CITIC PACIFIC

Annual Report 2012

Designed & Produced by **HeterMedia Services Limited**

Content

CITIC Pacific at a glance

CITIC Pacific Limited (267.HK), listed in Hong Kong, is a constituent of the Hang Seng Index. We are a diversified company with a clear focus on three main businesses: special steel, iron ore mining and property development in mainland China. CITIC Pacific is 58% owned by CITIC Group Corporation.

We are pioneers and market leaders.

- building what is not only the largest magnetite iron ore mine in the world, but one of the largest single investments by a Chinese company outside China.
- operating the biggest dedicated special steel manufacturer in China, and
- building property projects that enjoy prime locations in economic centers of mainland China.

In our businesses, we embrace world-class technology and strive for international best practices. CITIC Pacific is strongly committed to long-term business success and lasting shareholder value.

Main Businesses

Special Steel

22% of assets

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With an annual production capacity of 9 million tonnes, CITIC Pacific Special Steel is the largest dedicated manufacturer of special steel in China. Major products include special steel bars and wires, medium-to-thick wall seamless steel tubes, special plates and special forging steel. Currently, over 80% of the special steel products are sold domestically to customers in the auto components, machinery manufacturing, shipbuilding, power generation, oil and petrochemical industries.

Iron Ore Mining

33% of assets

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The Sino Iron Project is 100% owned by CITIC Pacific, which has right to extract 2 billion tonnes of magnetite iron ore resource from its mine in Cape Preston in Western Australia's Pilbara region. Sino Iron is the largest magnetite iron ore development project in Australia and, when completed, will have six production lines with the capacity to produce a total 24 million tonnes of magnetite concentrate a year.

In April 2012, CITIC Pacific exercised an option to acquire the right for another 1 billion tonnes.

Property

mainland China

17% of assets

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CITIC Pacific focuses on developing medium and large scale projects in mainland China. Properties are located in prime areas of Shanghai and major cities in Yangtze River delta area and Hainan Province. Key projects currently under development include a resort in Shenzhou Peninsula of Hainan Island, office and a hotel in the Lu Jia Zui new financial district and residential development in Jiading and Qingpu districts of Shanghai.

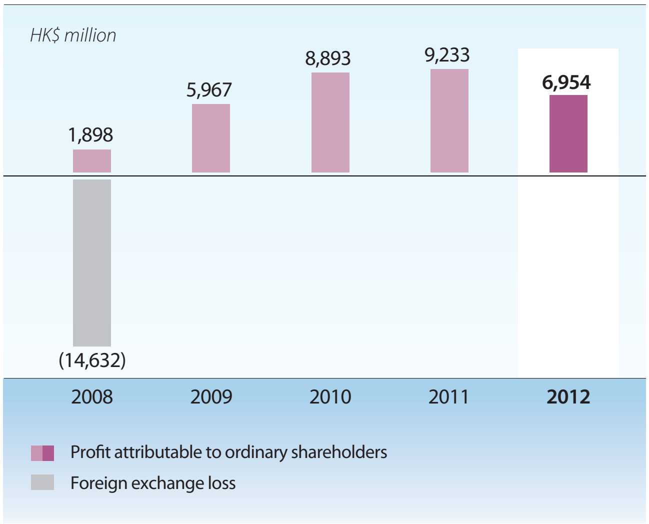
Financial Highlights

In HK$ million	**2012**	2011	Increase/ (Decrease)
Profit attributable to ordinary shareholders	**6,954**	9,233	(2,279)
Special steel	**211**	1,994	(1,783)
Iron ore mining	**(781)**	(423)	(358)
Mainland China property	**911**	2,160	(1,249)
Gain on disposal of assets	**2,850**	664	2,186
Other businesses	**3,763**	4,838	(1,075)
Cash inflows from business operations	**7,519**	7,934	(415)
Other cash inflows	**7,547**	5,633	1,914
Capital expenditure	**26,675**	24,476	2,199
EBITDA	**15,059**	18,398	(3,339)
Earnings per share (HK$)	**1.91**	2.53	(0.62)
Dividends per share (HK$)	**0.45**	0.45	–

In HK$ million	**As at 31 December 2012**	As at 31 December 2011	Increase/ (Decrease)
Total assets	**247,386**	229,739	17,647
Net debt	**83,808**	67,777	16,031
Cash and bank deposits	**32,821**	30,930	1,891
Available committed banking facilities	**14,701**	15,350	(649)
Total ordinary shareholders' funds and perpetual capital securities	**84,678**	80,958	3,720
Net debt to total capital (%)	**50**	46	4

Profit attributable to ordinary shareholders

For the year ended 31 December

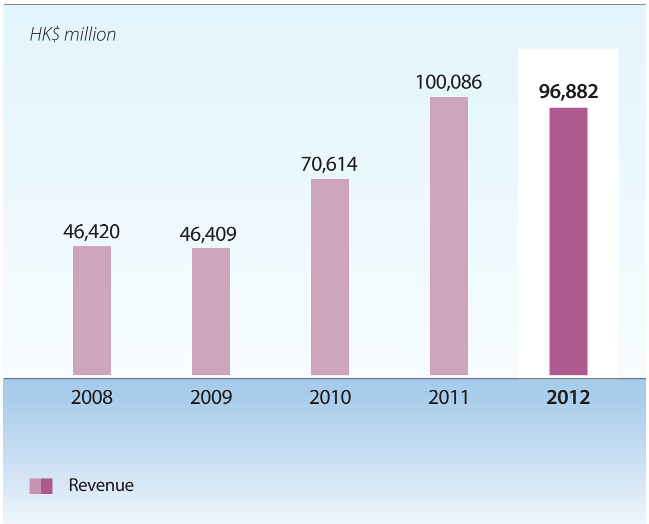


Total assets

As at 31 December

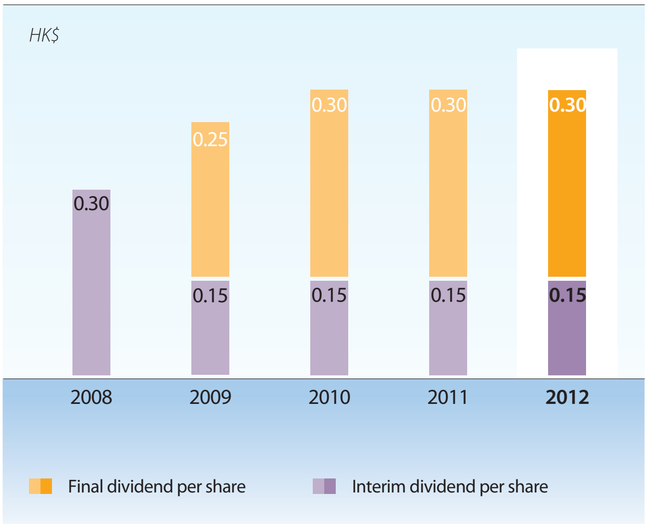
Revenue (including both continuing and discontinued operations)

For the year ended 31 December



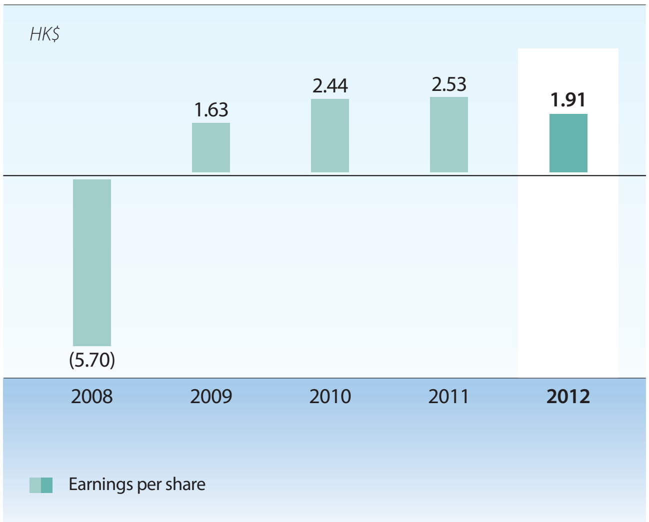
Dividends per share

For the year ended 31 December



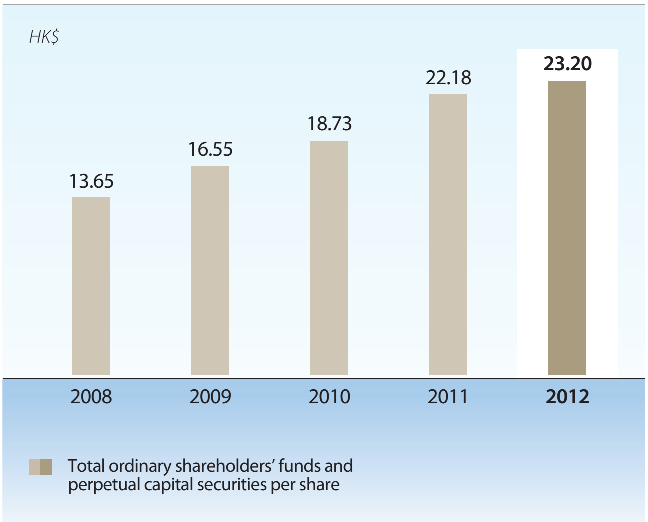
Earnings per share

For the year ended 31 December



Total ordinary shareholders' funds and perpetual capital securities per share

As at 31 December



CONSOLIDATING DIVERSITY FOR FOCUSED SUCCESS

Chairman's Letter to Shareholders

While the past year was filled with challenges, for CITIC Pacific it was also a year of progress and long-term promise.

Dear Shareholders,

Uncertainties in the global economy and in particular volatile commodity prices made 2012 a difficult year for many businesses and industries. While the past year was filled with challenges, for CITIC Pacific it was also a year of progress and long-term promise. Although our results were lower than last year, I remain confident about our long-term direction and fundamental strengths. I understand that with these challenges come concerns, and I will address them here with the aim of earning your confidence in our ability to generate value for you.

Results of 2012

Our profit attributable to ordinary shareholders for 2012 was HK6,954 million, which was 25% less than 2011. Profit from continuing business operations was significantly lower, mainly due to a sharp decline in the contribution made by our special steel business in the second half of the year. The weak demand for steel products resulted in loss-making for many steel producers in China. However, the fact that our special steel business was profitable for the year is an indication of the strength of this business. Profits from our mainland property business were also lower in comparison with last year. In addition to slowing property sales, the decline in profit was also due to adjusting the pace of our development to match the current market conditions. The hard truth is that both steel and property in mainland China were affected by the macroeconomic environment. While these two businesses did less well, other businesses such as energy, Hong Kong property and tunnels as well as Dah Chong Hong and CITIC Telecom performed satisfactorily and continued to contribute steadily to our profit and cash flow.

At the end of 2012 we had HK$48 billion in cash and available committed facilities, which gave us the financial flexibility to execute our investment plans and pay a dividend to our shareholders. In the 12 months to 31 December 2012, the strength of our credit was demonstrated when we successfully raised over HK$53 billion of new funds both from traditional bank sources and the issuing of long-dated bonds under our MTN programme, thus lengthening the maturity of our debt.

Our board is recommending a final dividend of HK$0.30 per share, giving our shareholders a total of HK$0.45 per share for the year 2012. This is the same as in 2011.

I remain confident about our long-term direction and fundamental strengths.

Our Top Priority – the Sino Iron Mine

Our highest business priority in 2012 was the Sino Iron project in Western Australia, and it will remain so through this year and the following two years. We achieved a major project milestone in November 2012 when the first concentration line began producing iron ore product. We are preparing for first shipment as I write, and the focus now is to commission line two in May 2013.

We have put so much into this project in every sense – time, energy and capital – that it is indeed gratifying to see the progress we have made despite the delays and unexpected costs. The commissioning and trial production of the first production line also reaffirmed our faith in our ability to fully complete the project and operate the mine. The iron ore concentrate produced thus far is of high commercial quality and will be used initially by our own special steel plants. Once production volume increases, ore will also be sold to other steel producers in China.

There is no denying that the road to first production has been difficult. In hindsight, when the decision was made to invest in Sino Iron in late 2006 both we and Metallurgical Corporation of China ("MCC") underestimated the complexity and the amount of work, time and capital involved in constructing an iron ore mine of this scale and in a foreign land. Subsequently, the business operating environment changed, and we faced steeper construction costs, a local labour shortage as well as a stronger Australian dollar. However, the price of iron ore has also gone up significantly. Despite how things may vary from one day to the next, the fact is we have made a long-term commitment, and we have the conviction to see the project through for its long life.

We are mindful that we still have four more lines to build. We are currently working as hard as we can to get them completed as early as possible. CITIC Pacific Mining has in the past few years gained valuable knowledge and first-hand experience in constructing, commissioning and operating the mine. Therefore, for production lines three to six, rather than appoint an EPC (Engineering, Procurement and Construction) contractor CITIC Pacific Mining itself will manage their construction and commissioning. Having completed the work for line one and most of line two, some operating entities of our current EPC contractor MCC have accumulated sufficient relevant knowledge, and they will be invited to join our team and perform specific tasks in the areas of design, construction, commissioning and technical services.

The Sino Iron project will shape the future of CITIC Pacific. Its success is also very important to CITIC Group, the controlling shareholder of our company. Therefore, the full support of CITIC Group is necessary to ensure the success of the project.

We know that investors are wondering about our production cost. Mining and processing magnetite iron ore is more expensive than mining direct shipping haematite ore. For a project of this magnitude, and in particular one involving a multi-stage process from mining and processing to dewatering, many variable costs are involved. Only when it is in full stable operation will we be able to obtain a more accurate cost per tonne. It is important to understand that for this year only two lines will be operational. So long as the quantity of concentrate produced is relatively modest, the production cost per tonne during this period will naturally be high, and this will put pressure on CITIC Pacific's bottom line, particularly this year and next. Better economies of scale will be achieved once all six lines are fully operational. We expect by then our cost of production should be comparable to other producers mining magnetite ore.

Chairman's Letter to Shareholders

To achieve profitability and realise the long-term value of this project for our shareholders, operating efficiency is key. Sino Iron is the world's largest magnetite iron ore mine. Compared with other magnetite mines in the world as well as those in China, Sino Iron employs some of the largest equipment in the market, and its processing plant features a relatively short process flow with an advanced control system comprising over 78,000 control points. These characteristics will in the short-term present challenges, particularly during the commissioning and trial production stages. However, once the mine is in stable operation the economic benefits will come through in lowered operating costs and greater operating efficiency. In fact, our focus is to increase efficiency in every aspect of our operation. One example is our mining team's extensive research on improving the efficiency of the shovels and trucks used to pick up and transport blasted rocks. So far, the truck load per trip has increased from 277 tonnes to 325 tonnes and will reach its designed capacity of 360 tonnes in due course. Shovel performance is targeted to improve by 25% from its current level by year-end. I am glad to say that our cost of mining per tonne of ore from the mine pit is comparable with most of the other established producers of iron ore. Operational studies and related improvements will continue to be made in all sections of the production line so our operation can be as efficient as possible.

We note that our mining peers are setting new standards of disclosure and transparency. We have also made good progress on this front. Our annual reports have included extensive descriptions of our mine's construction progress, and once the mine is fully operational we will strive to match industry best practice around operational disclosure.

Reflecting on the Past and Looking at the Year Ahead

It is sometimes necessary to take a step back and re-examine where we are and how we got there, particularly when faced with a changing and challenging operating environment. The result can be quite enlightening and thought-provoking.

Looking at CITIC Pacific today, some things are very much the same. We remain focused on developing our three main businesses, serving our customers and striving to create value for our shareholders. But some things are different. Structurally, we are now a member of the CITIC Group. Culturally, as some employees have acknowledged, we are much more systematic.

Why should someone invest in CITIC Pacific? What do I tell our employees about the organisation they work for? And what responsibilities does CITIC Pacific have to our society? It is time to return to fundamentals and provide answers to these basic questions.

Why should you invest in CITIC Pacific?

We have a clear strategy and a competitive business model that always strives for market leadership: Back in the mid-2000s, we made a commitment to focus on special steel, iron ore mining and property development in mainland China. We exited a number of other businesses that we did not actively manage and that were not essential to the growth of this company. Our intensified effort beginning in 2009 has paid off. We have grown the three main businesses so that they are now over 70% of CITIC Pacific's total assets.

Take our special steel business as an example. It is clear that CITIC Pacific Special Steel has the advantage of being the largest dedicated special steel manufacturer in China with a solid track record. We have a very strong team of professionals, many of whom have spent their entire lives in the business. While we outperformed the market in 2012, our executives still sought to analyse why, in the second half of the year, the plants incurred their first monthly loss in many years. They asked hard questions about how to raise margins, how to develop the market for new products such as special steel plates, how to stay ahead of competitors by continuing to improve product quality, and how to meet the changing and increasingly demanding needs of our customers. A number of issues were tackled, decisions made and realistic yet challenging targets set for 2013.

The reality is that the market for steel is unlikely to see major improvement in 2013. Steel producers will have to operate in an environment of excess capacity, moderate demand and low product prices. However, we still believe that special steel is different because of the specialised nature of its products and that it presents attractive growth potential. At the same time, being part of the big CITIC family means that support from CITIC Group is beneficial in the development of new markets for our special steel. For example, last year CITIC Group signed strategic cooperation agreements with China State Construction Engineering, China Shipbuilding and China International Marine Containers. Under these agreements, CITIC Pacific Special Steel will be given priority when these companies require special steel products. The strategy of "differentiating ourselves, our products and our services," combined with our efforts to further develop domestic and international markets, reduce costs and increase the technology content of our products, will continue to raise the core competencies of our special steel business.

Our business model is clear – concentrate on what we do best, and manage and grow the businesses by attending to the basics of earnings, cash flow and margins. Despite the difficult time we had last year, the fundamental strength of our businesses sustains us and ensures we are on the right path.

I believe that we are providing our investors an opportunity to participate in attractive growth areas that are very much part of the China story.

The goal I set for our businesses is to outperform the market. This can only be achieved by focusing on building competitive advantage. For special steel, these are our understanding of the market, knowing what customers want and being able to supply them with excellent quality products and superb services. Our Sino Iron project in Australia is now producing high quality iron ore concentrate, and we expect it will be a market leader in the export of high quality iron ore concentrate in the future. Our property development business in mainland China remains well positioned because of an excellent portfolio of land banks and a team of professional managers.

I believe that we are providing our investors an opportunity to participate in attractive growth areas that are very much part of the China story.

We reward shareholders with steady dividends whenever possible: I clearly remember being grilled by shareholders in 2009 at my first annual general meeting as chairman, when for the only time in its history CITIC Pacific did not pay a final dividend. I made a promise to them that when we returned to profitability dividends would be paid, and that promise was kept later the same year. I am of the strong view that while it is important to retain earnings to reinvest in and grow the company, it is equally important that our shareholders be rewarded with steady dividend payments.

Chairman's Letter to Shareholders

We believe in continually improving our corporate governance: To build CITIC Pacific into one of the best managed companies in the world was a goal I set for our management in 2009. Some told me that I was too aggressive as it meant that we had to run instead of walk and we might upset some people and the system. Change is always difficult but we want to keep up with the times and global benchmarks. Looking at where we are now, we have certainly made significant improvement to our systems, our management roster, and the way we manage our company and answer to our shareholders. We are committed to making further improvements in 2013.

We recently changed the balance of our board by increasing the proportion of independent non-executive directors. The change, which was advocated by institutional investors, meets modern corporate governance standards as reflected in the new Stock Exchange of Hong Kong requirements. Independent directors also bring to our company diverse perspectives and expertise. My intention is to add more independent non-executive directors when suitable candidates are identified.

Why should someone work for CITIC Pacific?

Being a good employer is not only good for employees, it should also matter to investors. The survival and prosperity of an organisation not only depends on its business assets but also on the human talent charged with protecting those assets, running the businesses, and generating returns for shareholders.

Expectations of employees are greater than ever. Today, it is no longer enough to simply offer job security. Training for our young people, opportunities for them to make a difference, and platforms on which they can develop into the leaders of the future are essential elements in attracting talent. Examples of our initiatives include the following:

- Increasing the number of classes and training we provide to our staff across all business units and functional areas.
- Building a new training facility in our headquarters.
- Revamping the job appraisal process so as to link individual performance with remuneration, particularly for senior managers.
- Engaging a consulting firm to conduct a thorough study and assessment of CITIC Pacific's finance function three years ago and repeating it in 2012. The result showed a marked improvement in communication among our finance staff, and their satisfaction with the training provided was reward for the work we put in.

CITIC Pacific is a corporate brand to be proud of, one with staying power and one with vitality. The CITIC Group and CITIC Pacific brands are veritable symbols of the economic progress China has made in the last few decades. The pride in our history and brand permeates our culture. We are much larger than when we began, and decades from now we will be even bigger and stronger and wiser.

After four years of being the steward of this company, I have a good understanding of the elements of our culture, which very much align with those of the CITIC Group: honesty, creativity, cohesion, harmony, dedication and excellence. These, combined with hard work and the diversity of our workforce, continue to attract the best young people. Looking at the organisation today, the diversity in our backgrounds, cultures and experiences is wonderful to see and represents a marked difference from a few years ago.

What responsibilities do we have to society?

There is no denying that our business objective is to make a profit. But in the process of generating profits, we have a responsibility to society, especially the communities in which we operate, to use resources and energy wisely, to do no harm to the environment and to carry out our business activities sustainably. We have a responsibility to be a fair employer and to protect our workers' safety and rights – in China, in Hong Kong, in Australia and in every other market where we have businesses. Now that we operate on a global stage, we seek to raise our standards every single year.

We have done quite a lot of work on this front, particularly in the iron ore mining operation in Australia. Environmental management is a crucial aspect of the operation of a mine, and we have a well-established Environmental Management System that drives our performance across the site. The "Leave No Trace" programme, whose goal is to educate and promote awareness among our mine workforce on responsible and safe recreational behaviour, was a finalist for the Department of Mines and Petroleum 2012 Golden Gecko Award for Environmental Excellence. Building a sustainable and positive relationship with local indigenous people is also imperative. This trust is key to ensuring the future success of our Sino Iron project, alongside social and economic benefits such as employment and economic stimulus. An example of one of our many initiatives is our success in helping local aspiring business owners with support and access to financing.

