Risk Management

The Broad View

Each day, every business faces numerous risks, and one of the essential elements of both corporate governance and management is to ensure that these risks are both appropriate and controlled.

Many parts of this report refer directly or indirectly to risks faced by our businesses, but in this section the key financial and commercial risks are brought together.

The management of risk starts with the board of directors. At each meeting the board receives a report of the financial results and the financial position of the group, both current and projected. At each meeting in 2010, the board received an in-depth briefing on a business: on one occasion on special steel and on three occasions on the iron ore mining project. At every meeting, written reports are provided on all businesses in a form similar to those reviewed by management at the executive committee. At the November meeting, the board received a preliminary budget for the coming three years.

The board has established audit, asset and liability management, executive, investment and remuneration committees whose activities are important parts of the overall control of risk. Their roles and membership are described beginning on page 75.

Treasury Risk Management

Financial risks are inherent in any business. Systems and procedures are in place to identify and report on a timely basis the liquidity, foreign exchange, interest rate and commodity risks arising from the activities of our existing and proposed businesses. Many of the current systems have a significant manual component, and an automated treasury management system is currently being installed.

Treasury policies are established by the Asset and Liability Management Committee ('ALCO') and reported to the board. The group finance department, headed by the group treasurer, is responsible for implementing treasury policies, disseminating them to operating units, monitoring adherence to them, and preparing reports of the actual situation to be presented to ALCO, the executive committee and the board.

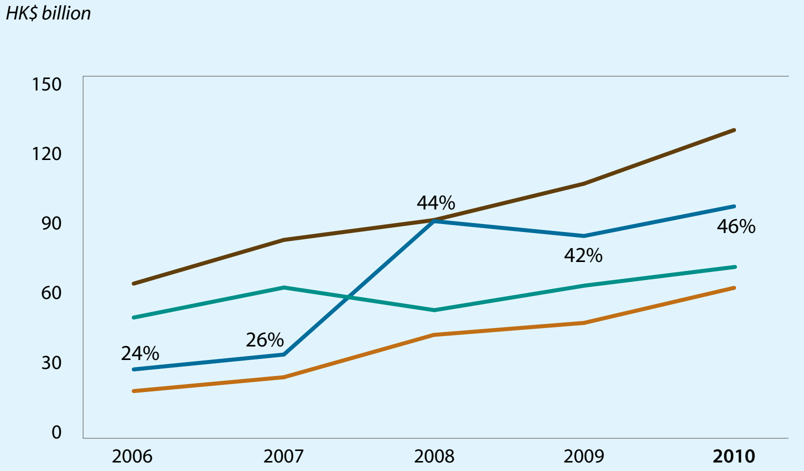
All business units, whether they are subsidiaries, associates or jointly controlled entities are responsible for managing their liquidity, interest rate, foreign exchange and commodity risks within the confines of the overall ALCO policies and specific delegations. They are responsible for identifying areas of risk within their organisations and reporting them to ALCO on a timely basis.

Listed subsidiaries CITIC Telecom International, Dah Chong Hong and Daye Special Steel manage their financial and treasury affairs themselves within the framework of the group's treasury policies.

Balance Sheet Management

CITIC Pacific's business is financed by a mixture of debt and equity. As at 31 December 2010 the net debt was HK$59 billion and shareholders' funds were HK$68 billion. The net debt divided by total capital is a measure of our leverage. This ratio was 46% at the year end which was below our expectation but higher than our longer term objective once the investments being made in the iron ore mine and new steel production facilities are in full operation. The graph shows how net debt has risen faster over the last five years than shareholders' funds, and as a result leverage has increased.

Leverage



Definitions
Debt is money lent to CITIC Pacific or its consolidated businesses; ***Net debt*** is debt less cash and bank deposits. ***Total debt*** is all money owed. ***Shareholders' funds***, also known as shareholders' equity, consists of the consideration paid to the company for issuing shares, plus retained profits and other reserves, less minority interests in equity. ***Total capital*** is net debt plus shareholders' funds.

CITIC Pacific did not issue any new shares in 2010.

