

Directors' Report

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is to hold the subsidiaries, associates and joint venture through which its business operations are carried out, employing staff and raising finance. Their major areas of operation are set out in the Business Review on pages 6 to 43.

Dividends

No final dividend was recommended for the year ended 31 December 2008. An interim dividend of HK\$0.30 per share was paid on 26 September 2008. This represents a total distribution for the year of HK\$658 million.

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\$17 million.

Fixed Assets

Movements of fixed assets are set out in the summary financial statements on pages 86 to 87.

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 JPY8.1 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.

Issue of Convertible Bond and New Shares

On 12 November 2008, the Company entered into an agreement ('the Agreement') with CITIC Group, the largest shareholder of the Company holding approximately 29% of the issued shares of the Company as at the date of the Agreement, in connection with, inter alia, the issue by the Company of the Convertible Bond to CITIC Group with an aggregate principal amount of HK\$11.625 billion convertible into the Shares at an initial conversion price of HK\$8.00 per share. An interest coupon of 2% per annum would be payable from the time of issue of the Convertible Bond up to but excluding the date the Convertible Bond was to be converted into shares of the Company.

The Agreement was approved by the shareholders of the Company on 19 December 2008. Completion took place on 24 December 2008 on which the Convertible Bond was issued and automatically fully converted into shares of the Company. An aggregate of 1,453,125,000 shares of the Company at the price of HK\$8.00 per share were allotted and issued on conversion to certain subsidiaries of CITIC Group which, as a result, became the controlling shareholder of the Company holding approximately 57.56% interest in the Company. The consideration for 1,453,125,000 shares of the Company (being HK\$11.625 billion) was paid as to HK\$2.47 billion in cash with the remaining amount being set off against the amount payable by the Company to CITIC Group in respect of the novation of certain AUD target redemption forward contracts entered into by the Group. The cash received was to be used as general working capital for the Group.

Directors

The Directors of the Company in office during the financial year ended 31 December 2008 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, resigned on 20 October 2008
 Mr Vernon Francis Moore
 Mr Li Shilin
 Mr Liu Jifu
 Mr Chau Chi Yin, resigned on 20 October 2008
 Mr Milton Law Ming To
 Mr Wang Ande
 Mr Kwok Man Leung, appointed on 1 April 2008
 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
 Mr Peter Kruyt (Alternate Director to Mr André Desmarais)

With effect from 1 April 2009, Mr Zhang Jijing and Mr Ju Weimin were appointed as Non-executive Directors of the Company.

In accordance with Article 95 of the New Articles of Association of the Company, Messrs Zhang Jijing and Ju Weimin will hold office only until the forthcoming Annual General Meeting and are 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, Milton Law Ming To, Wang Ande, Alexander Reid Hamilton and Hansen Loh Chung Hon 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 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.

(Note: subsequent to the approval of the directors' report, on 8 April 2009 Mr Larry Yung Chi Kin and Mr Henry Fan Hung Ling resigned from the Board; Mr Chang Zhenming was appointed as Chairman and Managing Director of the Company.)

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 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 25 May 2009.

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, any of its subsidiary companies, its holding company or any of its fellow 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.

Competing Interests

Mr Zhang Jijing is an executive director of CITIC Resources Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange. CITIC Resources Holdings Limited is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing and oil exploration, development and production. Further details of its nature, scope and size of its business as well as its management could be found in the latest annual report of CITIC Resources Holdings Limited. In the event that there are transactions between CITIC Resources Holdings Limited and CITIC Pacific Limited, Mr Zhang will abstain from voting. Save as disclosed above, Mr Zhang is not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

Share Option Plan Adopted by the Company

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 four lots of share options:

Date of grant	Number of Share Options	Exercise price HK\$
28 May 2002	11,550,000	18.20
1 November 2004	12,780,000	19.90
20 June 2006	15,930,000	22.10
16 October 2007	18,500,000	47.32

All options granted and accepted under the Plan can be exercised in whole or in part within 5 years from the date of grant. None of such options were cancelled, but options for 50,000 shares have lapsed during the year ended 31 December 2008. A summary of the movements of the share options during the year ended 31 December 2008 is as follows:

