Total Debt

Total debt decreased mainly due to strong cash flow. As at 31 December 2006, outstanding loans maturing within one year amounted to HK$1.7 billion or 9% of the total debt. On the other hand, the Group had cash and deposits with banks of HK$3.7 billion on that date.

For the year ended 31 December 2006, the Group's average borrowing costs was about 5.2% compared with 4.3% 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.

HK$ million	2007	2008	2009	2010	2011	2012 and beyond	total	percentage
Parent Company	27	8	624	3,052	3,510[1]	6,294[2]	13,515	74%
Subsidiaries	1,662	1,351	958	249	558	0	4,778	26%
Total Maturing Debt	1,689	1,359	1,582	3,301	4,068	6,294	18,293	100%

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

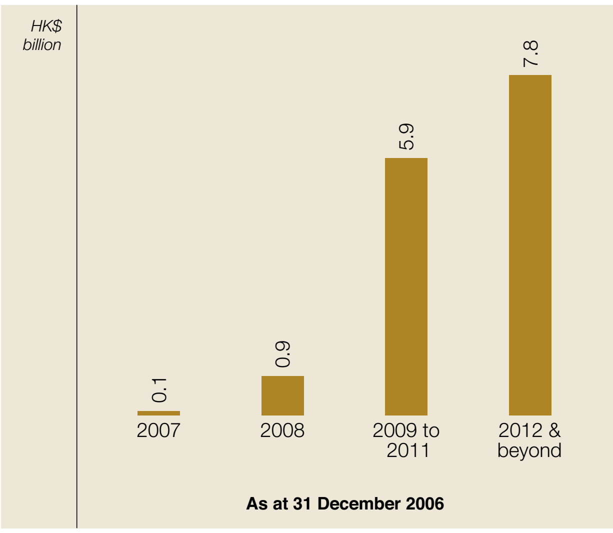
2. *Including a JPY8.1 billion floating rate note due in 2035 which was issued by a wholly owned special purposes vehicle.*

Available Sources of Financing

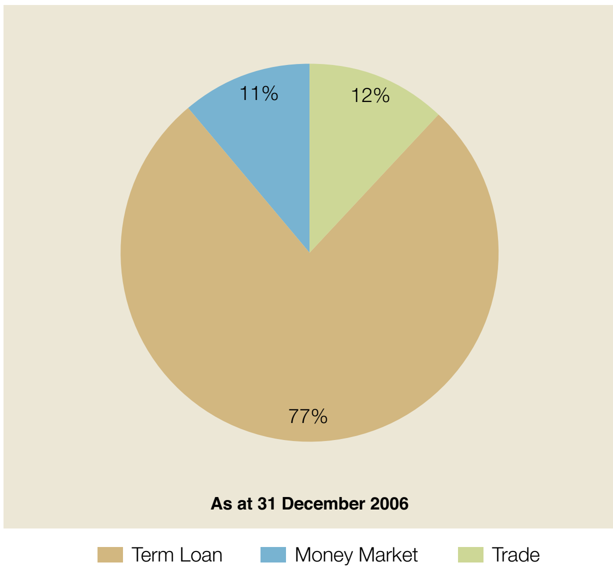
In addition to cash and deposits balance of HK$3.7 billion as at 31 December 2006, the Group had undrawn available loan facilities totaling HK$16.8 billion, of which HK$14.7 billion was in committed long term loans and HK$2.1 billion of money market lines. Besides, available trade facilities amounted to HK$2.2 billion. Borrowings by sources of financing as at 31 December 2006 is summarised as follows:

HK$ million	total facilities	outstandings	available facilities
Committed Facilities			
Term Loans	28,020	13,328	14,692
Global Bonds	3,510	3,510	0
Private Placement	406	406	0
Total Committed	31,936	17,244	14,692
Uncommitted Facilities			
Money Market Lines and Short Term Facilities	3,134	1,027	2,107
Trade Facilities	2,766	591	2,175

Undrawn Available Committed Facilities by Maturity (Total HK$14.7 billion)



Undrawn Available Facilities by Type (Total HK$19 billion)



In addition to the above summarised facilities, the Company established Cooperative Agreements with major PRC banks. Under such agreements, general credit limits have been 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 2006, total of around RMB66 billion credit limit under such arrangements remained available, of which RMB30 billion have been specifically allocated to Iron Ore Mining, Special Steel, Hainan property projects, and various other projects in the mainland.

