



CITIC PACIFIC

CITIC Pacific Limited **中信泰富有限公司**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

CHAIRMAN'S LETTER TO SHAREHOLDERS

I am pleased to report that our group recorded a net profit of HK\$10,843 million for the year 2007, surpassing the HK\$10 billion mark for the first time. This represents a growth of 31% from the historic high of HK\$8,272 million set in 2006. Earnings per share were HK\$4.91. The board has recommended paying a final dividend of HK\$0.80 per share. Including the regular (HK\$0.40) and special (HK\$0.20) dividend per share already paid at the interim, the total dividend per share for the year will be HK\$1.40.

In 2007, we continued to focus on developing our three core businesses – special steel manufacturing, iron ore mining and property development in mainland China - and increased our investments in them. We also continued to divest our non-core businesses. This included the listings of CITIC 1616 and Dah Chong Hong. By listing these companies as separate entities, we are further demonstrating our focus on our core businesses. In addition, this helped to further unlock the true value of our Group as a whole.

Now let me report on our businesses, which all performed well in 2007. Detailed descriptions of them can be found in the “Business Review” section of our annual report.

Special Steel

CITIC Pacific’s special steel business has expanded rapidly in recent years, and has become the main growth driver for our recurring earnings. Profit contribution from this business was HK\$2,242 million in 2007, an increase of 68% from 2006.

Jiangyin Xingcheng Special Steel’s new production line was completed and full production began in 2007. The equipment and technology employed by this line are the most advanced of their type in not just China, but globally. Its products are of high quality and will be highly competitive. Profitability is expected to rise as a result.

Xin Yegang and Daye Special Steel continued their solid performance and increased profits. A newly constructed 900,000 tonne coking plant was completed in 2007 and is already profitable. A production line for the manufacturing of steel tubes with a diameter of 460mm is being constructed and is progressing well. Once completed, it will become a new contributor to Xin Yegang’s profit growth.

Since becoming a member of CITIC Pacific in the second half of 2006, Shijiazhuang Steel has been integrated into our special steel operation. In 2007, its productivity improved and profit grew significantly. Located in Northern China, Shijiazhuang Steel will cooperate with and complement Jiangyin Xingcheng Special Steel in Eastern China and Xin Yegang/Daye Special Steel in Central China. Together they form an “iron triangle,” ideally located to cover the primary special steel markets in the major industrial regions of China.

CITIC Pacific Special Steel, through its three production bases, will continue to increase investment, improve its product mix, and expand its production capacity to further solidify its leading position in the production of special steel in China and globally.

We recently acquired a 30% interest in a coal mine located in Shandong Province. Once built, the mine will be capable of producing up to six million tonnes per annum of high quality coal for use in the production of coking coal. Surging demand in recent years for iron ore and coke, which are key raw materials needed in the steel manufacturing process, resulted in a tight supply and a significant increase in their prices. To ensure the supply of these important raw materials, we invested in iron ore mining, coking coal mining and coke production facilities. After the completion of our iron ore mine in Australia in the next two years, we will have a secure supply of iron ore and coke for our steel business. As such, our overall competitive advantage will be further enhanced. These investments are strategically important to the expansion of our special steel business.

Iron Ore Mining

Progress is being made at our iron ore mine in the Pilbara region of Western Australia. We obtained the right to mine an additional one billion tonnes of ore after the reserve was proven, increasing our total mining rights to two billion tonnes. This large scale magnetite ore project has world class technologies and is capable of producing 27.6 million tonnes of products per annum. Production is expected to begin in 2009 - 2010.

Our mine, upon completion, will provide a long-term stable supply of iron ore to our steel plants and to other steel manufacturers in China. CITIC Pacific also holds options to purchase the mining rights up to an additional four billion tonnes.

To transport the ore, we purchased twelve 115,000 bulk carriers. These ships are specially designed with wide bodies, and can travel from Australia to the Yangtze River and dock at our own port in Jiangyin Xingcheng Special Steel without the need to transship. This will lower transportation costs and improve efficiency. We are also studying the possibility of building an ore piling facility in the Yangtze River area to establish an iron ore logistics system.

