



CITIC PACIFIC

Statement from the Chairman

Dear members of the press. I am Larry Yung, the Chairman of CITIC Pacific.

This afternoon, CITIC Pacific issued an announcement through the Stock Exchange of Hong Kong to inform shareholders and investors that due to losses incurred as a result of a number of foreign exchange contracts entered into by the Group, CITIC Pacific is issuing a profit warning.

I would like to emphasize two points:

First, CITIC Pacific has good assets including special steel, iron ore mining, property and infrastructure. CITIC Pacific Special Steel is China's largest special steel manufacturer with annual production capacity of over seven million tonnes. Its major products have dominant market shares in China, and are also being sold to many countries in the world. The Group's iron ore project in Australia, once completed, will not only satisfy our own needs, but will also supply raw material to other steel mills in China. CITIC Pacific has excellent properties in both mainland China and Hong Kong. Our businesses continue to perform well and to provide us with stable profit and cash flow.

Second, after this event happened, CITIC Pacific's major shareholder, the CITIC Group in Beijing, has expressed its continuous support, and has agreed to coordinate the arrangement of a USD1.5 billion standby loan facility for CITIC Pacific in order to strengthen the liquidity of the Group.

CITIC Pacific is building an iron ore mine in Australia. To pay for purchases of equipment and materials bought from Australia and Europe, Australian dollars and Euros are required. With the objective of fixing the cost of this expenditure in U.S. dollars, a number of foreign exchange contracts were entered into by the Group. However, these contracts were done without proper authorization, and the potential maximum exposure under these contracts was not evaluated correctly.

I personally, and on behalf of the Board, am very sorry that this has occurred.

After senior management discovered the problem last month, a special board meeting was held to discuss the issue, and the Audit Committee was authorized to begin an independent investigation. At the same time we sought the assistance of the CITIC Group in Beijing.

The investigation by the Audit Committee found:

1. There was no reason to believe fraud or other illegal activities were involved.
2. The Group Finance Director failed to follow the Group's hedging policy. He failed to follow the Group's set procedure to obtain the prior approval of the Chairman before conducting the foreign exchange transactions, and thereby exceeding his authority limits.
3. The Group Financial Controller failed to act as a check and balance and in oversight. In particular, he failed to bring to the attention of the Chairman any unusual hedging transactions.

Based on the above findings, the board has decided to make the following personnel changes:

1. Group Finance Director Mr. Leslie Chang and Group Financial Controller Mr. Chi Yin Chau have tendered their resignations, which have been accepted by the Board. They will leave the Company after transferring their duties to others.
2. Disciplinary action will be taken against other staff members associated with this event.
3. Effective immediately Mr. Vernon Moore is appointed Group Finance Director.

It is regrettable that the Group's policies and procedures on treasury and risk management were not followed by colleagues responsible.

We also invited auditor PricewaterhouseCoopers to study ways to improve the Group's internal control. Their recommendations to date have been accepted in full and will be implemented.

The Group has terminated some of the foreign exchange contracts. The rest are mainly denominated in AUD. The Australian iron ore project has a current estimated capital expenditure requirement of AUD1.6bn. In addition, during its 25 year project life, its operating expenditure is approximately AUD1bn. Depending on market conditions, we will be flexible when deciding our course of action in relation to the outstanding contracts, including termination, restructuring and taking delivery.

Needless to say, this is a very unhappy event. I strongly believe that with the support of the CITIC Group, our businesses will continue to be successful in the future. I would like to express my sincere thanks to the CITIC Group for its support.

Thank you

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