

Chairman's Letter to Shareholders

CITIC Pacific recorded a net profit of HK\$3,989 million for the year 2005, a 13% increase from 2004. Earnings per share were HK\$1.82. The board recommends maintaining the final dividend of HK\$0.80 per share providing shareholders a total of HK\$1.10 per share for 2005.

Many of our businesses achieved satisfactory results. Our special steel manufacturing business saw its profit contribution increase 84% compared with 2004. Property sales and rentals, as well as fair value gains on investment properties as the result of new accounting standards increased profit contribution from the property business by 151%. In addition, a toll increase on the Eastern Harbour Tunnel boosted the profit contribution from the civil infrastructure business. Challenged with high oil prices, both Cathay Pacific and Dragonair worked hard to develop new markets and as a result, achieved their best year in terms of passengers and cargo carried.

Special Steel Manufacturing

Our special steel business produced 3.6 million tonnes of steel in 2005, an increase of 9.7% over 2004 production. We also exported 366,300 tonnes, a 56% rise from the previous year. Given the strong demand for special steel products, both **Jiangyin Xingcheng Special Steel** and **Xin Yegang** operated near their full capacity.

Through acquisitions as well as capacity addition brought about by technological advancement, CITIC Pacific's special steel production capability has been expanding. The new production line Jiangyin Xingcheng Special Steel is building in cooperation with **Sumitomo Metals** is proceeding on schedule and is expected to be in full production in 2007.

Upon completion, this production line will have advanced world-class equipment and technology. Its products can substitute for higher grade special steel which is currently being imported. In early 2005, CITIC Pacific concluded its 95% acquisition of Xin Yegang. At the end of the year, the acquisition of Shenzhen Stock Exchange listed **Daye Special Steel** was completed, making the group's attributable interest in Daye aggregate to 56.6%. In addition, Daye Special Steel's share reform plan was approved by shareholders in January of 2006.

In November 2005, CITIC Pacific signed an agreement with the government of Hebei Province to acquire a stake in **Shijiazhuang Steel Mill**. After re-organization, CITIC Pacific's interest in this steel mill will be 65%. With a production capacity of 2 million tonnes, Shijiazhuang's products are mainly supplied to the auto component and oil industries. This acquisition is subject to approval by the relevant government authorities.

With Jiangyin Xingcheng Special Steel, Xin Yegang (including Daye Special Steel) and Shijiazhuang Steel Mill under one umbrella, CITIC Pacific will become one of the largest manufacturers of special steel in China covering more economically developed Eastern, Central and Northern regions. CITIC Pacific's leadership position is already established measured in not only production capacity and variety of products, but also market

coverage, among other criteria. Our main tasks going forward are to complete the integration of all three plants, further improve management, maximize synergies, and raise efficiency and product quality. To achieve the above objectives, we are forming CITIC Pacific Special Steel Holdings to carry out organizational, personnel and resource integrations.

Properties

For the past twenty years, with the rapid development of the Chinese economy, general standard of living has been rising. The strong market demand for high quality properties will continue in the foreseeable future. Therefore, CITIC Pacific has, in the past year, increased its investment in mainland China properties. Currently we have a developable land bank of nearly 1.6 million square metres, mostly in the Yangtze River Delta area centred around Shanghai. In addition, we recently signed an agreement with the Wanning Municipal government of **Hainan** Province, in which we will act as the prime developer, to jointly develop a large real estate project with a developable area of 16 square kilometres in the coastal city of Wanning. All these strategic investments are essential to the future development of CITIC Pacific. We not only took advantage of opportunities to acquire land, but also established a solid foundation and guaranteed resources for our property development in the years to come.

The first phase of the **New Westgate Garden**, our residential development project in Shanghai, will be completed in the second quarter of 2006. Over 70% of the units available for sale have been sold. The development has an excellent reputation in the market.

Occupancies at our investment properties **CITIC Square** and **Royal Pavilion** in Shanghai continue to be high with rentals increasing steadily.

The recently announced **Shanghai Pudong Lu Jiazui New Financial District Project** located in the centre of Shanghai is one of the most prominent large development projects in the City. With a total site area of 251,000 square metres, once completed, it will consist of premium office buildings, hotels

and residential buildings. In addition, in **Qingpu** District, situated in the major transportation node of Jiangsu and Zhejiang provinces and Shanghai, a low density residential and commercial project will be developed on a 442,000 square metres of land. Site work will commence soon.