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 2006
Minimum Consolidated Net Worth:		
Consolidated Net Worth	≥ HK$25 billion	HK$49 billion
Gearing:		
Consolidated Borrowing / Consolidated Net Worth	≤ 1.5	0.37
Negative Pledge:		
Pledged Assets / Consolidated Total Assets	≤ 30%	1%

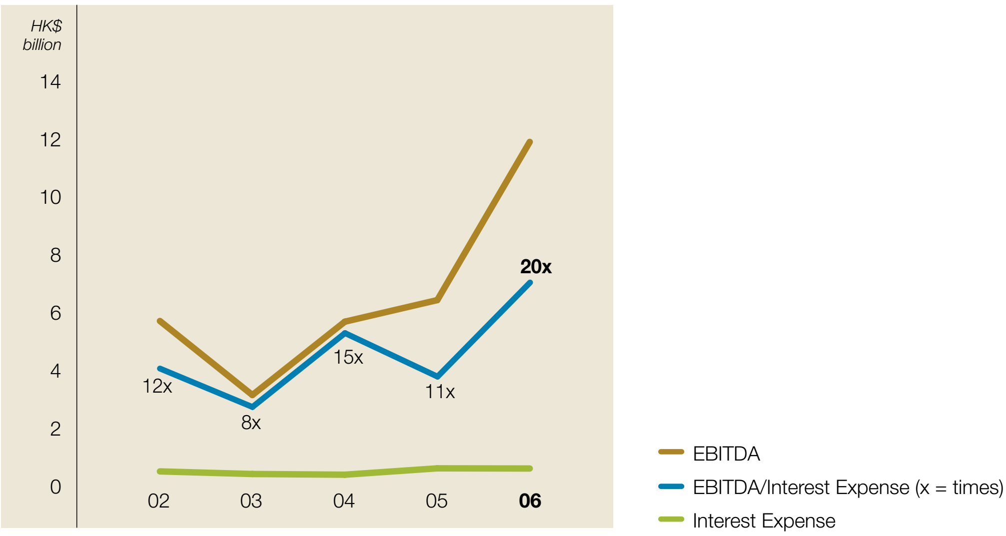
For the purpose of the above covenant limits, as defined in the relevant borrowing agreements:

'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 year ended 31 December 2006 was 20 compared to 11 in 2005, due to the 85% increase in EBITDA and a 1% decrease of interest expenses.