Property Development

Property development in mainland China is one of our core businesses. The Chinese government recently implemented measures to prevent the overheating of the property market and sharp increases in property prices. We believe that in the long-term, with the continuing development of the Chinese economy, market demand for quality properties will remain strong. We have confidence in the long-term prospects of the property market in mainland China and we will continue to seek opportunities to increase our land bank.

Phase One (260,000 square metres) of our Shanghai Lu Jia Zui New Financial District Project includes two landmark office towers each with a gross floor area of 100,000 square metres, a top quality hotel and serviced apartments. All buildings will be on top of a large retail podium. The project will also include underground vehicular access, a large car park and other related facilities. Completion of Phase One is targeted for 2010. Preparation for Phase Two and Three are ongoing. Demand for Grade A offices and commercial properties in Shanghai remain strong. This project has attracted the attention of large institutions in China and internationally, and many of them have expressed keen interests in buying or leasing the buildings.

Our large residential and commercial development in the Qingpu District in Shanghai is progressing well. Units with a gross floor area of about 10,000 square metres were launched for pre-sale at the end of 2007 and all units were quickly sold. Located at the junction of Jiangsu Province, Zhejiang Province and Shanghai, Qingpu enjoys convenient transportation and a nice living environment and good potential for value appreciation. The project also includes a five-star hotel which will be managed by a well-known international hotel group.

Progress is also being made at our residential development project in the city center of Yangzhou in Jiangsu Province. Pre-sale of 265 units in Phase One began in the fourth quarter of 2007. As a result of the positive response from the market, most of these units were sold.

In our New Westgate Garden Phase One residential development, with the exception of a few units, most have been sold.

Our large integrated development project in Wanning City in Hainan Province is going well. Phase One will include four hotels and auxiliary facilities. These hotels will be managed by internationally renowned hotel groups. Construction of the hotels has begun. Work has also commenced on a world class golf course, a club house and other related facilities. Our goal is to develop the project into a large integrated community that is suitable for both tourists and residents. As living standards rise, we believe that demand will surely increase for high quality properties that provide an excellent environment and unique design. Our Hainan Island project has tremendous potential and will meet this demand.

Our investment properties in Shanghai and Hong Kong remain well let and have recorded good growth in rental income.

Units in Phase 13 (Chianti) of our Discovery Bay development in Hong Kong are mostly sold. Foundation work for Phase 14 has been completed and superstructure work will begin soon.

Other Businesses

Our aviation, power generation and cross harbour tunnel businesses all performed well in 2007. Benefiting from an increase in passengers, Cathay Pacific's profit for the full year rose a significant 72% to reach HK\$7,023 million, which is a historic high. Phase IV (2x600MW) at our Ligang Power Station began commercial operation recently. Together with other units that are in operation, Ligang is now one of the largest coal-fired power plants in China with a total installed capacity of 3,800MW. The Eastern and Western Harbour Tunnels in Hong Kong operated smoothly and total tunnel profits as well as cash flow increased compared with last year.

CITIC 1616 and Dah Chong Hong performed well in 2007 and had good profit growth. Following their listings, the ability of both companies to raise capital was enhanced with the establishment of their own capital markets platforms. This should be beneficial to the long-term development of these two companies.

Looking to the Future

After years of hard work, our three core businesses – special steel manufacturing, iron ore mining and property development in mainland China are becoming more mature. Our market leading position in special steel will continue to improve, and we expect this business to remain a major contributor to our group’s recurring earnings in the next two years. Once our iron ore mine in Australia is completed, it will become a new source of earnings growth for us. We are confident that our property projects in the Yangtze River Delta area centered around Shanghai and our land bank in Hainan Island are of high quality and have excellent growth potential. Even though the recent sub-prime problems have resulted in uncertainties in other markets, we believe that the Chinese economy will maintain its growth momentum for the foreseeable future. We will be able to capture opportunities and leverage our expertise to expand and develop our core businesses to achieve higher returns for our shareholders.