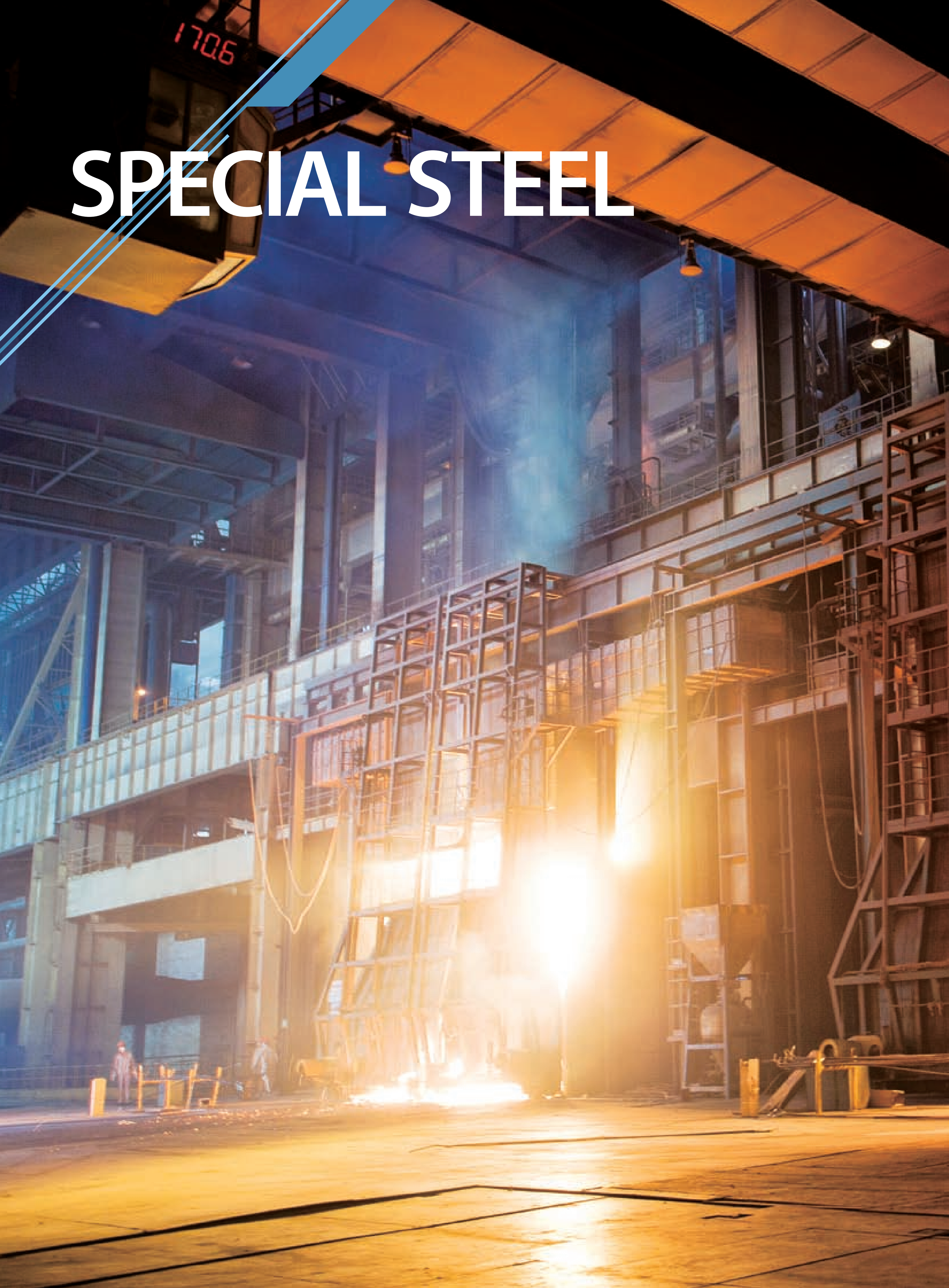
On the business side, the 450MW power station at our mine site is the largest and cleanest power plant in the Pilbara region of Western Australia. In our steel plants and our Ligang Power station in China, the focus of the on-going work continues to be on reducing emissions, saving energy, eliminating outdated facilities and utilising by-products where possible.

In closing, I want to acknowledge the concerns our investors may have about our business challenges. I am acutely aware that 2012 was not a good year for us in terms of our stock performance. But this should not overshadow the achievements we have made and the work we have done. I strongly believe that the underlying value of our businesses will flow through in the coming years, and that you, our shareholder, will benefit from it. There is no doubt that we will continue to be challenged but we pledge to have a closer dialogue with you. We believe that shareholders taking a long-term view will be rewarded by sticking with us, and we will strive to be good stewards of your investment in the years ahead.

The most critical asset in our organisation is our group of over 34,000 employees that I so take pride in. I thank them for being loyal and hard working. I thank our board for trusting me to lead this company, and I thank our investors and banks for their continued support.

Chang Zhenming
Chairman
Hong Kong, 28 February 2013

SPECIAL STEEL



SPECIAL STEEL

22% of assets

In HK$ million	2012	2011	Change
Turnover	40,358	44,043	-8%
Profit contribution	211	1,994	-89%
Assets	55,622	56,273	-1%
Cash inflow from operations	4,704	4,956	-5%
Capital expenditure	4,613	6,539	-29%

Review of 2012

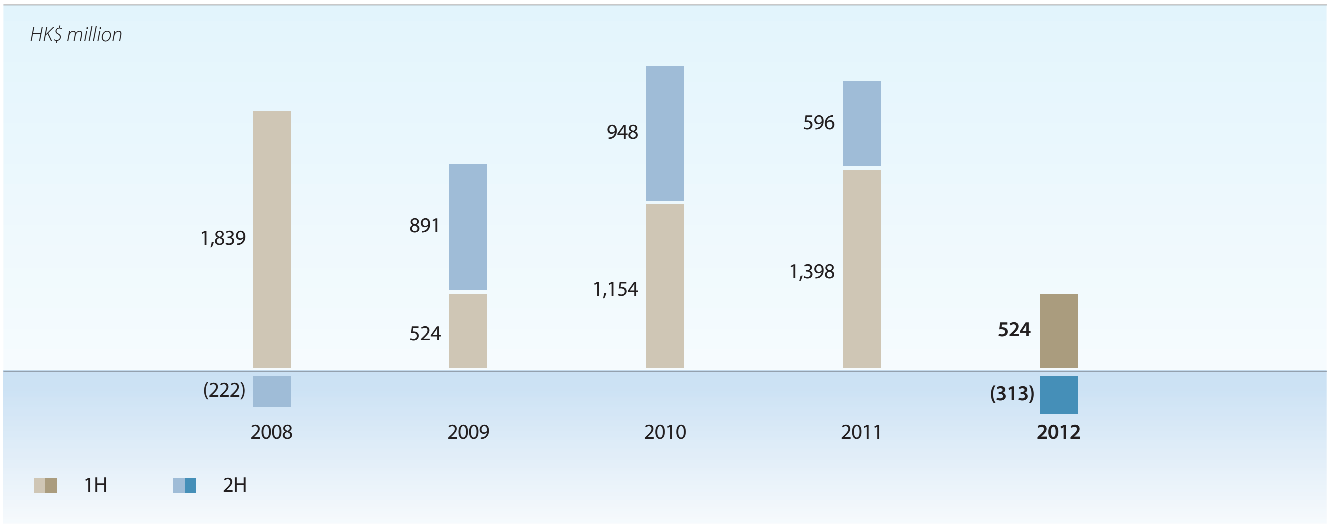
In 2012, the overall steel market remained weak as a result of uncertainties in the global economy and slower growth in China. The market for special steel was no exception.

Domestically, continued control measures put in place by the Chinese government to regulate the Chinese property market, combined with a tightened monetary policy affected fixed investments, reduced demand for steel products. This was particularly true of customers in the primary industries for our special steel products, such as auto components, machinery manufacturing, oil and petrochemicals, and shipbuilding. In addition, excess capacity in steel production in China also depressed the price of steel. However, the average price of raw materials such as iron ore and coke did not decrease as much, which resulted in lower margins and profitability for all steel manufacturers in China.

The situation is similar in the export market, where the European debt crisis continued to impede demand for steel, in particular for high quality special steel products.

Profit contribution from CITIC Pacific Special Steel was 89% less compared with 2011, the result of reduced demand and lower product prices. Nevertheless, the business was profitable taking the year as a whole which was comforting as many steel producers in China were loss making. A total of about 6.6 million tonnes of special steel products were sold in 2012, 4% less than in 2011. Product prices remained steady in the first half of 2012 but declined sharply in the third quarter. There was some recovery in the fourth quarter, but the average product price was 13% lower compared with 2011.

Profit contribution



CITIC Pacific Special Steel

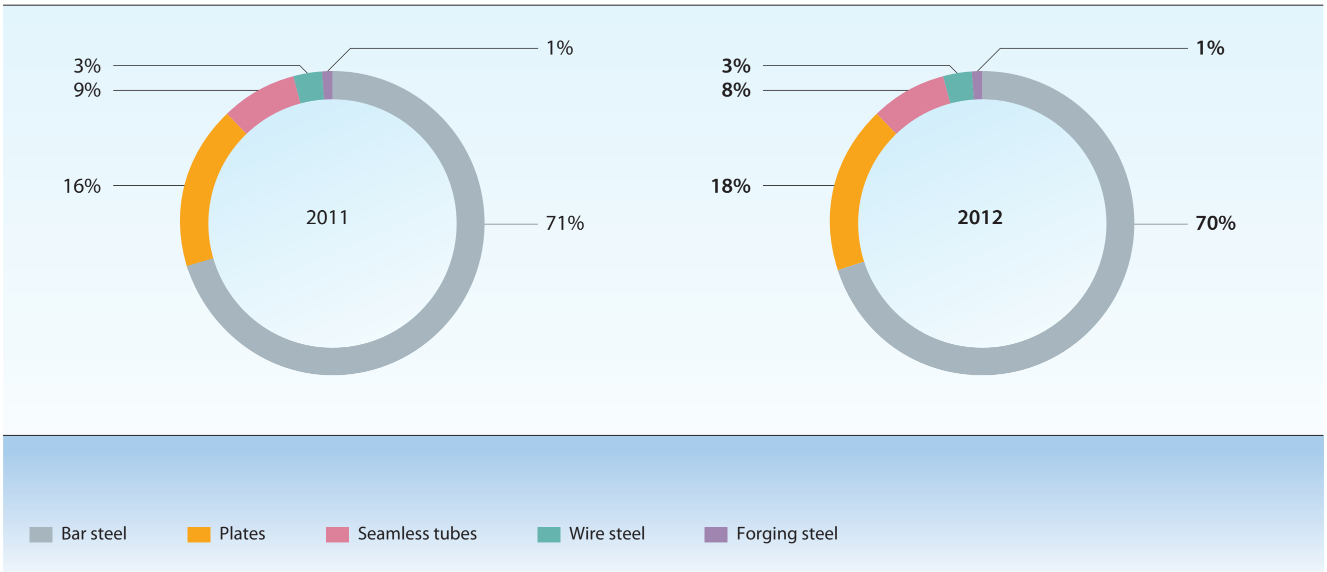
CITIC Pacific Special Steel is the largest dedicated manufacturer of special steel in China. It operates two plants — Jiangyin Xingcheng Special Steel and Xin Yegang. At the end of 2012, CITIC Pacific Special Steel's annual production capacity was 9 million tonnes.

Located in Jiangyin City of Jiangsu Province and Huangshi City of Hubei Province respectively, the two steel plants are strategically situated next to the Yangtze River and are well located to serve the major markets for special steel in eastern and central China. Major products include special steel bars and wires, special steel plates, medium-to-thick wall seamless steel tubes and special forging steel. These are widely used in auto components, machinery manufacturing, oil and petrochemicals, transportation, energy, railways and shipbuilding as well as other sectors.

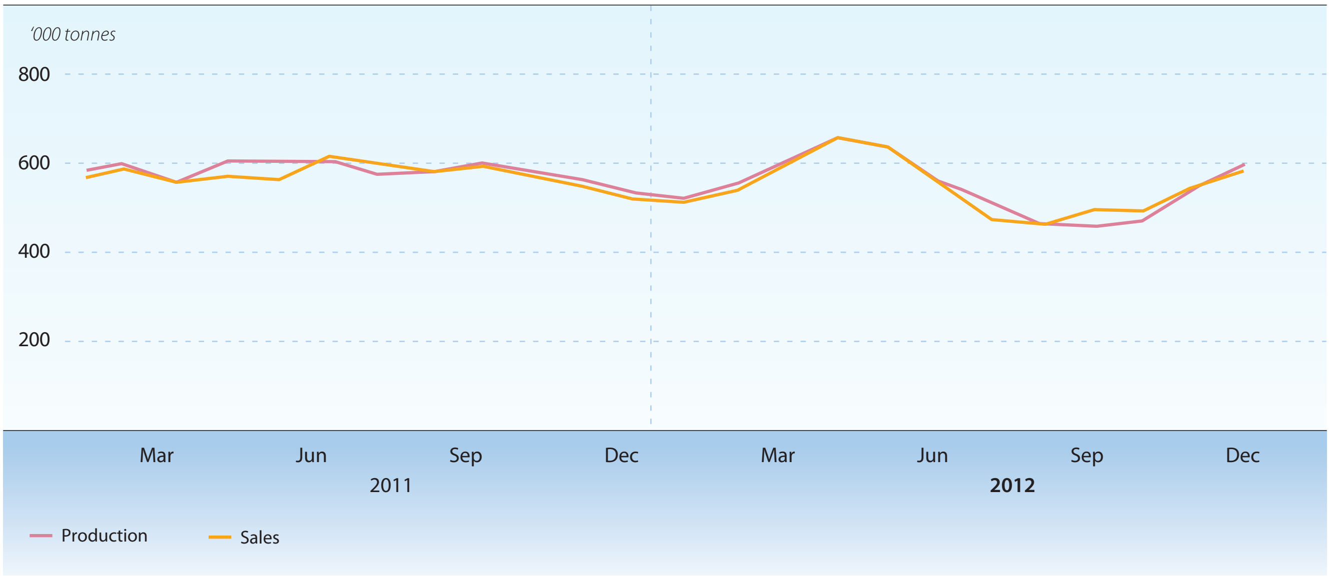
Form	Capacity ('000 tonnes)	Products
Bars and wires	5,180	Bearing steel Gear steel Spring steel Non-quenched and tempered free-cutting steel High-end core steel High-pressure tube billet steel Tools and die steel Big casting round billet
Plates	2,600	Pressure vessel steel plate High strength shipbuilding steel plate Ocean engineering steel plate Engineering machinery wear-resistant steel plate Pipeline steel Die and mould plate
Seamless steel tubes	1,100	Petroleum drilling pipe Pin bush pipe Boiler pressure vessel pipe Engineering machinery pipe Bearing pipe
Special forging steel	120	Railway bearing steel Tools and die steel Cold roller steel Ultra-high strength steel High-temperature alloy Stainless steel
Total	9,000	

Production

Catagory	Production ('000 tonne)	Percentage	Change from 2011
Bar steel	**4,580**	70%	(6)%
Plate	**1,160**	18%	2%
Seamless tubes	**530**	8%	(15)%
Wire steel	**220**	3%	(8)%
Forging steel	**80**	1%	0%
Total	**6,570**	**100%**	**(6)%**



Monthly production and sales volume



Products

Bars and wires

CITIC Pacific Special Steel has a long history of producing bars and wires and commands a leading position in the market for these products. They are mainly sold to the auto component and machinery manufacturing industries. The capacity utilisation rate of our bar and wire production lines in 2012 was 93%.

Sales volume of bars and wires in 2012 was 6% less compared with 2011. In the year under review, fixed investment in the real estate and infrastructure sectors declined, which resulted in decreased sales to the machinery manufacturing sector. In the auto component sector, suppliers to auto manufacturers such as Toyota and Honda reduced orders as a result of the dispute between China and Japan over the Diaoyu Islands in the second half of the year, which caused a sharp decline in demand for Japanese brand cars. This in turn negatively impacted our sales of bar and wire products.

Key bar steel products

	Sales	China market share	
Product	('000 tonnes)	**2012**	2011
Gear steel	820	**29%**	32%
Bearing steel	810	**28%**	26%
Alloy spring steel	370	**21%**	20%
Alloy structural steel	1,990	**19%**	15%

Statistics are sourced from the China Special Steel Enterprises Association and include registered companies only.

Special steel plates

Special steel plates, which are new additions to CITIC Pacific Special Steel, are manufactured at two production lines in our Xingcheng Special Steel plant. These plants have a total production capacity is 2.6 million tonnes of medium-to-thick (4,300mm and 3,500mm wide) plates annually. In 2012, production of special steel plates was 1.2 million tonnes, a 2% increase compared with 2011.

The market for steel plates remained oversupplied during the year. Price competition was fierce, especially for the conventional steel plates supplied to shipbuilding and building construction. In 2012, our steel plates were granted approval and received certifications from a number of customers and authorised institutions, such as Siemens, Vistas, American Petroleum Institutions (API), CE and Japanese Institutions Standard. However, since CITIC Pacific is a newcomer in this product category, more time is needed to develop the market and build a customer base.

Seamless steel tubes

In 2012, sales of seamless steel tubes was 530,000 tonnes, 13% less compared with 2011. In addition to a weak market, oversupply of these products in the domestic market and very weak exports, especially to the European market, were contributing factors. Utilisation of our seamless steel tube production lines was 48%.

At CITIC Pacific Special Steel, we put a great deal of effort into enhancing our production processes and improving the quality of our products. The result is that the sales volume of certain types of seamless steel tubes, such as ingot-casting and electro-slag, increased 12% from a year ago. The prices of these products are usually RMB7,000 per tonne higher than other steel tube products.

Special forging steel

In 2012, forging steel production and sales were 80,000 tonnes with a capacity utilisation rate of about 67%.

During the year, electro-slag certification was granted by FAG of Germany, and the certification process for our ring parts was completed by SKF of Sweden. We also supplied the steel used in the new engine designed by China's Aerospace Designer House, thereby laying a solid foundation for our high-end forging products to penetrate the aerospace industry.

Sales

CITIC Pacific Special Steel's primary market is mainland China, where we had approximately 3,100 customers in 2012 — a net increase of 200 customers over 2011. The increase was mainly driven by the development of new markets for special steel plates, and we believe that this will continue as our plate products become more established. In 2012, our top ten customers accounted for approximately 14% of sales revenue.

In 2012, 73% of our products were sold directly to our customers rather than through distributors. This is a key feature of the special steel business, where selling direct provides more visibility and stability in terms of the volume and price of our products. It also enables us to better understand the needs of our customers and any changes in the market environment. Many buyers of our products are producers affiliated with or contracted to manufacturers in the auto, machinery manufacturing, and oil and petrochemical industries. They include end users such as Toyota, General Motors, Honda, Volkswagen, Volvo, Caterpillar and Michelin.

Our products are sold to these regions in China

Our products are exported to these regions and countries

Region/Country	Sales volume ('000 tonnes)	Percentage of total exports
Asia	457	51%
Korea	*204*	*23%*
Thailand	*50*	*6%*
Indonesia	*42*	*5%*
Vietnam	*31*	*3%*
Others	*130*	*14%*
Europe	154	17%
Americas	158	17%
Middle East & Others	135	15%
Total	**904**	**100%**

Export markets suffered due to the slow global economic growth and the European debt crisis. However, CITIC Pacific Special Steel continued to explore overseas opportunities by focusing on developing markets for high value-added alloy plate and heat-treatment plate and by enhancing market awareness of our products. Following the development of our customer base and certification of our plate products, exports of our medium-to-thick plates increased, and this compensated for the decline in exports of other products affected by the weak global demand. Export volume in 2012 was about 900,000 tonnes, about the same level as 2011.

CITIC Pacific Special Steel's key customers

Customer	Profile	Percentage of revenue
Yangzhou Chengde Steel Pipe Co.	A private bearing company with the widest range of seamless steel tube products in China. It is also a key producer of high-end large diameter seamless steel tubes. The company has co-developed many unique products with CITIC Pacific Special Steel.	2.7%
Bekaert Management (Shanghai) Co., Ltd.	World's largest independent manufacturer of drawn steel wire products. The company has been working with CITIC Pacific for four years, during which CITIC Pacific Special Steel supplied a total of 500,000 tonnes of wire steel.	1.9%
SKF Group	A leading global bearing manufacturer buys 90% of its bars required in China from CITIC Pacific Special Steel. A global corporation agreement was signed between the two companies in 2011.	1.7%
Tri-Ring Group Corporation	The company's major business is manufacturing and marketing special purpose vehicles, automobile components, and metal forming equipment. 80% of the materials Tri-Ring uses are supplied by CITIC Pacific Special Steel.	1.6%
Xuzhou Rothe Erde Ring Mill Co., Ltd.	Wholly owned by Rothe Erde of ThyssenKrupp, Germany, the company is a leading manufacturer of seamless rolled rings in China. The company has been using big casting round billet supplied by Xingcheng Special Steel since 2007. The two companies have jointly developed large diameter casting billet, which successfully replaced imported billets.	0.9%
Sany Heavy Industry Co., Ltd.	The largest engineering machinery manufacturer in China and sixth largest in the world. One of the biggest customers of Xin Yegang's seamless tubes.	0.4%

Our products are sold to these industries

	Sales ('000 tonnes)		Percentage of total sales	
Industry	**2012**	2011	**2012**	2011
Auto components	**2,010**	2,020	**31%**	30%
Machinery manufacturing	**1,560**	1,530	**24%**	22%
Shipbuilding	**660**	950	**10%**	14%
Power generation	**800**	900	**12%**	13%
Oil and petrochemical	**800**	620	**12%**	9%
Metal works	**420**	390	**6%**	6%
Railway	**120**	140	**2%**	2%
Others	**180**	300	**3%**	4%
Total	**6,550**	**6,850**	**100%**	**100%**

CITIC Pacific Special Steel sold 55% of its 2012 production to the auto component and machinery manufacturing industries, which remain our two most important segments. Shipbuilding saw the biggest drop in sales over the past two years. This was due to the continuing weak demand in the shipping industry and the shift of our target customers for special plates to machinery manufacturing, oil and petrochemicals, high-rise construction and other specific industries. As a result, sales in the oil and petrochemical industries increased by volume and proportion. CITIC Pacific Special Steel has been tracking the demand for special steel products in various industries and flexibly adjusting its product mix according to varying demand and changes in the market.

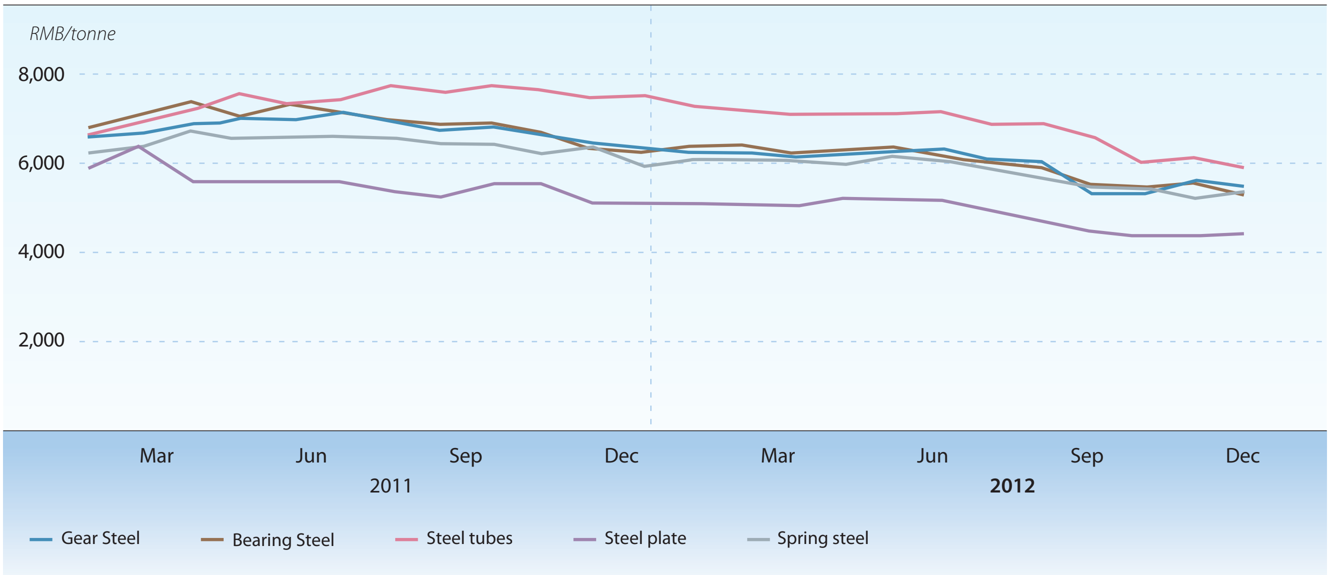
Product Pricing

Pricing of special steel products is mainly driven by two factors: demand and the cost of raw materials. Historically, in a market where demand and supply are in balance, increases in the price of raw materials can usually be absorbed by increasing the price of the products. However, in 2012, when there was oversupply in the market, associated with a decrease in selling prices, the profit margin of our steel mills was negatively affected.