Credit Ratings

The current long term credit ratings of the Company are Ba1 by Moody's Investor Service and BB+ by Standard & Poor's. For both ratings, the credit outlook is stable. The Group's new investments, which focus mainly in the areas where CITIC Pacific has greatest expertise, are expected to contribute significantly in both profit and cash flow to the Group in the coming years. The credit profile of the Group will be improved 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 know 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)	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Shareholders' funds	39,827	41,426	37,580	40,650	40,781	41,742	37,848	36,921	39,103	**46,510**
per share (HK$)	18.72	19.47	17.67	18.51	18.62	19.07	17.29	16.84	17.83	**21.18**
Debt										
Debt	23,302	22,075	18,563	15,709	14,639	9,267	10,528	14,580	21,218	**18,293**
Bank deposits	710	900	8,044	5,201	4,631	2,545	5,511	2,417	2,579	**3,679**
Net debt / total capital	36%	34%	22%	21%	20%	14%	12%	25%	32%	**24%**
Interest cover (times)	6	4	4	5	6	12	8	15	11	**20**
Capital employed	63,129	63,501	56,143	56,359	55,420	51,009	48,376	51,501	60,321	**64,803**
Property, plant and equipment	4,642	5,085	5,157	6,530	7,782	5,601	5,696	7,344	10,063	**10,593**
Investment properties	3,534	5,299	5,374	5,531	5,357	8,493	7,923	8,115	8,645	**9,604**
Properties under development	1,225	227	240	246	460	586	679	1,672	1,849	**2,712**
Leasehold land	1,055	1,135	1,123	1,102	1,076	1,094	1,194	1,596	1,618	**1,712**
Jointly controlled entities	859	831	1,396	2,019	2,365	3,582	4,085	7,852	10,583	**15,051**
Associated companies	38,682	38,732	20,859	23,497	22,704	22,183	22,584	21,439	23,300	**16,506**
Other financial assets	11,170	11,548	14,511	9,264	8,070	7,092	1,027	1,121	929	**2,819**
Stockmarket capitalisation	65,520	35,530	62,230	60,720	37,993	31,514	43,332	48,444	47,038	**58,952**
Number of shareholders	8,642	14,987	13,506	9,808	11,044	12,260	12,198	11,554	11,262	**10,433**
Staff	11,800	11,871	10,490	11,354	11,733	11,643	12,174	15,915	19,174	**23,822**
For the year (HK$ million)										
Net profit after tax										
Net profit after tax	7,195	2,622	2,729	3,283	2,084	3,835	1,148	3,534	3,989	**8,272**
per share (HK$)	3.37	1.23	1.28	1.49	0.95	1.75	0.52	1.61	1.82	**3.77**
Contribution by major businesses										
Special Steel	2	18	22	29	95	126	178	438	808	**1,333**
Property	1,581	264	734	414	625	886	355	559	1,106	**2,035**
Aviation	702	(11)	659	1,475	324	1,263	421	1,398	1,058	**3,288**
Power Generation	170	230	440	314	281	245	229	439	368	**268**
Civil Infrastructure	1,099	1,382	1,292	1,320	1,362	1,238	635	329	413	**469**
Marketing & Distribution	360	330	230	226	119	227	264	284	232	**275**
Communications	322	65	51	92	277	521	230	133	(31)	**367**
Consumer Credit	84	167	–	–	–	–	–	–	–	**–**
Fair value change of investment properties	–	–	–	–	–	–	(587)	181	755	**1,077**
EBITDA	5,706	4,739	4,763	5,238	3,921	5,691	3,126	5,666	6,412	**11,882**
Dividends per share (HK$)										
Regular	0.70	0.70	0.75	0.85	0.80	1.00	1.00	1.10	1.10	**1.10**
Special	0.30	–	2.00	–	–	1.00	–	–	–	**0.6**
Cover (times)	2.7	1.8	1.7	1.8	1.2	1.8	0.5	1.5	1.7	**3.4**

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.

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 2006, 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 2006.

Board of Directors

The Board currently comprises eleven 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 in the 2006 Annual Report). 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 2006. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2006 is set out below:

Director	Attendance / Number of Meetings 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	4/4		
Mr Leslie Chang Li Hsien	4/4		
Mr Vernon Francis Moore	4/4		
Mr Li Shilin	2/4		
Mr Liu Jifu	4/4		
Mr Chau Chi Yin (appointed on 1st April 2006)	3/3		
Mr Milton Law Ming To (appointed on 1st April 2006)	3/3		
Mr Wang Ande (appointed on 1st April 2006)	3/3		
Mr Norman Yuen Kee Tong (resigned on 8th January 2007)	4/4		
Mr Yao Jinrong (resigned on 1st April 2006)	0/1		
Independent Non-executive Director			
Mr Hamilton Ho Hau Hay	3/4		
Mr Alexander Reid Hamilton (Chairman of the Audit Committee)	3/4	4/4	2/2
Mr Hansen Loh Chung Hon	4/4	4/4	
Mr Norman Ho Hau Chong (Chairman of the Remuneration Committee)	4/4		2/2
Non-executive Director			
Mr Willie Chang	4/4	3/4	2/2
Mr André Desmarais (Two of the meetings were attended by the alternate of Mr André Desmarais)	4/4		
Mr Chang Zhenming (appointed on 21st August 2006)	0/1		

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 principle 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 2006, 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

Two meetings were held in 2006. All Committee members are non-executive directors and a majority including the Chairman are independent.

The fee for each individual director sitting on the Board is HK$150,000 per annum. The additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK$100,000 per annum and HK$50,000 per annum respectively.

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, appointment of Mr Chau Chi Yin, Mr Milton Law Ming To and Mr Wang Ande as new directors was put to the full Board for approval. They were re-elected by shareholders at the first annual general meeting after their appointment. Mr Chang Zhenming is a director appointed by the Board on 21st August 2006 and will be subject to re-election at the forthcoming annual general meeting.

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$9 million (2005: HK$8 million), in addition approximately HK$3 million (2005: HK$1 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$9 million (2005: HK$8 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 2006, 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 2006.

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 2006, 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 2006, 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 published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange and the Company.

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 2006, CITIC Pacific's management met over 230 investors and investment analysts in our office, as well as during conferences and roadshows in the U.S., Europe, China, Japan and Singapore. 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 eight 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 2006.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Statement on the Summary Financial Report on page 64.

