



BUSINESS REVIEW

Special Steel

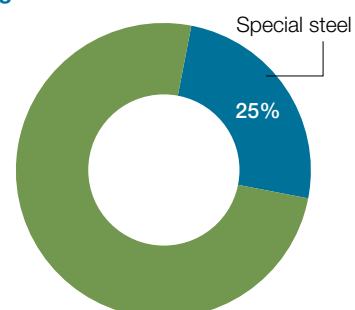


- 6.3 million tonnes of special steel produced in 2008
- High end products were 40% of total production in 2008
- A special steel plate line and two seamless steel tube lines are on track for completion in 2009
- New coking coal plant is on track to begin production in the second half of 2009
- Emission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

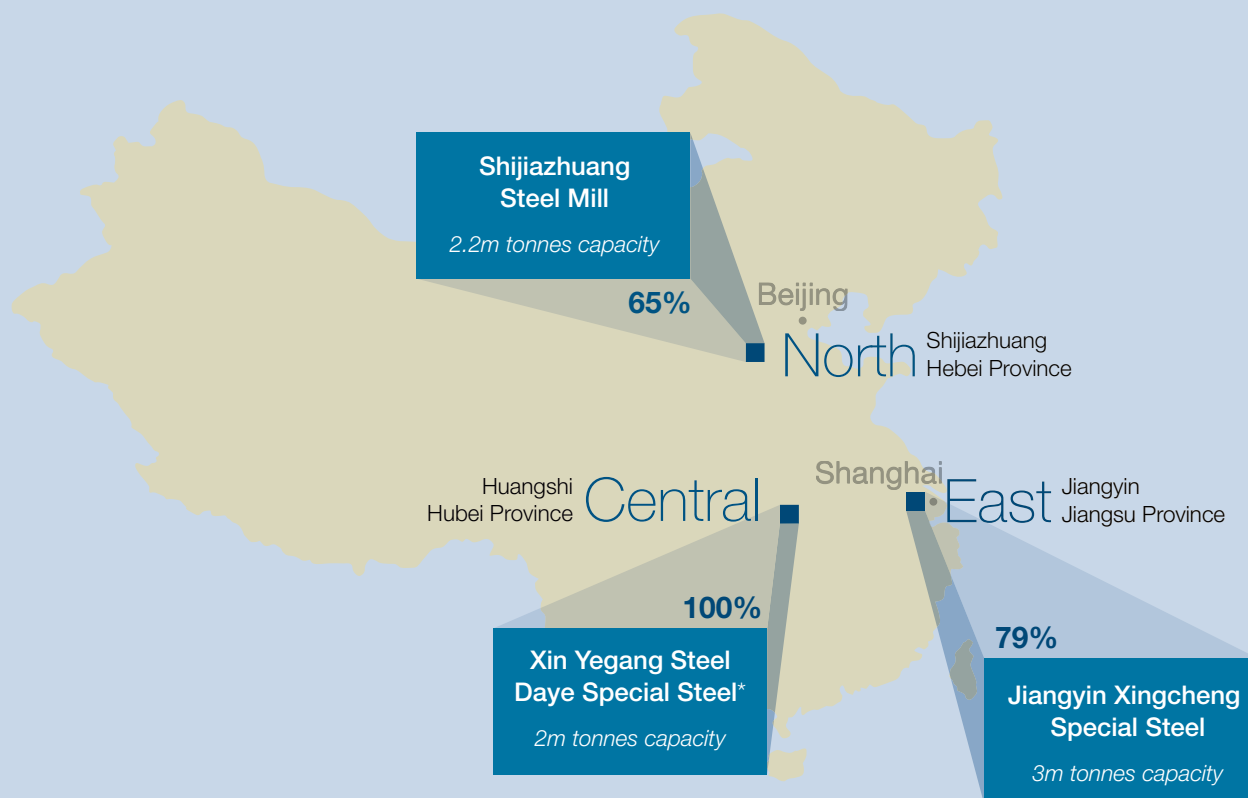


HK\$ million	2008	2007	Change
Turnover	22,758	18,501	23%
Profit contribution	1,617	2,242	(28)%
Segment assets	28,848	21,489	34%
Segment liabilities	5,751	5,381	7%
Cash contribution to CITIC Pacific	194	2,196	(91)%
Capital expenditure	8,381	1,442	481%

Segment assets



CITIC Pacific Special Steel



* CITIC Pacific owns 58% of Daye Special Steel

Overview

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

2008 Operating Performance

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

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

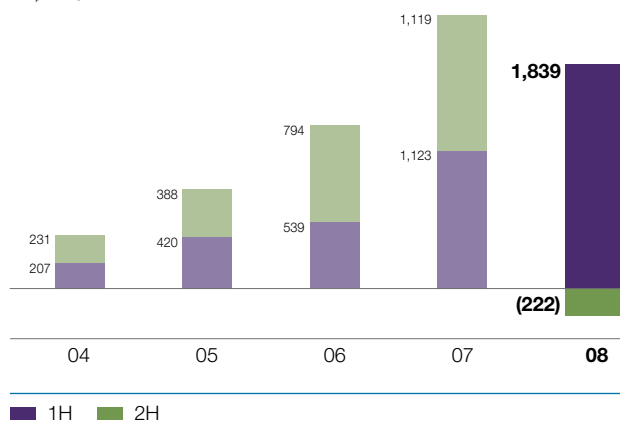
The profit contribution from CITIC Pacific Special Steel declined 28% compared with 2007, primarily due to the challenging operating environment in the latter part of 2008. During this period, all three plants experienced a sharp decline in product price, but were using raw materials purchased earlier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