On behalf of all the directors, I would like to express my sincere thanks to everyone at CITIC Pacific for their hard work and contribution, and to our investors, bankers and everyone else for their continuing support.

Larry Yung Chi Kin
Chairman

Hong Kong, 17 March 2008

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 HK\$million	2006 HK\$million
Turnover	2	44,933	47,049
Cost of sales		(32,409)	(37,019)
Distribution and selling expenses		(1,025)	(995)
Other operating expenses		(3,733)	(2,845)
Change in fair value of investment properties		1,002	735
		<u> </u>	<u> </u>
Profit from consolidated activities	3	8,768	6,925
Share of results of jointly controlled entities associated companies		1,344 2,257	1,033 1,882
		<u> </u>	<u> </u>
Profit before net finance charges and taxation		12,369	9,840
Finance charges		(258)	(640)
Finance income		226	159
		<u> </u>	<u> </u>
Net finance charges	4	(32)	(481)
		<u> </u>	<u> </u>
Profit before taxation		12,337	9,359
Taxation	5	(770)	(644)
		<u> </u>	<u> </u>
Profit for the year		11,567	8,715
		<u> </u>	<u> </u>
Attributable to:			
Shareholders of the Company		10,843	8,272
Minority interests		724	443
		<u> </u>	<u> </u>
		11,567	8,715
		<u> </u>	<u> </u>
Dividends	6	(3,097)	(3,731)
		<u> </u>	<u> </u>
Earnings per share for profit attributable to shareholders of the Company during the year	7		
Basic		HK\$4.91	HK\$3.77
		<u> </u>	<u> </u>
Diluted		HK\$4.90	HK\$3.77
		<u> </u>	<u> </u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 HK\$million	2006 HK\$million
Non-current assets			
Fixed Assets			
- Property, plant and equipment		13,158	10,593
- Investment properties		10,895	9,604
- Properties under development		4,288	2,712
- Leasehold land		1,641	1,712
		29,982	24,621
Jointly controlled entities		17,446	14,922
Associated companies		17,941	16,416
Other financial assets		7,502	2,819
Intangible assets		4,105	2,986
Deferred tax assets		100	103
Derivative financial instruments		150	117
Non-current deposits		5,723	-
		82,949	61,984
Current assets			
Properties held for sale		440	705
Assets held for sale		1,127	-
Inventories		5,982	3,920
Debtors, accounts receivable, deposits and prepayments	8	8,292	6,377
Cash and bank deposits		8,045	3,679
		23,886	14,681
Current liabilities			
Bank loans, other loans and overdrafts			
- secured		328	285
- unsecured		3,326	1,404
Creditors, accounts payable, deposits and accruals	8	10,727	8,035
Liabilities held for sale		2	-
Provision for taxation		590	319
		14,973	10,043
Net current assets		8,913	4,638
Total assets less current liabilities		91,862	66,622
Non-current liabilities			
Long term borrowings			
		25,000	16,604
Deferred tax liabilities		2,094	1,954
Derivative financial instruments		69	55
		27,163	18,613
Net assets		64,699	48,009
Equity			
Share capital			
		885	878
Reserves		57,138	43,217
Proposed dividend		1,770	2,415
		59,793	46,510
Equity attributable to shareholders of the Company		59,793	46,510
Minority interests		4,906	1,499
Total equity		64,699	48,009

NOTES TO THE ACCOUNTS

1 Significant accounting policies

The accounting policies used in preparation of the Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2006 except for the adoption of certain new standards and amendments of Hong Kong Financial Reporting Standards (“HKFRS”) issued and became effective during the year ended 31 December 2007, and among which the following have disclosure impacts in the accounts.

- HKFRS 7 ‘Financial Instrument : Disclosures’; and
- Amendment to HKAS 1 ‘Presentation of Financial Statements’ – Capital Disclosures

The adoption of these accounting standards or amendments does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the year ended 31 December 2007.