Directors' Report

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2006.

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 27.

Dividends

The Directors declared an interim dividend of HK$0.30 per share and a special dividend of HK$0.30 per share in respect of the year ended 31 December 2006 which were paid on 15 September 2006. 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 and a special dividend of HK$0.30 per share in respect of the year ended 31 December 2006 payable on 18 May 2007 to shareholders on the Register of Members at the close of business on 16 May 2007.

Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in Note 5 to the summary financial statements.

Donations

Donations made by the Group during the year amounted to HK$11 million.

Fixed Assets

Movements of fixed assets are set out in the summary financial statements on pages 60 to 61.

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.

Directors

The Directors of the Company in office during the financial year ended 31 December 2006 were:

Mr Larry Yung Chi Kin
Mr Henry Fan Hung Ling
Mr Peter Lee Chung Hing
Mr Carl Yung Ming Jie
Mr Leslie Chang Li Hsien
Mr Norman Yuen Kee Tong
Mr Vernon Francis Moore
Mr Yao Jinrong, resigned on 1 April 2006
Mr Li Shilin
Mr Liu Jifu
Mr Chau Chi Yin, appointed on 1 April 2006
Mr Milton Law Ming To, appointed on 1 April 2006
Mr Wang Ande, appointed on 1 April 2006
Mr Willie Chang
Mr Hamilton Ho Hau Hay
Mr Alexander Reid Hamilton
Mr Hansen Loh Chung Hon
Mr Norman Ho Hau Chong
Mr André Desmarais
Mr Chang Zhenming, appointed on 21 August 2006
Mr Peter Kruyt (Alternate Director to Mr André Desmarais)

Mr Norman Yuen Kee Tong resigned as director with effect from 8 January, 2007.

In accordance with Article 95 of the New Articles of Association of the Company, Mr Chang Zhenming 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 Larry Yung Chi Kin, Peter Lee Chung Hing, Vernon Francis Moore, Liu Jifu, Willie Chang and Norman Ho Hau Chong 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, Vernon Francis Moore and Liu Jifu had indirect interests in the management agreement as they are directors of CITIC HK. A copy of the management agreement will be available for inspection at the Annual General Meeting of the Company to be held on 16 May 2007.

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.

Share Option Plan

The Company adopted the CITIC Pacific Share Incentive Plan 2000 ('the Plan') on 31 May 2000.

Since the adoption of the Plan, the Company has granted three 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

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 20 June 2006 was HK$22.50.

None of the share options granted under the Plan were cancelled or lapsed during the year up to 31 December 2006. A summary of the movements during the year ended 31 December 2006 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 1.1.06	granted during the year ended 31.12.06	exercised during the year ended 31.12.06	balance as at 31.12.06	percentage of issued share capital %
Larry Yung Chi Kin	28.5.02	18.2	2,000,000	–	–	2,000,000	
	1.11.04	19.9	2,000,000	–	–	2,000,000	
	5.12.05	20.5	100,000,000 *(Note 1)*	–	–	100,000,000	
	20.6.06	22.1	–	2,000,000	–	2,000,000	
						106,000,000	4.828
Henry Fan Hung Ling	20.6.06	22.1	–	1,600,000	1,600,000 *(Note 2)*	–	–
Peter Lee Chung Hing	28.5.02	18.2	1,000,000	–	–	1,000,000	
	1.11.04	19.9	1,000,000	–	–	1,000,000	
	20.6.06	22.1	–	1,200,000	–	1,200,000	
						3,200,000	0.146
Carl Yung Ming Jie	28.5.02	18.2	300,000	–	–	300,000	
	1.11.04	19.9	500,000	–	–	500,000	
	20.6.06	22.1	–	600,000	–	600,000	
						1,400,000	0.064
Leslie Chang Li Hsien	28.5.02	18.2	300,000	–	–	300,000	
	1.11.04	19.9	500,000	–	–	500,000	
	20.6.06	22.1	–	800,000	–	800,000	
						1,600,000	0.073
Norman Yuen Kee Tong	28.5.02	18.2	500,000	–	–	500,000	
	1.11.04	19.9	500,000	–	–	500,000	
	20.6.06	22.1	–	500,000	–	500,000	
						1,500,000	0.068
Vernon Francis Moore	28.5.02	18.2	1,000,000	–	–	1,000,000	
	1.11.04	19.9	1,000,000	–	–	1,000,000	
	20.6.06	22.1	–	700,000	–	700,000	
						2,700,000	0.123
Yao Jinrong	28.5.02	18.2	300,000	–	–	*(Note 3)*	*(Note 3)*
	1.11.04	19.9	500,000	–	–		
Li Shilin	28.5.02	18.2	300,000	–	–	300,000	0.014
Liu Jifu	28.5.02	18.2	300,000	–	300,000 *(Note 2)*	–	
	1.11.04	19.9	500,000	–	–	500,000	
	20.6.06	22.1	–	700,000	–	700,000	
						1,200,000	0.055

