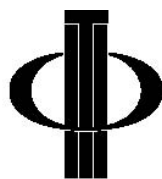


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CITIC PACIFIC

## **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 2008**

## **CHAIRMAN'S LETTER TO SHAREHOLDERS**

### **2008 Results overview**

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

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

### **Financially sound**

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

## **Core businesses are fundamentally strong**

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

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

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

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

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

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

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

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

## **Other businesses**

Our power business had a tough year. The significant increase in the price of coal was the main reason for the loss incurred. 2009 has seen coal prices come down which is beneficial to power producers. However utilization hours of power plants will depend on China's overall economic development. We expect our power business to do better in 2009. Cathay Pacific's performance was affected by an unrealized mark to market loss on fuel hedging contracts as well as a general slow down in demand in the second half of the year. 2009 will remain difficult for the aviation industry. In the long-term, Cathay Pacific will continue to benefit from the synergies with Dragonair and a strong relationship with Air China. The Eastern and Western Tunnels in Hong Kong operated smoothly with increased profit and continuing cash flow. Our two listed companies CITIC 1616 and Dah Chong Hong both performed well with increasing profits in a challenging year. These businesses provide steady cash flow to our company.

## **Looking to the future**

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

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

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

Larry Yung Chi Kin  
Chairman

Hong Kong, 25 March 2009

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK\$m	As restated 2007 HK\$m
Turnover	2	46,420	38,534
Cost of sales		(38,367)	(30,880)
		<hr/>	<hr/>
Gross profit		8,053	7,654
Other income and net gains		2,131	4,870
Distribution and selling expenses		(1,477)	(1,025)
Other operating expenses		(3,028)	(3,733)
Change in fair value of investment properties		12	1,002
		<hr/>	<hr/>
Profit from consolidated activities before (loss)/gain from leveraged foreign exchange contracts	3	5,691	8,768
(Loss)/gain from leveraged foreign exchange contracts	4	(15,891)	22
		<hr/>	<hr/>
(Loss)/profit from consolidated activities		(10,200)	8,790
Share of results of			
Jointly controlled entities	2	200	1,344
Associated companies	2	(1,736)	2,257
		<hr/>	<hr/>
(Loss)/profit before net finance charges and taxation		(11,736)	12,391
Finance charges		(1,095)	(280)
Finance income		499	226
		<hr/>	<hr/>
Net finance charges	5	(596)	(54)
		<hr/>	<hr/>
(Loss)/profit before taxation		(12,332)	12,337
Taxation	6	578	(770)
		<hr/>	<hr/>
(Loss)/profit for the year		(11,754)	11,567
		<hr/>	<hr/>
Attributable to:			
Shareholders of the Company		(12,662)	10,843
Minority interests		908	724
		<hr/>	<hr/>
		(11,754)	11,567
		<hr/>	<hr/>
Dividends	7	(658)	(3,097)
		<hr/>	<hr/>
(Loss)/earnings per share for (loss)/profit attributable to shareholders of the Company during the year (HK\$)	8		
Basic		(5.68)	4.91
		<hr/>	<hr/>
Diluted		(5.68)	4.90
		<hr/>	<hr/>

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008 HK\$m	As restated 2007 HK\$m
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment		23,028	12,154
- Investment properties		11,230	10,895
- Properties under development		9,848	4,288
- Leasehold land		2,320	1,641
		<hr/>	<hr/>
		46,426	28,978
Jointly controlled entities		21,140	17,446
Associated companies		15,084	17,941
Other financial assets		1,063	7,502
Intangible assets		8,979	4,602
Deferred tax assets		1,967	100
Derivative financial instruments	9	235	150
Non-current deposits		8,709	5,723
		<hr/>	<hr/>
		103,603	82,442
		<hr/>	<hr/>
<b>Current assets</b>			
Properties held for sale		733	440
Other assets held for sale		-	1,127
Inventories		5,605	5,982
Derivative financial assets	9	1,016	251
Debtors, accounts receivable, deposits and prepayments	10	9,931	8,041
Cash and bank deposits		18,296	8,045
		<hr/>	<hr/>
		35,581	23,886
		<hr/>	<hr/>
<b>Current liabilities</b>			
Bank loans, other loans and overdrafts			
- secured		490	328
- unsecured		8,892	3,326
Creditors, accounts payable, deposits and accruals	10	13,500	10,661
Derivative financial liabilities	9	3,043	66
Provision for taxation		274	590
Liabilities held for sale		-	2
		<hr/>	<hr/>
		26,199	14,973
		<hr/>	<hr/>
Net current assets		9,382	8,913
		<hr/>	<hr/>
Total assets less current liabilities		112,985	91,355
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Long term borrowings		47,852	25,000
Deferred tax liabilities		1,710	1,587
Derivative financial instruments	9	6,682	69
Provisions		734	-
		<hr/>	<hr/>
		56,978	26,656
		<hr/>	<hr/>
Net assets		56,007	64,699
		<hr/>	<hr/>