The debt of CITIC Pacific as at 31 December 2010 as compared with 31 December 2009 is as follows:

HK$ million	**2010**	2009
Total debt	**83,857**	65,675
Cash and bank deposits	**24,558**	21,553
Net debt	**59,299**	44,122

For risk management purpose, the analysis of debt is based on the principal amount of borrowings, rather than the carrying value adopted for accounts reporting in the financial statements.

Net debt increased by HK$15,177 million from the end of 2009 to the end of 2010 mainly due to the continuing outlays for the Australian mining business and CITIC Pacific special steel and also to a lesser extent, property businesses in mainland China. The net debt of each business is as follows:

HK$ million	**2010**	2009
Special steel	**9,679**	8,300
Iron ore mining	**27,336**	14,436
Property – Mainland China	**(7,547)**	(2,991)
Ships	**2,074**	2,075
Dah Chong Hong	**1,311**	541
Parent company	**27,102**	22,816
Others	**(656)**	(1,055)
Total	**59,299**	44,122

Total Debt

Total debt increased by HK$18,182 million in 2010. Facilities (including a syndicated loan and a private placement) totalling HK$31 billion were established or renewed (HK$13 billion by CITIC Pacific Limited and HK$18 billion by consolidated entities). The new facilities included a US$1.4 billion loan to fund the Australian mining operations. In 2010, CITIC Pacific prepaid HK$4 billion of bank loans before contracted maturity dates to reduce debt and better utilise available funds.

Subsequent to 31 December 2010, an additional HK$1.2 billion of committed banking facilities have been provided to CITIC Pacific's subsidiaries.

As at the end of December 2010, CITIC Pacific maintained borrowing relationships with over 30 major financial institutions based in Hong Kong, mainland China and other countries. Our policy is to diversify the sources of funding as much as possible through bank borrowings and capital markets, and to maintain a mix of staggered maturities to minimise refinancing risk.

Liquidity Management

The objective of liquidity management is to ensure that CITIC Pacific always has enough money available to meet its liabilities. Every month, cash flow projections for three years are reviewed and revised by business units and ALCO, and financing actions are taken accordingly. Every day, the group finance department manages the cash flows and plans for the next few months. The primary guarantee of liquidity is a substantial amount of available deposits with banks and undrawn committed credit facilities. In addition, the group has available uncommitted money market lines.

The maturing banking facilities have to be renewed. The funding programme is planned so that the amount maturing in any given year will not exceed the company's ability to raise new funds in that year.

The maturity of the debt outstanding as at 31 December 2010 is:

HK$ million	Total outstanding debt	2011	2012	Maturing in these years 2013	2014	2015	2016 and beyond
CITIC Pacific Limited	34,900	5,460*	7,550	6,320	7,149	631*	7,790
Subsidiaries	48,957	9,767	4,634	4,482	2,385	2,058	25,631
Total	83,857	15,227	12,184	10,802	9,534	2,689	33,421

* Including through wholly-owned special purpose vehicles.

As at 31 December 2010, outstanding loans that will mature by the end of 2011 amounted to HK$15,227 million, against cash and deposits totalling HK$24,558 million.

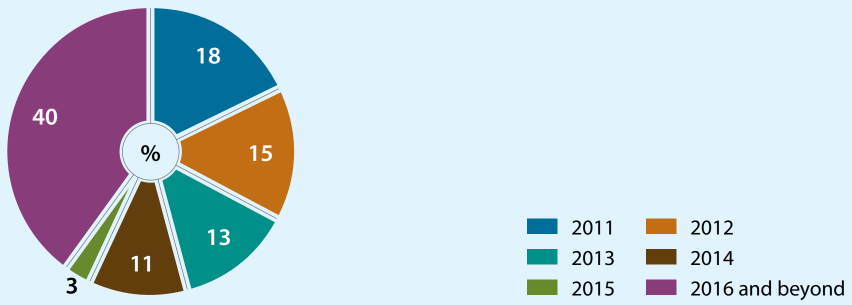
How is the Australian mining development financed?

Since 2006, CITIC Pacific's subsidiary Sino Iron has been building our iron ore mine in Australia, described from page 22.