These conditions contributed to CITIC Pacific Special Steel's 2012 average selling price falling 13% lower than that of 2011.

Since approximately 70% of our steel plants' production cost is directly attributable to the cost of raw materials, changes in the price of raw materials are a very important factor in determining the selling price of our finished products. It takes about two to three months to go through the process of raw material procurement, production, and then delivery of the final products to customers. Pricing is not fixed until orders are formally placed or before products are delivered. There will be further price adjustment based on the market demand and supply.

Major product prices



Raw Materials

Major raw materials

Type	Raw material used in 2012 ('000 tonne)	Percentage of total production cost
Iron Ore	9,880	29%
Scrap Steel	1,480	10%
Coke*	3,000	18%
Alloy	250	12%
Total	**14,610**	**69%**

* Compared with 2011, the coke used in 2012 has been adjusted to reflect the actual amount used in steel production

Price of major raw materials

Iron ore

Of the total 9.9 million tonnes of iron ore purchased in 2012, approximately 40% was sourced through supply contracts, which were for volume only. The rest was purchased on the spot market.

In 2012, the price of iron ore was volatile as the iron ore index decreased sharply from July to September but rebounded quickly in the fourth quarter. This market environment made it especially challenging for steel producers to manage raw material costs.

Once CITIC Pacific's iron ore mine in Australia is in full production, it will be able to meet our need for quality concentrate.

Source of iron ore

Country	Percentage of total	Main suppliers
Australia	53%	Hamersley, BHP
China	16%	Mines in Northeast China and Hubei Province
Brazil	15%	Vale
Others	16%	Jiangsu Huamao, Shandong Wanbao, Bao Mineral

Coke

CITIC Pacific Special Steel currently has 2 million tonnes of annual coke production capacity. In 2012, 1.8 million tonnes of coke was produced which met about 60% of the requirements of the two steel plants. The coking facility is being expanded by another 1.3 million tonnes, and this is expected to be completed at the end of 2013.

Scrap steel

In 2012, 99% of the scrap steel we used was sourced domestically, with only 1% coming from overseas markets.

Alloys

The main alloys used in the production of special steel are ferrosilicon, ferrochrome, ferromanganese, molybdenum, nickel and vanadium, and these are usually sourced domestically.

The Environment

Our steel plants continued to focus on reducing emissions, saving energy and eliminating outdated facilities. These efforts not only support the sustainable development of our business, but also reflect our commitment to social responsibility.

- Our energy-controlling centre is responsible for managing energy usage of the steel plants and planning for contingencies under a variety of scenarios. The centre helps reduce energy consumption by lowering the release rate of gases and oxygen, and by increasing the water recycling rate.

- In an effort to eliminate outdated facilities, Xin Yegang has closed two small blast-furnaces and one electric-arc furnace. These closures were in compliance with China's environmental regulations and had the added benefit of increasing our efficiency.

- Our research centre for energy conservation and emission reduction works closely with universities and research institutes in China to jointly develop new technologies and techniques that minimise our impact on the environment.

- We treat pollutants such as fumes and dust discharged from the production process and recycle and treat waste-water, gases and other waste residuals. The methods used are shown in the following table:

Major pollutants	Measures
Industrial fumes and dust	Cloth filter de-dusting and electric de-dusting
Sewage water	Cooling water recycling; small quantity treated in sewage treatment station before discharging
Waste residual	Recovered and recycled
Noise	Sound-proof coverage used for all noise-generating equipment Factories located away from residential areas
Sulphur dioxide (SO_2)	Treated with wet de-sulphuring device

In 2012, all major indices in our two steel mills, such as sulphur dioxide emissions per tonne of steel and the comprehensive utilisation rate of solid wastes, met the standards set out in China's 12th Five-year Plan for the Iron & Steel Industry. The discharge of all major pollutants also met China's national standards.

Looking Forward

2012 was difficult for CITIC Pacific Special Steel as we suffered our first monthly loss in many years. We believe that the market for steel is unlikely to see major improvement in 2013. Steel producers will have to operate in an environment of excess capacity, weak demand and low product prices.

For CITIC Pacific Special Steel, our ultimate objective is to continue raising the core competencies of our business and maintain our market leading position. We aim to achieve this by employing a strategy of differentiating our products and our services, as well as continuing our efforts to reduce costs and increase the technology content of our products. Specifically, our work for 2013 will focus on the following areas:

Products and Services

1. *Improving product and service quality*

   CITIC Pacific Special Steel currently has its own technical centres, laboratories and post-doctoral research centres, which are all nationally recognised for their industry expertise. Their work is to develop new products and offer services to clients needing consultation on special steel applications.

   We aim to develop new products that will replace 10% of our outdated products each year. We have thus far achieved this goal. In 2012, 710,000 tonnes of new products were produced, about 11% of the year's total production.

2. *Optimising our product mix*

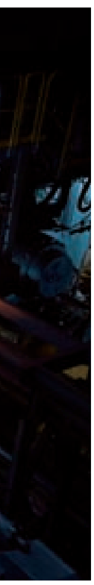
In the last few years, CITIC Pacific Special Steel has not only expanded its production capacity but also its product spectrum, and is now offering its customer with bars and wires, seamless steel tubes, special steel plates and special forging steel.

As special steel by nature is very specialised and tailored to customers' needs, it is important we understand the market and optimise our product mix by responding quickly to markets needs. For example, from our performance in 2012 it is clear that there was more demand for bar and wire products than other products. In 2013, we will thus take advantage of the market by increasing the production of these products to further cement our already strong position and raise their profitability.

In new product areas, our focus will be to identify key niche markets. For example, in seamless steel tubes we aim to increase our market share by providing quality products to oilfields, which require high strength tubes that are hydrogen sulphide-proof and carbon dioxide-resistant. In plates, we will put our efforts into developing high-end plate products used in marine engineering, high-rise construction, wind power generation and mould areas.

3. *One-stop service to customers*

We learned long ago that just selling products is far from enough; providing excellent services to customers is also critical in today's increasingly competitive market. One of the initiatives that we will continue is building product distribution centres near our key customers' production facilities. This value-added service provides customers easier and faster access to our products and also helps us to retain them.



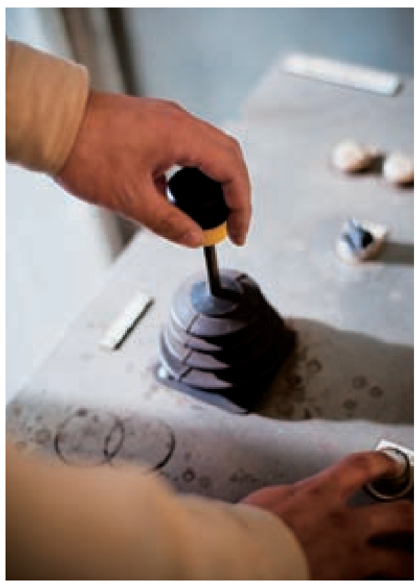
Reducing costs and improving operating efficiency

One of the key focuses of our work is reducing costs and increasing operating efficiency. Specifically, our targets is to make maximum use of our iron and steel-making capacity, eliminate low-margin products and plan our production better in order to minimise excess inventory.

Major raw materials such as iron ore and coke represent approximately 70% of our steel plants' production costs. It is therefore important for us to minimise the cost of these raw materials.

A pellet plant with an annual capacity of 6 million tonnes is being constructed in phases in Jiangdu district, located in Yangzhou city of Jiangsu province. Its location on the Yangtze River will allow the pellets to be shipped to our steel plants. Once completed, it can pelletise iron ore concentrate from CITIC Pacific's Sino Iron ore mine in Western Australia.

A new coke making facility is also being constructed in Tongling, Anhui province. The first coke oven is expected to be completed in the second half of 2013. A second coke oven is scheduled for completion in end of 2013. By then, CITIC Pacific Special Steel will have a total annual capacity of 3.3 million tonnes in coking production, which will be sufficient to meet the needs of our two plants



Market development

1. Strategic relationships

Building strategic relationships with customers not only helps us market our products better but is also important for our understanding of the products and services they need through customer interactions.

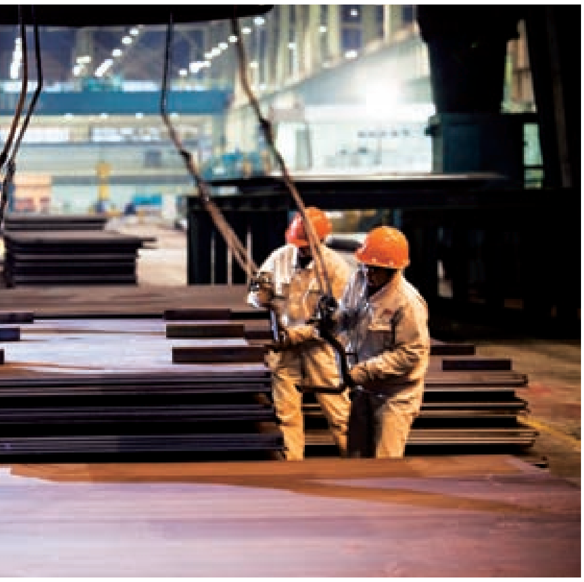
In 2012, strategic relationships were established with prominent enterprises such as China Railway Group and the China Three Gorges Corporation. To date, we have signed strategic cooperation agreements with 13 well-known domestic and overseas companies, including SKF of Sweden, China State Construction and China Railway Group. These affiliations have allowed us to further expand our strategic client base and to set up a solid foundation for future sales expansion in domestic and international markets.

At the same time, being part of the big CITIC family means that support from CITIC Group is beneficial in the development of new markets for our special steel. For example, in last year CITIC Group signed strategic cooperation agreements with China State Construction Engineering, China Shipbuilding and China International Marine Containers in which CITIC Pacific Special Steel will be given priority when these companies require special steels.

2. Increase market penetration

In order to expand domestically and develop new overseas markets, we accelerated the certification process of our new plate and seamless steel tube products. These certifications are essential in tapping the markets for these products as they acknowledge customers' acceptance of the quality of our products. In 2012, our plate products for wind power usage obtained certifications from Siemens and Vestas Wind Systems, which enabled us to begin production for these customers. Our pipeline steel also obtained a production permit from CNPC and received an American Petroleum Institute (API) certificate. Pressure vessel plates have passed the national certification requirements for the pressure vessel industry and EU CE certification.

In 2013, CITIC Pacific Special Steel will continue the certification work of our new products and extend market penetration into key industry sectors such as energy, transportation, engineering machinery, and aerospace, which have all been identified as key areas for development in China. Recently, CITIC Pacific Special Steel set up a strategic team for developing overseas markets. This team aims to increase our share in the international market for our high-end products, such as bearing steel, steel for automobiles, seamless steel tubes and heat-treated bar steel.



Facts and Statistics

What is special steel?

Special steel refers to steel produced using special techniques, with special characteristics and special purposes. Categorised by shape, special steel includes bar steel, plates, strip steel, tube steel and wire steel. These products are sold to manufacturers for making products such as gears, bearings and springs.

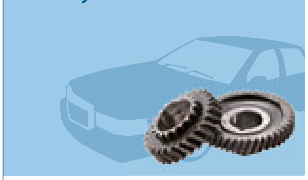
INDUSTRIES AND MAJOR PRODUCTS USED

APPLIED INDUSTRY

Auto Component

PRODUCTS

Gear steel
Bearing steel
Spring steel
Alloy structural steel



PRACTICAL EXAMPLES

Transmission gears
Bearings
Transmitting shafts
Connection rods
Crankshafts

APPLIED INDUSTRY

Machinery Manufacturing

PRODUCTS

Alloy structural steel
Carbon structural steel
Tools and die steel

PRACTICAL EXAMPLES

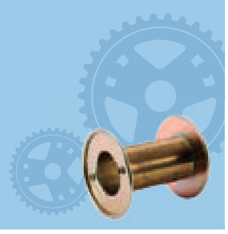
Oil cylinder pipes for engineering machinery
Hydraulic props support for coal mining machinery
Large modules

APPLIED INDUSTRY

Metal Work

PRODUCTS

Tyre cord steel
Steel for standard parts



PRACTICAL EXAMPLES

Radial tyres
Standard bolt parts

APPLIED INDUSTRY

Power Generation

PRODUCTS

High pressure tube billet
Casting round tube billet

PRACTICAL EXAMPLES

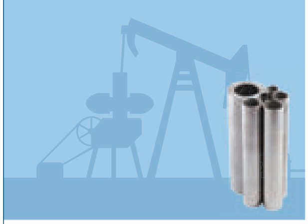
High pressure boiler tubes
Wind power ring parts

APPLIED INDUSTRY

Oil & Petrochemical

PRODUCTS

Seamless steel tubes
▪
Medium-to-thick plate pipeline steel



PRACTICAL EXAMPLES

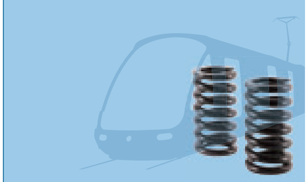
Drill collars and casing couplings
▪
Oil and gas transport pipelines
▪
Offshore drilling platform

APPLIED INDUSTRY

Railway

PRODUCTS

Spring steel
▪
Carbonisation bearing steel



PRACTICAL EXAMPLES

Locomotive springs
▪
Bogies
▪
Wheels
▪
Fasteners
▪
Bearings

APPLIED INDUSTRY

Military

PRODUCTS

Alloy structural steel
▪
High-temperature alloys

PRACTICAL EXAMPLES

Shells
▪
Body tubes
▪
Engine blades

APPLIED INDUSTRY

Shipbuilding

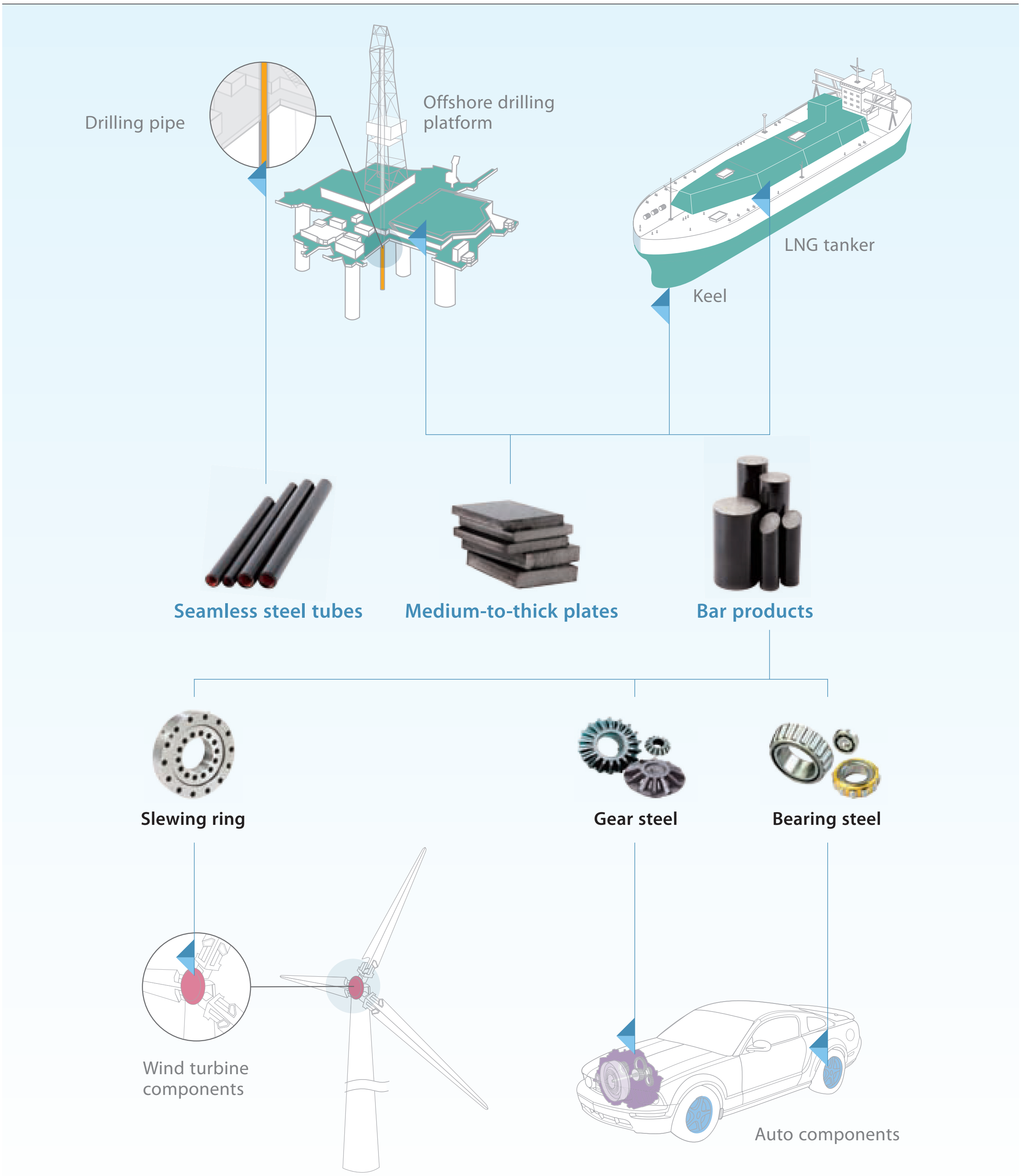
PRODUCTS

Anchor chain steel
▪
High strength plate

PRACTICAL EXAMPLES

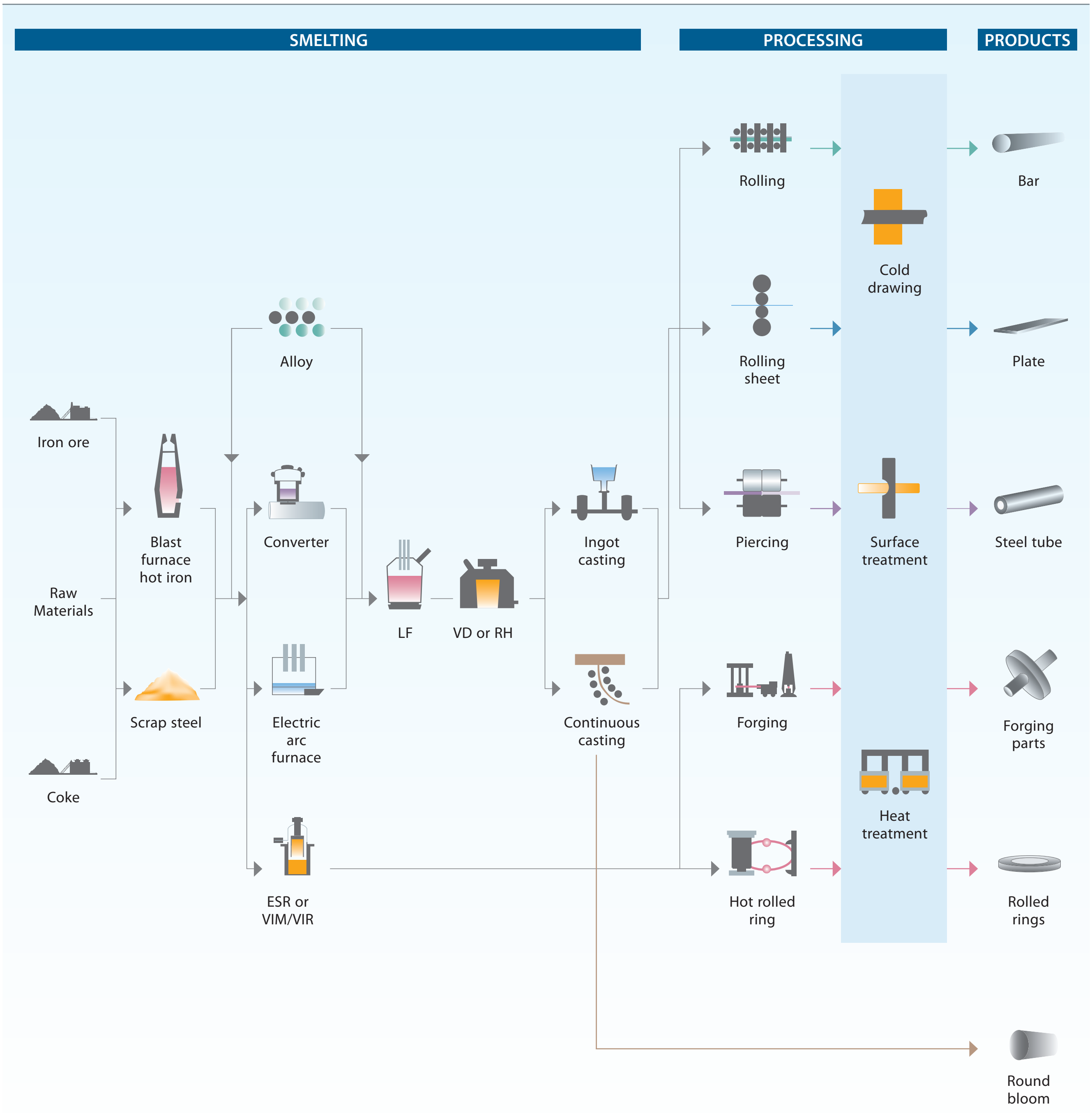
Anchor chains
▪
Decks

PRACTICAL EXAMPLES

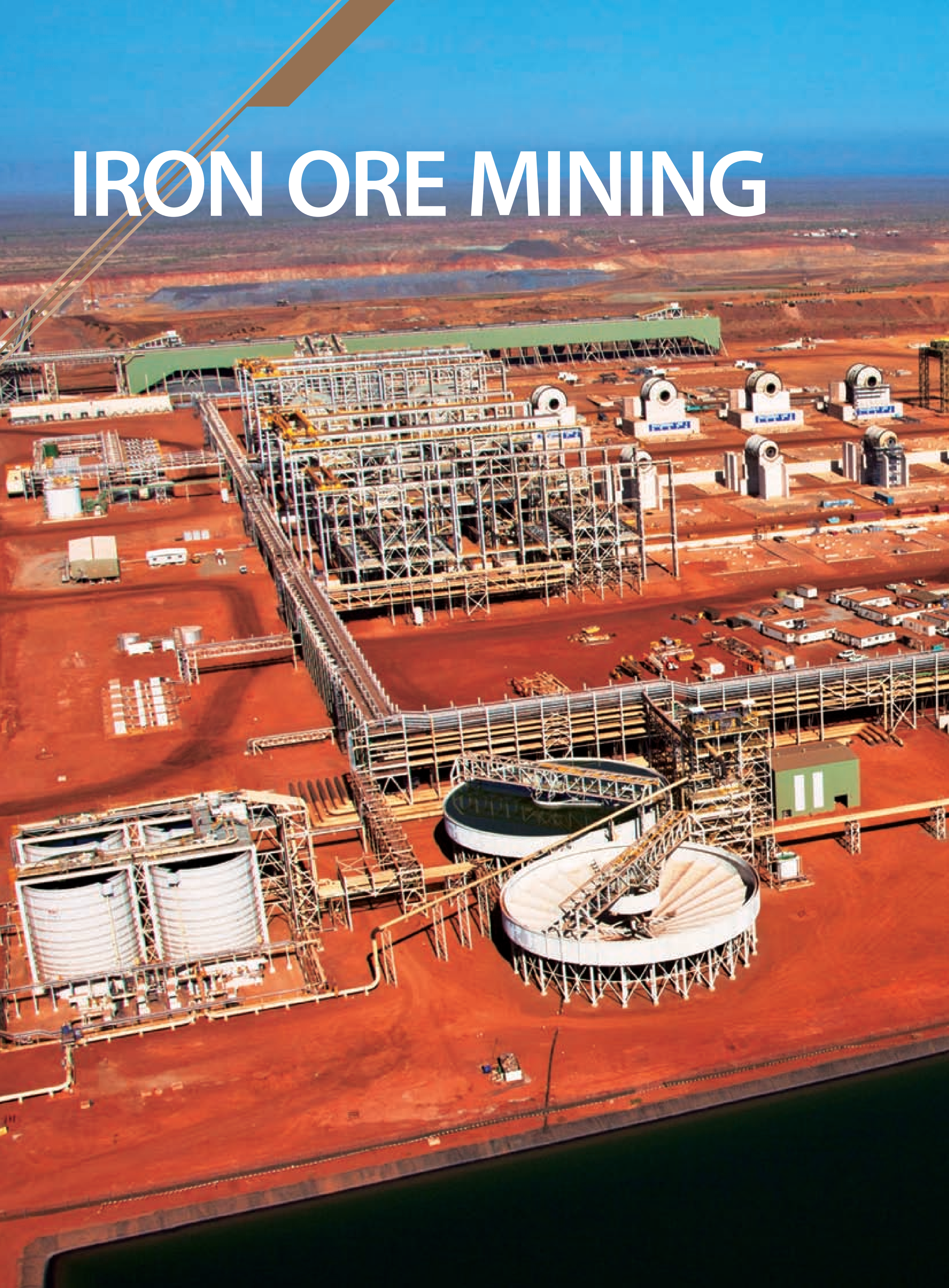


Special Steel Manufacturing Process

Our special steel plants employ two different technologies: the long process and the short process. The long process uses iron ore and coke as raw materials, and the short process uses scrap steel, pig iron or molten iron. After the molten steel is produced from the long or short process, alloys are added as the steel passes through various production processes, including the ladle-refining furnace, an 'RH' or vacuum degassing furnace, casting and rolling. From these processes, steel billets and slabs are produced and shaped to various specifications according to customers' requirements. The management teams at the plants are focused on product quality and cost efficiency and will therefore choose whichever process matches the requirements of the work.