name of director	date of grant	exercise price HK$	number of share options: balance as at 1.1.06	granted during the year ended 31.12.06	exercised during the year ended 31.12.06	balance as at 31.12.06	percentage of issued share capital %
Chau Chi Yin	28.5.02	18.2	300,000 *(Note 4)*	–	–	300,000	
	1.11.04	19.9	500,000 *(Note 4)*	–	–	500,000	
	20.6.06	22.1	– *(Note 4)*	800,000	–	800,000	
						1,600,000	0.073
Milton Law Ming To	28.5.02	18.2	250,000 *(Note 4)*	–	–	250,000	
	1.11.04	19.9	500,000 *(Note 4)*	–	–	500,000	
	20.6.06	22.1	– *(Note 4)*	800,000	–	800,000	
						1,550,000	0.071
Wang Ande	1.11.04	19.9	200,000 *(Note 4)*	–	–	200,000	
	20.6.06	22.1	– *(Note 4)*	500,000	–	500,000	
						700,000	0.032

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$22.918.*
3. *The Director resigned as a director on 1 April 2006. During the period from 1 January 2006 to 1 April 2006, the Director has not exercised any of his share options and his holding has subsequently been included under Section C below.*
4. *Messrs Chau Chi Yin, Milton Law Ming To and Wang Ande were appointed as director of the Company on 1 April 2006. Thus, this is in respect of the balance as of 1 April 2006.*

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

date of grant	exercise price HK$	number of share options: balance as at 1.1.06	granted during the year ended 31.12.06	exercised during the year ended 31.12.06 *(Note 5)*	balance as at 31.12.06
28.5.02	18.2	1,550,000	–	750,000	800,000
1.11.04	19.9	3,070,000	–	651,000	2,419,000
20.6.06	22.1	–	5,730,000	–	5,730,000

Note:

5. *The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$25.55.*

C. Others

date of grant	exercise price HK$	number of share options: balance as at 1.1.06 *(Note 6)*	exercised during the year ended 31.12.06 *(Note 7)*	balance as at 31.12.06
28.5.02	18.2	600,000	510,000	90,000
1.11.04	19.9	700,000	500,000	200,000

Note:

6. These are in respect of options granted to former employees under continuous contracts, who had subsequently retired.

7. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$22.78.

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 2006 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in the Company

name of director	number of shares: personal interests unless otherwise stated	percentage to the issued share capital %
Larry Yung Chi Kin	400,381,000 *(Note 1)*	18.236
Henry Fan Hung Ling	48,000,000 *(Note 2)*	2.186
Peter Lee Chung Hing	500,000	0.023
Leslie Chang Li Hsien	30,000	0.001
Norman Yuen Kee Tong	33,000	0.002
Vernon Francis Moore	3,200,000 *(Note 3)*	0.146
Liu Jifu	340,000	0.015
Chau Chi Yin	236,000	0.011
Milton Law Ming To	3,000	0.0001
Wang Ande	50,000	0.002
Hansen Loh Chung Hon	1,550,000 *(Note 4)*	0.071
André Desmarais	5,075,000 *(Note 5)*	0.231
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.002

Note:

1. Corporate interest.

2. Corporate interest in respect of 3,000,000 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 5,000,000 shares and family interest in respect of 75,000 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 1.1.06	granted during the year ended 31.12.06	lapsed / cancelled / exercised during the year ended 31.12.06	balance as at 31.12.06	percentage of issued share capital %
Peter Lee Chung Hing	2.3.05	15,000	–	–	25,000	0.089
	4.4.06	–	10,000			
Leslie Chang Li Hsien	2.3.05	15,000	–	–	25,000	0.089
	4.4.06	–	10,000			
Vernon Francis Moore	2.3.05	15,000	–	–	25,000	0.089
	4.4.06	–	10,000			