The mine's development is being financed by three amortising loan facilities totalling US$3.8 billion with final maturities between 2028 and 2030, and by shareholder loans and equity from CITIC Pacific. The loans are in USD because they will be repaid from the sales of iron ore, which is priced in USD. Sino Iron prepares its financial statements in USD, which is its functional currency. Expenditure on equipment, civil works and operational costs may not be in USD – an example being staff salaries, which are mostly paid in AUD – resulting in currency risks, which are discussed later.

Total outstanding debt by maturity (HK$84 billion)

As at 31 December 2010



Total outstanding debt by type (HK$84 billion)

As at 31 December 2010

Available Sources of Finance

As at 31 December 2010, CITIC Pacific and its consolidated subsidiaries had cash and deposits of HK$24.6 billion, and available loan and trade facilities of HK$25.2 billion:

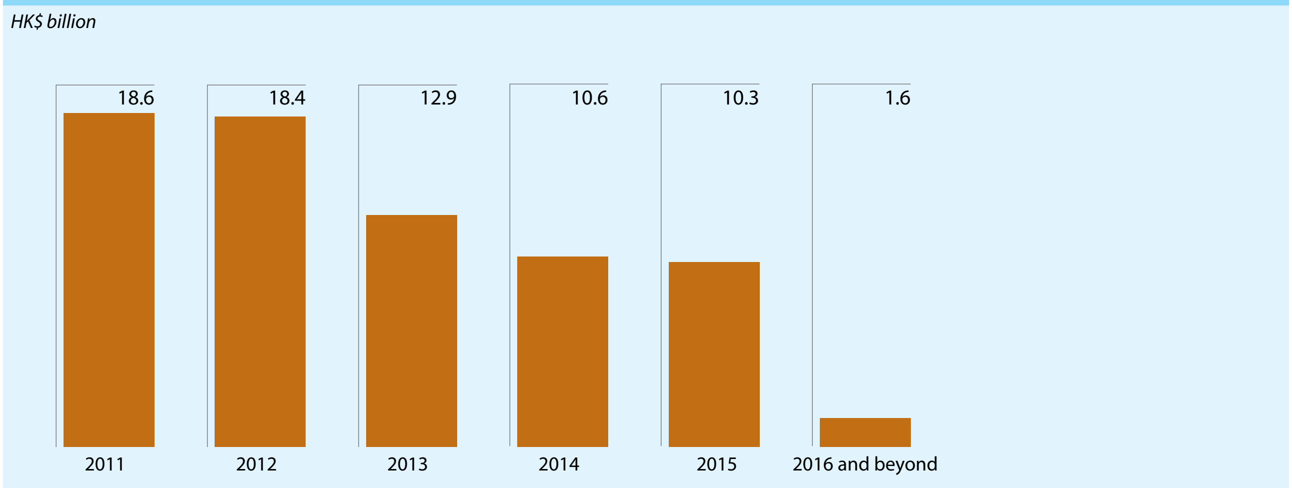
HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage
Committed facilities				
Term loans	92,502	73,908	18,594	74%
Commercial Paper (RMB paper)	947	947	–	–
Global bond (USD bond)	3,510	3,510	–	–
Private placement (JPY & USD note)	1,801	1,801	–	–
Total committed facilities	98,760	80,166	18,594	74%
Uncommitted facilities				
Money market lines and short-term facilities	5,789	3,430	2,356	9%
Trade facilities	6,623	2,379	4,244	17%
Total uncommitted facilities	12,409	5,809	6,600	26%

HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage
Source of funds				
Mainland China	51,216	47,507	3,709	15%
Hong Kong	52,393	33,819	18,574	74%
Others	7,560	4,649	2,911	11%
Total facilities	111,169	85,975	25,194	100%

In addition, CITIC Pacific has established cooperative agreements with major banks in mainland China under which CITIC Pacific can apply for credit facilities for projects in mainland China. The bank's approval is required on a project-by-project basis.

CITIC Pacific had available committed facilities of HK$18.6 billion that were undrawn as at 31 December 2010. Loans can be drawn under these committed facilities before the contractual expiry date. The available committed facilities, less the amount expiring in each year, are shown in the graph below.