The Group has not early adopted the amendments, new standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants that are not yet effective for the year ended 31 December 2007, and is in the process of assessing their impact on future accounting periods.

2 Turnover and segment information

An analysis of the Group's turnover and profit from consolidated activities before net finance charges and share of results of jointly controlled entities and associated companies by principal activities are as follows:

Year ended 31 December 2007	Turnover HK\$ million	Profit from consolidated activities HK\$ million	Share of results of jointly controlled entities HK\$ million	Share of results of associated companies HK\$ million	Group total HK\$ million	Segment allocations HK\$ million	Segment profit HK\$ million
Special steel	18,501	2,418	426	-	2,844	-	2,844
Property	1,321	405	(16)	335	724	97	821
Infrastructure	1,221	265	673	1,553	2,491	-	2,491
Listed subsidiary companies :							
CITIC 1616	3,625	2,174	-	-	2,174	-	2,174
Dah Chong Hong	20,119	3,270	53	2	3,325	(97)	3,228
Others	146	(126)	208	(45)	37	-	37
Change in fair value of Investment properties	-	1,002	-	412	1,414	-	1,414
Less: General and administration expenses	-	(640)	-	-	(640)	-	(640)
	<u>44,933</u>	<u>8,768</u>	<u>1,344</u>	<u>2,257</u>	<u>12,369</u>	<u>-</u>	<u>12,369</u>
Net finance charges							(32)
Taxation							(770)
Profit for the year							<u>11,567</u>

2 Turnover and segment information

Year ended 31 December 2006	Turnover HK\$ million	Profit from consolidated activities HK\$ million	Share of results of jointly controlled entities HK\$ million	Share of results of associated companies HK\$ million	Group total HK\$ million	Segment allocations HK\$ million	Segment profit HK\$ million
Special steel	15,278	1,809	119	-	1,928	-	1,928
Property	8,320	1,942	-	276	2,218	84	2,302
Infrastructure	8,817	2,430	760	1,190	4,380	-	4,380
Listed subsidiary companies :							
CITIC 1616	1,364	234	-	-	234	-	234
Dah Chong Hong	13,222	437	35	(1)	471	(84)	387
Others	48	(93)	119	(22)	4	-	4
Change in fair value of Investment properties	-	735	-	439	1,174	-	1,174
Less: General and administration expenses	-	(569)	-	-	(569)	-	(569)
	<u>47,049</u>	<u>6,925</u>	<u>1,033</u>	<u>1,882</u>	<u>9,840</u>	<u>-</u>	<u>9,840</u>
Net finance charges							(481)
Taxation							(644)
Profit for the year							<u>8,715</u>

2 Turnover and segment information (Continued)

An analysis of the Group's turnover by geographical area is as follows:

	2007 HK\$million	2006 HK\$million
Hong Kong	15,126	23,106
Mainland China	27,592	22,278
Overseas	2,215	1,665
	<u>44,933</u>	<u>47,049</u>

3 Profit from consolidated activities

The profit from consolidated activities is arrived at after crediting and charging:

	2007 HK\$million	2006 HK\$million
<i>Crediting</i>		
Dividend income from other financial assets	86	9
Change in fair value of investment properties	1,002	735
Profit on disposal of subsidiary companies and associated companies	4,595	3,507
<i>Charging</i>		
Cost of inventories sold	29,029	23,458
Depreciation of property, plant and equipment	1,122	1,034
Amortisation of leasehold land	45	47
	<u> </u>	<u> </u>

4 Net finance charges

	2007 HK\$million	2006 HK\$million
<i>Finance charges</i>		
Interest expense	985	913
Exchange gain	(31)	(5)
Other finance charges	39	63
Amount capitalised	(680)	(323)
Fair value gains on financial instruments	(55)	(8)
	<u>258</u>	<u>640</u>
<i>Finance income</i>		
Interest income	(226)	(159)
	<u>32</u>	<u>481</u>

5 Taxation

Hong Kong profits tax has been calculated at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