IRON ORE MINING



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Major Milestones
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KEY MILESTONES

2006

MAR Initial mining right purchased

MAY CITIC Pacific Mining formed

DEC Major Project Status granted by Australian government

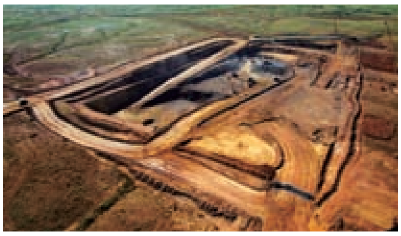
2007

JAN EPC contract signed with MCC for the main processing area

NOV First deliveries of mining fleet to site, including RH 170 excavator and Terex haul trucks

DEC Start mining of bulk sample

2008



MAR About 30% of mining fleet on site

Movement of the first million tonnes of material from bulk sample pit

MAY Government approval to start construction

AUG Construction team mobilised to site

DEC Approval to export concentrate and pellets

2011

JAN CITIC Pacific's first 115,000 tonne vessel launched

MAY First gas turbine ready to supply power

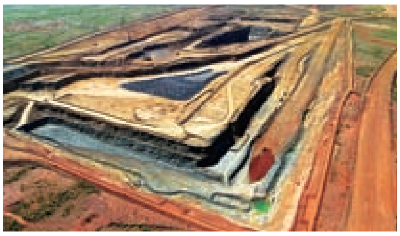
JUN Over 100 million tonnes of material removed

AUG Successful testing of first in pit crusher

SEP Barges and transhipper arrived at the port

OCT Construction of desalination plant west line completed

2009



FEB Port construction begins at Cape Preston

APR Over 30 million tonnes of material removed

OCT First transhipment barge launched in China

NOV First major overseas delivery received through service wharf

2010

FEB First two grinding mills arrived at site from China

MAR First ball mill lifted onto foundations

JUN First major desalination module arrived

2012

APR CITIC Pacific exercised option to acquire an additional 1 billion tonnes of magnetite ore

JUL Over 150 million tonnes of material removed

SEP Desalination plant produces water

NOV Production line 1 commenced load commissioning and first iron ore concentrate produced

IRON ORE MINING

33% of assets

In HK$ million	2012	2011	Change
Assets			
Iron ore mine	**75,024**	61,747	22%
Vessels	**6,553**	5,250	25%
Capital expenditure			
Iron ore mine	**15,502**	11,873	31%
Vessels	**1,010**	710	42%

Review of 2012

The Sino Iron project achieved significant progress in 2012. The first production line and common facilities for all six lines commenced load commissioning in November and produced first concentrate, a major milestone for the largest magnetite project in Western Australia. The project's infrastructure also successfully delivered power and water to meet the needs of processing activities.

Fine tuning of the first production line is continuing. As of the end of February 2013, over 30,000 tonnes of magnetite ore had been ground by the grinding mills and over 10,000 tonnes of concentrate processed. We are currently preparing for first shipment to CITIC Pacific's special steel plant in Jiangyin, China.

Installation of the second production line is nearly complete, and its load commissioning is targeted for May 2013. The grinding mills for lines three to six have already been installed. Load commissioning of these four lines is scheduled to begin from the second half of 2014.

CITIC Pacific Mining will manage the project itself and we are in discussion with NETC, a subsidiary of MCC that has done the design work for the project, to continue its work. Having completed the work for line one and nearly completed the work for line two, some units of MCC have gained significant relevant experience and knowledge. They will be invited to join our team to perform specific tasks in the areas of construction, commissioning and technical services.

The infrastructure in support of the processing activities includes the 450 megawatt combined cycle power station, the first of its type in the Pilbara and the biggest desalination plant in the Australian mining industry. Both are now in operation providing the required power and water.

The transhipment operation moving concentrate product from the port onto barges, and then using transhippers to load it onto our vessels, will be the largest in Australia in terms of the volume of product to be handled and fleet size. The barge loader and marine assets have been commissioned in readiness for the first shipment. Recruitment, training of personnel and marine simulation are the final steps in preparation for the operation of the project.

Project Progress

Component	In operation	Construction activities
Processing		
Crushers	First crusher in operation	Second crusher commissioning commenced; target to begin load commissioning in April Mechanical installation of the third and fourth crushers is targeted for completion by the end of March
Conveyors	First conveyor in operation	Mechanical installation of 2nd conveyor is targeted for completion by the end of March
Concentrators	Production line 1 in operation	Installation of production line 2 nearly completed Grinding mills of production lines 3 to 6 installed
Slurry and water pipelines	All pipelines are in operation	
Dewatering plant	First filter building in operation	Installation of second filter building completed and is targeted to start load commissioning in mid-April Installation of third and fourth filter buildings continuing
Port stockyard	Port stockyard ready for operation	
Tailings storage facility	Tailings dam in operation	Commissioning of tailings storage facility; load commissioning targeted for mid-April
Power station and gas pipeline	Power station and gas pipeline are in operation All seven gas turbines have gone through 30 megawatt load testing First combined cycle block has completed synchronisation and started generating power	Synchronisation and load testing of second and third blocks by June 2013
Desalination plant	East line is in operation	Commissioning schedule of the west line starting six months before production line 5 begins load commissioning
Port	Barge loader and marine assets commissioned in readiness for the first shipment	

Operation

Mining

Our mining team, which was set up in January 2008, will operate of six blast drills, five loaders, 23 trucks and various ancillary equipment. The fleet can process up to 55 million tonnes of material annually. At the end of January 2013, a total of 176 million tonnes of material had been removed from the mine pit and 4.6 million tonnes of magnetite iron ore stockpiled for processing.

The focus of the mining team has been on increasing mining productivity and improving equipment reliability, and this work will continue. An example of the work done on increasing the loading capacity and volume of the trucks and shovel buckets. So far, the truck load has increased from 277 tonnes to 325 tonnes and will reach 360 tonnes in May 2013. As for shovel improvements, our target is to improve capacity by 25% by the last quarter of 2013. A truck improvement programme has also been put in place to improve operating reliability through the upgrade of a number of components.

Maintenance systems have been developed for the mining fleet and the maintenance group will move into new workshops in early 2013, which will contribute to an increase in labour productivity and reduction of costs. Equipment suppliers have sent their representatives to the site to help resolve any issues that may come up during the initial phase of the operation.

The Life of Mine Plan is a mining development strategy that covers a broad spectrum of issues, from identifying the location of where material will be removed and waste and tailings placed to predicting iron ore grade and tonnes. The plan has been updated to incorporate new information gained during operation and to reflect the third billion tonne option exercised in April 2012. This allows the mining team to plan the activities of its mining fleet and human resources more accurately. The Mine Plan has been reviewed by a reputable and experienced third party group to check its accuracy and viability. Adjustments based on the feedback from the third party group have been incorporated into the plan.

Processing

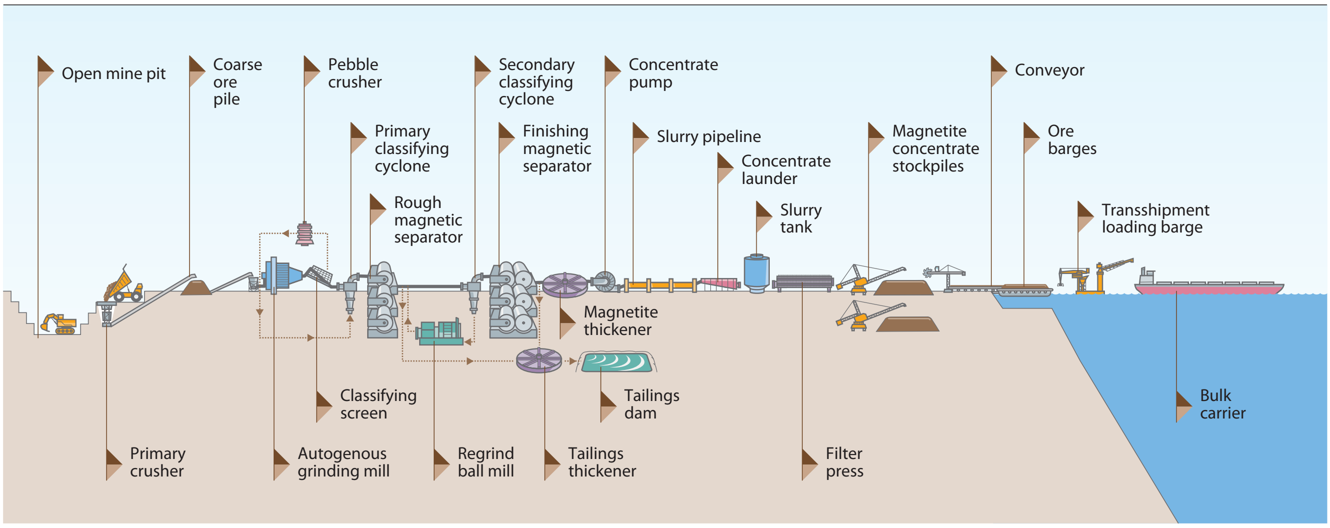
Processing involves activities from crushing and concentrating of magnetite ore to transporting and dewatering of slurry and stockpiling the final product, which can then be shipped.

Our processing team has been studying and analysing the information and statistics gathered during load commissioning of the first production line and common facilities. Accordingly, the operation plan is being updated to improve and optimise the processing activity. This includes the system configuration setting, maintenance plan, long-term consumable suppliers and operation personnel.

Commissioning and operating a large scale magnetite project such as the Sino Iron project will inevitably encounter many challenges. To address these challenges, the processing team has been focused on identifying and resolving equipment and operational issues that came up during the commissioning process. Over the course of the ramp up period, the processing area will continue to undergo fine tuning of its system and equipment in order to achieve targeted production.

The magnetite concentrate produced during the commissioning phase has reached 65.6%Fe with low impurities, making the product suitable for pellet production. Additional fine tuning and improvement will be done with the goal of achieving a higher quality product.

Magnetite process flowchart

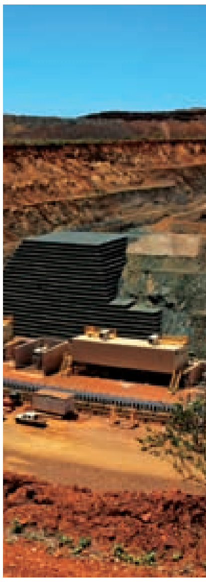


Port

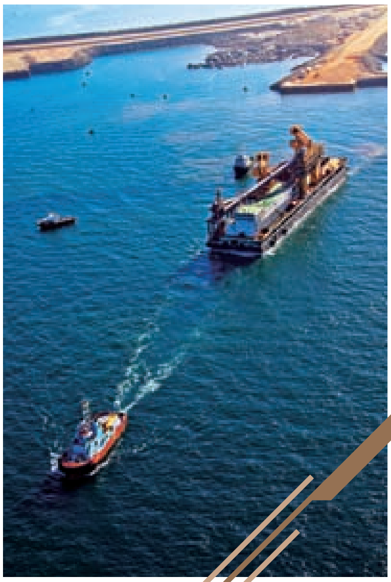
The Sino Iron project has built the first new port in the Pilbara in 40 years. Its breakwater extends 2.6 km from the tip of Cape Preston and will be the hub for exporting our concentrate product.

Magnetite concentrate will be transferred from the product stockpile by conveyor to the barge loader, which will load the 15,000 tonne deadweight barges. Due to the shallow sea level along the coastline, the ship cannot dock at the port. The transhipment method has been selected as the preferred option for transferring product from the port to the ship, as dredging the shipping channel was cost prohibitive. The transhipment fleet, which is the largest in Australia, comprises purpose-built tugs, barges and two transhippers.

The port is currently gearing up for the first shipment of magnetite concentrate to China. During the initial phase of production, smaller vessels will be used for export until production volume allows for the regular use of larger purpose-built mini-cape size vessels of 115,000 dwt.



Direct shipment from WA to CITIC Pacific Special Steel plant



Supporting Infrastructure

Power station

Our energy-efficient 450MW gas fired combined cycle power station is the cleanest in the Pilbara region, as it emits 40% less carbon dioxide than an open cycle plant. In 2012, the power station won Best Industrial Energy Efficiency Project at the Energy Efficiency Council Awards in Australia.

The power station has been providing steady power to the project following load testing of all seven gas turbines and synchronisation of the first combined cycle block throughout the year. As an independent power transmission and distribution system, the power station must provide a stable supply of power. The power plant is currently carrying out a series of reliability and efficiency studies. These include a load flow study, fault study, and an electrical motor start coordination and scenario analysis for shedding and dynamical network stability. The result of the study, which is expected to be completed in June 2013, will help the plant optimise its system setting.

Desalination plant

The plant uses reverse osmosis (RO) technology which pumps filtered seawater under high pressure through a semi-permeable membrane to produce desalinated water. It consists of two production sections, each with the capacity of producing 70 megalitres of water per day. The east section is currently supplying water to the first production line and for the daily needs at the site. Our team is currently focusing on plant improvements and optimisation, which will help reduce maintenance frequency and costs, as well as improve the plant's reliability. Works undertaken include detecting water output quality, installing additional monitoring devices to observe the working condition of the processing filters, and automating the membrane cleaning process. More data collection during operation will enable us to further our efforts of increasing the plant's operating efficiency.

Product

Analysis has been done on samples taken from the magnetite concentrate produced since November 2012. The results of the tests show that the small quantity of product is of high commercial quality with an iron content of around 65.6% and low impurities. Fine tuning and continued improvement will be made in the course of commissioning and ramp-up with the aim of producing a product that has even higher Fe content and lower in impurities.

In the concentrating process, the finer the final product, the higher its Fe content, and the lower the impurities, the more costly it is on a per tonne basis. Therefore, the ultimate quality of the magnetite concentrate produced when the mine is in operation will depend on the sales price achieved compared with the cost of production.

Health and Safety

CPM aspires to be a zero harm workplace. Our Occupational Health and Safety (OHS) management systems provide the framework for managing health and safety issues across the site. As we begin operation and prepare for first shipment in 2013, the amount of construction is decreasing. Activities on site are thus significantly different to previous operating conditions.

Our management teams have been providing strong leadership to address risk in the new operating environment. The OHS management system has been updated to reflect these changes and will continue to evolve as the operation ramp-up continues. In addition, each operating department has its own leadership, systems and processes in place to ensure workplace safety.

Throughout 2012, our recordable injuries rate was within the range expected for a major project such as Sino Iron. The vast majority of injuries were not severe, and employees returned to normal duties after a short period of time. We expect the injury rate will drop as construction work decreases.

Fibrous materials are a concern for almost all mines in the Pilbara region. CPM's executive management have maintained strong leadership on this issue by engaging with regulators and ensuring open and transparent communication on the management of fibre. In 2012, we finalised and submitted a Fibrous Minerals Management Plan to the WA Department of Mines and Petroleum, which they regarded as one of the most robust and comprehensive plans they had received. A number of initiatives have since been implemented, such as increasing the fibre designated areas where controls to minimise fibre exposure are in place. We will continue to proactively manage fibre risks during the operational phase.

During the year, our OHS team managed and addressed various health and safety issues, including injury management, rehabilitation and compensation, hygiene, drinking water and food as well as emergency and crisis management. Some key initiatives were improved training on health and safety in relation to fibre awareness, permit to work, inductions and hazard identification. We also established close relationships with independent leading experts in hygiene and medical resources, including fibre management, orthopaedic and occupational physicians and emergency medicine, and conducted desktop exercises for crisis and emergency management at the Perth office and on site.

Environment

Environmental management is a crucial aspect of CPM's operations. Our priorities are to maintain regulatory compliance as well as continuously improve our performance against set targets and objectives. The most material environmental impacts that the Sino Iron project has are energy consumption, emissions generation, water consumption, waste generation and land and marine disturbance. We are pleased to report that our performance in 2012 was in line with our regulatory obligations.

We are progressing with the final approval of our Operational Environmental Management System (EMS) and associated environmental Management Programme (EMPgm). Our EMS and other control mechanisms on site help us to monitor and report performance and identify areas for improvement.

A database is being developed that will be the primary source of environmental information. For dust and weather data, we have live data streams that allow us to monitor and where required, promptly respond to any trigger levels to avoid regulatory breaches where possible.

CPM recognises the importance of influencing desired responsible behaviour. Our environmental department runs various awareness programmes aimed at instilling a culture that can make a difference. One of our initiatives, The 'Leave No Trace' programme, won one of Australia's most prominent national environmental management awards in 2012. The award reinforces our belief that we are on the right track to embedding a sustainable culture in our organisation.

Issue with Mineralogy

CITIC Pacific acquired the right to take 2 billion tonnes of magnetite ore in the Pilbara from Mineralogy Pty Ltd. ("Mineralogy") between 2006 and 2008. CITIC Pacific has four options to acquire a further total of four billion tonnes of magnetite iron ore resource (i.e., 1 billion tonnes per option) at the same location. In April 2012, CITIC Pacific exercised the first option.

CITIC Pacific has received notices from Mineralogy alleging that certain terms of the Mining Right and Site Lease Agreements have been breached and suggesting that the Option Agreement has been repudiated.

CITIC Pacific is firmly of the view that Mineralogy's claims are without foundation. CITIC Pacific and its related entities have complied with the relevant terms of their agreements with Mineralogy. While we continue to have dialogue with Mineralogy, we will take all necessary actions to protect our investment.

In November 2012, CITIC Pacific obtained an injunction from the Supreme Court of Western Australia which restrains Mineralogy from purporting to terminate the Mining Right and Site Lease Agreements. The injunction will remain in place until the court makes a decision in relation to the issues in dispute between the parties concerning the Mining Right and Site Lease Agreements.

There is a disagreement between CITIC Pacific and Mineralogy as to the interpretation of the royalty clause in the Mining Right and Site Lease Agreements, particularly concerning the point when ore is "taken" (at which point a component of the royalty payable to Mineralogy becomes payable). CITIC Pacific maintains that ore is "taken" once it has passed through the primary crusher. This matter will be heard by the court on 23 and 24 April 2013.

Under the Option Agreement, Mineralogy has an obligation to nominate a company acceptable to CITIC Pacific which holds the right to mine 1 billion tonnes of ore. CITIC Pacific considers that Mineralogy has not satisfied the requirement. Mineralogy has alleged that CITIC Pacific has repudiated the option and purported to accept that repudiation. As a result, CITIC Pacific has sought declarations from the court and this matter is expected to be heard later this year.

Sino Iron Project Facts and Statistics

The Sino Iron project is 100% owned by CITIC Pacific which acquired the rights to extract 2 billion tonnes of magnetite iron ore resource from its mine at Cape Preston, 100 kilometres southwest of Karratha in Western Australia's Pilbara region. The project currently has a mine life of 25 years.

CITIC Pacific has options to acquire an additional four billion tonnes of magnetite iron ore resource at the same location. In April 2012, CITIC Pacific exercised an option to acquire the right for 1 billion tonnes. Once this transaction is completed, the life of the mine will extend from 25 years to 32 years.

The Sino Iron project is being developed by CPM, a subsidiary of CITIC Pacific with its headquarters in Perth and a representative office in Beijing. When completed, the project will be the largest magnetite iron ore development in Australia. It will have six production lines with the capacity to produce a total of 24 million tonnes of magnetite concentrate a year. Actual production volume will depend on the characteristics of the rocks being mined. Contractually, no more than 27.6 million tonnes can be exported annually.

At the peak of construction about 4,000 people were engaged on the project. Approximately 900 people are expected to be employed during operation.

Major equipment

Component	Equipments	Specifications
Processing	Crushers	Size – 21m in height X 16m in width X 18m in length Weight – 1,500 tonnes per unit Capacity – 4,250 tonnes per hour per unit
	AG mill	Powered by a 28MW gearless drive Size – 12.2m in diameter X 11m in length Weight – 2,700 tonnes
	Ball mill	Powered by 15.6MW twin pinion drives Size – 7.9m in diameter X 13.6m in length Weight – 1,180 tonnes
	Magnetic separator	52 separators for each line Capacity – 4,551m^3 of slurry per hour
	Concentrate thickener	Size – 45m in diameter Capacity – 6,015m^3 per hour
	Dewatering plant	Capacity – Pressure filter capable of handling 4,204 tonnes of slurry per hour
Stockyard	Stacker	Weight – 1,290 tonnes Capacity – capable of handling 4,400 tonnes of magnetite concentrate per hour
	Reclaimer	Weight – 1,833 tonnes Capacity – capable of handling 10,500 tonnes of magnetite concentrate per hour
Port	Barges	Deadweight tonnes – 15,000-16,000 each
	Tugs	Bollard pull – 40 tonnes each
	Transhippers	Max. capacity of 4,500tph each
	Vessels	Deadweight – 115,000MT each
Supporting infrastructure	Power station	450 megawatt combined cycle, gas fired power station Capacity – 7 gas turbines of 47 megawatts each; 3 steam turbines of 58 megawatts each
	Desalination plant	Production capacity – full capacity of 140 megalitres per day Reservoir capacity – 15 megalitres

Mineral Resources Estimate

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code" or "the Code") sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration results, Mineral Resources and Ore Reserves. According to the JORC Code, 'Mineral Resource' is defined as a concentration or occurrence of materials of economic interest in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

The following Mineral Resource estimate is based on assay data from drill holes at the initial mining area ("IMA") and surrounds as at 19 April 2010. The Resource Model was released by Golder Associates in October 2010, utilising a cut-off grade of 17% MagFe. "Joffre" is a member of the Brockman Iron Formation, the main ore body for the project.