**CONSOLIDATED BALANCE SHEET (Continued)**  
**AS AT 31 DECEMBER 2008**

	Note	2008 HK\$m	As restated 2007 HK\$m
Equity			
Share capital		1,458	885
Reserves		48,513	57,138
Proposed dividend		-	1,770
		<hr/>	<hr/>
Equity attributable to shareholders of the Company		49,971	59,793
Minority interests in equity		6,036	4,906
		<hr/>	<hr/>
Total equity		<u>56,007</u>	<u>64,699</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	2008		2007	
	Group HK\$m	Minority Interest HK\$m	Group HK\$m	Minority Interest HK\$m
At 1 January	59,793	4,906	46,510	1,499
Exchange translation differences	1,701	278	2,168	102
Net movements of investment reserve	(4,450)	-	3,369	-
(Loss)/gain on cash flow hedge of financial instruments	(3,459)	-	57	-
Share of reserves of jointly controlled entities and associated companies	(140)	-	112	-
Disposal of interests in jointly controlled entities/subsidiaries	(93)	-	(46)	2,285
Net (loss)/income recognised in equity	(6,441)	278	5,660	2,387
(Loss)/profit for the year	(12,662)	908	10,843	724
Total recognised (loss)/income for the year	(19,103)	1,186	16,503	3,111
Issue of shares upon full conversion of the convertible bond/exercise of share options	12,273	-	431	-
Dividends paid	(2,415)	(439)	(3,756)	(157)
Share repurchase and purchase of own shares by a subsidiary	(656)	(2)	(110)	-
Acquisition of interest from minority shareholders	-	(2)	-	(162)
Minority interests arising from acquisitions of subsidiaries and capital injection by minority shareholders	-	387	-	23
Share of capital reserves of jointly controlled entities and associated companies	79	-	36	-
Share-based payment	-	-	179	7
Expiration of put options granted by a subsidiary company to the minority shareholders of a subsidiary company	-	-	-	585
At 31 December	49,971	6,036	59,793	4,906

# 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 2007 except for the adoption of certain new standards and amendments of Hong Kong Financial Reporting Standards (“HKFRS”), which were issued and became effective during the year ended 31 December 2008, and among which the following has an impact on the accounts.

- HK(IFRIC) - Int 12 ‘Service Concession Arrangements’

In accordance with HK(IFRIC)-Int 12, a vehicular tunnel is regarded as a service concession arrangement. As such, the Group has recognised The Eastern Harbour Tunnel as an intangible asset instead of property, plant and equipment under fixed assets with retrospective effect from 1 January 2007. The carrying amount as at 1 January 2007 of HK\$1,102 million, and as at 31 December 2007 and 1 January 2008 of HK\$1,004 million have also been restated respectively.

The adoption of the above interpretation did not result in substantial changes to the Group’s accounting policies and has no effect on the Group’s results reported for the year ended 31 December 2008.

With effect from 1 January 2008, the Group changed the presentation of Turnover by not including the proceeds from sale of investments. Amounts included in Turnover and Cost of sales for year ended 31 December 2007 aggregating HK\$6,124 million and HK\$1,529 million respectively have been reclassified accordingly.

During the year, the Group revised the estimated useful lives of the property, plant and equipment in its special steel business. As a result of this, the depreciation expenses have decreased by approximately HK\$264 million for the year ended 31 December 2008.