	2007 HK\$million	2006 HK\$million
<i>Current income tax</i>		
Hong Kong profits tax	308	188
Overseas taxation	450	309
<i>Deferred taxation</i>		
Change in fair value of investment properties	173	123
Origination and reversal of other temporary difference	19	24
Effect on tax rate change	(180)	-
	<u>770</u>	<u>644</u>

6 Dividends

	2007 HK\$million	2006 HK\$million
2007 Interim dividend paid: HK\$0.40 (2006: HK\$0.30) per share	885	658
2007 Special dividend paid: HK\$0.20 (2006: HK\$0.30) per share	442	658
2007 Final dividend proposed: HK\$0.80 (2006: HK\$0.80) per share	1,770	1,756
2007 Special dividend proposed: Nil (2006: HK\$0.30) per share	-	659

7 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$10,843 million (2006: HK\$8,272 million).

The basic earnings per share is based on the weighted average number of 2,207,542,455 shares in issue during the year (2006: 2,193,921,689 shares in issue). The diluted earnings per share is based on 2,213,084,305 shares (2006: 2,198,341,170 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 5,541,850 shares (2006: 4,419,481 shares) deemed to be issued at no consideration if all outstanding options had been exercised.

8.1 Debtors, accounts receivable, deposits and prepayments

	2007 HK\$million	2006 HK\$million
Trade debtors		
- Within 1 year	3,008	2,150
- Over 1 year	42	24
	<hr/>	<hr/>
	3,050	2,174
Accounts receivable, deposits and prepayments	5,242	4,203
	<hr/>	<hr/>
	8,292	6,377
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (i) Trade debtors are net of provision and the ageing is classified based on invoice date.
- (ii) The Group has a defined credit policy for the respective business units.
- (iii) The carrying amounts of debtors, accounts receivables, deposits and prepayments approximates their fair value.
- (iv) Accounts receivable, deposits and prepayments include derivative financial assets of HK\$251 million (2006: HK\$14 million), amounts due from jointly controlled entities of HK\$138 million (2006: HK\$134 million), and amounts due from associated companies of HK\$90 million (2006: HK\$90 million).

8.2 Creditors, accounts payable, deposits and accruals

	2007 HK\$million	2006 HK\$million
Trade creditors		
- Within 1 year	4,055	2,553
- Over 1 year	329	314
	<hr/>	<hr/>
	4,384	2,867
Accounts payable, deposits and accruals	6,343	5,168
	<hr/>	<hr/>
	10,727	8,035
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (i) Accounts payable, deposits and accruals included derivative financial liabilities of HK\$66 million (2006: HK\$9 million).
- (ii) The carrying amounts of creditors, accounts payable, deposits and accruals approximates their fair value.

FINANCIAL REVIEW AND ANALYSIS

Group Debt and Liquidity

The financial position of the Group as at 31 December 2007, as compared to 31 December 2006, is summarised as follows:

<i>HK\$ million</i>	2007	2006
Total debt	28,654	18,293
Cash and bank deposits	8,045	3,679
Net debt	20,609	14,614

Leverage (Net debt to Total capital)	26%	24%
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The original denomination of the Group's borrowings as well as cash and deposit balances by currencies as at 31 December 2007 is summarised as follows:

<i>HK\$ million equivalent</i>	HK\$	Denomination				Total
		US\$	Renminbi	Yen	Other	
Total debt in original currency	8,575	14,016	4,833	1,107	123	28,654
Total debt after hedging	13,802	9,219	4,833	677	123	28,654
Cash and bank deposits	1,559	1,172	4,957	97	260	8,045
Net debt / (cash) after hedging	12,243	8,047	(124)	580	(137)	20,609

As at 31 December 2007, subsidiaries' assets of HK\$327 million (2006: HK\$696 million) were pledged to secure banking facilities, these arrangements mainly related to Dah Chong Hong's business overseas.