At Sino Iron, drilling was undertaken using the diamond drilling method. In order to increase the bulk of resource into the measured classification, a substantial amount of additional expenditure is required. Given the known areal extent and consistency of the Joffre iron ore formation, CPM believes that such expenditure will not be economical. The company has rights to take two billion tonnes of magnetite ore. In April 2012, CITIC Pacific exercised an option to acquire the right for another 1 billion tonnes and the transaction is yet to be completed. We feel comfortable that the results of the mineral resource estimate indicate we have in excess of this amount of resource.

Total Joffre Resource

	2010 results			2009 results
Classification	Million Tonnes	Magnetic Fe (%)	Total Fe (%)	Million Tonnes
Measured	806	22.64	32.46	466
Indicated	1,489	22.94	31.90	1,158
Inferred	2,793	23.52	31.51	2,881
Total	**5,089**	**23.21**	**31.77**	**4,504**

Joffre is part of the Brockman Iron Formation, the main ore body for the project.

Measured Mineral Resource

A "Measured Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource

An "Indicated Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource

An "Inferred Mineral Resource" is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

About Magnetite Iron Ore

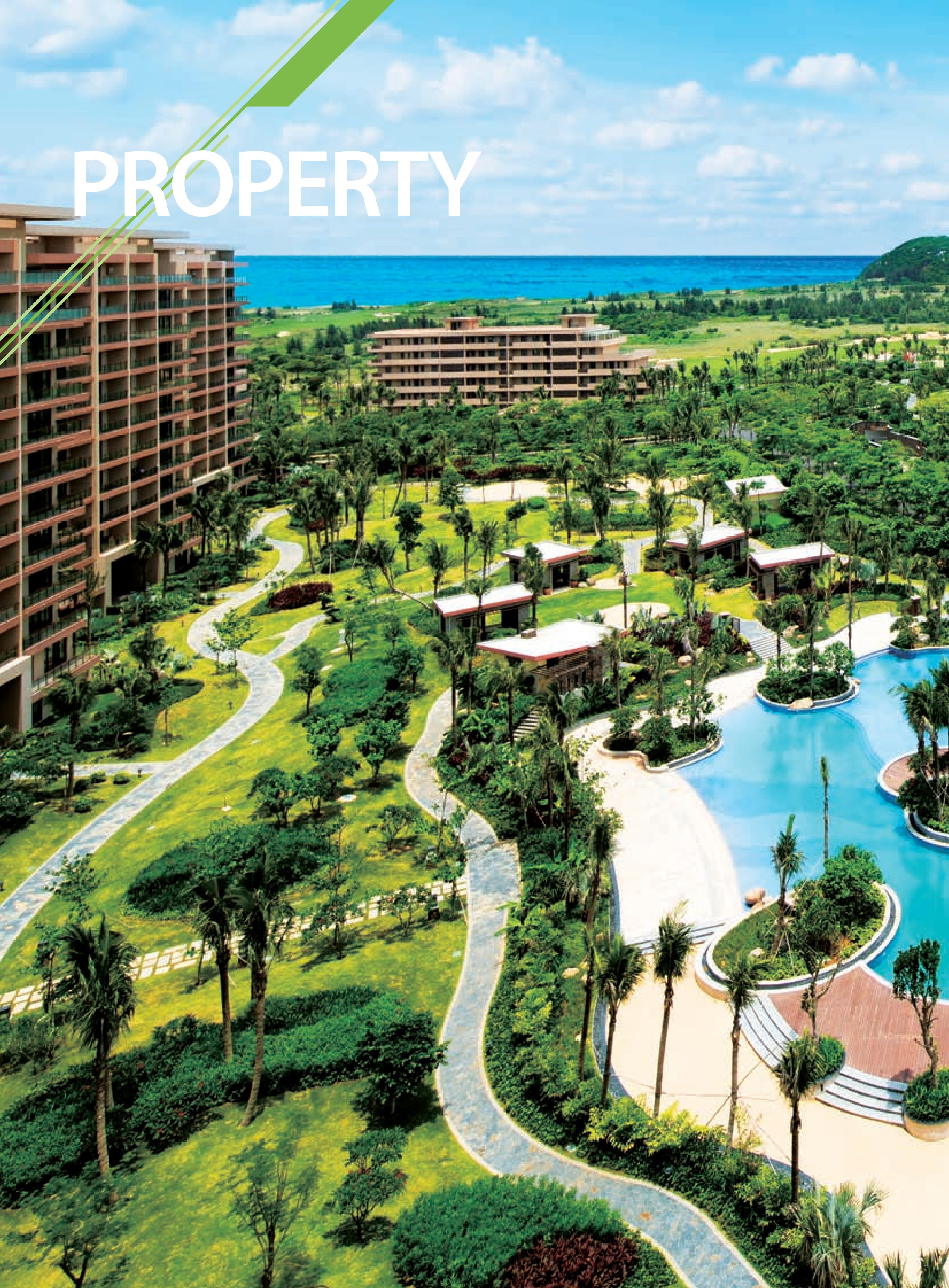
Iron ore is the raw material for steel making. The two types of ore that are being commonly extracted globally are haematite and magnetite ore. Magnetite is one of the most common iron oxide minerals. With a low-grade iron content of around 25% to 40%, it is of little value in its raw state and can only be used for steelmaking once it is concentrated. The concentrating process is capital intensive and requires downstream processing, including crushing, screening, grinding, magnetic separation, filtering and drying. The final product is a higher iron grade concentrate of 65% or above in Fe content with lower impurities compared with haematite fines, making it an ideal feedstock for the production of pellets, which are then fed into the blast furnace at a steel plant.

Magnetite concentrate commands a premium price for its higher quality in comparison with haematite ore products such as fines and lump. There are a number of advantages of using pellet over fine and lump. Using pellet is more environmentally friendly as pellet making uses less energy comparing with sinter production. Pellets perform better in blast furnace enabling high energy efficiency to be achieved in iron making. Feeding pellet into blast furnaces to make pig iron is very common in the Chinese steelmaking industry. With its uniform chemical composition and relatively higher iron content, pellet is considered an ideal raw material for steel production.

The Australian iron ore industry has traditionally been based on the mining, production and export of haematite ores, also referred to as 'Direct Shipping Ore' (DSO). This type of ore has higher iron content and requires only a simple crushing and screening process before it can be used in a steel plant. Most Australian iron ore production comes from DSO.

Although mining magnetite accounted for approximately 50% of global iron ore production in 2012, it is an emerging industry in the Australian iron ore mining sector. Industry trends point to an increasing role for Australian magnetite in the global iron ore trade. Furthermore, in light of a gradual decline in Pilbara haematite ore quality over the medium-to long-term, magnetite offers a viable alternative that promises to cement Australia's position as a key global supplier of this crucial steel-making commodity.

PROPERTY

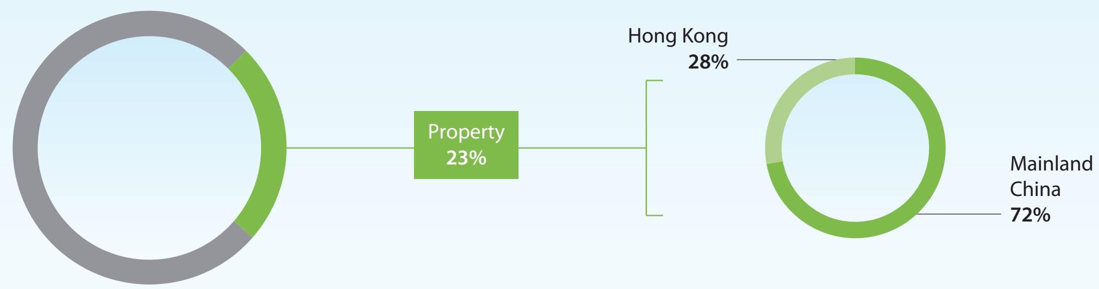


PROPERTY

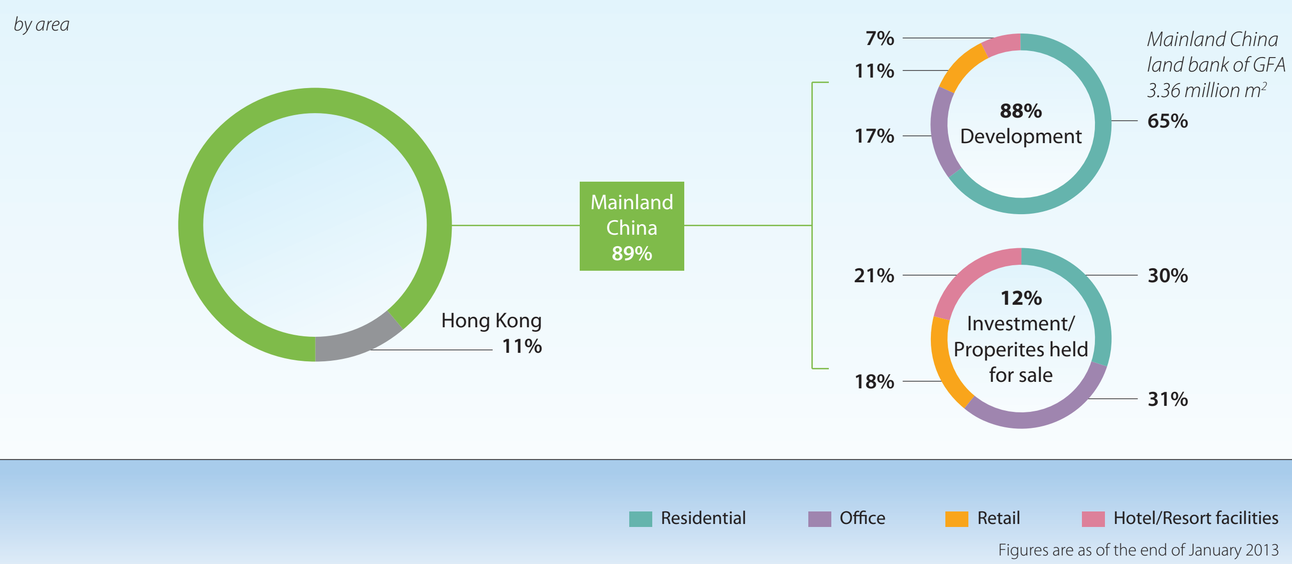
23% of assets

In HK$ million	2012	2011	Change
Turnover	3,766	5,708	-34%
Profit contribution			
Mainland China	911	2,160	-58%
Hong Kong	569	412	38%
Assets			
Mainland China	40,623	40,352	1%
Hong Kong	15,573	14,004	11%
Cash inflow from operations	1,456	2,343	-38%
Capital expenditure	3,916	3,686	6%

Assets



CITIC Pacific properties



Note:

1. Lank bank: permitted gross floor area (GFA).
2. Gross Area (GA): area for sale and lease.

Review of 2012

In 2012, the property market in mainland China continued to be affected by measures instituted by the Chinese government to moderate the rapid rise in property prices. As a result of the purchasing restrictions, sales were primarily to people looking for homes they would occupy themselves rather than for investment purposes.

In 2012, total sales of our properties in mainland China amounted to approximately 110,660m^2 of Gross Area (GA).

Contribution from our mainland properties declined 58% in 2012 compared with 2011. General market conditions aside, the decreased profit was also due to the fact that in 2011 we delivered two office buildings in Shanghai's Lu Jia Zui development, which clearly could not be repeated in 2012. Most of our residential developments, such as the Qingpu project in Shanghai and projects in Wuxi and Hainan, mainly attracted homebuyers searching for vacation properties or second homes. In response to the market situation, we adjusted our development pace so that most of our projects were under development with limited units for sale.

Looking at 2013, residential sales will likely remain sluggish. We will continue to monitor the market and adjust our development strategy and pace of sales accordingly. For example, given that current demand is largely from home buyers looking for residences they will occupy themselves, we will place a higher priority on buildings with standard-size units at our Jiading project in Shanghai.

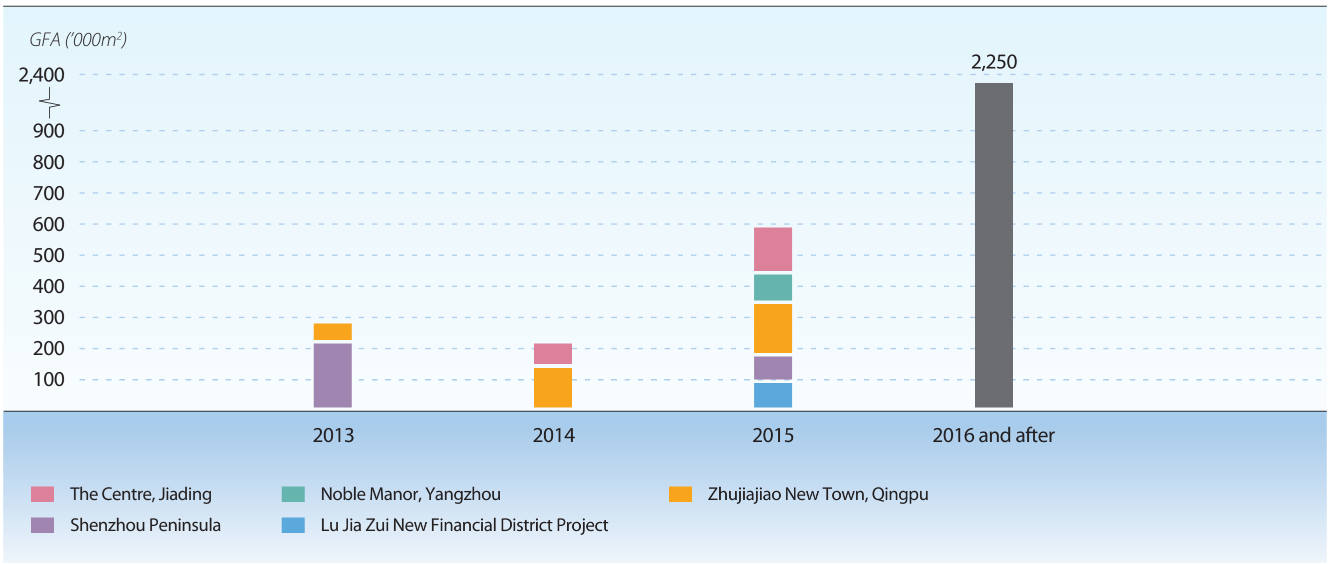
The situation was quite different in the market for office and commercial properties. With the persistent demand for high-quality office buildings in prime locations, rentals remained strong at CITIC Square as did sales agreements signed with buyers for office buildings to be constructed at our Lu Jia Zui development. We also took advantage of the robust office market by acquiring lands on the former Shanghai World Expo site, where two office buildings will be constructed.

Major Development Projects

Project	Usage	Land bank (m²)	Expected completion
Shanghai			
Lu Jia Zui New Financial District	Office, residential and retail	583,800	In phases from 2011 onwards (approx. 263,300m² completed)
The Centre, Jiading	Office, hotel, residential and retail	445,300	In phases from 2011 onwards (approx. 92,600m² completed)
Zhujiajiao New Town, Qingpu	Residential, hotel and retail	385,500	In phases from 2009 onwards (approx. 189,700m² completed)
New Westgate Garden Phase II	Residential and retail	137,300	Resettlement in progress
Shanghai World Expo Site Project	Office and retail	57,700	2016
Jiangsu Province			
Noble Manor, Yangzhou	Residential	152,000	In phases from 2009 onwards (approx. 284,900m² completed)
Xincheng Jinyuan, Jiangyin	Retail	18,100	In phases from 2011 onwards (approx. 160,000m² completed)
Hainan Province			
Shenzhou Peninsula, Wanning	Hotel, retail and residential	1,578,600	In phases from 2011 onwards (approx. 220,700m² completed)
Total		**3,358,300**	

Figures are as of the end of January 2013

Projected completion schedule



THE CENTRE, JIADING

(100% owned)

Site:
156,000m²

Gross floor area:
537,900m²

Completed:
92,600m² (GFA)

Land bank:
445,300m² (GFA)

Usage:
Office, hotel, retail and residential

Jiading New Town, located in the north-western part of Shanghai, is one of the three major new development areas in Shanghai. Our project is in the core district of Jiading New Town and is designed to become the new focal point of this area. Business centres, sports and recreational facilities, scientific research districts and residential zones are planned for the surrounding area. Jiading New Town Station of the Metro Line No. 11 and other transportation hubs are within the project area.

Sales of units in The Centre began in the middle of 2010, and most of the residential units in the latest phase were completed and delivered in 2012. While the other phases were still under development, only a limited number of units were available for sale during the year. In 2012, a total of 6 residential units (760m² GA) were sold with an average selling price of RMB14,760/m².

ZHUJIAJIAO NEW TOWN, QINGPU

(100% owned)

Site:
796,800m²

Gross floor area:
575,200m²

Completed:
189,700m² (GFA)

Land bank:
385,500m² (GFA)

Usage:
Low-density residential, retail and hotel

Zhujiajiao New Town is located in Qingpu District, Shanghai and is very close to Zhujiajiao Old Village, a renowned scenic spot. Showcasing the cultural traditions and history of the area, the residential project comprises apartments and villas and is fully equipped with business, travel and leisure facilities that will also serve as a new civic centre. The planned Metro Line No. 17, which will have a station close to our project, is scheduled to start construction in 2013.

In 2012, a total of 299 residential units (34,500m² GA) were sold with an average selling price of RMB11,560/m².

SHANGHAI WORLD EXPO SITE PROJECT

(99.2% owned)

Site:
12,500m^2
Gross floor area:
Approx. 57,700m^2
Usage:
Office and retail

The project is located on the former Shanghai World Expo site, with the Huangpu River on the north and World Expo Boulevard on the east. CITIC Pacific acquired two lands in November 2012 and will develop two office buildings on the site.

LU JIA ZUI NEW FINANCIAL DISTRICT PROJECT

(50% owned)

Site:
249,400m^2
Gross floor area:
847,100m^2
Completed:
263,300m^2 (GFA)
Land bank:
583,800m^2 (GFA)
Usage:
Office, retail, hotel and residential

Located in the Lu Jia Zui Financial District on the south shore of the Huangpu River, this multi-use project covering 10 sites will comprise office buildings, retail premises, a hotel and apartments.

The two office towers in Phase I were built to buyers' specifications and handed over in early 2011 to China Construction Bank and Agricultural Bank of China, which will use the towers as their regional headquarters. The Mandarin Oriental Pudong hotel, which features 362 guestrooms and 210 serviced apartments, will open for business in the second quarter of 2013. In 2012, we signed framework agreements with four financial institutions to build office buildings to their own specifications.

NEW WESTGATE GARDEN (PHASE II), HUANGPU

(100% owned)

Site:
35,300m^2
Gross floor area:
Approx. 137,300m^2
(subject to government approval)
Usage:
Residential and retail

New Westgate Garden is the first urban renewal project in the Laoximen area of Shanghai. The development is located in a prime area bordering the traditional Yu Garden, vibrant Huaihai Road and the fashionable Xin Tiandi area. A convenient transportation network surrounds the development with multiple transportation options, including subways, bridges, tunnels and highways, providing easy access to every other part of the city.

New Westgate Garden Phase I was completed in 2006, and almost all apartments have been sold and occupied. Phase II is in the process of relocating the local residents.


Hainan
Haikou
Wenchang
Boao
Wanning
Shenzhou Peninsula
Sanya
High speed east coast railway
Highway

SHENZHOU PENINSULA, HAINAN ISLAND

(80%-100% owned)

Site:
6,790,400m^2
Gross floor area:
1,799,300m^2
Completed:
220,700m^2 (GFA)
Land bank:
1,578,600m^2 (GFA)
Usage:
Residential, hotel, retail and recreation

CITIC Pacific's Shenzhou Peninsula project is located in Wanning, Hainan Province, 112 km north of Sanya and 139 km south of Haikou. The planned area for the project is 18km^2 with a GFA of around 4 million m^2. It comprises high-end residential buildings, shopping arcades, resorts, an international golf course, and a yacht club. Recreational, cultural, conferencing and exhibition facilities are also planned.

On the peninsula, we currently have two hotels in operation – the Sheraton and Four Points, a golf course and a newly opened beach club, which provide recreational and entertainment activities for tourists and residents on the peninsula.

In 2012, we sold a total of 327 residential units (39,600m^2 GA) of our Shenzhou Peninsula project, with an average selling price of RMB15,500/m^2. Sales of the Sunbury, the Phase I residential apartments, began at the end of 2010 and units were delivered to buyers at the end of 2011. Sales of the Starbury, the Phase II residential apartments, began at the end of 2011. A total of 214 units were sold in 2012 with an average selling price of RMB15,330/m^2. Sales of the Yard of Island, the Phase III residential development, began at the end of 2012. Since Wanning has no purchase restrictions, 110 units sold quickly in 2012 with an average selling price of RMB15,920/m^2.

NOBLE MANOR, YANGZHOU

(100% owned)

Site:
328,600m^2
Gross floor area:
436,900m^2
Completed:
284,900m^2 (GFA)
Land bank:
152,000m^2 (GFA)
Usage:
Residential and retail

The project is located in Slender West Lake – Shugang Scenic Spot, a beautiful location in Yangzhou – and is only a 5-minute drive from the city centre. The area is filled with high-end residential units in a prime yet serene location. The project promotes an elite international community lifestyle, combining neoclassical architecture with a Shanghai-style cultural street.

In 2012, a total of 156 residential units (24,000m^2 GA) were sold with an average selling price of RMB9,600/m^2.

Sales progress of residential projects

Project	Approx. residential GFA (m²)	Launched for sale (units & GA)	Sold in the past (up to end January 2013) (units & GA)	Sold in 2012 (units & GA)	Average selling price in 2012 (RMB/m²)
Zhujiajiao New Town project, Qingpu	522,700	1,485 (170,300m²)	1,426 (158,400m²)	299 (34,500m²)	10,960 (apartments) 14,220 (low-rise houses)
The Centre, Jiading	213,500	884 (82,400m²)	883 (82,300m²)	6 (760m²)	14,760 (apartments)
Noble Manor, Yangzhou	419,200	2,041 (268,500m²)	2,003 (262,300m²)	156 (24,000m²)	9,600 (apartments)
Taihu Jinyuan, Wuxi	228,200	1,104 (215,700m²)	749 (145,900m²)	67 (11,800m²)	14,730 (apartments) 20,890 (low-rise houses)
Shenzhou Peninsula, Wanning	1,427,100	1,995 (239,400m²)	936 (108,100m²)	327 (39,600m²)	14,610 (apartments) 18,950 (low-rise houses)
Total	**2,810,700**	**7,509 (976,300m²)**	**5,997 (757,000m²)**	**855 (110,660m²)**	

Major Investment Properties

Properties	Usage	Ownership	Approx. GA (m²)	Occupancy (end of 2012)
CITIC Square, Shanghai	Office, retail	100%	114,000	99%
Royal Pavilion, Shanghai	Serviced apartments	100%	35,000	95%
New Westgate Garden, Retail Portion (phase I), Shanghai	Retail	100%	23,000	86%
Tower A, Pacific Plaza, Ningbo, Zhejiang Province	Office, retail	100%	49,000	74%
CITIC Plaza Shenhong, Shanghai*	Office, retail	100%	64,000	78%
Total			**285,000**	

* Properties held for sale with rental income.

CITIC Pacific's property investments in mainland China continued to enjoy steady rental income, with an overall occupancy rate of approximately 88% at the end of 2012. The main contribution to rental income was from CITIC Square, located on Nanjing Xilu, Shanghai, which enjoyed an occupancy rate of 99% at the end of the year.