Available committed banking facilities (HK$18.6 billion as at 31 December 2010)



Pledged Assets

As at 31 December 2010, iron ore mining assets of HK$41.6 billion were pledged under its financing documents. Contracts for building 12 ships (HK$5 billion in aggregate) to transport iron ore from the mine to steel plants in mainland China were pledged as security for the ships' financing. In addition, assets of HK$1,263 million (2009: HK$903 million) were pledged to secure banking facilities, which mainly related to Dah Chong Hong's overseas business and to a property subsidiary in mainland China.

Guarantees

Subsidiaries and affiliates secure debt facilities to fund their investments, to the extent possible, without recourse to CITIC Pacific. The exception is for the iron ore mining project, which has not begun to generate cash flow. For this project, CITIC Pacific provides guarantees for the performance obligations under construction or procurement contracts, interest rate hedging transactions, foreign exchange hedging transactions and a total of USD3.8 billion in debt facilities.

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 as follows:

	Covenant limits	Actual 2010
Minimum consolidated net worth		
Consolidated net worth	≥ HK$25 billion	HK$70 billion
Gearing		
Consolidated borrowing/consolidated net worth	≤1.5	1.2
Negative pledge		
Pledged assets/consolidated total assets	≤ 30%	0.65%

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
31 December 2010	BBB- (Negative)	Ba1 (Stable)
May 2010	BBB- (Negative)	
February 2010		Ba1 (Stable)
1 January 2010	BBB- (Stable)	Ba1 (Negative)

In May 2010, CITIC Pacific announced an upward revision of the general construction contract for its iron ore project in Western Australia due to higher labour, equipment and material costs. This upward revision in costs does not materially affect CITIC Pacific's debt coverage metrics. Standard and Poor's subsequently revised the rating outlook from stable to negative, but reaffirmed CITIC Pacific's BBB- credit rating. Moody's reaffirmed the stable outlook on its Ba1 rating. The ratings from agencies reflect the expectation that the company will continue to enjoy strong support from the CITIC Group as a strategically important subsidiary.

One of CITIC Pacific's risk management objectives is to continue to upgrade its credit profile, which involves a strong focus on improving our credit metrics. The company expects that its overall operating and financial profiles will improve substantially after the iron ore mine begins operations.

Net Debt and Cash in Jointly Controlled Entities and Associated Companies

CITIC Pacific's non-consolidated businesses are classified as jointly controlled entities and associated companies. Under Hong Kong generally accepted accounting standards, they are not consolidated in CITIC Pacific's financial statements but recorded in the balance sheet as CITIC Pacific's share of their net assets. The following table shows the net debt/cash position of jointly controlled entities and associated companies by business sector as at 31 December 2010.

HK$ million	Total net debt/(cash)	Proportion of net debt/(cash) attributable to CITIC Pacific
Special steel	(73)	(39)
Property		
Mainland China	(4,511)	(2,255)
Hong Kong	(486)	(237)
Energy	15,635	6,093
Tunnels	1,475	516
Dah Chong Hong	61	34
CITIC Telecom International	(627)	(76)
Other investments	2,071	688
Total	13,545	4,724

The debt amounts shown in the above table were arranged by the jointly controlled entities and associated companies without recourse to their shareholders. None of these debts is guaranteed by CITIC Pacific or its subsidiaries. Certain of CITIC Pacific's associates, such as Hong Kong Resort Company Ltd which develops property projects in Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

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.

CITIC Pacific has 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. The software provided by Reval generated the valuations that were used in the compilation of this report.

The use of financial instruments is currently restricted by ALCO to loans, bonds, deposits, interest rate swaps and plain vanilla foreign exchange contracts. It is CITIC Pacific's policy not to enter into derivative transactions for speculative purposes. The use of structured derivatives and instruments or contracts that contain embedded options would require presentation to and the specific approval of ALCO. None have been approved in 2010 nor are any outstanding. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred.

In June 2010, CITIC Pacific, in partnership with Reval, won one of the Treasury Today Adam Smith Awards for best practices and innovation in treasury outsourcing. This is a recognition of the steps we have taken to improve our internal workflows for managing derivative risk and a testament to our commitment to global best practices for risk management.

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 the risk of loss or profit 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') (from equipment and product purchases) and other currencies.

Except in the case of RMB, 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 the following:

i) capital expenditures relating to its iron ore mining operations in Australia and steel operations in mainland 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 using derivative instruments, as this is a non-cash exposure.