## 2 Turnover and segment information

An analysis of the Group's turnover and (loss)/profit from consolidated activities and share of results of jointly controlled entities and associated companies by business is as follows:

2008	Turnover 2008 HK\$m	(Loss) from consolidated activities 2008 HK\$m	Share of results of jointly controlled entities 2008 HK\$m	Share of results of associated companies 2008 HK\$m	Group total 2008 HK\$m	Segment allocations 2008 HK\$m	Segment (loss) 2008 HK\$m
By principal activities (Note)							
Special steel	22,758	2,170	53	-	2,223	-	2,223
Property							
Mainland China	544	585	16	-	601	4	605
Hong Kong and others	243	209	-	62	271	89	360
Power generation	-	(452)	(282)	(507)	(1,241)	-	(1,241)
Aviation	-	-	-	(1,407)	(1,407)	-	(1,407)
Civil infrastructure	734	498	175	49	722	-	722
CITIC 1616	2,486	400	-	(1)	399	-	399
Dah Chong Hong	19,496	684	64	(11)	737	(93)	644
Other investments	159	(144)	174	79	109	-	109
Other income and net gains	-	2,131	-	-	2,131	-	2,131
Change in fair value of investment properties	-	12	-	-	12	-	12
Less: General and administration expenses	-	(402)	-	-	(402)	-	(402)
Loss from leveraged foreign exchange contracts	-	(15,891)	-	-	(15,891)	-	(15,891)
	<u>46,420</u>	<u>(10,200)</u>	<u>200</u>	<u>(1,736)</u>	<u>(11,736)</u>	<u>-</u>	<u>(11,736)</u>
Net finance charges							(596)
Taxation							578
Loss for the year							<u>(11,754)</u>

## 2 Turnover and segment information

2007	Turnover 2007 HK\$m	Profit from consolidated activities 2007 HK\$m	Share of results of jointly controlled entities 2007 HK\$m	Share of results of associated companies 2007 HK\$m	Group total 2007 HK\$m	Segment allocations 2007 HK\$m	Segment profit 2007 HK\$m
By principal activities (Note)							
Special steel	18,501	2,418	426	-	2,844	-	2,844
Property							
Mainland China	1,090	248	(16)	-	232	4	236
Hong Kong and others	231	157	-	335	492	93	585
Power generation	-	(171)	547	62	438	-	438
Aviation	-	-	(62)	1,312	1,250	-	1,250
Civil infrastructure	750	521	132	53	706	-	706
CITIC 1616	1,486	246	-	-	246	-	246
Dah Chong Hong	16,050	457	53	2	512	(97)	415
Other investments	426	(340)	264	81	5	-	5
Other income and net gains	-	4,870	-	-	4,870	-	4,870
Change in fair value of investment properties	-	1,002	-	412	1,414	-	1,414
Less: General and administration expenses	-	(640)	-	-	(640)	-	(640)
Gain from leveraged foreign exchange contracts	-	22	-	-	22	-	22
	<u>38,534</u>	<u>8,790</u>	<u>1,344</u>	<u>2,257</u>	<u>12,391</u>	<u>-</u>	<u>12,391</u>
Net finance charges							(54)
Taxation							(770)
Profit for the year							<u>11,567</u>

## 2 Turnover and segment information

Turnover and segment profit (Continued)

Note:

The current year's presentation of segment information by business segments has been reclassified to better present the results in line with how management reviews these businesses. Comparative figures have been reclassified to conform with the current year's presentation.

The presentation of segment turnover is the same as the consolidated turnover except for segment allocations attributable to the property segment as disclosed above.

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

	2008 HK\$m	2007 HK\$m
By geographical area		
Mainland China	33,125	27,360
Hong Kong	10,968	8,959
Overseas	2,327	2,215
	<u>46,420</u>	<u>38,534</u>

## 3 Profit from consolidated activities before (loss)/gain from leveraged foreign exchange contracts

	2008 HK\$m	2007 HK\$m
The profit from consolidated activities before (loss)/gain from leveraged foreign exchange contracts is arrived at after crediting and charging:		
Crediting :		
Dividend income from other financial assets	96	86
Profit on disposal of subsidiary companies and jointly controlled entities	592	4,600
Charging:		
Cost of inventories sold	35,206	29,029
Depreciation of property, plant and equipment	940	1,045
Amortisation of leasehold land	44	42
Amortisation of intangible assets	107	98
Impairment losses provision / (written back) on :		
Other financial assets	177	99
Property, plant and equipment	2	103
Property under development	(253)	353
Jointly controlled entities and associated companies	403	282
	<u>403</u>	<u>282</u>