Hong Kong Properties

Development Properties

1. *Discovery Bay*

Discovery Bay, which is 50% owned by CITIC Pacific, is a large residential development jointly developed with HKR International Ltd. Since its launch in 1973, Discovery Bay has evolved into a fully integrated suburban multinational residential community. Situated on the coast of northeast Lantau Island in close vicinity to the Disney Theme Park, Discovery Bay is endowed with open space and recreational and leisure facilities such as a private beach, central park, scenic promenade, golf course, marina and recreation club.

The current development at Yi Pak Bay is located in the northern part of Discovery Bay. The construction of Phase 14, AMALFI (a mid-rise development of 164 apartments), was completed and put on sale at the end of 2012. During the year under review, 69% of the apartments were sold. Construction of Phase 15 (a low-rise development of approximately 17,400m^2 GFA) is underway, and marketing is planned for 2013. The site formation works for Phase 17, an upland villa project of approximately 4,000m^2 GFA located next to the golf course, is also underway for completion in 2016. The Auberge Discovery Bay hotel (approximately 26,000m^2 GFA) will soft open in March 2013.

2. *Redevelopment at Kadoorie Hill*

The Kadoorie Hill project covers a site of approximately 14,200m^2 GFA in an exclusive low-density residential district in Kowloon known for its extensive greenery and mature trees. Foundation works are currently underway. Completion of the project is scheduled for 2015.

Investment Properties

Our Hong Kong investment property portfolio provided stable rental income to CITIC Pacific. At the end of 2012, the average occupancy was approximately 93%.

Major Properties	Usage	Ownership	Approx. GA (m^2)
CITIC Tower	Office, retail	40%	52,000
DCH Commercial Centre	Office, retail	100%	36,000
Wyler Centre I	Industrial	100%	35,000
111 Lee Nam Road	Motor Services & Godown	100%	60,000
Yee Lim Industrial Centre, Block C	Cold Store & Godown	100%	30,000

OTHER BUSINESSES

Energy

In HK$ million	2012	2011	Change
Profit contribution			
Power generation	696	631	10%
Coal	440	753	-42%
Proportion of total contribution	14%	14%	–
Assets	9,716	8,910	9%

In 2012, affected by the macroeconomic environment, industrial electricity consumption decreased, total electricity and heat generated by power plants in which CITIC Pacific has an interest declined 11% and 1% respectively on a year-on-year basis. However, profit contribution for the year went up 10%, due to a 13% decrease in the price of coal and a slight upward adjustment of on-grid tariffs. The management team at our power plants continue to focus on cost control which also contributed to this profit increase.

Xin Julong coal mine in Shandong, in which CITIC Pacific holds a 30% interest, produced 6 million tonnes of coal in 2012, about the same as in 2011. However, price of coal decreased significantly in the second half. The average price was 15% lower in the year under review resulting in a 42% decline in profit contribution from this coal mine.

						Electricity generated			Heat generated		
Power Plant	Installed location (Province)	Capacity (MW)	Ownership	Type	Utilisation hours	2012 (m kWh)	2011 (m kWh)	Change	2012 (kGJ)	2011 (kGJ)	Change
Ligang I&II	Jiangsu	1,440	65%	Coal fired	5,341	7,691	8,052	-4%	1,479	1,297	14%
III & IV	Jiangsu	2,460	71.4%	Coal fired	4,182	10,288	14,418	-29%	321	–	–
Hanfeng	Hebei	1,320	15%	Coal fired	5,894	7,781	7,373	6%	–	–	–
Huaibei	Anhui	640	12.5%	Coal fired	5,289	3,385	3,247	4%	–	–	–
Hohhot	Inner Mongolia	400	35%	Co-generation	4,825	1,930	1,876	3%	2,344	2,715	-14%
Chenming	Shandong	18	49%	Co-generation	5,303	95	101	-6%	3,200	3,358	-5%
Total		**6,278**				**31,170**	**35,067**	**-11%**	**7,346**	**7,370**	**-1%**

Tunnel

	Location	Ownership	Franchise till
Eastern Harbour Tunnel (Road)	Hong Kong	71%	2016
Western Harbour Tunnel	Hong Kong	35%	2023

In HK$ million	**2012**	2011	Change
Profit contribution	**561**	518	8%
Proportion of total contribution	**7%**	5%	2%
Assets	**2,208**	1,977	12%

The Eastern Harbour Tunnel

www.easternharbourtunnel.com.hk

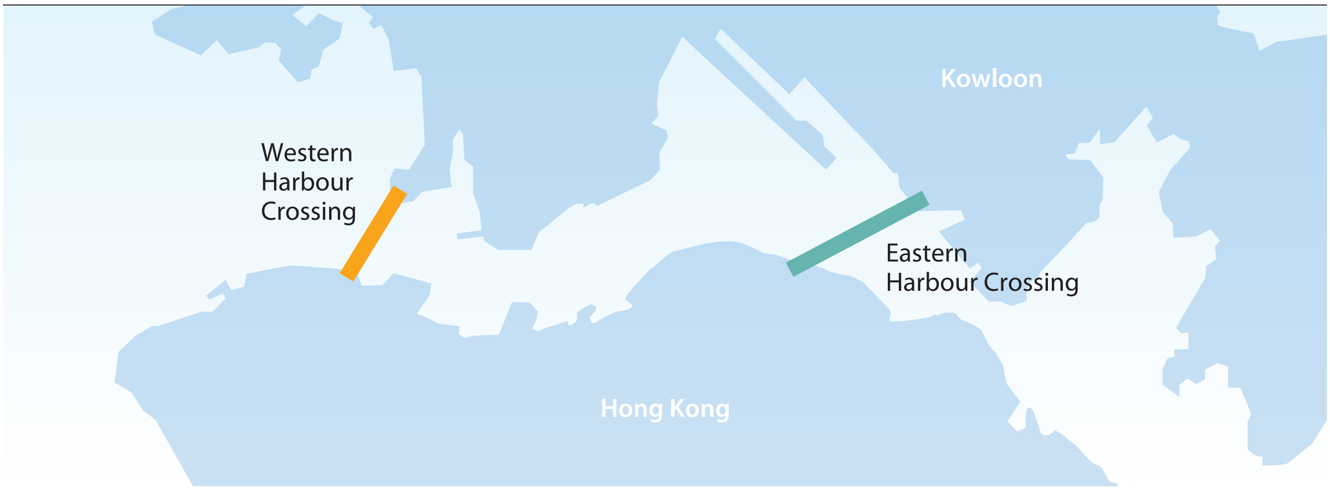
The Eastern Harbour Tunnel registered average daily traffic of 70,720 vehicles in 2012, an increase of 2% from 2011. Among the three cross-harbour tunnels in Hong Kong, the Eastern Harbour Tunnel had a 28% market share of total traffic in 2012, the same as 2011.

The Hong Kong government has proposed to adjust the toll fee of Central Harbour Tunnel and Eastern Harbour Tunnel in order to ease the current traffic problem. We will cooperate with the government so long as the return will not be affected.

The Western Harbour Tunnel

www.westernharbourtunnel.com

The Western Harbour Tunnel is a key section of the Route 3 highway connecting Hong Kong Island with mainland China and Hong Kong International Airport. In 2012, average daily traffic was 60,452 vehicles, up 6% from 2011. Among the three cross-harbour tunnels in Hong Kong, the Western Harbour Tunnel had a 24% market share of total traffic in 2012, an increase of 1% from 2011.



Dah Chong Hong

www.dch.com.hk

55.7% equity interest held by CITIC Pacific
Listed on the Stock Exchange of Hong Kong – code: 01828

In HK$ million	**2012**	2011	Change
Profit contribution	**536**	617	-13%
Proportion of total contribution	**7%**	6%	1%
Assets	**20,306**	20,822	-2%

Dah Chong Hong is engaged in the sales of motor vehicles and related business and services, sales of food and consumer products, as well as logistics services. The company has well-established networks in Hong Kong, Macau and mainland China, as well as operations in Taiwan, Japan, Singapore, and Canada.

CITIC Telecom International

www.citictel.com

41.8% equity interest held by CITIC Pacific
Listed on the Stock Exchange of Hong Kong – code: 01883

In HK$ million	**2012**	2011	Change
Profit contribution	**299**	299	–
Proportion of total contribution	**4%**	3%	1%
Assets	**3,733**	3,354	11%

CITIC Telecom is one of Asia’s leading hub-based service providers. In addition to serving its key markets in China and Hong Kong, CITIC Telecom is actively expanding its business to international telecoms operators. CITIC Telecom provides four main types of services including voice, SMS, mobile VAS and data services. Its independent hub connects with over 650 telecoms operators in 75 countries or regions.

In January 2013, CITIC Telecom entered into agreements to increase its shareholding in Companhia de Telecomunicações de Macau (CTM) to 99% from its current 20%. This acquisition, if approved by the regulatory authorities and shareholders, will enable CTM to expand its business as CTM is a fully pledged telecom operator providing services directly to industrial, commercial and domestic customers in Macau.

In February 2013, CITIC Group purchased an 18.54% interest from CITIC Pacific, reducing our interest to 41.76%.

Financial Review

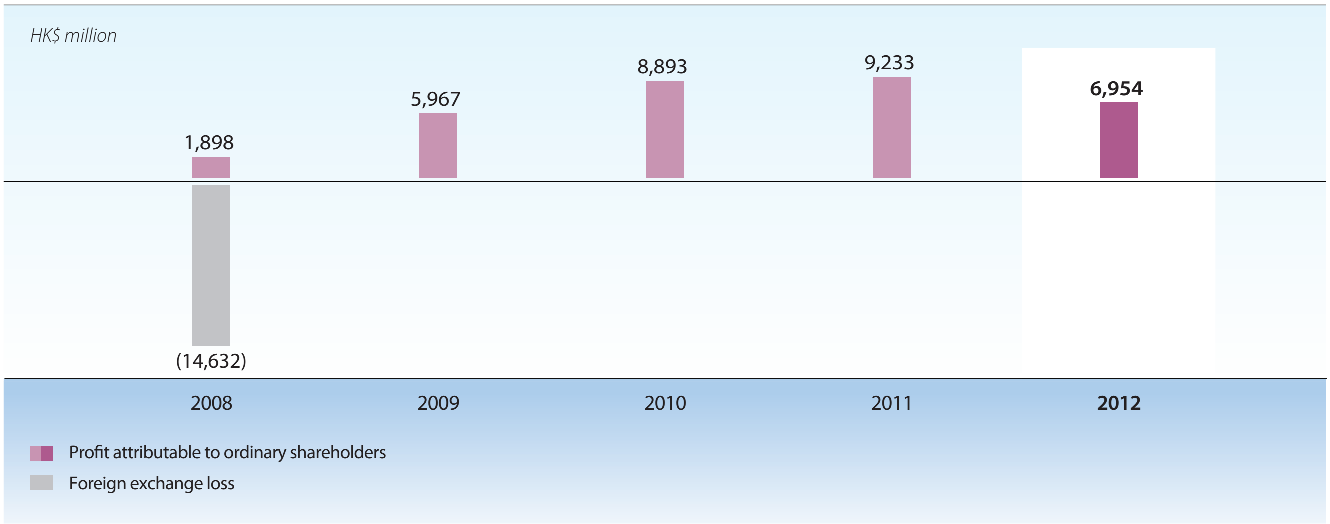
Summary of 2012

Earnings from underlying business operations dropped by 52% to HK$3,456 million, resulting mainly from a decrease in the contribution of special steel and property businesses in China. Including the one-off items of HK$2,850 million, total profit attributable to ordinary shareholders reduced 25% to HK$6,954 million.

Group's Financial Results

In HK$ million	**2012**	2011	Increase/(Decrease)		Note to the Financial Statements
Revenue	**96,882**	100,086	(3,204)	(3)%	3
Profit from consolidated activities	**7,754**	9,959	(2,205)	(22)%	5&6
Gain on disposal of assets	**2,850**	664	2,186	329%	
Change in fair value of investment properties	**1,547**	1,891	(344)	(18)%	
Net finance charges	**(1,144)**	(410)	734	179%	5&7
Taxation	**(1,388)**	(2,560)	(1,172)	(46)%	5&8
Profit attributable to ordinary shareholders	**6,954**	9,233	(2,279)	(25)%	9

Profit attributable to ordinary shareholders

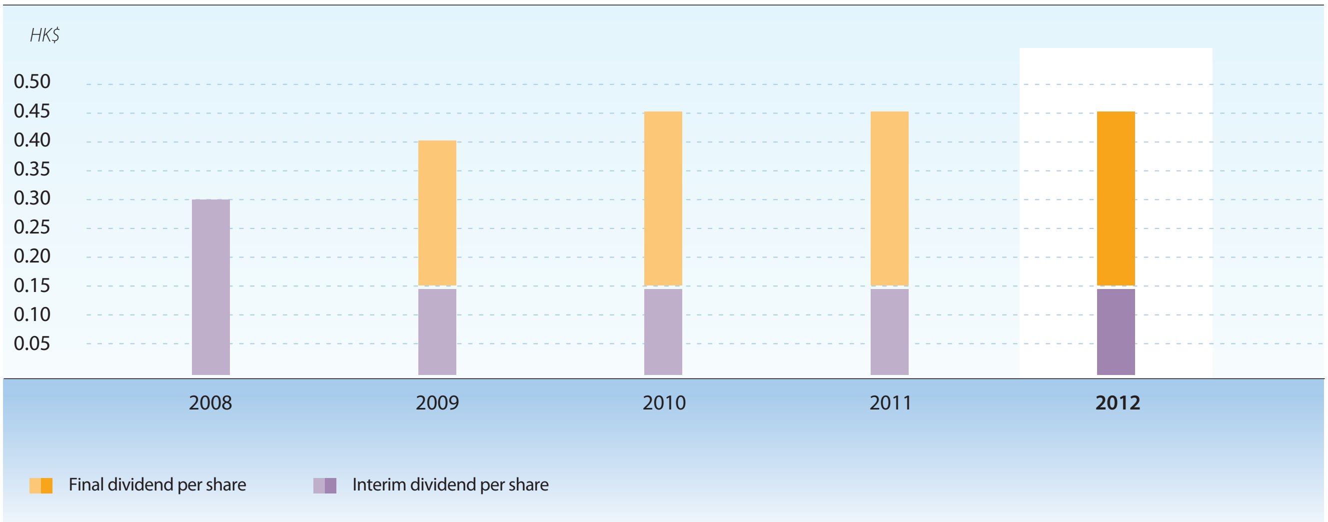


Earnings per share

Earnings per share were HK$1.91 in 2012 compared with HK$2.53 in 2011, a decrease of 25%. The number of shares outstanding was 3,649,444,160 at both 31 December 2011 and 2012.

Dividends

A final dividend of HK$0.30 per share has been recommended to ordinary shareholders for approval at the Annual General Meeting. Together with the interim dividend per share of HK$0.15 paid in September 2012, the total ordinary dividend will be HK$0.45 per share, unchanged from the previous year. This equates to an aggregate cash distribution of HK$1,642 million.



Contribution and assets by business

In HK$ million	Contribution		Assets as at 31 December		Return on assets^	
	2012	2011	**2012**	2011	**2012**	2011
Special steel	**211**	1,994	**55,622**	56,273	**1%**	4%
Iron ore mining*	**(781)**	(423)	**81,577**	66,997	**(1)%**	(1)%
Mainland China property	**911**	2,160	**40,623**	40,352	**2%**	6%
Hong Kong property	**569**	412	**15,573**	14,004	**4%**	3%
Energy	**1,136**	1,384	**9,716**	8,910	**12%**	17%
Tunnels	**561**	518	**2,208**	1,977	**33%**	33%
Dah Chong Hong	**536**	617	**20,306**	20,822	**5%**	6%
CITIC Telecom†	**299**	299	**3,733**	3,354	**14%**	15%
Other investments	**14**	168	**3,574**	5,865	**–**	3%
Underlying business operations	**3,456**	7,129	**232,932**	218,554		
Gain on disposal of assets	**2,850**	664				
Fair value change in investment properties	**1,547**	1,891				
Others	**(899)**	(451)				
Profit attributable to ordinary shareholders	**6,954**	9,233				

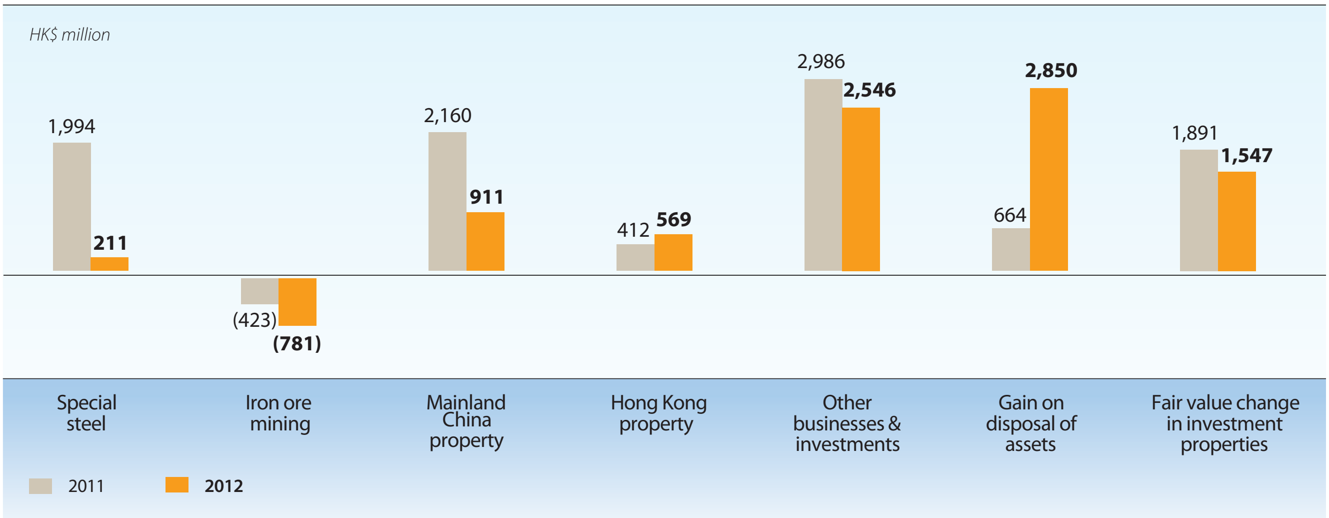
^ earnings or losses in 100% of the business (i.e. both earnings or losses attributable and non-attributable to CITIC Pacific) divided by average total assets of the business, save for jointly controlled entities and associated companies which accounted for share of earnings and assets only

* for the purpose of segment analysis, Iron ore mining includes the mining operation in Western Australia, 12 mini-cape vessels operation and a trading and ship management business in Singapore

† classified as discontinued operations in 2012 as it was no longer to be accounted for as a subsidiary as the Group disposed of 18% interest in CITIC Telecom on 21 February 2013

Financial Review

Contribution by business



Special Steel: The sector reported a decrease in both sales volume and revenue in 2012 within a challenging environment. A total of 6.55 million tonnes of special steel products were sold during the year, 4% less than 2011, due primarily to sluggish market demand which fell sharply in the third quarter. The overall price of our products was down by 13% in 2012 as compared to 2011. Because of an analogous decrease in raw material prices during the period, margin was further eroded by lagged utilization of the cost of direct materials, purchased of two to three months of throughput on average.

Iron Ore Mining: The loss was HK$358 million higher than 2011, reflecting increased provision made for the potential mismatch between the gas delivery under contracts and the production schedule, more non-capitalized bank loan interest and other operating expenses, and higher operating loss of vessels to be used to carry iron ore but currently chartered to third parties.

Mainland China Property: Lower net contribution in the sector during 2012 was due primarily to a reduced completion as compared to 2011, in which two towers at our Lu Jia Zui office development in Shanghai were handed over. Leasing business was comparatively steady, with our investment properties having comparable occupancy rates at the end of 2012 to previous years.

In HK$ million	**2012**	2011	Increase/(Decrease)	
Sales	**783**	1,995	(1,212)	(61)%
Leasing	**392**	383	9	2%
Others and operating expenses	**(264)**	(218)	46	21%
Total	**911**	2,160	(1,249)	(58)%

Hong Kong Property: Earnings of leasing business benefited from rising rental and higher occupancy rates of our investment properties in Hong Kong. Property sales contribution was mainly from the Discovery Bay project by our associated company, Hong Kong Resorts.

In HK$ million	2012	2011	Increase/(Decrease)	
Sales	158	59	99	168%
Leasing	411	353	58	16%
Total	569	412	157	38%

Energy: The energy division's contribution decreased 18%, but the power generation business contributed more because of a lower coal cost and generally higher tariffs. This was partially offset by fewer units of electricity sold because two power units at Ligang plant in Jiangsu were offline for three months for flue-gas denitrification systems upgrade. Full operations of the two power units were resumed in June. Lower earnings of the coal mine in Shandong were mainly due to a drop in coal prices, despite increase in sales volume and coal production.

In HK$ million	2012	2011	Increase/(Decrease)	
Power generation	696	631	65	10%
Coal	440	753	(313)	(42)%
Total	1,136	1,384	(248)	(18)%

Tunnels: Higher earnings were mainly attributable to increased market share of the two tunnels. Average daily traffic for the Eastern and Western Harbour Tunnels increased 2% and 6% respectively as compared to 2011, which were higher than a 1% increase of overall traffic flow between Hong Kong and Kowloon. The Eastern Harbour Tunnel reported a decrease in earnings by 2% due to the expense of a tariff arbitration during the year.

Dah Chong Hong: The 13% decrease in contribution was due to slowdown of the PRC automobile market adversely affecting the profit margin on new car sales, and increased finance charges to service the higher level of automobile inventories in the PRC during 2012, partly offset by the growth of the food and consumer products businesses in both Hong Kong and the PRC.

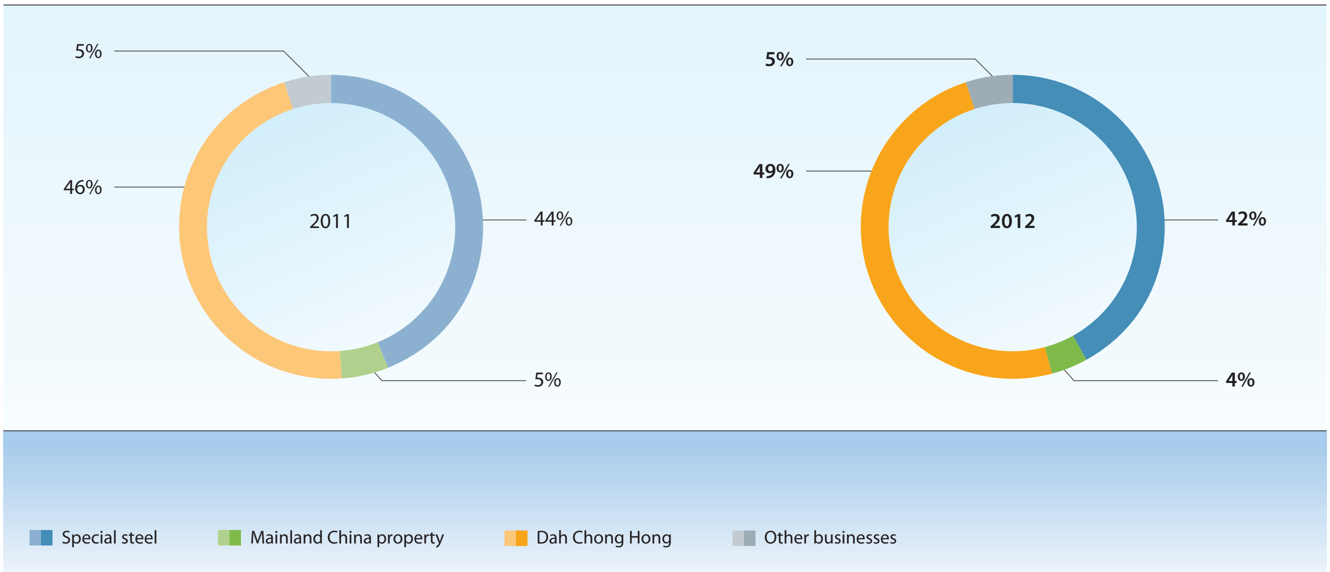
CITIC Telecom: In December 2012, CITIC Pacific announced the disposal of 18% interest in CITIC Telecom to a wholly-owned subsidiary of CITIC Group Corporation for a consideration of HK$773 million. As a result of the disposal, completed on 21 February 2013, CITIC Pacific's shareholding in CITIC Telecom reduced to 42% from 60%, and an estimated profit will be recorded upon completion. After completion, CITIC Pacific will equity account for its shareholding in CITIC Telecom. The 2012 profit contribution from CITIC Telecom was at the same level as 2011. Business growth and an increase in share of an associate's profits were offset by the rise in depreciation and amortization expenses, and other operating expenses.