US Dollar (USD) CITIC Pacific's investment in businesses whose functional currency is USD is mostly from the iron ore mining business, which had USD gross assets of HK$52 billion. The company uses its USD borrowings to hedge these USD assets through a net investment hedge. As at 31 December 2010, CITIC Pacific had HK$51 billion equivalent of US dollar debt.

Renminbi (RMB) Businesses in mainland China had RMB gross assets of approximately HK$107 billion as at 31 December 2010, offset by debts and other liabilities of HK$38 billion. This gave the company an RMB net asset exposure of HK$69 billion (2009: RMB gross asset exposure of approximately HK$87 billion, offset by debt and other liabilities of HK$29 billion, with RMB net asset exposure of HK$58 billion). The Renminbi is currently not a freely convertible currency and 'registered capital', which usually accounts for at least one third 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 will have an increasing exposure to the Renminbi.

Australian Dollar (AUD) Our Australian mining operation's 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.

As at 31 December 2010, the Australian mining operation had plain vanilla forward contracts with a notional amount of A$1.4 billion outstanding. They are qualified as accounting hedges, because their maturities match the needs of the business over the next two years as well as fulfilling other relevant criteria to be considered accounting hedges. The average rate of these contracts is 0.82 USD to one AUD.

Japanese Yen (JPY) CITIC Pacific issued a JPY8 billion bond in 2005. From an economic perspective, this bond is hedged through a cross currency swap into Hong Kong dollar 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 2010 there were no other JPY exposures at the corporate level.

Euro (EUR) EUR exposure amounted to EUR183 million as at 31 December 2010. Most of this exposure is related to contracts for procurement and design services for the Australian mining project and equipment or finished goods purchases by the special steel business and Dah Chong Hong.

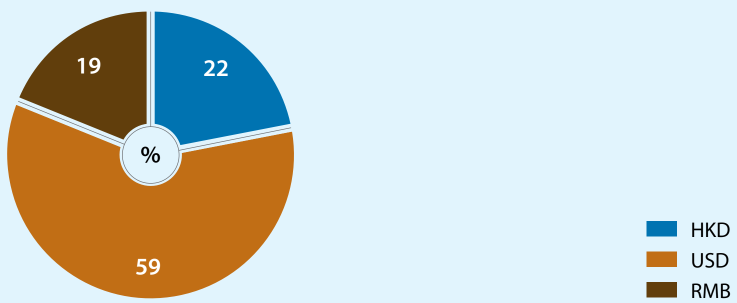
The denomination of CITIC Pacific's borrowings and cash and bank deposit balances by currency as at 31 December 2010 is summarised as follows:

			Denomination			
HK$ million equivalent	HK$	US$	RMB	JPY	Other	**Total**
Total debt in original currency	16,390	50,694	15,817	860	96	**83,857**
Total debt after conversion	18,011	49,704	15,817	229	96	**83,857**
Cash and bank deposits	7,467	3,984	12,645	159	303	**24,558**
Net debt/(cash) after conversion	10,544	45,720	3,172	70	(207)	**59,299**

CITIC Pacific actively seeks to diversify its funding sources so as not to be reliant on any one market. CITIC Pacific uses cross currency swaps to convert USD and JPY financing, which swaps the USD and JPY cash flows into HKD.

Outstanding debt after conversion (HK$84 billion)