Maturity Profile of Outstanding Debt

The Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

<i>HK\$ million</i>	2008	2009	2010	2011	2012	2013 and Beyond	Total	Percentage
Parent Company	1,686 ¹	570	2,890	4,461 ²	2,150	9,668 ³	21,425	75%
Subsidiaries	1,968	1,957	1,934	1,009	352	9	7,229	25%
Total Maturing Debt	3,654	2,527	4,824	5,470	2,502	9,677	28,654	100%
Percentage	13%	9%	17%	19%	9%	33%	100%	
Available Committed Facilities	3,526	808	450	3,807	5,400	4,553	18,544	

1 Including a US\$216 million short term bridging loan for the Iron Ore Mining project due in 2008.

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

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

Available Sources of Financing

In addition to cash and deposits balance of HK\$8.0 billion as at 31 December 2007, the Group had undrawn available loan facilities totaling HK\$20.5 billion, of which HK\$16.0 billion was committed long term loans, HK\$2.5 billion was committed short term loan and HK\$2.0 billion was money market lines. Besides, trade facilities amounting to HK\$2.4 billion was available. Borrowings by sources of financing as at 31 December 2007 is summarised as follows:

<i>HK\$ million</i>	Total Facilities	Outstandings	Available Facilities
Committed Facilities			
Short Term Loan *	4,212	1,686	2,526
Term Loans	37,480	21,462	16,018
Global Bonds	3,510	3,510	0
Private Placement	430	430	0
Total Committed	45,632	27,088	18,544
Uncommitted Facilities			
Money Market Lines and Short Term Facilities	3,591	1,545	2,046
Trade Facilities	3,810	1,426	2,384

* This is a USD short term bridging loan to support the funding requirement of the Iron Ore Mining project.

In addition to the above summarised facilities, the Company established Cooperative Agreements with several major PRC banks. Under such agreements, general credit limits were granted to us to support the Group's funding requirements. Utilisation of these facilities will be subject to the banks' approval on a project-by-project basis in accordance with PRC banking regulations. As at 31 December 2007, total credit limit of around RMB64.6 billion under such arrangements remained available, of which RMB30.0 billion have been specifically allocated by the banks to various projects, mainly for Iron Ore Mining,

Special Steel and Power Generation projects. These arrangements will further support the Group's expansion strategy in the mainland.

Risk Management

The Group employs a combination of financial instruments, including derivative products, to manage its exposure to fluctuations in interest and currency rates. Derivative transactions are only used for interest rate and currency hedging purposes, speculative trading activity is prohibited. Counterparties' credit risks are carefully reviewed and the Group only deals with financial institutions with investment grade credit rating. The amount of counterparties' lending exposure to the Group is also an important consideration as a means to control credit risk.

Foreign Currency Exposure

CITIC Pacific conducts business mainly in Hong Kong, mainland China and Australia, therefore it is subject to the market risk of foreign exchange rates in HK Dollar, US Dollar, Renminbi and Australia Dollar. To minimise currency exposure, non HK Dollar assets are usually financed in the same currency as the asset or cash flow from it, either by borrowing or using foreign exchange contracts. Achieving this objective is not always possible due to limitations in financial markets and regulatory constraints, particularly on investment into mainland China as the Renminbi is currently not a free convertible currency and 'Registered Capital', which usually accounts for no less than 25% of the total investment amount for projects in mainland China, is required to be paid in US dollars. As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi. As at 31 December 2007, the Group had net RMB exposure of approximately HK\$46 billion (2006: HK\$30 billion).

The functional currency and future cash flow for the Australian Iron Ore Mining project is denominated in USD. Substantial portion of the project infrastructure / pre-completion operating expenditure is projected to be denominated in non-USD currencies. Foreign exchange forward contracts and structured forward instruments are employed to hedge or minimise the currency exposure. As at 31 December 2007, projected non-USD currencies expenditures amounted to HK\$2,659 million (2006: Nil) was hedged through foreign exchange forward contracts and HK\$882 million (2006: Nil) was hedged by structured forward instruments.