Save as disclosed above, as at 31 December 2006, 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 2006, 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:

name	number of shares of the Company	percentage to the issued share capital %
CITIC Group	635,919,285	28.963
CITIC HK	635,919,285	28.963
Heedon Corporation	496,386,285	22.608
Honpville Corporation	310,988,221	14.164
Power Corporation of Canada	110,412,000	5.029
Gelco Enterprises Ltd.	110,412,000	5.029
Nordex Inc.	110,412,000	5.029
Paul G. Desmarais	110,412,000	5.029

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	2.099
Winton Corp.	30,718,000	1.399
Westminster Investment Inc.	101,960,000	4.644
Jetway Corp.	20,462,000	0.932
Cordia Corporation	32,258,064	1.469
Honpville Corporation	310,988,221	14.164
Hainsworth Limited	83,444,000	3.801
Southpoint Enterprises Inc.	10,000,000	0.455
Raymondford Company Limited	2,823,000	0.129

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.

Share Capital

During the year ended 31 December 2006, 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$)
June 2006	1,627,000	22.00	21.50	35,402,100

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 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 2006 and the Company has not redeemed any of its shares during the year ended 31 December 2006.

During the year, 4,311,000 shares were issued under the Share Option Plan as described above.

Auditors

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

By Order of the Board,
Larry Yung Chi Kin *Chairman*
Hong Kong, 15 March 2007

Consolidated Profit and Loss Account

for the year ended 31 December 2006

in HK$ million	**2006**	2005
Turnover	**47,049**	26,564
Cost of Sales	**(37,019)**	(21,226)
Distribution and Selling Expenses	**(995)**	(824)
Other Operating Expenses	**(2,845)**	(2,196)
Change in Fair Value of Investment Properties	**735**	520
Profit from Consolidated Activities	**6,925**	2,838
Share of Results of		
Jointly Controlled Entities	**1,033**	327
Associated Companies	**1,882**	1,984
Profit before Net Finance Charges and Taxation	**9,840**	5,149
Finance Charges	**(640)**	(560)
Finance Income	**159**	53
Net Finance Charges	**(481)**	(507)
Profit before Taxation	**9,359**	4,642
Taxation	**(644)**	(345)
Profit for the Year	**8,715**	4,297
Attributable to:		
Shareholders of the Company	**8,272**	3,989
Minority Interests	**443**	308
	8,715	4,297
Dividends	**(3,731)**	(2,412)
Earnings per Share for Profit attributable to Shareholders of the Company during the year (HK$)		
Basic	**3.77**	1.82
Diluted	**3.77**	1.82

Consolidated Balance Sheet

as at 31 December 2006

in HK$ million	note	2006	2005
Non-Current Assets			
Fixed Assets	4		
Property, plant and equipment		**10,593**	10,063
Investment properties		**9,604**	8,645
Properties under development		**2,712**	1,849
Leasehold land		**1,712**	1,618
		24,621	22,175
Jointly controlled entities		**15,051**	10,583
Associated companies		**16,506**	23,300
Other financial assets		**2,819**	929
Intangible assets		**2,986**	603
Deferred tax assets		**103**	158
Derivative financial instruments		**117**	168
		62,203	57,916
Current Assets			
Properties held for sale		**705**	1,055
Inventories		**3,920**	3,427
Debtors, accounts receivable, deposits and prepayments		**6,153**	5,691
Cash and bank deposits		**3,679**	2,579
		14,457	12,752
Current Liabilities			
Bank loans, other loans and overdrafts			
secured		**285**	183
unsecured		**1,404**	2,223
Creditors, accounts payable, deposits and accruals		**8,030**	6,628
Provision for taxation		**319**	199
		10,038	9,233
Net Current Assets		**4,419**	3,519
Total Assets Less Current Liabilities		**66,622**	61,435
Non-Current Liabilities			
Long term borrowings		**16,604**	18,812
Deferred tax liabilities		**1,954**	1,387
Derivative financial instruments		**55**	40
		18,613	20,239
Net Assets		**48,009**	41,196
EQUITY			
Share capital		**878**	877
Reserves	5	**43,217**	36,472
Proposed dividend		**2,415**	1,754
Equity attributable to Shareholders of the Company		**46,510**	39,103
Minority Interests		**1,499**	2,093
Total Equity		**48,009**	41,196

Larry Yung Chi Kin
Director

Henry Fan Hung Ling
Director

Notes to the Summary Financial Statements

1 General Information

These summary financial statements from page 56 to 63 are not the Group's statutory financial statements and they do not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report.