A. Directors of the Company

Name of Director	Date of grant	Exercise price HK\$	Number of Share Options			Percentage to issued share capital
			Balance as at 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08	
Larry Yung Chi Kin	05.12.05	20.50	100,000,000	–	–	0.055
					(Note 1)	
	16.10.07	47.32	2,000,000	–	2,000,000	
					2,000,000	
Peter Lee Chung Hing	01.11.04	19.90	1,000,000	–	1,000,000	0.093
	20.06.06	22.10	1,200,000	–	1,200,000	
	16.10.07	47.32	1,200,000	–	1,200,000	
					3,400,000	
Carl Yung Ming Jie	01.11.04	19.90	500,000	–	500,000	0.052
	20.06.06	22.10	600,000	–	600,000	
	16.10.07	47.32	800,000	–	800,000	
					1,900,000	
Vernon Francis Moore	01.11.04	19.90	1,000,000	–	1,000,000	0.063
	20.06.06	22.10	700,000	–	700,000	
	16.10.07	47.32	600,000	–	600,000	
					2,300,000	
Li Shilin	16.10.07	47.32	500,000	–	500,000	0.014
Liu Jifu	20.06.06	22.10	700,000	–	700,000	0.038
	16.10.07	47.32	700,000	–	700,000	
					1,400,000	
Milton Law Ming To	01.11.04	19.90	334,000	–	334,000	0.053
	20.06.06	22.10	800,000	–	800,000	
	16.10.07	47.32	800,000	–	800,000	
					1,934,000	
Wang Ande	20.06.06	22.10	500,000	150,000	350,000	0.032
				(Note 2)		
	16.10.07	47.32	800,000	–	800,000	
					1,150,000	
Kwok Man Leung	16.10.07	47.32	600,000	–	600,000	0.016
			(Note 3)			
Chang Zhenming	16.10.07	47.32	500,000	–	500,000	0.014
Leslie Chang Li Hsien	01.11.04	19.90	350,000	–	N/A	N/A
	20.06.06	22.10	800,000	–	(Note 4)	(Note 4)
	16.10.07	47.32	800,000	–		
Chau Chi Yin	01.11.04	19.90	500,000	–	N/A	N/A
	20.06.06	22.10	800,000	–	(Note 4)	(Note 4)
	16.10.07	47.32	800,000	–		

Note:

1. These share options were granted by CITIC HK, a substantial shareholder of the Company, and were waived.
2. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.4.
3. Mr Kwok Man Leung was appointed as director of the Company on 1 April 2008. Thus, this is in respect of the balance as of 1 April 2008.
4. The directors have resigned with effect from 20 October 2008.

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 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08
1 November 2004	19.90	1,030,000	–	1,030,000
20 June 2006	22.10	2,239,000	193,000 (Note 5)	2,046,000
16 October 2007	47.32	6,750,000	–	6,750,000

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\$36.62.

C. Others

Date of grant	Exercise price HK\$	Number of Share Options		
		Balance as at 01.01.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08
1 November 2004	19.90	1,050,000 (Note 6)	–	1,050,000
20 June 2006	22.10	1,600,000 (Note 6)	–	1,600,000
16 October 2007	47.32	1,650,000 (Notes 6 and 7)	–	1,600,000

Note:

6. These are in respect of options granted to former directors or employee under continuous contract, who have subsequently resigned or retired.

7. Out of 1,650,000 options, 50,000 options have lapsed during the year.

Share Option Plans Adopted by the Subsidiaries of the Company

CITIC 1616 Holdings Limited

CITIC 1616 Holdings Limited ('CITIC 1616') adopted a share option plan ('CITIC 1616 Share Option Plan') on 17 May 2007.

On 23 May 2007, options to subscribe for a total of 18,720,000 shares in CITIC 1616, representing approximately 1% of the issued share capital, at the exercise price of HK\$3.26 per share, were granted under the CITIC 1616 Share Option Plan. All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant. All were accepted, and none were exercised or cancelled but options for 3,555,000 shares have lapsed during the year ended 31 December 2008. No further options were granted during the year ended 31 December 2008. The grantees were certain directors or employees of CITIC 1616 working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of the Company.

Dah Chong Hong Holdings Limited

Pre-IPO Share Option Scheme

DCH Holdings adopted the Pre-IPO Share Option Scheme ('Pre-IPO Scheme') on 28 September 2007.

On 3 October 2007, options to subscribe for a total of 18,000,000 shares in DCH Holdings at the exercise price of HK\$5.88 per share were granted under the Pre-IPO Scheme.

All options granted and accepted fully vested on the date of grant but have a lock-up period of 6 months from the listing of DCH Holdings and are then exercisable in whole or in part within 5 years from the date of grant.

None of the options granted under the Pre-IPO Scheme were exercised or cancelled but options for 600,000 shares have lapsed during the year.

Post-IPO Share Option Scheme

DCH Holdings adopted the Post-IPO Share Option Scheme ('Post-IPO Scheme') on 28 September 2007. DCH Holdings has not granted any options under the Post-IPO Scheme.

Directors' Interests in Securities

The interests of the directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) as at 31 December 2008 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in the Company and Associated Corporations

	Number of shares Personal interests unless otherwise stated	Percentage to issued share capital
CITIC Pacific Limited		
Larry Yung Chi Kin	418,418,000 (Note 1)	11.475
Henry Fan Hung Ling	50,640,000 (Note 2)	1.389
Peter Lee Chung Hing	1,000,000	0.027
Carl Yung Ming Jie	300,000	0.008
Vernon Francis Moore	4,200,000 (Note 3)	0.115
Li Shilin	300,000	0.008
Liu Jifu	840,000	0.023
Wang Ande	400,000	0.011
Hansen Loh Chung Hon	1,550,000 (Note 4)	0.043
André Desmarais	10,145,000 (Note 5)	0.278
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.001
CITIC 1616 Holdings Limited		
Vernon Francis Moore	200,000 (Note 3)	0.010
Dah Chong Hong Holdings Limited		
Li Shilin	12,000	0.001
Liu Jifu	33,600 (Note 6)	0.002
Hansen Loh Chung Hon	62,000 (Note 7)	0.003
CITIC Guoan Information Industry Co., Ltd.		
Li Shilin	92,466	0.006