#### 4 (Loss)/gain from leveraged foreign exchange contracts

	2008 HK\$m	2007 HK\$m
Leveraged foreign exchange contracts:		
Fair value loss on the Novation Contracts immediately before their transfer to CITIC Group	(9,796)	-
Fair value (loss)/gain on other contracts	(3,200)	22
Termination costs	(1,177)	-
Realised loss	(1,718)	-
	<u>(15,891)</u>	<u>22</u>

#### 5 Net finance charges

	2008 HK\$m	2007 HK\$m
Finance charges		
Interest expense	1,833	985
Amount capitalised	(1,086)	(680)
Exchange gain	(192)	(31)
Other finance charges	47	39
Fair value losses/(gains) on financial instruments	493	(33)
	<u>1,095</u>	<u>280</u>
Finance income		
Interest income	(499)	(226)
	<u>596</u>	<u>54</u>

## 6 Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. Overseas taxation is 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. Details are as follows:

	2008 HK\$m	2007 HK\$m
Current taxation		
Hong Kong profits tax	120	308
Overseas taxation	570	450
Deferred taxation		
Changes in fair value of investment properties	51	173
Origination and reversal of other temporary differences		
- arising from leveraged foreign exchange contracts of Australian subsidiary company	(1,259)	-
- others	(27)	19
Effect of tax rate change	(33)	(180)
	<u>(578)</u>	<u>770</u>

## 7 Dividends

	2008 HK\$m	2007 HK\$m
2008 Interim dividend paid: HK\$0.30 (2007: HK\$0.40) per share	<u>658</u>	<u>885</u>
2008 Special dividend paid: HK\$Nil (2007: HK\$0.20) per share	<u>-</u>	<u>442</u>
2008 Final dividend proposed: HK\$Nil (2007: HK\$0.80) per share	<u>-</u>	<u>1,770</u>

## 8 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the consolidated loss attributable to shareholders of HK\$12,662 million (2007: profit of HK\$10,843 million).

The basic (loss)/earnings per share is based on the weighted average number of 2,227,717,822 shares in issue during the year (2007: 2,207,542,455 shares in issue). The diluted earnings per share for 2007 is based on 2,213,084,305 shares which is the weighted average number of shares in issue during 2007 plus the weighted average number of 5,541,850 shares deemed to be issued at no consideration if all outstanding options had been exercised. Diluted loss per share for 2008 is the same as the basic loss per share as the potential additional ordinary shares are anti-dilutive.

## 9 Derivative financial instruments

	2008		2007	
	Assets HK\$m	Liabilities HK\$m	Assets HK\$m	Liabilities HK\$m
Qualified for hedge accounting – cash flow hedge				
- Interest-rate instruments	-	4,150	3	52
- Forward foreign exchange instruments	21	990	176	8
	<u>21</u>	<u>5,140</u>	<u>179</u>	<u>60</u>
	-----	-----	-----	-----
Not qualified for hedge accounting				
- Interest-rate instruments	222	458	113	53
- Forward foreign exchange instruments	1,008	4,127	109	22
	<u>1,230</u>	<u>4,585</u>	<u>222</u>	<u>75</u>
	<u>1,251</u>	<u>9,725</u>	<u>401</u>	<u>135</u>
	-----	-----	-----	-----
Less: current portion				
- Interest-rate instruments	50	63	-	57
- Forward foreign exchange instruments	966	2,980	251	9
	<u>1,016</u>	<u>3,043</u>	<u>251</u>	<u>66</u>
	-----	-----	-----	-----
	<u>235</u>	<u>6,682</u>	<u>150</u>	<u>69</u>
	=====	=====	=====	=====

## 10.1 Debtors, accounts receivable, deposits and prepayments

	2008 HK\$m	2007 HK\$m
Trade debtors and bills receivable aged:		
- Within 1 year	5,281	4,196
- Over 1 year	56	56
	<hr/>	<hr/>
	5,337	4,252
Accounts receivable, deposits and prepayments	4,594	3,789
	<hr/>	<hr/>
	9,931	8,041
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) Trade debtors are net of provision and the ageing is classified based on invoice date.
- (ii) Each business unit has its own defined credit policy.
- (iii) The carrying amounts of debtors, accounts receivable, deposits and prepayments approximates their fair value.
- (iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK\$181 million (2007: HK\$138 million), which are unsecured, interest free and recoverable on demand, except for an amount of HK\$1.3 million (2007: HK\$1 million) which is interest bearing, and amounts due from associated companies of HK\$27 million (2007: HK\$90 million) which are unsecured, interest free and recoverable on demand.

## 10.2 Creditors, accounts payable, deposits and accruals

	2008 HK\$m	2007 HK\$m
Trade creditors and bills payable aged:		
- Within 1 year	5,517	4,532
- Over 1 year	424	329
	<hr/>	<hr/>
	5,941	4,861
Accounts payable, deposits and accruals	7,559	5,800
	<hr/>	<hr/>
	13,500	10,661
	<hr/> <hr/>	<hr/> <hr/>

Note:

The carrying amounts of creditors, accounts payable, deposits and accruals approximate their fair value.

## 11 Comparative figures

Comparative figures have been adjusted to conform with the current presentation.

# FINANCIAL REVIEW AND ANALYSIS

## Group Debt and Liquidity

The financial position of the Group as of 31 December 2008 as compared to 31 December 2007 is as follows:

<i>HK\$ million</i>	<b>2008</b>	2007
Total debt	<b>57,234</b>	28,654
Cash and bank deposits	<b>18,296</b>	8,045
Net debt	<b>38,938</b>	20,609

Leverage (Net debt to Total capital*)	<b>44%</b>	26%
--	------------	-----

\* Total capital = Shareholders' funds + Net debt

The denomination of the Group's borrowings and cash and deposit balances by currency as at 31 December 2008 is summarised as follows:

<i>HK\$ million equivalent</i>	denomination					<b>total</b>
	HK\$	US\$	RMB	JPY	other	
Total debt in original currency	14,886	30,165	10,970	1,134	79	<b>57,234</b>
Total debt after hedging	23,768	21,812	10,970	605	79	<b>57,234</b>
Cash and bank deposits	3,813	4,972	6,668	206	2,637	<b>18,296</b>
Net debt / (cash) after hedging	19,955	16,840	4,302	399	(2,558)	<b>38,938</b>

As at 31 December 2008, assets of HK\$746 million (2007: HK\$423 million) were pledged to secure banking facilities, mainly related to Dah Chong Hong's overseas business and to a property subsidiary in mainland China. In addition, the assets of the Iron Ore Mining project were pledged under its project finance arrangement. The shipbuilding contracts for the 12 vessels relating to the project were also pledged as security for the vessels' financing.

### Maturity Profile of Outstanding Debt

The Group emphasizes raising long term debt over short term debt and actively manages its debt portfolio to ensure that the debt maturing in each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

<b>HK\$ million</b>	2009	2010	2011	2012	2013	2014 and beyond	total	percentage
Parent Company	4,601	2,992	7,690 <sup>1</sup>	7,550	4,245	8,799 <sup>2</sup>	35,877	63%
Subsidiaries	4,781	2,633	3,896	1,005	991	8,051	21,357	37%
Total Maturing Debt	9,382	5,625	11,586	8,555	5,236	16,850	57,234	100%

1 Includes a US\$450 million global bond due in 2011 which was issued by a wholly owned special purpose vehicle.

2 Includes a JPY8.1 billion floating rate note due in 2035 which was issued by a wholly owned special purpose vehicle.

## Available Sources of Financing

In addition to the cash and deposits balance of HK\$18.3 billion as at 31 December 2008, the Group had available loan and trade facilities totalling HK\$20.3 billion and HK\$3.4 billion respectively. Borrowings by source of financing as at 31 December 2008 are summarised as follows:

<i>HK\$ million</i>	total facilities	outstanding	available facilities	percentage available
<b>Committed Facilities</b>				
Short Term Loan *	4,290	3,198	1,092	25%
Term Loans	63,469	46,056	17,413	27%
Global Bonds	3,510	3,510	0	0%
Private Placement	529	529	0	0%
<b>Total Committed</b>	<b>71,798</b>	<b>53,293</b>	<b>18,505</b>	<b>26%</b>
<b>Uncommitted Facilities</b>				
Money Market Lines and Short Term Facilities	5,645	3,833	1,812	32%
Trade Facilities	4,536	1,163	3,373	74%

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

As at 31 December 2008, total committed facilities amounted to HK\$71.8 billion, of which HK\$18.5 billion (26%) remain undrawn. In addition to the above facilities, the Company has established Cooperative Agreements with major banks in mainland China. Under these Cooperative Agreements, CITIC Pacific's projects in mainland China can apply for credit facilities subject to the banks' approval on a project-by-project basis in accordance with banking regulations in the Mainland.

## **Treasury Risk Management**

### Responsibilities

The Group's overall risk management program seeks to minimize the impact of fluctuations in exchange rates, interest rates and various commodity price fluctuations on the Group's financial performance.

As part of the Group's restructuring of its risk management policies and framework, an Asset and Liability Management Committee ("ALCO"), was set up by the Board in October 2008 to oversee these procedures and monitor the exposures of the Group.

## Derivatives Policy

Derivatives have been used to assist in the management of interest rate and exchange rate risks. To the extent possible, gains and losses of the derivatives offset the losses and gains on the assets, liabilities or transactions being hedged as accounting hedges.

The fair value of outstanding derivative transactions is calculated monthly, based on price quotations obtained from major financial institutions. These derivative instruments are monitored periodically to test for the effectiveness of the hedging strategies involved.

Following ALCO's review of the Group's policies and procedures, the use of financial instruments has currently been restricted to borrowings, deposits, interest rates swaps and plain vanilla foreign exchange contracts. The use of structured derivatives and instruments that contain embedded options will require presentation to and the approval of ALCO.

It is the Group's policy not to enter into transactions, derivative or otherwise, for speculative purposes.

## Foreign Exchange Risk

The Group has major operations in Hong Kong, mainland China and Australia. Therefore it is subject to market risk in foreign exchange rates involving HK dollars ("HKD"), US dollars ("USD"), Renminbi ("RMB") and Australian dollars ("AUD"). There are also exposures to the Japanese Yen ("JPY") (operations and assets related to DCH), Euro ("EUR") and Swedish Krona ("SEK") (equipment purchases).

The Group strives to reduce balance sheet currency exposure by matching assets with borrowings in the same currency to the extent possible. It is the Group's policy to hedge transactions where value or time to execution will give rise to material currency exposure, provided that the cost of the hedging instrument is not prohibitively expensive in comparison to the underlying exposure.

The Group's major foreign currency exposures arise from:

- (1) its capital expenditures relating to its iron ore mining operations in Australia;
- (2) its steel and property operations in mainland China denominated in RMB and;
- (3) USD denominated debt.

The Group does not hedge translational currency exposures from the consolidation of subsidiaries, whose functional currency is not HKD, as this is a non-cash exposure.

The Australian mining operation utilises USD as its functional currency as the future revenues from its iron ore business are denominated in USD. However, a substantial portion of its developmental and operating expenditures are denominated in AUD and other currencies. The Group's forecast capital and operating exposures have been substantially hedged through plain vanilla foreign exchange contracts and leveraged foreign exchange contracts.

As at 31 December 2008, the Group has HK\$8.5 billion equivalent of USD debt exposure which is fully hedged into HKD through the use of forward contracts and cash on hand.

The Group's businesses in China represented an asset exposure in RMB of approximately HK\$67 billion as at 31 December 2008 (2007: HK\$50 billion). As the Group's investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the RMB.

### Interest Rate Risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rate expose the Group to fair value interest rate risk.

The Group manages this risk by considering the portfolio of all of the Group's interest bearing assets and liabilities. The net desired position is then managed by borrowing fixed rate and through the use of interest rate swaps which have the economic effect of converting floating rate borrowings into fixed rates.

The appropriate ratio of fixed / floating risk for the Group is reviewed periodically. The level of fixed rate debt is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and cash flow cycles of the Group's business and investments.

As at 31 December 2008, the Group's portfolio of interest rate derivative contracts had a notional amount of HK\$13.2 billion. After hedging, 76% of the borrowing for the Group was floating rate. In addition, the Company entered into HK\$16.4 billion of swaps to lock-in fixed rates for periods up to 20 years. These swaps, arranged to match the intended increase in borrowings and the requirements of the Iron Ore Mining project, become effective in 2009 and 2010.

The Group's overall weighted all-in cost of borrowing (including fees and hedging costs) in 2008 was approximately 4.7% compared with 5.5% in 2007.

### Credit Risk

To manage counterparty risk, the Group deals with international financial institutions with a credit rating of investment grade and above. The recommended credit rating was subsequently raised to A- (S&P) or A2 (Moody's) and above by ALCO in 2009. For mainland Chinese institutions that do not have an international credit rating, a maximum deposit limit is set that does not exceed the amount borrowed from those institutions. Deposits are liquid, interest-bearing and consistent with treasury and business purpose needs.

The Group Finance Department is responsible for monitoring the limits and the list of approved financial institutions. Management does not expect any losses from non-performance from these counterparties.

## Liquidity Risk

The Group takes liquidity risk into consideration when deciding its source of funds and their respective tenors. It manages its liquidity risk by maintaining substantial undrawn committed credit facilities, money market lines and cash deposits so as to avoid over reliance on any one source and to prevent substantial refinancing in any one period. In addition, the Company has established co-operative agreements with major PRC banks. These arrangements can shorten the credit approval processes substantially when applying for RMB loans.

Management monitors rolling forecasts of the Group's liquidity reserve (comprised of undrawn committed credit facilities and cash and cash equivalents on the basis of expected cash flows). In addition, the Group's liquidity management procedures involves projecting cashflows in major currencies, and considering the level of liquid assets necessary to meet these cash flow requirements. Group Finance also monitors balance sheet liquidity ratios against internal requirements and maintains debt financing plans.

## **Capital Commitment and Contingent Liabilities**

As at 31 December 2008, the Group's contracted capital commitment was approximately HK\$26 billion and the Group's contingent liabilities had not changed significantly from the last year end.

## **HUMAN RESOURCES**

As at the end of December 2008, the Group employed a total of 28,654 staff in its headquarters in Hong Kong and principal subsidiaries worldwide. The two main areas of concentration are in Hong Kong employing 4,456 and in mainland China employing 23,559. Another 639 staff are employed in subsidiaries in Australia, Japan, Singapore, Taiwan and Canada. The majority of the increase in employees was due to Dah Chong Hong's acquisition of new businesses in mainland China.

CITIC Pacific adopts equal rights employment policies and strives to be fair and consistent in administering its human resources practices to the mutual benefit of its employees and the Group. It also upholds an extremely 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.

CITIC Pacific aims to drive business results by implementing performance-related pay schemes. This also helps ensure alignment of employee and shareholders' interests. Given the difficulties faced by the Company and the resulting performance in 2008, total remuneration paid to directors was substantially reduced.

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 self-development plan with financial sponsorship from the Group whilst in-house training are also organized regularly to help employees improve performance and prepare for future development. The Group also fully supports investing in the training and development of our younger generations by implementing various management trainee and apprentice training programs.

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, mainland China and overseas, such as charitable work, promotion of education, environment protection, sports, culture and the arts etc. During the year, CITIC Pacific and its subsidiaries have fully supported the territory-wide anti-drug campaign organized by the Hong Kong Government and the Action Committee Against Narcotics.

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 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.

## **CORPORATE GOVERNANCE**

CITIC Pacific is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are important for maintaining and promoting investor confidence. During the year, the Company faced the issues associated with the leveraged foreign exchange contracts entered into by the Group. Following this incident, the Board took actions to improve the financial risk management function and examine other corporate controls of the Group. The Board will continue to review its corporate governance practices to meet the latest local and international standards. A full description of the Company's corporate governance will be set out in the Corporate Governance Report contained in the 2008 Annual Report.

Throughout the year of 2008, 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 2008 financial statements with management and the Company's internal and external auditors and recommended its adoption by the Board.

## **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.

## **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:

<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>	
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.

## **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](http://www.citicpacific.com)) and the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)). The full Annual Report will be made available on the website of the Company and the Stock Exchange around 14 April 2009.

By Order of the Board  
**Stella Chan Chui Sheung**  
*Company Secretary*

Hong Kong, 25 March 2009

*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, Vernon Francis Moore, Li Shilin, Liu Jifu, Milton Law Ming To, Wang Ande and Kwok Man Leung; 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.*