

Chairman's Letter to Shareholders

2008 Results Overview

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

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

Financially Sound

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

Core Businesses are Fundamentally Strong

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

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

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

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

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

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

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

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

Other Businesses

Our power business had a tough year. The significant increase in the price of coal was the main reason for the loss incurred. 2009 has seen coal prices come down, which is beneficial to power producers. However, utilisation hours of power plants will depend on China's overall economic development. We expect our power business to do better in 2009. Cathay Pacific's performance was affected by an unrealised mark to market loss on fuel hedging contracts as well as a general slowdown in demand in the second half of the year. 2009 will remain difficult

for the aviation industry. In the long-term, Cathay Pacific will continue to benefit from the synergies with Dragonair and a strong relationship with Air China. The Eastern and Western Tunnels in Hong Kong operated smoothly with increased profit and continuing cash flow. Our two listed companies CITIC 1616 and Dah Chong Hong, both performed well with increasing profits in a challenging year. These businesses provide steady cash flow to our company.

Looking to the Future

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

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

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

Larry Yung Chi Kin

Chairman

Hong Kong, 25 March 2009