As at 31 December 2010



Interest Rate Risk

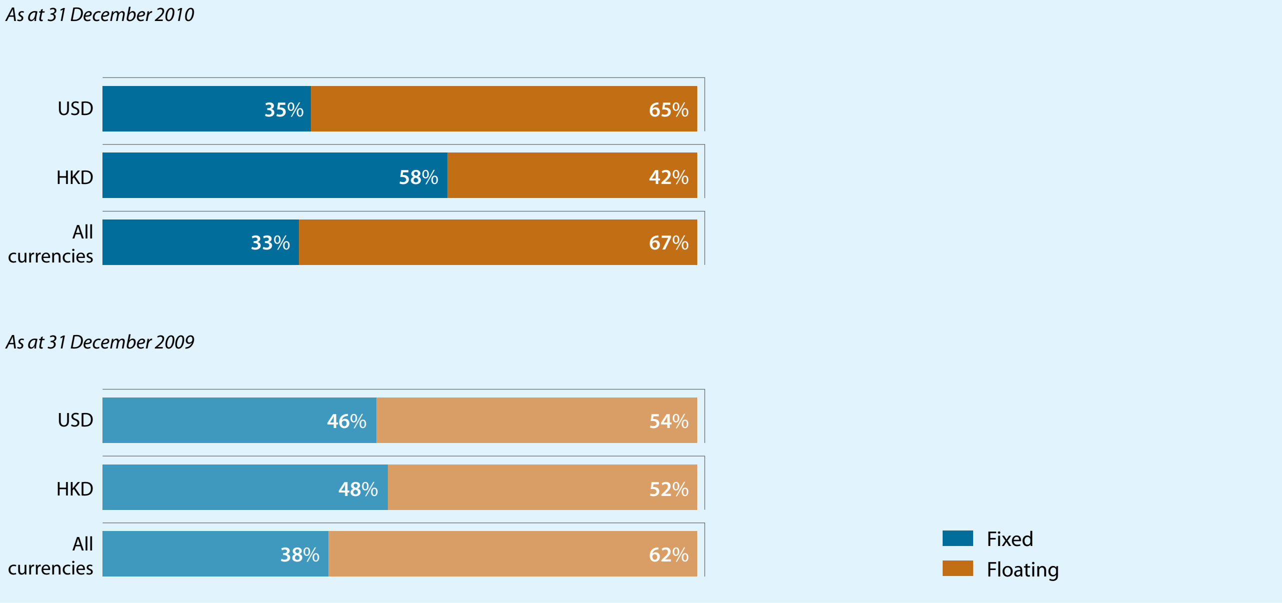
CITIC Pacific's interest rate risk arises primarily from borrowings. Borrowings subject to variable rates expose CITIC Pacific to cash flow interest rate risk. Borrowings subject to fixed rates economically expose CITIC Pacific to fair value interest rate risk.

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 interest rate 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. In 2010, CITIC Pacific entered into HK$4.7 billion of swaps to lock in fixed rates for periods up to five years. The current extremely low interest rate environment is unlikely to persist if there are inflationary concerns, and CITIC Pacific is considering further opportunities to lock in fixed rate borrowings and reduce the impact of interest rate fluctuations. The ratio of fixed rate to the total borrowings of the portfolio for CITIC Pacific was 33% as at 31 December 2010.

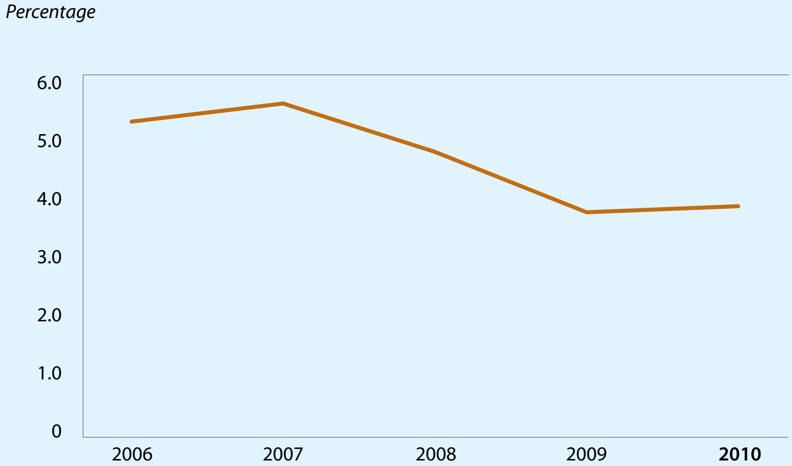
As at 31 December 2010, CITIC Pacific's portfolio of floating to fixed interest rate derivative contracts maturing over one year had a notional amount of HK$26 billion. After hedging through interest rate swaps and the issuance of fixed rate debt, 67% of the borrowings of CITIC Pacific were linked to floating interest rates.

Fixed and floating interest rate borrowings



CITIC Pacific's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) for 2010 was approximately 3.8% compared with 3.7% in 2009.