2 Significant Accounting Policies

Basis of Preparation

These summary financial statements have been prepared from the consolidated financial statements of the Group for the year ended 31 December 2006 ('the Accounts').

The Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2005 except for the adoption of certain new standards and amendments of Hong Kong Financial Reporting Standards issued and became effective during the year ended 31 December 2006.

The adoption of such 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 2006.

The Group has not early adopted the amendments, new standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants that are not yet effective for the year ended 31 December 2006, and is in the process of assessing their impact on future accounting periods.

3 Directors' Emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

in HK$ million name of director	fees	salaries, allowances and benefits in kind	discretionary bonuses	retirement benefits	share-based payment	**2006 total**	2005 total
Larry Yung Chi Kin#	0.15	3.21	40.00	0.01	7.84	**51.21**	28.96
Henry Fan Hung Ling#	0.15	3.00	34.00	0.01	6.27	**43.43**	24.94
Peter Lee Chung Hing#	0.15	1.69	27.00	0.08	4.70	**33.62**	18.91
Carl Yung Ming Jie#	0.15	0.84	5.00	0.04	2.35	**8.38**	2.53
Leslie Chang Li Hsien#	0.15	1.38	10.00	0.06	3.14	**14.73**	7.23
Vernon Francis Moore#	0.15	2.00	5.00	0.01	2.74	**9.90**	6.15
Li Shilin#	0.15	0.49	1.00	–	–	**1.64**	1.64
Liu Jifu#	0.15	0.55	7.00	0.07	2.74	**10.51**	5.65
Chau Chi Yin#	0.11	1.07	6.00	0.05	3.14	**10.37**	–
Milton Law Ming To#	0.11	0.98	6.00	0.05	3.14	**10.28**	–
Wang Ande#	0.11	0.40	3.00	–	1.96	**5.47**	–
Norman Yuen Kee Tong#	0.15	4.31	5.00	0.14	1.96	**11.56**	9.58
Yao Jinrong#	0.04	0.16	–	–	–	**0.20**	2.29
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
Chang Zhenming	0.06	–	1.00	–	–	**1.06**	0.43
	3.13	20.08	150.00	0.52	39.98	**213.71**	109.66

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, 10,200,000 share options were granted (2005: Nil) to directors of the Company under the CITIC Pacific Share Incentive Plan 2000.

Mr Yao Jinrong resigned during the year.

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

4 Fixed Assets

Group

In HK$ million	property, plant and equipment: self-used properties	vehicular tunnel	plant and machinery	others	sub-total	investment properties	properties under development	leasehold land	total
Cost or valuation									
At 1 January 2005	2,363	1,992	3,869	2,773	10,997	8,115	1,725	1,802	22,639
Exchange adjustments	16	–	83	18	117	(35)	18	13	113
Additions									
through acquisition of subsidiary companies	491	–	1,095	3	1,589	–	271	30	1,890
others	30	8	413	1,533	1,984	–	1,323	21	3,328
Capitalised leasehold land amortisation	–	–	–	–	–	–	27	–	27
Disposals									
through disposal of subsidiary companies	–	–	–	(31)	(31)	–	(520)	–	(551)
others	(10)	–	(42)	(210)	(262)	(3)	(56)	–	(321)
Change in fair value of investment properties	–	–	–	–	–	520	–	–	520
Transfer from / (to) other assets	–	–	–	–	–	6	(910)	–	(904)
Reclassification	276	–	(139)	(169)	(32)	42	(2)	(8)	–
At 31 December 2005	3,166	2,000	5,279	3,917	14,362	8,645	1,876	1,858	26,741
Accumulated depreciation, amortisation and impairment									
At 1 January 2005	519	714	1,004	1,416	3,653	–	53	206	3,912
Exchange adjustments	2	–	24	6	32	–	–	–	32
Charge for the year	69	94	347	264	774	–	27	34	835
Written back on disposals									
through disposal of subsidiary companies	–	–	–	(4)	(4)	–	–	–	(4)
others	(5)	–	(21)	(130)	(156)	–	–	–	(156)
Transfer to property held for sale	–	–	–	–	–	–	(53)	–	(53)
Reclassification	1	–	(1)	–	–	–	–	–	–
At 31 December 2005	586	808	1,353	1,552	4,299	–	27	240	4,566
Net book value									
At 31 December 2005	2,580	1,192	3,926	2,365	10,063	8,645	1,849	1,618	22,175
Represented by									
Cost	3,166	2,000	5,279	3,917	14,362	–	1,876	1,858	18,096
Valuation	–	–	–	–	–	8,645	–	–	8,645
	3,166	2,000	5,279	3,917	14,362	8,645	1,876	1,858	26,741