In **Ningbo**, our commercial project is progressing well with completion targeted for 2008. In other cities in the Yangtze River Delta area such as **Yangzhou** we also have a large land bank for future development.

In 2005, the **Hong Kong** property market was active with rental income increasing for our investment properties. The **Discovery Bay** development project is progressing well with Phase 13 (Chianti) near completion. Public sale commenced in March and the response was good. In 2005, we sold two pieces of land in the New Territories. In the first quarter of 2006, we successfully sold our 50% holding in **Festival Walk**, as well as our **Tung Chau Street development**. These sales not only provided us with ample income, but also further strengthened the Group's financial position. These resources can be used to fund our investments in the maturing mainland China property market which has the potential for higher returns.

Aviation

In 2005 the profitability of the global airline industry was negatively affected by high oil prices which remain a concern. However, due to strong demand for travel, both **Cathay Pacific** and **Dragonair** registered a record number of passengers and tonnes of cargo carried in 2005. To satisfy growing demand, Cathay Pacific ordered 19 new planes for delivery from 2007 to 2010. Dragonair also announced plans to expand its cargo capacity. The excellent management teams of the two airlines and their focus on reducing unit costs has proven to be essential in maintaining the airlines' profitability in a difficult operating environment.

Power Generation

In 2005, limited new capacity, high coal prices and insufficient increases in tariffs were factors that

negatively affected the profit of our power business. However, we continue to make steady progress in building **Ligang Power Station Phase III** (2X600MW) and **Phase IV** (2x600MW) and **Zhengzhou Phase III** (2x200MW). These will be commissioned on schedule in 2006 and 2007 respectively. Upon their completion, CITIC Pacific's attributable generating capacity will reach 6,336MW and the performance of our power business will greatly improve.

Power generation is a very important part of CITIC Pacific's business as we have many years of experience and expertise in building, testing, operating and managing power stations. From a macro perspective, China's per capita consumption of electricity is still very low compared with other developed countries in the world. Therefore, with the continued development of the Chinese economy, demand for electricity will continue to rise. Even though in the short-term there have been uncertainties in the price of coal and the supply and demand of electricity, we are confident in the long-term prospect of the power generation business.

Communications

Amid intense competition, **CITIC Telecom 1616** and **Macau Telecom** achieved satisfactory results in 2005. We also strengthened the managements of our Internet games, e-commerce and other value added service businesses. These efforts are already showing results.

Marketing and Distribution

Dah Chong Hong and **Sims Trading** continue to make steady progress in their development. Motor vehicle sales in Hong Kong performed well in 2005. Although there is intense competition in the mainland motor vehicle market, the overall market continues to grow. This will provide Dah Chong Hong future opportunities for growth. In general trading, Sims performed particularly well and experienced increases in both its revenue and profit. Our Shiseido joint venture achieved excellent results with profit at its historical high, supported by the growing number of mainland tourists to Hong Kong.

Civil Infrastructure

Fuelled by the recovery of the Hong Kong economy, traffic at the **Western Harbour Tunnel** increased 5% compared with 2004. After the toll increase on the **Eastern Harbour Tunnel** in May, traffic initially dropped but is now rising steadily. Profit contribution from the civil infrastructure business rose 26% from 2004. It continues to provide CITIC Pacific with strong and steady cash flow.

Looking to the Future

The rapid rise of the Chinese economy has a positive impact on the economies of Hong Kong, Asia and the world. Looking at 2006, we believe that the overall investment and operating environment in Hong Kong and mainland China will remain positive. This will be beneficial to the development of our businesses and increase their profitability. Going forward, the focus of our businesses will continue to be on mainland China. At the same time, we will focus more on those core businesses that we control and actively manage to leverage off of our expertise. We will strive for excellence and endeavour to capture business opportunities to achieve higher returns for our investors.

On behalf of all the directors, I would like to express my heart felt thanks to everyone at CITIC Pacific for their hard work and to our investors, bankers and everyone else for their continuing support. I look forward to working with you all for a greater 2006. Let me take this opportunity to welcome Mr Leslie Chang on becoming an executive director of CITIC Pacific on 1 April 2005. Mr Chau Chi Yin, Mr Milton Law and Mr Wang Ande will become executive directors of our company effective April 1 of 2006. They will further strengthen our management team. Mr Chang Zhenming and Mr Yao Jinrong resigned as executive directors of the Group effective June 2005 and April 2006 respectively. I would like to thank them both for their significant contribution to our company.

Larry Yung Chi Kin

Chairman

Hong Kong, 22 March 2006