Average borrowing costs



This graph reflects the conversion of floating rate borrowings into fixed rate by the use of hedging instruments.

Commodity Risk

As CITIC Pacific produces and purchases commodities across its various businesses, it has exposure to commodity price and quantity risk. To manage its raw material exposure, CITIC Pacific has entered into long term supply contracts for various input costs, such as gas for the Australian mining operations. It also hopes to achieve synergies in its businesses such as the manufacture of iron ore for its special steel operations, the ownership of ships to manage freight costs and production of coal as an adjunct to its power generation business.

CITIC Pacific has considered the use of financial instruments to hedge its commodity exposures. However, many commodities cannot be hedged effectively because there is no effective forward market for the product or there is insufficient liquidity in those markets. As at 31 December 2010, CITIC Pacific did not have any exposure to commodity derivatives. It is CITIC Pacific's policy not to enter into derivative transactions for speculative purposes.

Counterparty Risk

CITIC Pacific keeps a large amount of cash deposits at financial institutions. To mitigate the risk of non-recovery of cash deposits or financial instrument gains, 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, unless special authorisation has been received from ALCO. Deposits are safe, liquid, interest-bearing and consistent with treasury and business purpose needs. Management monitors market developments, reviews the list of approved counterparties and closely monitors their credit quality, and revises deposit limits on an on-going basis.

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.

Major External Risks and Uncertainties

Economic Risks

CITIC Pacific's businesses are all subject to the risks of negative developments in the economies in which they operate, which may be affected by global trends. The results of most of our businesses are closely linked to the success of the mainland Chinese economy as a whole, and in Hong Kong, Shanghai and other cities. The sales of special steel are substantially all to customers in China, as are the vehicles and other products of Dah Chong Hong; the iron ore mine is expected to sell its output to steel mills in China, and our electricity is sold exclusively to mainland China. Our property developments are mainly in mainland China, and our infrastructure assets such as tunnels are in Hong Kong. Economic policies implemented to affect the whole economy, or sections of it, may adversely affect our business for periods of time.

In addition to its effects on our customers, changes to the global or local economies or regulations may adversely affect our relationship banks, joint venture partners, suppliers of goods, raw materials or power, and others on which our business depends.

Competitive Markets

Some of our businesses, particularly special steel, property, telecommunications and vehicle and other product sales, operate in highly competitive markets. Failure to compete in terms of product specification, service quality, reliability or price may adversely affect us. The iron ore market price is set primarily by international supply and demand, and if a surplus of supply occurs it could adversely affect the results of our business.

Agency Relationships

Dah Chong Hong sells vehicles and other products on behalf of numerous principals. Most of these arrangements can be cancelled at relatively short notice. If the relationship cannot be maintained due to a decision of the principal or inadequate performance, the concession may be lost which will adversely affect our business.

Regulation

CITIC Pacific's business mainly operates under three different systems of law, regulation and business practice: Australia, China and Hong Kong. Each has its own characteristics and may be subject to changes of substance or interpretation that could adversely affect our business. These may include tariffs, trade barriers, licenses, approvals, health and safety and environmental regulations, emission controls, taxation, exchange controls, employment legislation, and other matters. The electric power business is subject to price regulation, and if tariffs are not permitted to rise with cost increases, our results could be adversely affected.

The special steel, iron ore mining and power businesses are inherently likely to pollute the environment and be subject to stringent licensing and regulation. Failure to adhere to these may result in penalties or in extreme cases an inability to operate. The license terms or regulations may be changed at short notice, and it may be difficult to comply in a timely fashion causing an adverse effect on our business.

Capital Expenditure

The nature of CITIC Pacific's business is capital intensive, involving the construction and commissioning of major civil works and mechanical equipment. There may be difficulties in achieving this within time and budget resulting from inherent performance, disputes with contractors or their failure to perform to specification or contract, adverse weather conditions or other events.

Natural Disasters or Events, Terrorism and Disease

Our business could be affected by such things as earthquakes, typhoons, cyclones or adverse weather conditions, or acts or threats of terrorism, or the outbreak of highly contagious disease either directly, or indirectly through reductions in the supply of essential goods or services or reduced economic activity on a local, regional or global scale.

Forward Looking Statements

This whole report contains 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 or assessment of risk.