On liability management, CITIC Pacific funded the Iron Ore Mining project and the acquisition of vessels by USD loans to match the future cash flow of these assets. Foreign exchange forward contracts are employed to minimise currency exposure for other USD debts and a Yen Bond. As at 31 December 2007, such contracts outstanding amounted to HK\$5,853 million (2006: HK\$6,116 million).

In addition, foreign exchange forward contracts were employed by our trading subsidiary to hedge currency fluctuations. As at 31 December 2007, such contracts outstanding amounted to HK\$968 million (2006: HK\$707 million).

Interest Rate Exposure

The Group aims to maintain a suitable mixture of fixed and floating rate borrowings in order to stabilise interest costs despite rate movements. Interest rate hedging ratio is determined after taking into consideration of general market trend, the Group's cash flow pattern, interest coverage ratio and etc.

The Group uses interest rate swaps, forward rate agreements, interest rate option contracts and other instruments to hedge exposures or to modify the interest rate characteristics of its borrowings. As at 31 December 2007, CITIC Pacific had outstanding interest rate swap / option contracts with a notional amount of HK\$12.8 billion. After the swaps, HK\$7.8 billion or 27% of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying floating rate of interest. The Group's overall weighted average all-in cost of borrowings (including fees and hedging costs) for the year ended 31 December 2007 was about 5.5%, compared with 5.2% for the last year.

Capital Commitment and Estimated Capital Expenditure

As at 31 December 2007, the Group's contingent liabilities had not changed significantly from the last year and the Group's contracted capital commitment was approximately HK\$27.3 billion.

The original estimated capital expenditure for the Australian Iron Ore Mining Project was US\$2.5 billion. The latest estimated capital expenditure is likely to be approximately US\$3.5 billion. This increase is due to an expanded planned production of concentrate by 15% (production volume was originally anticipated to be 24mtpa and has now been increased to 27.6mtpa); specification modifications as a result of ore body characteristics; industry wide cost pressures and inflation in the global mining industry, especially in Australia; depreciation of the US dollar to the Australian dollar and to the RMB; and cost pressures and inflation in China where certain supplies are sourced. Since the commencement of our project in the second quarter of 2006, the global iron ore price (fines) has increased from US cents 61.7 per dmtu to US cents 132.7 per dmtu, amounting to 115% increase, which is more than sufficient to cover the capital cost escalation. Given the current price trend of iron ore, we believe there will be further positive impact on our business model. Our steel plants would also benefit from the stable supply.

HUMAN RESOURCES

As at the end of December 2007, the Group employed 24,319 staff in its headquarters in Hong Kong and principal subsidiaries worldwide. The two main areas of concentration are in Hong Kong employing 4,043 and in Mainland China employing 19,868. With the rapid development of the iron ore mining business in Australia, the number of employees in other countries including Japan, Singapore, Canada has significantly increased to 408.

The mainland China's robust economic growth as well as the continuous upturn of Hong Kong's economy in 2007 have provided a stable, yet challenging employment environment for staff to operate effectively and efficiently to attain a better level of performance.

CITIC Pacific is an equal opportunity employer and adheres to a fair and consistent human resources management policy to the mutual benefit of its employees and the Group, It also upholds a high standard of business ethics and personal conduct of its employees. To ensure the proper enforcement of the Code of Conduct Policy, the Group requires all business units to report the compliance status of the Policy on a bi-annual basis.

The Group's compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. On an annual basis, the Group reviews the cash compensation and benefit programs provided for its employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy. Towards this end, Group companies are largely in conformity with this policy.

CITIC Pacific is committed to providing a healthy organizational environment conducive to each individual's development. Employees are encouraged to commit to continuous improvement by initiating their own learning and self-development plan with financial sponsorship by the Group whilst in-house training are also organized regularly to help employees improve job performance and prepare for future development. Moreover, with the ever growing cross-border business activities between Hong Kong and the mainland, the Group continues to strengthen business integration, knowledge sharing and skills transfer between staff in the two territories.