Special Steel Production

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

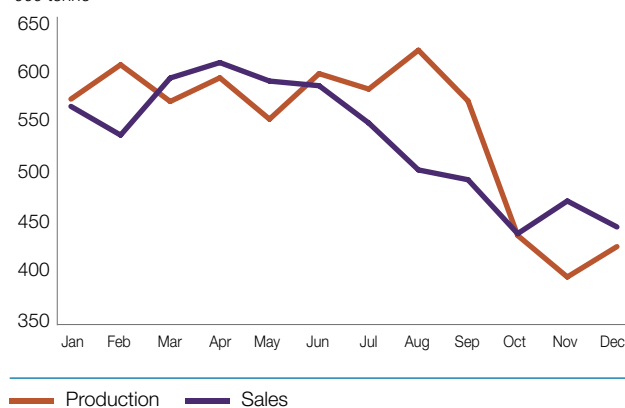
Profit contribution

HK\$ million

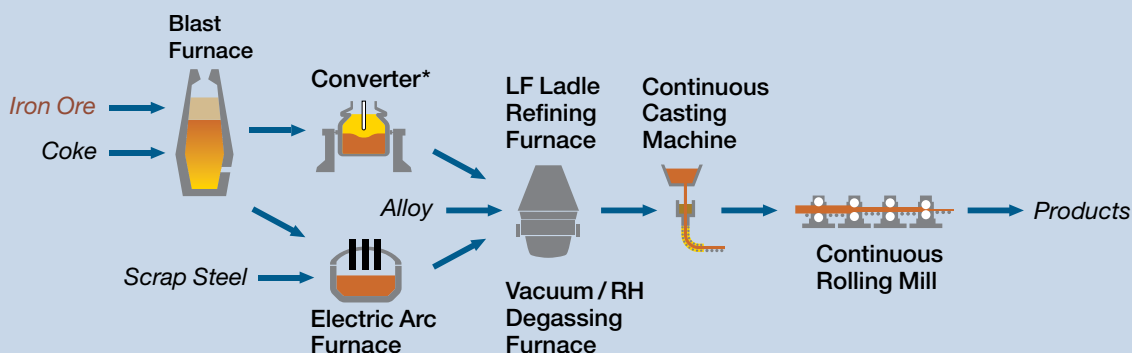


2008 monthly production and sales volume

'000 tonne



Special steel manufacturing process



* Xin Yegang does not use a converter

Products

Special steel refers to steel that has added or extra benefits, such as heat resistance, anti corrosion and anti fatigue. Categorised by shape, special steel includes bar steel, plate, strip steel, tube steel and wire steel.

Approximately 90% of CITIC Pacific Special Steel's products are bar steel, manufactured to order based on customers' specific requirements. These bars are sold to manufacturers who use this steel to make products such as gears, bearings and springs. Around 6%, or 400,000 tonnes of total annual production, was for seamless steel tubes which are used in the oil and petrochemical industry as well as for machinery manufacturing.

Key products of CITIC Pacific Special Steel

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

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



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

Customers

The Group's products are sold to these industries

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



Top five customers in China

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

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

Sales and Marketing of Products

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

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

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

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

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

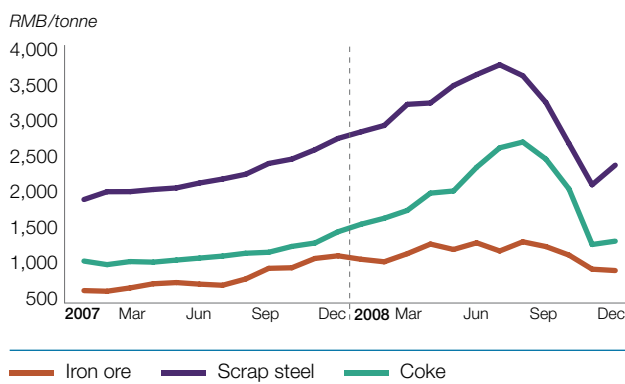
Raw Materials Required

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

Major raw materials used

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

Price of major raw materials



Source of iron ore

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

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

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

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



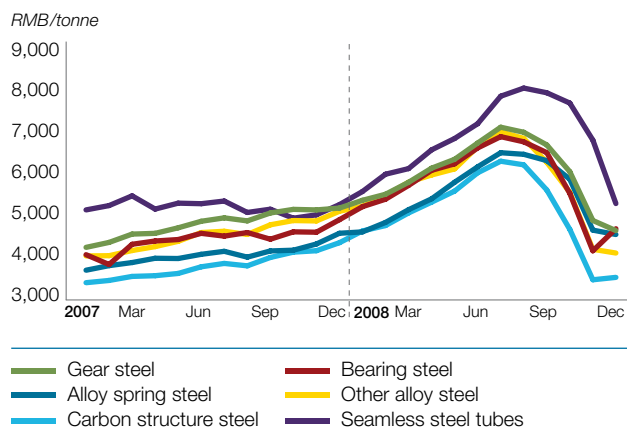
With the goal of lowering the overall cost of the delivered iron ore, we ordered a total of 12 bulk carriers with 115,000 deadweight tonnage (DWT) each. The first of these will be delivered in 2010. These ships are specially made to travel up the Yangtze River to arrive directly at Jiangyin Xingcheng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

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

Product Pricing

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

Price of major products



Protecting the Environment

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

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



Major pollutants	Measures	Results
Industrial fumes, and dust	Cloth filter de-dusting and electric de-dusting	All national environment protection requirements met
Sewage water	Cooling water recycling; small quantity treated in sewage treating station before discharging	
Waste residual	Recovered and recycled	
Noise	Sound proof coverage used for all large noise generating equipments; factory not close to residential areas	
SO ₂	Treated with wet desulphurizing device	



Outlook for 2009 and Beyond

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

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

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

Plans for the Future

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

Product Development, Marketing and Sales

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



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

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

Synergies Among Plants

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

Expansion Plans

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

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

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

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

Jiangyin Xingcheng Special Steel

www.jyxc.com

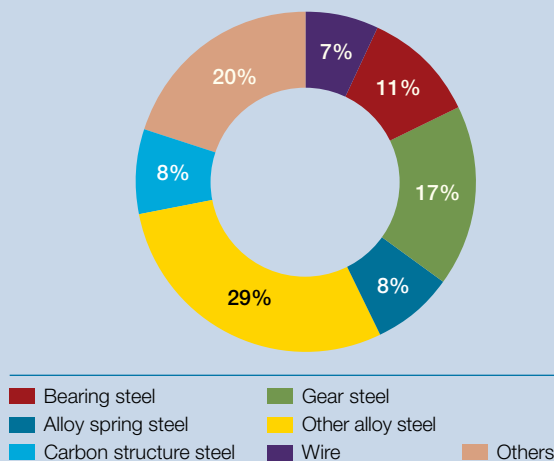
Located in Jiangsu Province in the eastern part of China, Jiangyin Xingcheng Special Steel is a leader in special steel manufacturing in China. Its annual production capacity of three million tonnes includes a production line built in partnership with Sumitomo Metals Kokura of Japan. Completed in 2007,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

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

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

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

Jiangyin Xingcheng's products



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

Xin Yegang Steel (Xin Yegang)

www.xinyegang.com

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

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

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

in transportation. In the future, the Group's mini-cape sized ships will transport the iron ore from various sources to ports on the Yangtze River, where it will be transshipped to Xin Yegang. As a result, transshipment costs should be reduced.

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

Shijiazhuang Steel Mill (Shigang)

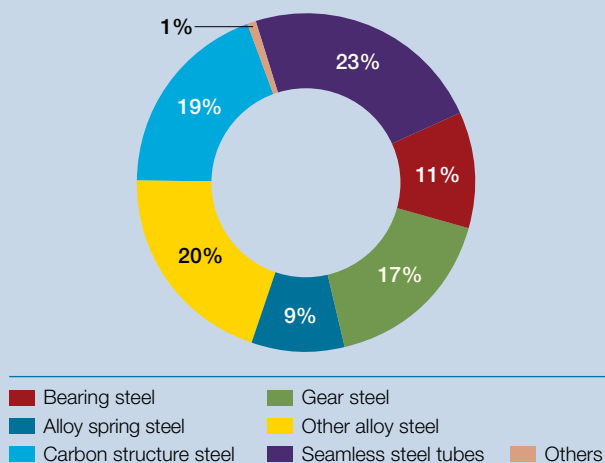
www.csngs.com

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

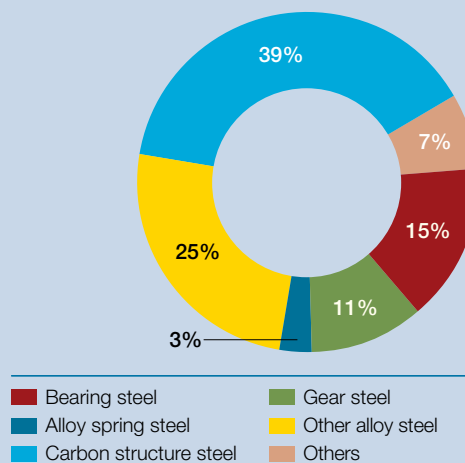
Its main products include bearing steel, gear steel and alloy steel, and are supplied mainly to the auto components and machinery manufacturing sectors.

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

Xin Yegang Steel's products



Shigang's products





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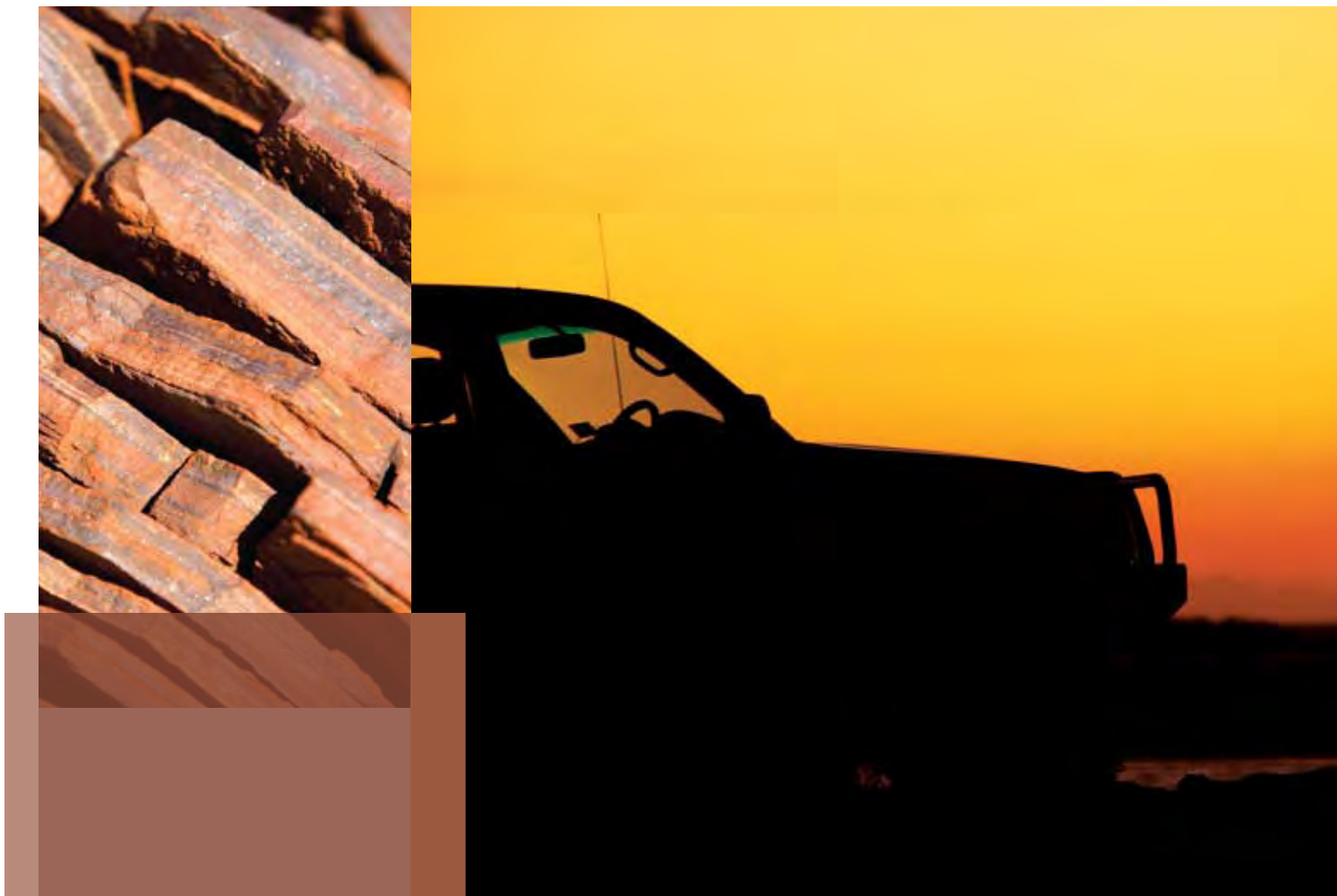
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BUSINESS REVIEW

Iron Ore Mining

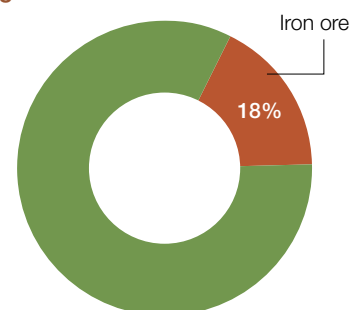


- Amendments to the State Agreement Act passed enabling the export of concentrate in addition to pellets
- Indigenous Land Use Agreements signed with three Native Title claimant groups
- Major gas supply arrangement secured
- Over 18 million tonnes of material moved
- More than 75% of capital expenditure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



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

Segment assets





Overview

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

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

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

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

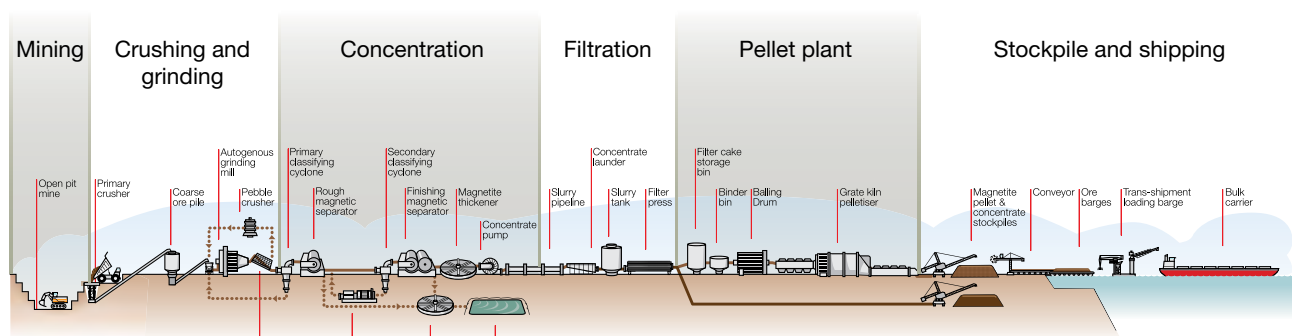


Once in operation, the Sino Iron project will mine more than 140 million tonnes of material each year, of which about 80 million tonnes will be processed, making it one of the world's largest mines. Dedicated infrastructure includes concentrate processing, pelletising, a 51 gigalitre desalination plant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

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

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

Sino Iron project – Magnetite mining and processing for export



Products

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

Mineral Resource Estimate

Total Joffre resource

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

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

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



2008 Project Progress

The Sino Iron project has achieved significant outcomes during 2008.