Note:

1. Corporate interest

2. Corporate interest in respect of 5,640,000 shares and trust interest in respect of 45,000,000 shares

3. Trust interest

4. Personal interest in respect of 1,050,000 shares; corporate interest in respect of 500,000 shares and family interest in respect of 500,000 shares which duplicate each other

5. Corporate interest in respect of 10,000,000 shares and family interest in respect of 145,000 shares

6. Family interest

7. Corporate interest in respect of 20,000 shares and joint interest in respect of 42,000 shares

2. Share Options in the Company

The interests of the directors in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of Share Option Plan.

3. Share Options in an associated corporation, CITIC Capital Holdings Limited

Name of Director	Date of grant	Number of share options			Balance as at 31.12.08	Percentage to issued share capital
		Balance as at 01.01.08	Granted during the year ended 31.12.08	Lapsed / cancelled / exercised during the year ended 31.12.08		
Peter Lee Chung Hing	02.03.05	15,000	–	–	15,000	0.125
	04.04.06	10,000	–	–	10,000	
	11.12.07	10,000	–	–	10,000	
					35,000	
Vernon Francis Moore	02.03.05	15,000	–	–	15,000	0.125
	04.04.06	10,000	–	–	10,000	
	11.12.07	10,000	–	–	10,000	
					35,000	
Chang Zhenming	11.12.07	125,000	–	–	125,000	0.446

Save as disclosed above, as at 31 December 2008, 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 were there any subsisting agreements enabling the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate, which at the relevant time, the Company, any of its subsidiary companies, its holding company or any of its fellow subsidiary companies was a party.

Substantial Shareholders

As at 31 December 2008, the interests of the substantial shareholders, other than the directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

1. Interest in the Shares

Name	Number of Shares of the Company	Percentage to issued share capital
CITIC Group	2,098,736,285	57.558
CITIC HK	747,486,203	20.500
Heedon Corporation	598,261,203	16.407
Full Chance Investments Limited	450,416,694	12.353
Newease Investments Limited	450,416,694	12.353
Skyprofit Holdings Limited	450,416,694	12.353
Honpville Corporation	310,988,221	8.529

CITIC Group is a substantial shareholder of the Company holding indirect interest in the Company through the following wholly owned subsidiary companies:

Name of subsidiary companies of CITIC Group	Number of Shares of the Company	Percentage to issued share capital
CITIC HK	747,486,203	20.500
Full Chance Investments Limited	450,416,694	12.353
Newease Investments Limited	450,416,694	12.353
Skyprofit Holdings Limited	450,416,694	12.353

CITIC HK is a substantial shareholder of the Company holding indirect interest in the Company through the following wholly owned subsidiary companies:

Name of subsidiary companies of CITIC HK	Number of Shares of the Company	Percentage to issued share capital
Affluence Limited	46,089,000	1.264
Winton Corp.	30,718,000	0.842
Westminster Investment Inc.	101,960,000	2.796
Jetway Corp.	122,336,918	3.355
Cordia Corporation	32,258,064	0.885
Honpville Corporation	310,988,221	8.529
Hainsworth Limited	93,136,000	2.554
Southpoint Enterprises Inc.	10,000,000	0.274
Raymondford Company Limited	2,823,000	0.077

CITIC Group is the holding company of CITIC HK, Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited. 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. 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,

- i) the interests of CITIC Group in the Company duplicate the interests of CITIC HK, Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited in the Company;
- ii) 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;
- iii) 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;
- iv) the interests of Kotron Company Ltd. in the Company duplicate the interests of Cordia Corporation in the Company;
- v) the interests of Affluence Limited in the Company duplicate the interests in the Company of its direct and indirect subsidiary companies as described above;
- vi) the interests of Man Yick Corporation in the Company duplicate the interests of Raymondford Company Limited in the Company; and
- vii) the interests of Barnsley Investments Limited in the Company duplicate the interests of Southpoint Enterprises Inc. in the Company.

Share Capital

During the year ended 31 December 2008, the Company made the following repurchases of its own shares on the Stock Exchange for purpose of enhancing its earnings per share:

Month / Year	Number of Shares repurchased	Price Per Share		Aggregate price paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January 2008	15,484,000	37.90	32.25	545,205,150
June 2008	2,837,000	30.40	28.50	83,689,450
September 2008	1,000,000	25.55	24.90	25,236,050

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\$7.7 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 2008 and the Company has not redeemed any of its shares during the year ended 31 December 2008.

During the year ended 31 December 2008, 1,453,125,000 shares were issued upon conversion of the Convertible Bond and 343,000 shares were issued under the Share Option Plan, both of which have been described in the sections 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, 25 March 2009