As a socially-responsible organization, CITIC Pacific is committed to contributing to the community by supporting and sponsoring different kind of activities in Hong Kong, the mainland and overseas, such as charitable work, promotion of education, environment protection, sports, culture and the arts etc..

Under the CITIC Pacific Share Incentive Plan 2000 ("the Plan") adopted on 31 May 2000, the Board may invite any director, executive or employee of the Company or any of its subsidiaries to subscribe for options over the Company's shares ("Shares"). Since the adoption of the Plan, the Company has granted four lots of share options:-

<u>Date of grant</u>	<u>Number of share options</u>	<u>Exercise price</u> <u>HK\$</u>
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 can be exercised in whole or in part within 5 years from the date of grant. None of the share options granted under the Plan were cancelled or lapsed during the year.

CORPORATE GOVERNANCE

CITIC Pacific is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. A full description of the Company's corporate governance will be set out in the Corporate Governance Report contained in the 2007 Annual Report.

Throughout the year of 2007, CITIC Pacific has complied with all code provisions in the Code of Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Audit Committee of the Board, consisting of three non-executive directors of whom two are independent, has reviewed the 2007 financial statements with management and the Company's internal and external auditors and recommended its adoption by the Board.

DIVIDEND AND CLOSURE OF REGISTER

The Directors have resolved to recommend to shareholders the payment of a final dividend of HK\$0.80 per share (2006: final dividend of HK\$0.80 and special dividend of HK\$0.30), which together with the interim dividend of HK\$0.40 per share (2006: HK\$0.30) and the special dividend of HK\$0.20 per share (2006: HK\$0.30) already paid makes a total dividend of HK\$1.40 per share (2006: HK\$1.70) for the year ended 31 December 2007. The total dividend of HK\$1.40 per share will amount to HK\$3,097 million of the Company's profit for the year ended 31 December 2007 (2006: HK\$3,731 million).

The proposed final dividend of HK\$0.80 per share, the payment of which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 8 May 2008, are to be payable on Tuesday, 13 May 2008 to shareholders whose names appear on the Register of Members of the Company on 8 May 2008.

The Register of Members of the Company will be closed from Friday, 2 May 2008 to Thursday, 8 May 2008, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 April 2008.

SHARE CAPITAL

During the year ended 31 December 2007, the Company made the following repurchases of its own shares on the Stock Exchange for purpose of enhancing its earnings per share:

<u>Month/Year</u>	<u>Number of Shares Repurchased</u>	<u>Price Per Share</u>		<u>Aggregate Price Paid (HK\$)</u>
		<u>Highest (HK\$)</u>	<u>Lowest (HK\$)</u>	
November 2007	2,813,000	39.35	38.25	109,397,400

These repurchased shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against retained profit. An amount equivalent to the nominal value of the shares cancelled of approximately HK\$1.1 million was transferred from retained profit to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2007 and the Company has not redeemed any of its shares during the year ended 31 December 2007.

FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

ANNUAL REPORT AND FURTHER INFORMATION

A copy of the announcement will be found on the Company's website (www.citicpacific.com) and the Stock Exchange's website (www.hkex.com.hk). The additional information including a full financial analysis will be posted on the Company's website as soon as possible and the full Annual Report will be made available on the website of the Company and the Stock Exchange around 3 April 2008.

By Order of the Board

Stella Chan Chui Sheung

Company Secretary

Hong Kong, 17 March 2008

As at the date of this announcement, the executive directors of the Company are Messrs Larry Yung Chi Kin (Chairman), Henry Fan Hung Ling, Peter Lee Chung Hing, Carl Yung Ming Jie, Leslie Chang Li Hsien, Vernon Francis Moore, Li Shilin, Liu Jifu, Chau Chi Yin, Milton Law Ming To and Wang Ande; the non-executive directors of the Company are Messrs Willie Chang, André Desmarais, Chang Zhenming and Peter Kruyt (alternate director to Mr André Desmarais); and the independent non-executive directors of the Company are Messrs Hamilton Ho Hau Hay, Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong.