Treasury Risk Management

General Policies

- Maintain central management of finance and financial exposures throughout CITIC Pacific while delegating to business units specific responsibilities appropriate to their business for which local management is responsible.
- Diversify funding sources utilising both bank financing and capital markets, and employing limited or non-recourse project finance when available.
- Arrange financing to match each business' characteristics and cash flows to the extent that it is possible.

Responsibilities

CITIC Pacific's overall risk management programme seeks to minimise the impact of fluctuations in exchange rates, interest rates and various input cost fluctuations on its financial performance. The asset and liability management committee ('ALCO'), set up by the board in October 2008, meets monthly to set out the policies and procedures to be followed throughout the organisation and to monitor risk exposures.

The group finance department is responsible for maintaining and implementing financial risk management policies and procedures within the framework agreed by ALCO.

The group finance department monitors the funding requirements of CITIC Pacific along with resulting interest rate, currency, credit and liquidity risks. This portfolio approach to financial risk management enables activities in these areas to be carried out in a more economic and efficient manner.

Subsidiaries, jointly controlled entities and business units are responsible for managing their liquidity, interest rate risks, foreign exchange risks and input costs under policies approved by the boards of their respective companies, but also within the confines of the overall ALCO strategy.

CITIC Pacific's listed subsidiaries, Dah Chong Hong ('DCH'), CITIC 1616 and Daye Special Steel, arrange their financial and treasury affairs themselves, within ALCO policies.

Derivatives Policy

Financial derivatives are 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 both in economic terms and under accounting rules.

In June 2009, CITIC Pacific engaged Reval Inc., a derivative risk management and hedge accounting solutions firm, to provide software and consulting services to better monitor its derivatives portfolio and ensure compliance with accounting standards. Valuations provided by Reval were used in the compilation of the annual report.

The use of financial instruments is currently restricted to loans, deposits, interest rate swaps and plain vanilla foreign exchange contracts. The use of structured derivatives and instruments or contracts that contain embedded options would require presentation to and the specific approval of ALCO. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred.

It is CITIC Pacific's policy not to enter into derivative transactions for speculative purposes.

Foreign Exchange Risk

The company's functional currency is HKD. CITIC Pacific has major operations in Hong Kong, mainland China and Australia and is subject to market risk due to changes in United States dollar ('USD'), Renminbi ('RMB') and Australian dollar ('AUD') exchange rates. There are also exposures to the Japanese Yen ('JPY') (from operations and assets related to DCH), Euro ('EUR') and Swedish Krona ('SEK') (from equipment purchases).

We strive to reduce currency exposures by matching assets with borrowings in the same currency to the extent possible. Our policy is 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.

CITIC Pacific's material currency exposures arise from:

i) capital expenditures relating to its iron ore mining operations in Australia and steel operations in China;

ii) purchase of raw materials by steel and property operations in mainland China;

iii) USD denominated debt; and

iv) purchases of finished products for sale by DCH.

Translation exposures from the consolidation of subsidiaries whose functional currency is not HKD are not hedged, as this is a non-cash exposure.

US Dollar (USD) CITIC Pacific's investment in businesses whose functional currency is USD is mostly attributable to the iron ore mining business, which had USD gross assets of HK$35 billion. The company uses its USD borrowings to hedge these USD assets through a net investment hedge. As at 31 December 2009, CITIC Pacific had HK$41 billion equivalent of US dollar debt, of which HK$5 billion was economically hedged using plain vanilla forwards and cross currency swaps.

Renminbi (RMB) Businesses in mainland China had RMB gross assets of approximately HK$87 billion as at 31 December 2009, offset by debts and other liabilities of HK$29 billion. This gave the company an RMB net asset exposure of HK$58 billion (2008: RMB gross asset exposure of approximately HK$75 billion, offset by debt and other liabilities of HK$23 billion, with RMB net asset exposure of HK$52 billion). The Renminbi is currently not a freely 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 foreign currency by foreign investors such as CITIC Pacific. As investment in mainland China is expanding, CITIC Pacific has an increasing exposure to the Renminbi.

In 2008, we entered into several RMB non-deliverable leveraged forward contracts for general purpose hedging of RMB exposures, which all expire in 2010. As at 31 December 2009, the maximum notional amount of these contracts was RMB 943 million.

Australian Dollar (AUD) Our Australian mining operations' functional currency is USD 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. USD/AUD forward contracts are currently employed to hedge these currency exposures up to 2013 at an average rate of 0.82.

As at 31 December 2009, the Australian mining operation had plain vanilla forward contracts with a notional amount of A$2 billion that qualify as accounting hedges, because their maturity matches the needs of the business over the next three years as well as fulfilling other relevant criteria to be considered accounting hedges.

Japanese Yen (JPY) CITIC Pacific issued a JPY 8 billion bond in 2005. From an economic perspective, this bond was fully hedged through a cross currency swap into Hong Kong dollars floating rate payments. This swap does not qualify as an accounting hedge, therefore changes in its value are reflected in the profit and loss account. In addition to the JPY bond, as at 31 December 2009 there were no other JPY exposures at the corporate level.

For the Australian mining operations, as at 31 December 2009 there was a net JPY 181 million denominated exposure for capital expenditures to purchase machinery.

Swedish Krona (SEK) SEK exposure amounted to SEK 31 million at 31 December 2009 due to a contract with Siemens to supply a steam turbine generator for the Australian mining operations. This position is currently 71% hedged using plain vanilla forward contracts.

Euro (EUR) EUR exposure amounted to EUR 68 million as at 31 December 2009. Most of this exposure is related to contracts for procurement and design services for the Australian mining project and equipment purchases by the special steel business.

Interest Rate Risk

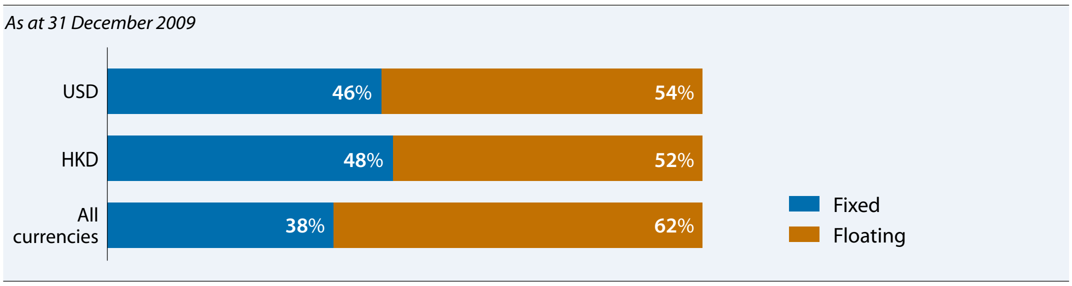
CITIC Pacific's interest rate risk arises primarily from borrowings. Borrowings subject to variable rates expose CITIC Pacific to cash flow interest rate risk. Borrowings subject to fixed rates economically expose CITIC Pacific to fair value interest rate risk.

This risk is managed by considering the portfolio of interest bearing assets and liabilities. The net desired position is then managed by borrowing fixed rate or through the use of interest rate swaps, which have the economic effect of converting floating rate borrowings into fixed rate borrowings.

The appropriate ratio of fixed/floating risk for CITIC Pacific 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 CITIC Pacific's business and investments. The current ratio of fixed rate to the total borrowings of the portfolio for CITIC Pacific stands at 38%.

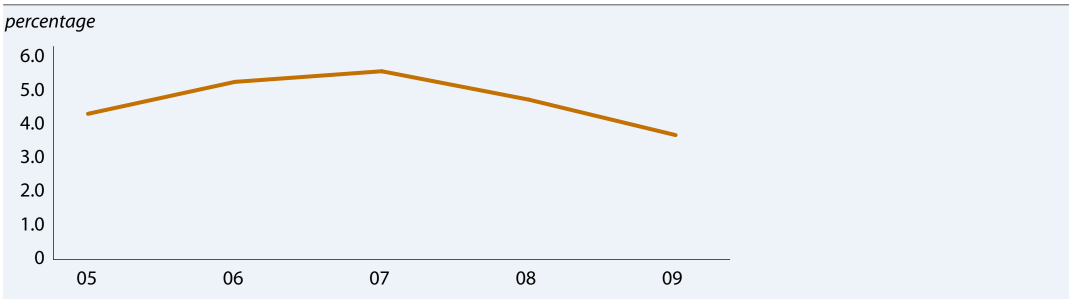
As at 31 December 2009, CITIC Pacific's portfolio of floating to fixed interest rate derivative contracts had a notional amount of HK$21 billion. After hedging, 62% of the borrowings of CITIC Pacific were linked to floating interest rates.

Fixed and floating interest rates



CITIC Pacific's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) in 2009 was approximately 3.7% compared with 4.7% in 2008.

Average borrowing costs



Counterparty Risk

CITIC Pacific deals with international financial institutions with a credit rating of investment grade A- (S&P) or A3 (Moody's) and above unless special authorisation has been received from ALCO. For unrated mainland Chinese institutions, special authorisation is required from ALCO. 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 allocating and monitoring the limits with the list of approved financial institutions. Management does not expect any losses from non-performance by our financial counterparties.

Liquidity Risk

CITIC Pacific 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 of funds and to minimise substantial refinancing in any one period. In addition, CITIC Pacific 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.

ALCO monitors rolling forecasts of CITIC Pacific's liquidity reserve (comprised of undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows). In addition, CITIC Pacific's liquidity management procedures involve projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these cash flow requirements. The group finance department also monitors balance sheet liquidity ratios against internal requirements and maintains debt financing plans.

Group Debt and Liquidity

At the end of December 2009, CITIC Pacific had around 30 principal borrowing relationships with financial institutions based in Hong Kong, mainland China and other countries. Our policy is to diversify funding sources through bank borrowings and accessing capital markets. We seek to maintain a mix of short and long-term borrowings to stagger maturities and minimise refinancing risk.

The net debt of CITIC Pacific as at 31 December 2009 as compared with 31 December 2008 is as follows:

HK$ million	**2009**	2008
Total debt	**65,675**	57,234
Cash and bank deposits	**21,553**	18,296
Net debt	**44,122**	38,938

In 2009, total debt increased from HK$57 billion at the end of 2008 to HK$66 billion at 31 December 2009 due to the continuing outlays for the Australian mining business as well as the drawing down of additional debt by CITIC Pacific's steel and property businesses in mainland China for additional capital expenditure.

In 2009, the company received a HK$2 billion deposit from the sale of a 20% interest in the Australian mining operations to China Metallurgical Group. This sale is still awaiting regulatory approval and has not been completed. HK$8 billion was realised from the sale of Cathay Pacific and other shares in various listed companies held by CITIC Pacific. The contract for the sale of CITIC Pacific's 20% interest in North United Power has been signed at a consideration of HK$2 billion. This sale is expected to be completed, and the proceeds to be received, in the first quarter of 2010. Cash received from other divestments amounted to HK$280 million.

Changes in Financing

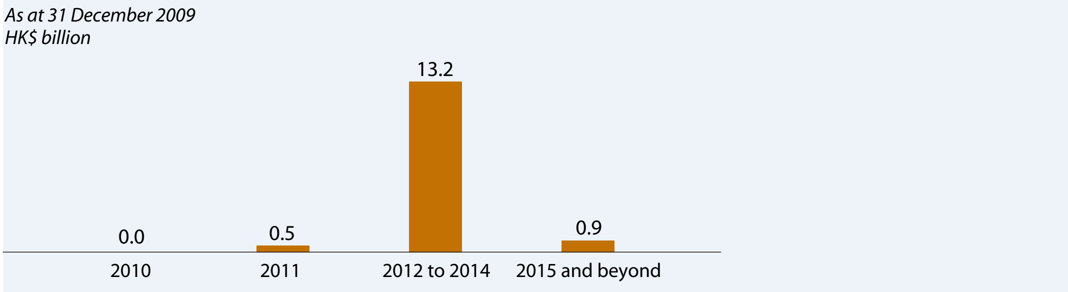
During 2009, facilities totalling HK$17 billion were established or renewed, HK$10 billion by the company and HK$7 billion by subsidiaries. The new facilities included a US$550 million loan to fund the Australian mining operations. In 2009, HK$3 billion of bank loans were prepaid (before contracted maturity dates) in order to improve CITIC Pacific's maturity profile. Subsequent to 31 December 2009, an additional HK$3 billion of facilities have been provided to CITIC Pacific.

Available Sources of Financing

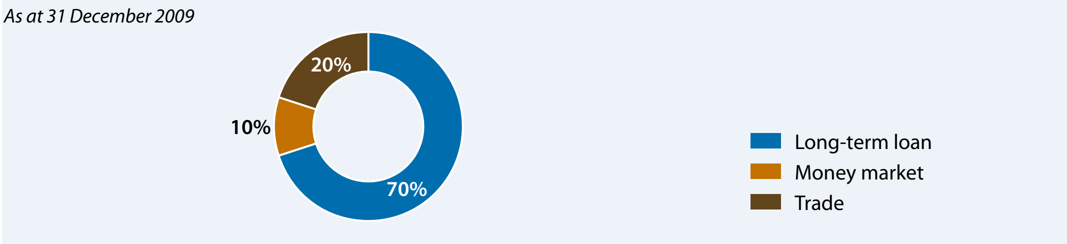
In addition to the cash and deposits balance of HK$22 billion, as at 31 December 2009 CITIC Pacific had available loan and trade facilities totalling HK$17 billion and HK$4 billion respectively. Borrowings by source of financing as at 31 December 2009 are summarised as follows:

HK$ million	Total facilities	Amount utilised	Available unutilised facilities
Committed facilities			
Term loans	73,449	58,879	14,570
Global bonds (USD bond)	3,510	3,510	–
Private placement (JPY bond)	529	529	–
Total committed facilities	77,488	62,918	14,570
Uncommitted facilities			
Money market lines and short-term facilities	4,776	2,718	2,058
Trade facilities	5,767	1,490	4,277
Total uncommitted facilities	10,543	4,208	6,335

Available committed banking facilities by maturity (total HK$14.6 billion)



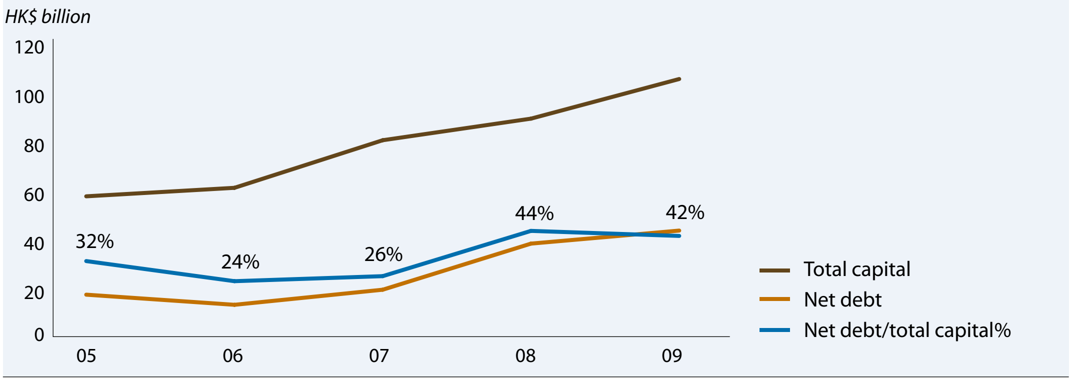
Available total banking facilities by type (HK$21 billion)



As at 31 December 2009, total committed facilities were HK$77 billion, of which HK$15 billion (19%) remain undrawn. In addition to the above facilities, CITIC Pacific 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 mainland China.

Leverage

Net debt divided by total capital was 42% as at 31 December 2009 compared with 44% as at the end of 2008.



Financial Review

Maturity Profile of Outstanding Debt

CITIC Pacific emphasises 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 CITIC Pacific's ability to refinance the debt in that year. As at 31 December 2009, outstanding loans that will mature by the end of 2010 amounted to HK$4 billion, against cash and deposits totalling HK$22 billion.

The weighted average life of CITIC Pacific's debt was 6.4 years (2008: 5.6 years).