4 Fixed Assets *continued*

Group *continued*

In HK$ million	property, plant and equipment: self-used properties	vehicular tunnel	plant and machinery	others	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

5 Reserves

Group

in HK$ million	share premium	capital redemption reserve	goodwill	investment revaluation reserve	exchange fluctuation reserve	hedging reserve	general reserve	retained profits	total
At 1 January 2005	24,848	19	(2,494)	168	(325)	(152)	244	13,698	36,006
Share of reserves of associated companies	–	–	–	(67)	–	350	–	–	283
Share of reserves of jointly controlled entities	–	–	–	–	–	40	–	–	40
Exchange translation differences	–	–	–	–	158	–	–	–	158
Gain on cash flow hedge of financial instruments	–	–	–	–	–	163	–	–	163
Fair value loss on other financial assets	–	–	–	(17)	–	–	–	–	(17)
Transfer from profits	–	–	–	–	–	–	57	(57)	–
Issue of share pursuant to the Plan	16	–	–	–	–	–	–	–	16
Profit attributable to shareholders of the Company	–	–	–	–	–	–	–	3,989	3,989
Dividends	–	–	–	–	–	–	–	(2,412)	(2,412)
At 31 December 2005	24,864	19	(2,494)	84	(167)	401	301	15,218	38,226
Representing									
At 31 December 2005 after proposed final dividend									36,472
2005 Final dividend proposed									1,754
									38,226
Retained by									
Company and subsidiary companies	24,864	19	(2,494)	25	164	62	283	7,305	30,228
Jointly controlled entities	–	–	–	–	–	3	15	996	1,014
Associated companies	–	–	–	59	(331)	336	3	6,917	6,984
	24,864	19	(2,494)	84	(167)	401	301	15,218	38,226

5 Reserves *continued*

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 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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(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**

Independent Auditor's Statement on the Summary Financial Report

Independent auditor's statement on the summary financial report to the shareholders of CITIC Pacific Limited
(incorporated in Hong Kong with limited liability)

We have examined the summary financial report of CITIC Pacific Limited for the year ended 31 December 2006 on pages 1 to 63 and the front and back cover pages.

Respective Responsibilities of Directors and Auditors

Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the independent auditor's report thereon and the directors' report for the year ended 31 December 2006, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the independent auditor's report on the annual accounts for the year ended 31 December 2006 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 'The auditors' statement on the summary financial report' issued by the Hong Kong Institute of Certified Public Accountants.

Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the independent auditor's report thereon and the directors' report for the year ended 31 December 2006 and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion

Based on the foregoing, in our opinion the summary financial report on pages 1 to 63 and the front and back cover pages:

a) is consistent with the annual accounts and the independent auditor's report thereon and the directors' report of CITIC Pacific Limited for the year ended 31 December 2006 from which it is derived; and

b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of CITIC Pacific Limited for the year ended 31 December 2006 and have issued an independent auditor's report thereon dated 15 March 2007 which is unqualified or otherwise unmodified.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2007

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
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 Depository Receipts: CTPCY
CUSIP Reference No: 17304K102

Share Registrars

Shareholders should contact our Registrars, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on 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:	10 May 2007 to 16 May 2007
Annual General Meeting:	16 May 2007, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong
Final Dividend and Special Dividend payable:	18 May 2007

Shareholders may at any time choose to receive the Summary Financial Report or the Annual Report in printed form or to rely on their versions posted on the Company's website. They may also at any time choose to receive the Summary Financial Report or the Annual Report in place of the other. Shareholders may change their choice on these matters by writing to the Company's Share Registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

If Shareholders have already chosen to reply on the versions of the Summary Financial Report or the Annual Report posted on the Company's website and have difficulty in gaining access to those documents, they will, promptly upon request, be sent those documents in printed form free of charge. Please send the request to the Company's Share Registrars.