Approvals

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

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

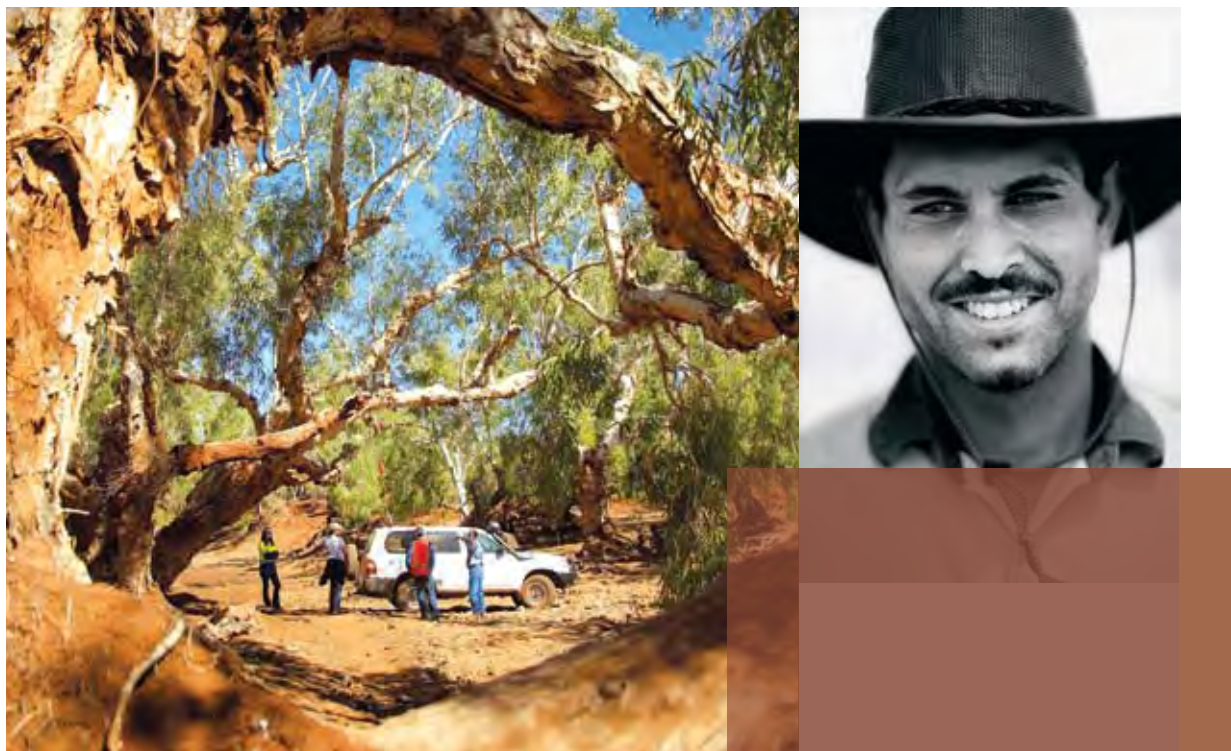
Gas Supply

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

Construction

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

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



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

Mine Development

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

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

People

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

Safety

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

Environment and Heritage

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

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

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



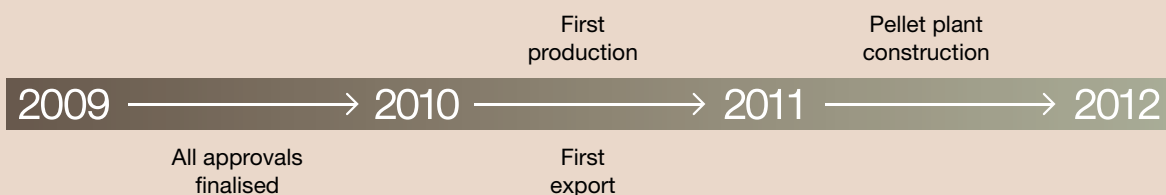
Greenhouse Gas Emissions

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

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

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

Mine development project timeline



Community

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

Project Commencement

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

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

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

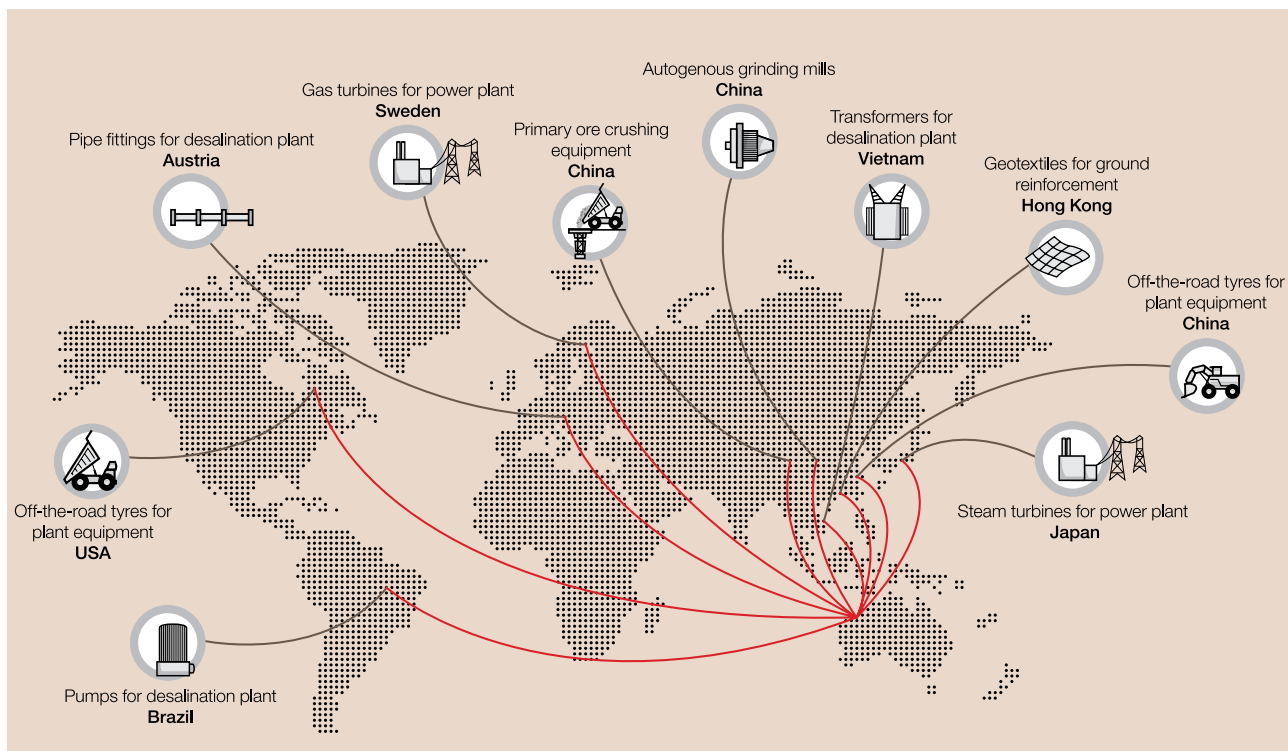
Looking Ahead

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

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

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

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



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

Project Activity in 2009

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

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

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



BUSINESS REVIEW

Property



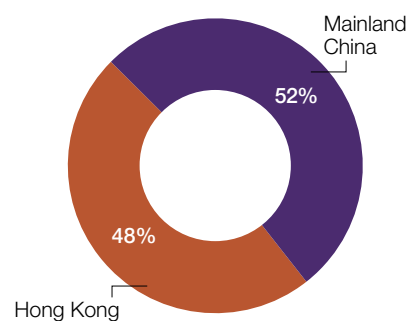
- Twin office towers of Shanghai's Lu Jia Zui New Financial District Project on schedule for completion in 2010
- CITIC Square in Ningbo is on track for completion in the latter half of 2009
- Construction of the infrastructure, two hotels and apartments at our Hainan project is progressing well
- Pre-sold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