HK$ million	2010	2011	2012	2013	2014	2015 and beyond	Total	Percentage
Parent company*	700	9,494*	7,350	4,595	1,285	7,149*	30,573	47%
Subsidiaries	3,657	5,130	3,311	2,693	1,628	18,683	35,102	53%
Total maturing debt	4,357	14,624	10,661	7,288	2,913	25,832	65,675	100%

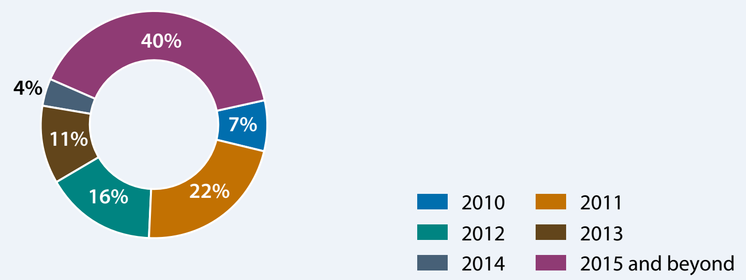
* Including through wholly-owned special purpose vehicles.

Total outstanding debt by type (HK$66 billion)

As at 31 December 2009

Total outstanding debt by maturity (HK$66 billion)

As at 31 December 2009



Loan Covenants

Over the years, CITIC Pacific has developed a set of standard loan documentation including covenants to facilitate the management of its loan portfolio and debt compliance. The financial covenants are generally:

	Covenant limits	Actual 2009
Minimum consolidated net worth		
Consolidated net worth	≥ HK$25 billion	HK$62 billion
Gearing		
Consolidated borrowing/consolidated net worth	≤1.5	1.06
Negative pledge		
Pledged assets/consolidated total assets	≤ 30%	0.58%

For the purpose of the above covenant limits, as defined in the relevant borrowing agreements:

'Consolidated Net Worth' means the aggregate of shareholders' funds, goodwill from acquisitions and developments having been written off against reserves or the profit and loss account, convertible debt and subordinated debt (including perpetual debt).

'Consolidated Borrowing' means the aggregate of all consolidated indebtedness for borrowed money (includes indebtedness arising under acceptances and bills of exchange other than in respect of goods or services acquired in the ordinary course of business) and all contingent obligations in respect of indebtedness for borrowed money other than the aforesaid consolidated indebtedness for borrowed money.

'Negative Pledge' allows certain exceptions, including but not limited to any security over any asset acquired or developed, which security is created to finance or refinance the acquisition or development of such asset.

CITIC Pacific monitors these ratios on a regular basis and has been in compliance with these covenants and any others applicable to a particular facility.

Credit Ratings

History	S&P	Moody's
February 2010		Ba1 (Stable)
31 December 2009	BBB- (Stable)	Ba1 (Negative)
December 2009	BBB- (Stable)	
October 2009	BB+ (Positive)	
February 2009	BB+ (Stable)	Ba1 (Negative)
1 January 2009	BB (Negative)	Ba2 (Negative)

In December 2009, Standard & Poor's upgraded the company's credit rating to BBB- from BB+. In February 2010, Moody's changed the rating outlook to stable from negative on its Ba1 rating. The stable outlook from the ratings agencies reflects the expectation that the company will continue to receive strong support from the CITIC Group, will execute new projects while maintaining its key financial metrics and has the flexibility to sell non-core assets to maintain its liquidity.

One of CITIC Pacific's risk management objectives is to continue to upgrade its credit profile. The ratings agencies will consider an upgrade if funds from operations ('FFO')/ debt is greater than 15-20%, the ratio of debt to total capital is below 45% and FFO interest coverage improves to 4-5x on a sustained basis. The company expects its overall financial and operating profile will improve substantially after the iron ore mine becomes fully operational.

Despite the uncertain economic environment, the stability of our core businesses will ensure that we meet all our commitments to our lenders and allow us to secure additional financing to support our funding needs in the future.

Forward Looking Statements

The Annual Report contains certain forward looking statements with respect to the financial condition, results of operations and businesses of CITIC Pacific. 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.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some cases materially, from those implied or anticipated in any forward looking statement.