Revenue

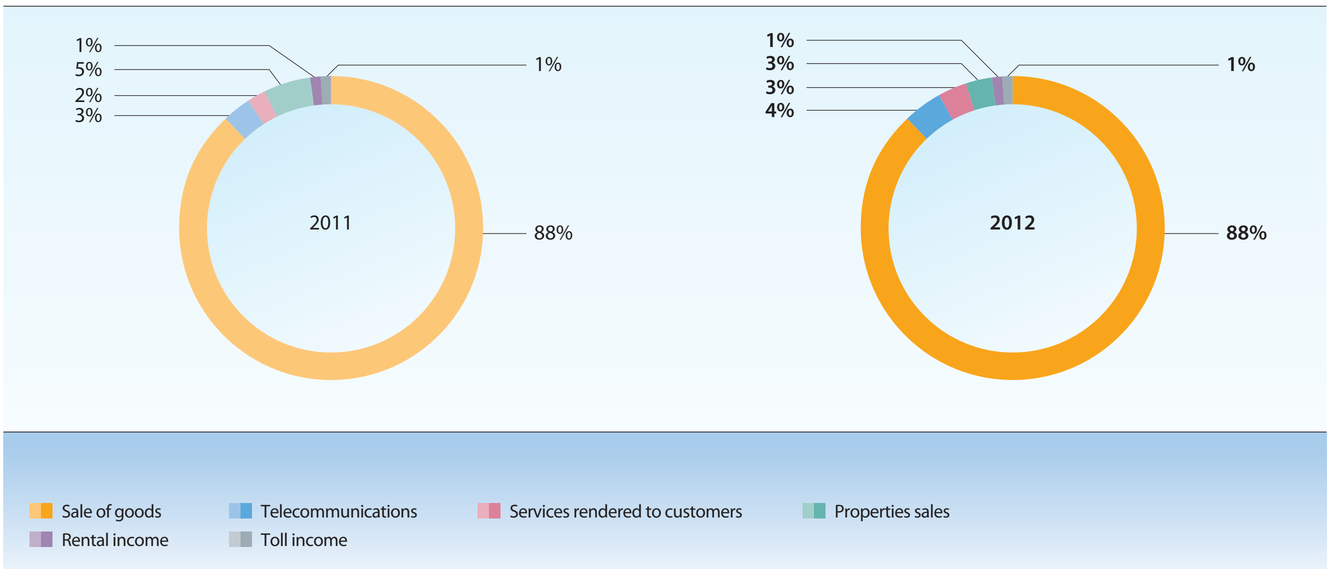
Revenue from operations decreased from HK$100,086 million in 2011 to HK$96,882 million in 2012. Special Steel and Dah Chong Hong accounted for the majority of the consolidated revenue of CITIC Pacific in 2012 as in previous years.

Financial Review

By business



By nature



Gain on disposal of assets

A one-off gain of HK$2,850 million was from disposal of the entire interest in CITIC Guoan and the Tai Chi Factory Building in Hong Kong, while the gain in 2011 was made from disposal of an investment property in Hong Kong, a power station in Zhengzhou and a construction site in Shanghai.

Change in the fair value of investment properties

The fair value of investment properties increased by HK$1,547 million in 2012. This was due to an upward revaluation of investment properties of CITIC Pacific in both mainland China and Hong Kong.

Fair value of investment properties

Net finance charges

The increase in net finance charges from HK$410 million to HK$1,144 million was the result of higher interest expense on increased borrowing of HK$18 billion to finance capital expenditure during the year, in particular the Australian mining project. Average cost of debt was 4.3%.

Taxation

Taxation in 2012 decreased by 46% to HK$1,388 million mainly due to reduced earnings from underlying businesses.

Group's Cash Flows

In HK$ million	**2012**	2011	Increase/(Decrease)	
Source of Cash:				
Cash inflows from business operations	**7,519**	7,934	(415)	(5)%
Other cash inflows	**7,547**	5,633	1,914	34%
Net borrowings	**18,277**	13,839	4,438	32%
Issue of shares and perpetual capital securities	**–**	5,798	(5,798)	(100)%
Sub-total	**33,343**	33,204	139	–
Use of Cash:				
Capital expenditure	**(26,675)**	(24,476)	2,199	9%
Dividends paid to ordinary shareholders	**(1,642)**	(1,642)	–	–
Distribution made to holders of perpetual capital securities	**(461)**	(230)	231	100%
Other cash outflows	**(1,552)**	(3,681)	(2,129)	(58)%
Sub-total	**(30,330)**	(30,029)	301	1%
Net Increase in Cash	**3,013**	3,175	(162)	(5)%

Financial Review

Although the amount of cash the Group generated from business operations – HK$7.5 billion – decreased 5% over the same period last year, it was compensated by other cash receipts including the proceeds of the disposal of CITIC Guoan of HK$4.3 billion, and properties in Tai Chi Factory Building of HK$220 million. The use of cash comprised capital expenditure, dividend distribution to ordinary shareholders, distribution to holders of perpetual capital securities (which were issued in 2011 to raise US$750 million), and various other payments. The Group had a net cash inflow of HK$3 billion for 2012.

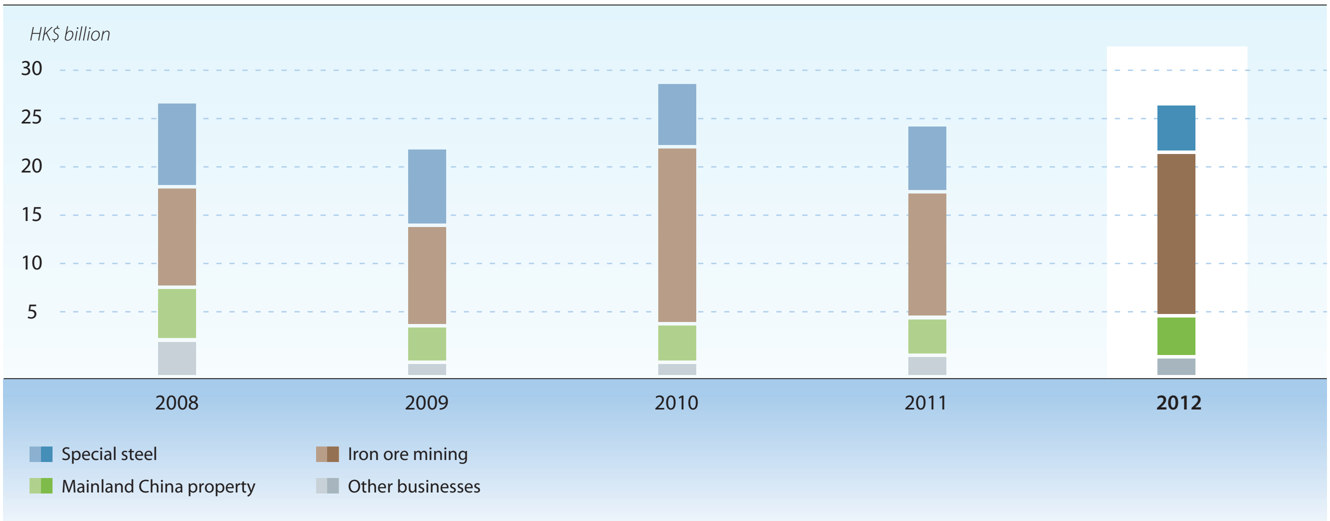
Cash inflows from business operations

In HK$ million	**2012**	2011	Increase/(Decrease)	
Cash inflows/(outflows) by business:				
Special steel	**4,704**	4,956	(252)	(5)%
Iron ore mining	**(390)**	(253)	137	54%
Mainland China property	**1,210**	2,138	(928)	(43)%
Sub-total	**5,524**	6,841	(1,317)	(19)%
Hong Kong property	**246**	205	41	20%
Energy	**(167)**	137	(304)	n/a
Tunnels	**554**	540	14	3%
Dah Chong Hong	**1,253**	556	697	125%
CITIC Telecom	**289**	271	18	7%
Others	**(180)**	(616)	(436)	(71)%
Total	**7,519**	7,934	(415)	(5)%

Other cash inflows

In HK$ million	**2012**	2011	Increase/(Decrease)	
Proceeds of divestment of businesses	**4,299**	2,055	2,244	109%
Dividends received from jointly controlled entities and associated companies	**1,964**	823	1,141	139%
Proceeds of sale of fixed assets and investment properties	**1,083**	892	191	21%
Others	**201**	1,863	(1,662)	(89)%
Total	**7,547**	5,633	1,914	34%

Capital expenditure



In HK$ million	2012	2011	Increase/(Decrease)	
Special steel	**4,613**	6,539	(1,926)	(29)%
Iron ore mining	**16,512**	12,583	3,929	31%
Mainland China property	**3,855**	3,516	339	10%
Sub-total	**24,980**	22,638	2,342	10%
Others	**1,695**	1,838	(143)	(8)%
Total	**26,675**	24,476	2,199	9%

For the year of 2012, the capital expenditure in our special steel mills was mainly comprised of expenditure for renovation of existing plants at Xingcheng and Daye, as well as construction of Jiangdu Pellet Plant and Tongling Coke Plant Phase II.

Capital expenditure for iron ore mining in 2012 included continuing expenditure for the construction of the production lines and common facilities, as well as payment for delivery for eight vessels as compared to four in 2011, and capitalized interest.

Our property development projects on the mainland continued at a similar level with 2011.

Capital commitments

As at 31 December 2012, the contracted capital commitments of CITIC Pacific Limited and its subsidiary companies amounted to HK$6 billion.

The future capital expenditure will be funded by the Group's cash and deposits, as well as available credit facilities. Pages 85 to 86 describe the HK$33 billion of cash and deposits held by the Group and HK$15 billion of available committed facilities as of 31 December 2012.

Financial Review

Group's Financial Position

In HK$ million	As at 31 December 2012	As at 31 December 2011	Increase/(Decrease)		Note to the Financial Statements
Total assets	**247,386**	229,739	17,647	8%	5(b)
Fixed assets and properties under development	**128,040**	109,307	18,733	17%	15
Derivative financial instrument assets	**376**	1,329	(953)	(72)%	32
Derivative financial instrument liabilities	**4,978**	4,906	72	1%	32
Inventories	**11,803**	14,125	(2,322)	(16)%	23
Net debt	**83,808**	67,777	16,031	24%	
Total ordinary shareholders' funds and perpetual capital securities	**84,678**	80,958	3,720	5%	

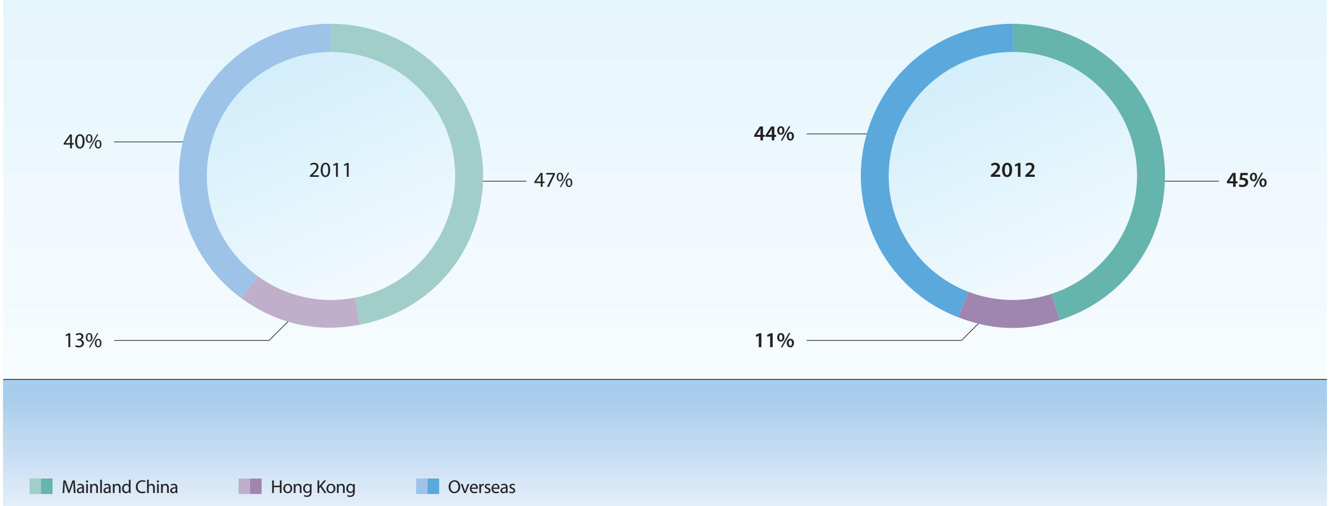
Total assets

Total assets increased from HK$229,739 million at the end of 2011 to HK$247,386 million at the end of 2012. Continuing construction and installation of equipment for iron ore mine were the main drivers of an increase in business assets.

By business

By geography

Non-current assets (other than financial instruments and deferred tax assets)



Derivative financial instruments

As at 31 December 2012, the Group had gross outstanding derivative instruments amounting to HK$32 billion. These derivative instruments had a negative fair value of HK$4.6 billion on 31 December 2012. All the derivative instruments were entered into to fix interest rate and foreign currency exposure in economic terms. The valuation loss in interest rate swaps arises because current interest rates are below the interest rates fixed by the swaps. The breakdown by type of the derivative financial instruments is shown below:

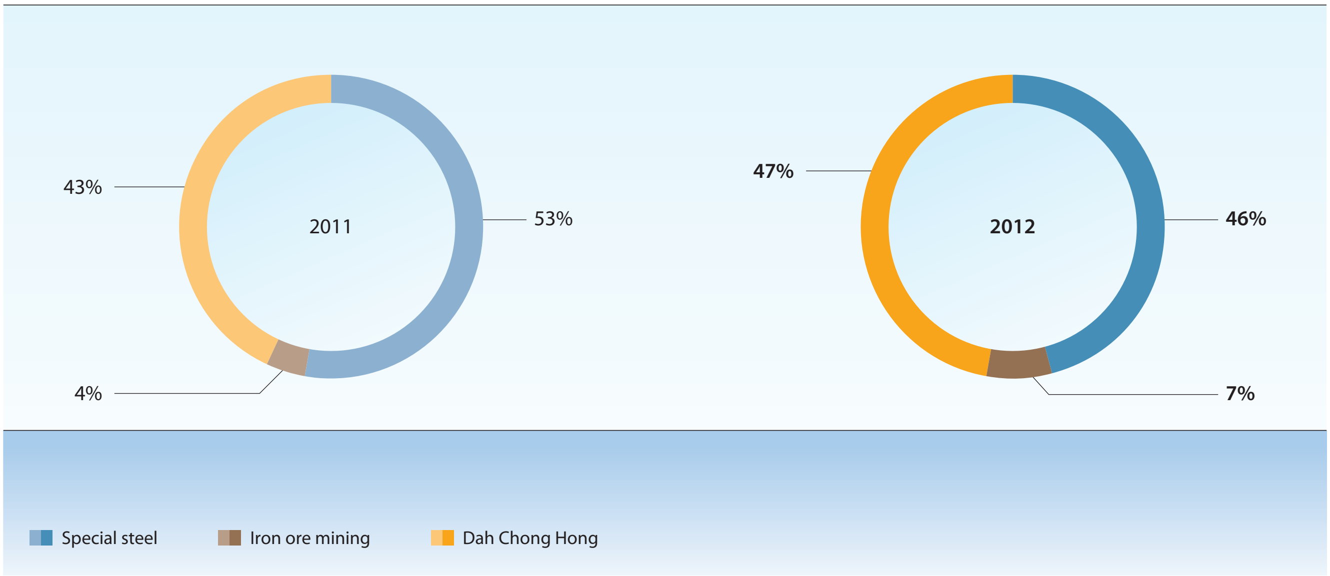
	Notional Amount		Fair Value as at	
In HK$ million	**31 December 2012**	31 December 2011	**31 December 2012**	31 December 2011
Forward foreign exchange contracts	**1,018**	7,552	**180**	986
Interest rate swaps	**29,929**	29,789	**(4,969)**	(4,842)
Cross currency swaps	**644**	400	**187**	279
Total	**31,591**	37,741	**(4,602)**	(3,577)

Inventories

Inventories comprise mainly iron ore, scrap metal, steel, motor vehicles, spare parts, electrical appliances, food and other trading items. Inventories as of 31 December 2012 dropped 16% as compared to 31 December 2011, due primarily to decrease in raw materials at Special Steel. The breakdown by business of inventories is shown on page 80.

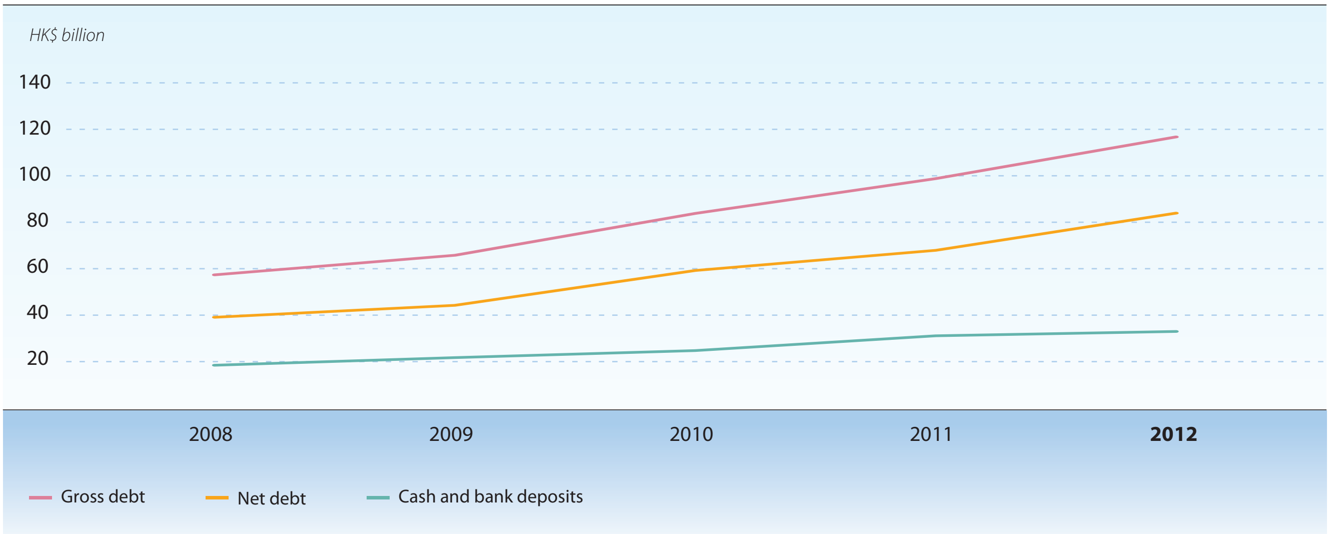
Financial Review

Analysis of inventories



Net debt

Net debt increased by 24%, in order to fund capital expenditure particularly expenditure on our Australian mining project. CITIC Pacific expects net debt to increase until major fixed asset investments in the iron ore mining businesses come into production and property developments are sold.



More details of outstanding debts and available loan and trade facilities can be found on pages 82 to 86.

Total ordinary shareholders' funds and perpetual capital securities

Total ordinary shareholders' funds and perpetual capital securities increased from HK$80,958 million at 31 December 2011 to HK$84,678 million at 31 December 2012 due to a profit for the year, offset by dividends paid to ordinary shareholders and distribution to holders of perpetual capital securities of HK$2,103 million, a decrease of HK$45 million in the reserves for exchange translations, negative movements of HK$1,139 million in the hedging reserve mainly due to delivery of foreign exchange contracts and decrease in interest rate, and release of reserve amounting to HK$413 million upon disposal of interest in CITIC Guoan.

Risk Management

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

Many parts of this report refer directly or indirectly to various risks faced by our businesses, but in this section key financial risk types are addressed. Other external risk types associated with the Group's businesses are also briefly discussed later in this section.

Risk Management Framework

Risk governance structure

Overall risk management starts with the board of directors. At each meeting, the board receives reports of the financial results and the financial positions of the Group, both current and projected. Written reports are provided to directors on all businesses identical to those reviewed by management at executive committee meetings.

The board has established asset and liability management, audit, executive, investment, nomination and remuneration committees whose activities play important roles of the overall control of various risks faced by the Group.

The Asset and Liability Management Committee ("ALCO") was set up by the board in October 2008 to oversee and monitor the financial risk exposures of the Group. ALCO's major functions are Asset and Liability Management ("ALM") and Treasury Risk Management.

The Group Treasury department, headed by the Group Treasurer, is responsible for implementing Treasury Policy (see below Risk Governance Policy), and communicating ALCO decisions to operating units, monitoring adherence and preparing management reports 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 financial risk positions within the confines of the overall risk framework and specific delegations defined by ALCO. They are responsible for identifying areas of risk within their organisations and reporting those risks to ALCO on a timely basis.

Listed subsidiaries or associates including CITIC Telecom International, Dah Chong Hong and Daye Special Steel manage their financial and treasury affairs within the framework of the Group's Treasury Policy.

Risk governance policy

The basic framework for risk management has been developed and is defined in the Treasury Policy approved by ALCO. This policy is subject to periodic review so as to incorporate latest risk standards in the market and/or business developments in the Group.

The Treasury Policy sets out control requirements and ensures alignment and consistency in which the major financial risk types are dealt with, from identification, quantification, evaluation to final reporting to ALCO for its decisions on both ALM and Treasury Risk management.