Mainland China

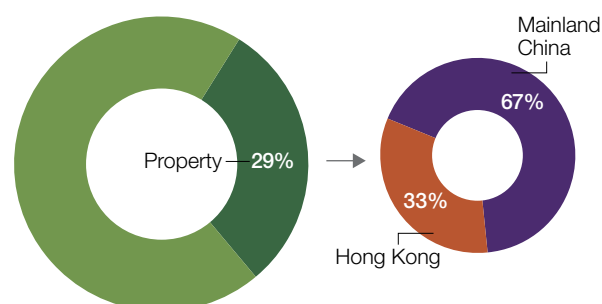


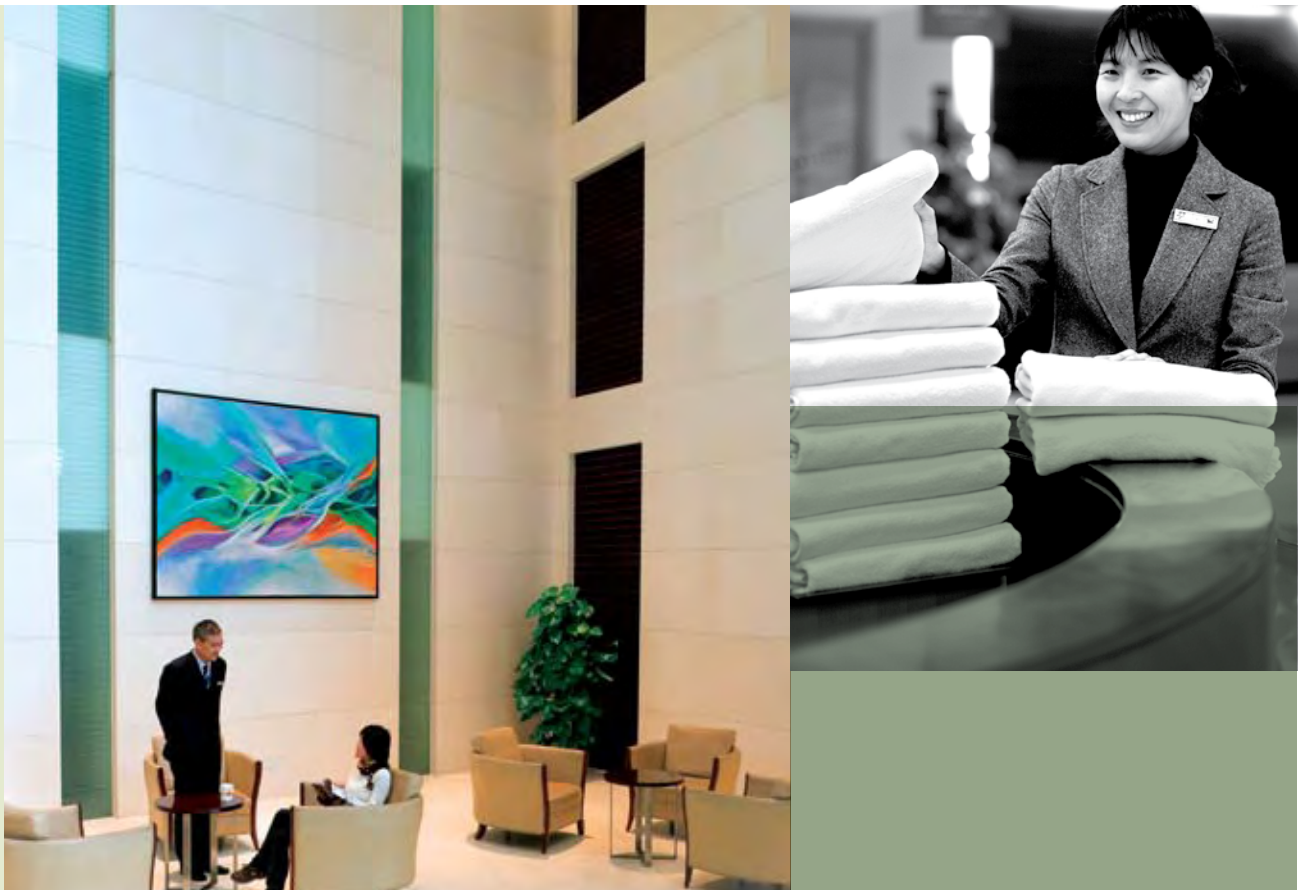
HK\$ million	2008	2007	Change
Turnover	787	1,321	(40)%
Profit contribution			
Mainland China	523	197	165%
Hong Kong and others	490	534	(8)%
Segment assets	33,632	28,078	20%
Segment liabilities	2,002	1,507	33%
Cash contribution to CITIC Pacific	2,017	2,201	(8)%
Capital expenditure	5,058	4,525	12%

Property profit contribution



Segment assets

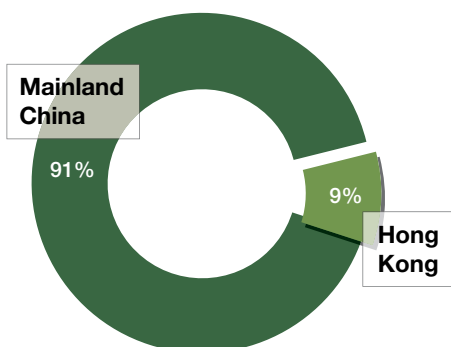




CITIC Pacific's Properties

Mainland China vs HK property

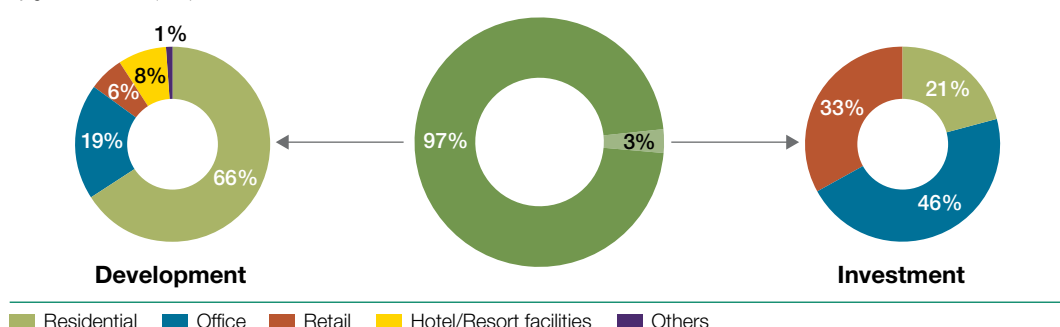
By gross floor area (GFA)



Mainland China

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

By gross floor area (GFA)



Total gross floor area: 5 million square metres

Development Properties

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

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

Shanghai

Lu Jia Zui New Financial District Project

50% owned

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



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

become a prominent landmark in the Lu Jia Zui Financial District along the Huangpu river banks.

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

Zhujiajiao New Town – Qingpu Residential Project

100% owned

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



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

This project will take full advantage of the cultural traditions and history of the area and is adjacent to two scenic lakes, Dadian and Dianshan. It will create a unique living environment and become part of the core district of Zhujiajiao. The design encompasses villas,

semi-detached houses, town houses, retail shops and a hotel. The hotel will be managed by a well known international hotel operator.

Sales Progress

Pre-sale of residential units was launched in phases beginning in September 2007. Of the 200 units (approx. 29,000 m² GFA) launched, 116 units (58%) have been sold as of February 2009 at an average price of approximately RMB 10,000/m².

Shanghai *continued***New Westgate Garden***100% owned***Phase I**

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

Phase II

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

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

Sichuan Beilu Station of Metro Line No. 10*90% owned*

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



CITIC Pacific and Shanghai Shentong Metro Assets Management Company Limited jointly acquired this site in Hongkou District in early 2007. It is situated above the Sichuan Beilu Metro Station of Metro Line No. 10 which is currently under

construction and expected to become operational in early 2010. The project comprises office buildings and retail outlets that will benefit from the pedestrian flow generated by the metro line and the overall geographical advantage offered by Hongkou.

No. 10, Hainan Road*100% owned*

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

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

Jiading New City Station of Metro Line No.11*100% owned*

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

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

Zhejiang Province

CITIC Square, Ningbo

99.3% owned

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



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

Jiangsu Province

Binhu District Residential Project, Wuxi

70% owned

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

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

Noble Manor, Yangzhou

100% owned

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



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

Sales Progress

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

Jiangsu Province *continued*

Jiangyin Residential Project, Jiangyin

56% owned

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

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



Sales Progress

Pre-sale of residential units was launched in December 2008. Of the 164 units (approx. 26,000 m² GFA) launched, 95 units (58%) have been sold as of February 2009 at an average price of approximately RMB 7,800/m².

Hainan Province

Shenzhou Peninsula Development, Wanning

80% – 99.9% owned

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

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



from Haikou and Sanya, both regional hubs with international scheduled flights.

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

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

Investment Properties

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

GFA = gross floor area

Shanghai

CITIC Square

100% owned

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



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

Royal Pavilion

100% owned

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

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

New Westgate Garden – Retail Portion

100% owned

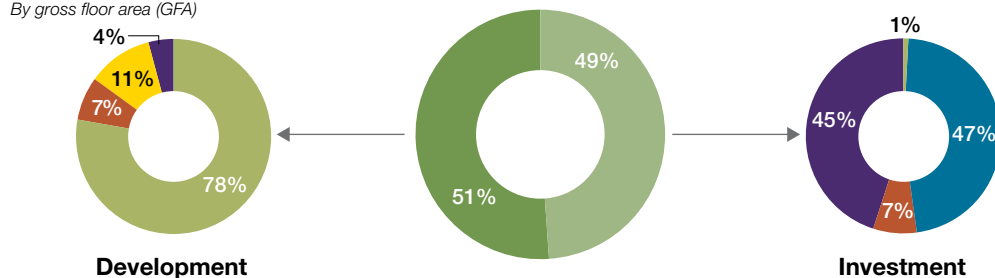
Site area: 32,900 square metres
 Gross floor area: 18,000 square metres
 Usage: Retail
 Completed: 2006

The retail property is fully let.

Hong Kong

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

By gross floor area (GFA)



Residential Office Retail Hotel Industrial

Total gross floor area: 478,000 square metres

Investment Properties

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

GFA = gross floor area





Development Properties

Discovery Bay

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

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

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

Power Generation

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

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

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

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



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

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

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

Operational statistics of CITIC Pacific's power plants

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

* Sold in 2008

Aviation

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

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

Cathay Pacific

www.cathaypacific.com

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

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



HACTL

www.hactl.com

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



Civil Infrastructure

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

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



Eastern Harbour Tunnel

www.easternharbourtunnel.com.hk

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



Western Harbour Tunnel

www.westernharbourtunnel.com

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

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

Listed Subsidiaries

Dah Chong Hong

www.dch.com.hk

56.7% equity held by CITIC Pacific

Stock code: 01828 (The Stock Exchange of Hong Kong)

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

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



CITIC 1616

www.citic1616.com

52.6% equity held by CITIC Pacific

Stock code: 01883 (The Stock Exchange of Hong Kong)

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



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