Risk Management

Financial Risk Management

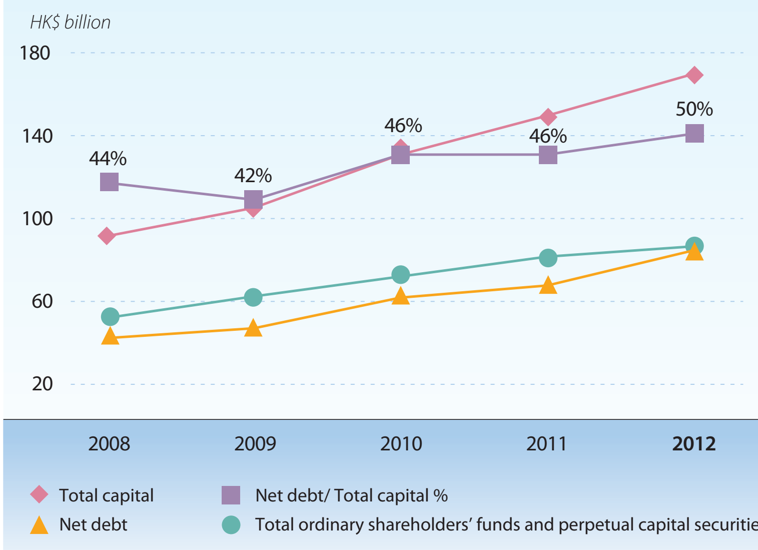
Asset and liability management

One of the main ALCO's functions is ALM. CITIC Pacific's investments in different businesses are financed by a mixture of long-term debt, short-term debt, common equity and perpetual capital securities. CITIC Pacific manages its capital structure to finance its overall operations and growth by using different sources of funds. The type of funding is matched to the characteristics of our underlying business.

Debt and leverage

As at 31 December 2012, net debt was HK$84.2 billion and total ordinary shareholders' funds and perpetual capital securities were HK$84.7 billion. Net debt divided by total capital is the measure of our leverage. This ratio rose to 50% at the year-end mainly due to the issuance of additional debt to fund the company's investments in its Australian mining operations and growth in its other businesses.

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. ***Total ordinary shareholders' funds and perpetual capital securities*** consists of the consideration paid to the company for issuing shares, plus retained profits, perpetual capital securities and other reserves, less non-controlling interests in equity. ***Total capital*** is net debt plus total ordinary shareholders' funds and perpetual capital securities.

Total debt and net debt of CITIC Pacific are as follows:

In HK$ million	**31 December 2012**	31 December 2011
Total debt	**116,994**	98,893
Cash and bank deposits	**32,821**	30,930
Net debt	**84,173**	67,963

For risk management purposes, 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$16 billion from the end of 2011 to that of 2012. Net external debt financed directly by each business is as follows:

In HK$ million	**31 December 2012**	31 December 2011
Special steel	**9,279**	9,501
Iron ore mining	**27,618**	27,994
Mainland China Property	**(7,150)**	(8,149)
Ships	**2,500**	2,329
Dah Chong Hong	**3,196**	2,930
CITIC Pacific Limited*	**49,742**	34,208
Others	**(1,012)**	(850)
Total	**84,173**	67,963

* Including outstanding debt of a wholly-owned special purpose vehicle.

As at 31 December 2012, total outstanding debt of CITIC Pacific Limited and its subsidiaries amounted to HK$116,994 million, of which HK$22,136 million will mature by the end of 2013, against cash and deposits totalling HK$32,821 million.

Total debt increased by HK$18 billion in 2012. Facilities totalling HK$53.3 billion were established or renewed during the year (HK$33.7 billion by CITIC Pacific Limited and HK$19.6 billion by its subsidiaries). The new facilities included US$1,100 million and US$1,000 million bonds due in 2018 and 2023 respectively issued under a global medium-term note programme, a HK$7,100 million syndicated loan due in 2015 and RMB700 million notes due in 2017 under two PRC medium-term note programmes.

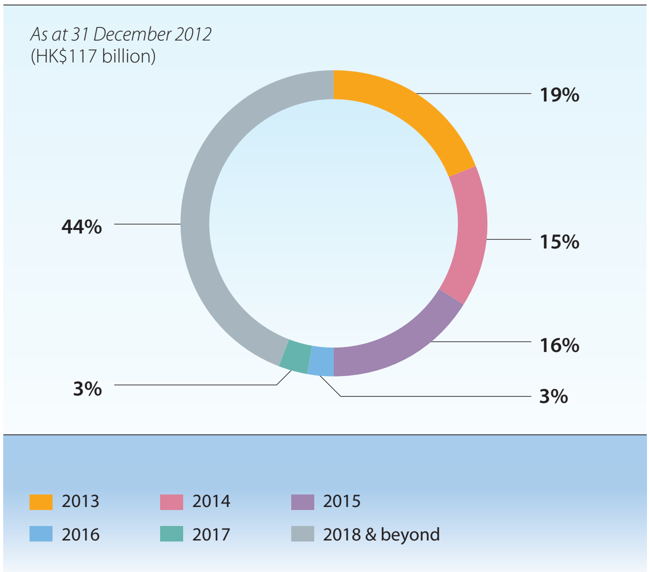
The maturity profile of the debt outstanding as at 31 December 2012 is as follows:

	Total outstanding debt	**Maturing in these years**					
In HK$ million		2013	2014	2015	2016	2017	2018 and beyond
CITIC Pacific Limited	**63,731**	10,410	10,350	13,668*	1,331	59	27,913
Subsidiaries	**53,263**	11,726	7,250	5,466	2,208	3,468	23,145
Total	**116,994**	22,136	17,600	19,134	3,539	3,527	51,058

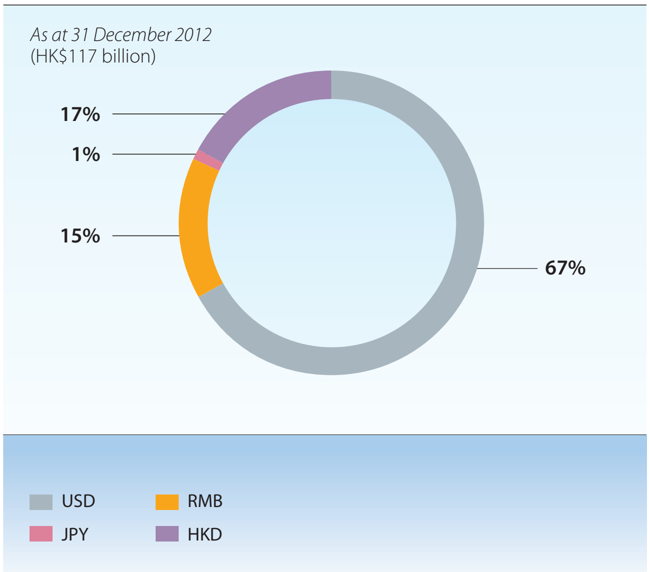
* Including outstanding debt of a wholly-owned special purpose vehicle.

Risk Management

Total outstanding debt by maturity



Total outstanding debt by currency



Liquidity risk management

Liquidity risk is in essence managed alongside ALM. The objective of liquidity risk management is to ensure that CITIC Pacific always has sufficient cash to meet its liabilities and has the flexibility to respond to opportunities by making sure that undrawn committed facilities are available to meet future funding and working capital requirement.

The Group's liquidity management procedures involve regularly projecting cash flows in major currencies, and considering the level of liquid assets and new financings necessary to meet these cash flow requirements. 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 Treasury 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.

CITIC Pacific actively seeks to diversify its funding sources so as not to be reliant on any one market. 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.

As at the end of 2012, 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 the increasing use of the capital market to supplement bank borrowings, and to maintain a mix of staggered maturities to minimise refinancing risk. This is to ensure the Group adopts a prudent liquidity risk management approach.

How is the Australian mining development financed?

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

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 foreign exchange risks, which are discussed later.

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. Banks' approval is required on a project-by-project basis.

The following sub sections reflect the Group's ALM and liquidity positions in various aspects:

Available sources of finance

CITIC Pacific aims at maintaining the cash balance and undrawn committed banking facilities at a reasonable level to cover the debt repayments in the upcoming year as well as to support the on-going business development of the Group.

In addition to the cash and deposits balance of HK$32.8 billion as at 31 December 2012, CITIC Pacific had available loan and trade facilities of HK$32.3 billion, of which HK$14.7 billion was undrawn committed banking facilities. Loans can be drawn under these committed facilities before the contractual expiry dates.

The cash and deposits balance together with the undrawn committed banking facilities as at 31 December 2012 are more than sufficient to cover the debt repayments of HK$22.1 billion in 2013.

The following table summarises CITIC Pacific's cash and deposits balance by business:

In HK$ million	
CITIC Pacific Limited	13,989
Mainland China property	8,100
Special steel	4,683
Dah Chong Hong	3,224
Iron ore mining	1,402
Ships	386
Others	1,037
Total	32,821

The following table summarises CITIC Pacific's funding by type of facilities:

In HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage breakdown of unutilised facilities
Committed facilities				
Term loans	96,385	81,684	14,701	46%
Short-term loans	3,900	3,900	–	–
Commercial paper (RMB commercial paper)	987	987	–	–
Global bonds (USD bond)	20,280	20,280	–	–
Domestic bonds (RMB note)	864	864	–	–
Private placement (JPY & USD note & RMB bond)	2,996	2,996	–	–
Total committed facilities	125,412	110,711	14,701	46%
Uncommitted facilities				
Money market lines and short-term facilities	15,769	6,194	9,575	29%
Trade facilities	10,820	2,816^	8,004	25%
Total uncommitted facilities	26,589	9,010	17,579	54%
Total facilities	152,001	119,721	32,280	100%

^ HK$89 million was included in total debt.

Risk Management

The following table summarises CITIC Pacific's funding by source:

In HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage breakdown of unutilised facilities
Source of funding				
Bonds				
Long-term	24,140	24,140	–	–
Short-term	987	987	–	–
Bank borrowings				
Mainland China	69,018	58,358	10,660	33%
Hong Kong	54,469	35,867	18,602	58%
Others	3,387	369	3,018	9%
Total facilities	152,001	119,721	32,280	100%

Pledged assets

As at 31 December 2012, CITIC Pacific had a total of HK$69.6 billion of assets pledged for various facilities. Iron ore mining assets of HK$63.3 billion were pledged under its financing documents. Contracts for twelve completed ships with carrying value of HK$5.4 billion for transporting iron ore from the mine to steel plants in mainland China were pledged as security for the ships' financing. In addition, assets of HK$0.9 billion were pledged to secure banking facilities, which mainly related to Dah Chong Hong's mainland China and overseas business.

Guarantees

Subsidiaries and affiliates secure debt facilities to fund their investments, to the extent possible, without recourse to CITIC Pacific. The major 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 outstanding of US$3.7 billion in debt facilities. Other guarantees mainly include those provided for ship financing, a Japanese Yen bond and trade facilities for a special steel company.

Loan covenants

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

	Covenant limit	Actual 31 December 2012
Minimum Consolidated Net Worth		
Consolidated Net Worth	≥ HK$25 billion	HK$86 billion
Gearing		
Consolidated Borrowing/Consolidated Net Worth	≤ 1.5	1.36
Negative Pledge		
Pledged Assets/Consolidated Total Assets	≤ 30%	0.4%

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

	S&P	Moody's
31 December 2012	BB+ (Negative)	Ba1 (Negative)

The ratings reflect the agencies' expectation that CITIC Pacific will continue to enjoy strong support from the CITIC Group as a strategically important subsidiary and there is no change in the ratings during 2012.

One of the CITIC Pacific's risk management objectives is to continue to improve its credit profile. CITIC Pacific expects that its overall operating and financial profiles will improve substantially after the iron ore mine starts to generate cash flow.

Risk Management

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 consolidated balance sheet as CITIC Pacific's share of their net assets. The debts arranged by the jointly controlled entities and associated companies are without recourse to their shareholders. None of these debts are guaranteed by CITIC Pacific Limited or its subsidiaries. Certain of CITIC Pacific's associates such as Hong Kong Resort Company Ltd, who develops property projects in Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

The following table shows the net debt/cash position of jointly controlled entities and associated companies by business sector as at 31 December 2012:

In HK$ million	**Total net debt/(cash)**	**Proportion of net debt/(cash) attributable to CITIC Pacific**
Special steel	(25)	(11)
Property		
Mainland China	(7,699)	(3,849)
Hong Kong and others	(341)	(163)
Energy	10,101	3,958
Tunnels	(97)	(34)
Dah Chong Hong	114	63
CITIC Telecom	(551)	(71)
Other investments	(182)	(289)
Total	**1,320**	**(396)**

Capital commitments and contingent liabilities

Details of CITIC Pacific's capital commitments as at 31 December 2012 are listed under Note 36 to the financial statements.

Details of CITIC Pacific's contingent liabilities as at 31 December 2012 are listed under Note 39 to the financial statements.

Treasury Risk Management

In addition to ALM function, the other main ALCO's function is Treasury Risk Management. Treasury Risk Management essentially covers the following financial risk types inherent in CITIC Pacific's businesses:

- Foreign exchange risk
- Interest rate risk
- Commodity risk
- Counterparty risk

Financial derivatives may be used to assist in the management of the above risk types. It is CITIC Pacific's policy not to enter into derivative transactions for speculative purpose. 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. ('Reval'), 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 derivative financial instruments is currently restricted by ALCO to interest rate swaps, cross currency swap and plain vanilla forward 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. None have been submitted for approval in 2012. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred.

Foreign exchange risk

CITIC Pacific has major operations in Hong Kong, mainland China and Australia whose functional currency is Hong Kong Dollar ("HKD"), Renminbi ("RMB") and United States dollar ("USD"). Entities within the Group are exposed to foreign exchange risk from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency. CITIC Pacific is subject to the risk of loss or profit due to changes in USD, 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.

CITIC Pacific's material currency exposures arise from the following:

(1) USD denominated debt
(2) RMB denominated debt
(3) expenditure relating to its iron ore mining operations in Australia and steel operations in mainland China
(4) purchases of raw materials by steel operations in mainland China
(5) purchases of finished products for sale by DCH, and
(6) registered capital of investment in mainland China

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 uses forward contracts and cross currency swaps to manage its foreign exchange risk. Hedging is only considered for firm commitments and highly probable forecast transactions.

The consolidated financial statement is presented in HKD which is the Group's presentation currency and the Company's functional and presentation currency. Translation exposures from the consolidation of subsidiaries whose functional currency is not HKD are not hedged using derivative instruments, as this is not a cash exposure.

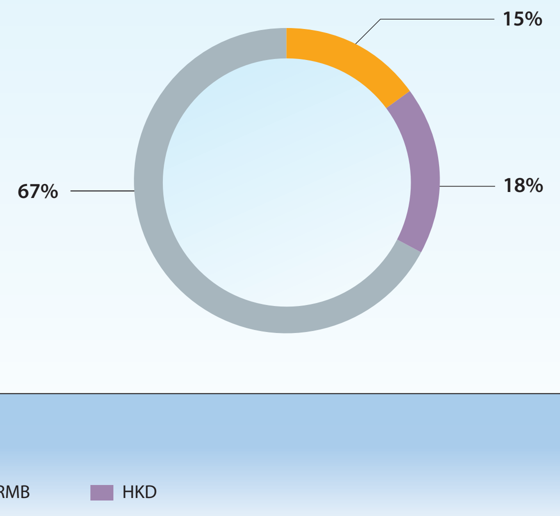
The denomination of CITIC Pacific's borrowings and cash and bank deposit balances by currency as at 31 December 2012 is summarised as follows:

	Denomination					
In HK$ million equivalent	**HK$**	**US$**	**RMB**	**JPY**	**Other**	**Total**
Total debt in original currency	20,171	78,551	17,199	610	463	**116,994**
Total debt after conversion	20,764	78,793	17,199	17	221	**116,994**
Cash and bank deposits	4,071	10,225	18,005	236	284	**32,821**
Net debt/(cash) after conversion	16,693	68,568	(806)	(219)	(63)	**84,173**

Risk Management

Outstanding debt after conversion

As at 31 December 2012
(HK$117 billion)



US Dollar (USD) – CITIC Pacific's investment in businesses whose functional currency is USD is mainly the iron ore mining business, which had USD gross assets of HK$79 billion. The Company uses its USD borrowings to hedge these USD assets through establishing a net investment hedge. As at 31 December 2012, CITIC Pacific had HK$78.6 billion equivalent of US dollar debt.

Renminbi (RMB) – Businesses in mainland China had RMB gross assets of approximately HK$126 billion as at 31 December 2012, offset by debts and other liabilities of HK$42 billion. This gave CITIC Pacific an RMB net asset exposure of HK$84 billion at 31 December 2012. 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, may be required to be paid in foreign currency by foreign investors such as CITIC Pacific.

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. To manage the AUD exposure of the business, as at 31 December 2012 the Australian mining operation had plain vanilla forward contracts with a notional amount of A$112 million outstanding with maturities up to April 2013, which qualify as accounting hedges. The average rate of these contracts is 0.82 USD to 1.00 AUD. In 2013, the Australian mining operation will adopt a new policy to stabilise the effective exchange rate over time by entering into plain vanilla forward contracts to hedge its forecast future AUD expenditures with the objective of reducing the volatility of expenditure in non-USD currency.

Japanese Yen (JPY) – CITIC Pacific issued a JPY8.1 billion bond in 2005. From an economic perspective, this JPY exposure is hedged through a cross currency swap into Hong Kong dollar floating rate payments. This swap does not qualify as an accounting hedge under the specific rules in HKAS 39, therefore changes in its fair value are reflected in the profit and loss account. The JPY bond is the only significant JPY exposure as at 31 December 2012.

Interest rate risk

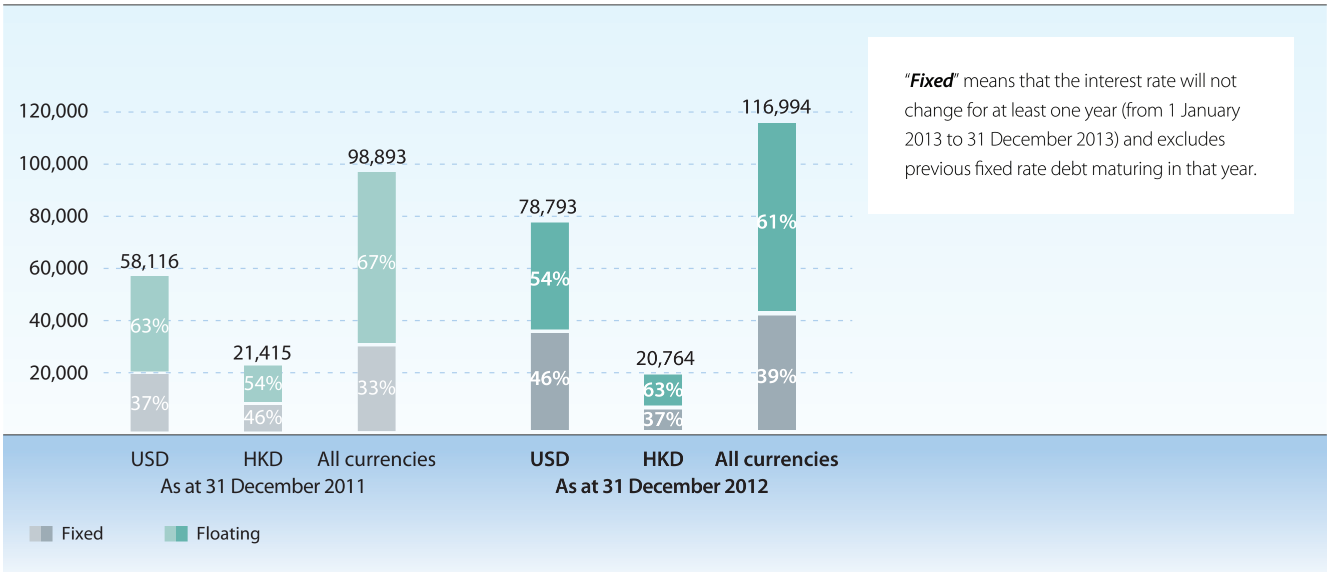
CITIC Pacific's interest rate risk arises primarily from borrowings. Borrowings at variable rates expose CITIC Pacific to cash flow interest rate risk; whilst borrowings at fixed rates economically expose CITIC Pacific to fair value interest rate risk. In the current low interest rate environment, CITIC Pacific manages the ratio of fixed/floating debt to achieve a balance between minimising our interest expense and hedging against large interest rate movements.

This risk is managed by considering the whole 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.

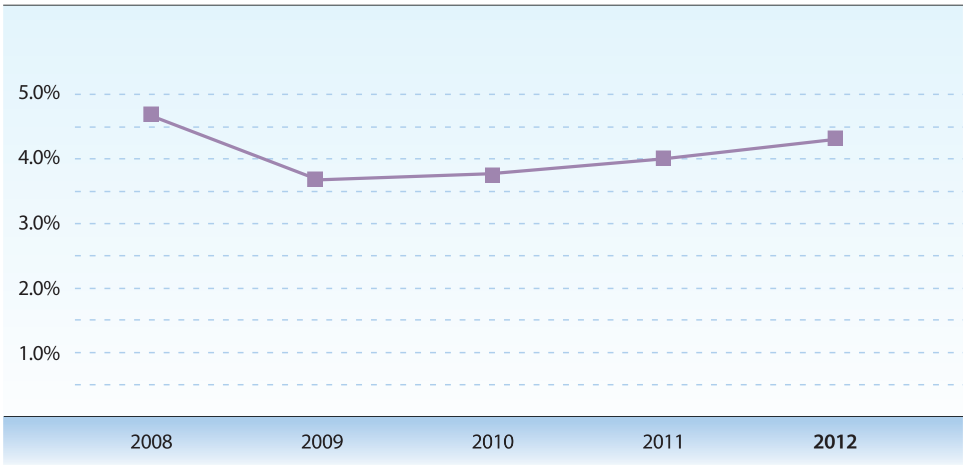
As at 31 December 2012, CITIC Pacific's floating to fixed interest rate derivative contracts maturing over one year had a notional amount of HK$22.1 billion. After hedging through interest rate swaps and the issuance of fixed rate debt, 61% of the borrowings of CITIC Pacific were linked to floating interest rates. In addition, CITIC Pacific has entered into HK$3.2 billion of forward starting swaps to lock in fixed rates for periods up to 8 years.

Fixed and floating interest rates



CITIC Pacific's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) for 2012 was approximately 4.3% compared with 4.0% in 2011. This is mainly due to the average effect of those new higher interest rate bonds with longer maturity tenors.

Average borrowing costs



The average borrowing cost is calculated after including the interest rate swaps contracts which convert floating rate borrowings into fixed rate borrowings and the amortisation of fees.

Risk Management

Commodity risk

As CITIC Pacific produces and purchases commodities across its various businesses, it has exposure to commodity price and quantity risk. CITIC Pacific has entered into long-term supply contracts for certain inputs, such as gas for the Australian mining operations and coal for its power generation business, to manage some of its raw material exposure. 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.

Due to the delay in the commissioning of the first production line for the Australian mining operations, the projected delivery of natural gas under a long-term supply contract for the mining operations has exceeded the current needs of the project. To avoid breaking the contract and to retain the gas for future usage, the mining operation has entered into a commercial agreement to swap a portion of the excess gas for the next two years (up to January 2015) to be re-delivered back to the project from January 2019 to June 2029. Further negotiations are on-going with other gas companies to swap the remainder of the excess gas under similar terms and arrangements.

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 2012, CITIC Pacific did not have any exposure to commodity derivatives.

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 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 Treasury 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.

Other 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 economy of mainland China as a whole, as well as the economies of Hong Kong and other cities. The sales of special steel are substantially 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 users in mainland China. Our property developments are mainly in mainland China, and our infrastructure assets such as tunnels are in Hong Kong. Economic policies implemented that 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 (including principals with whom we have agency relationships), 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.

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 may be subject to stringent licensing terms and regulations. Failure to adhere to these licensing terms and regulations may result in penalties or in extreme cases an inability to operate. The licensing 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, and could also be affected 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.

Ten Year Statistics

At year end *(in HK$ million)*	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Total ordinary shareholders' funds and perpetual capital securities	38,026	37,116	39,243	46,709	59,675	49,768	60,391	68,346	80,958	**84,678**
per share *(HK$)*	17.38	16.93	17.90	21.27	26.98	13.65	16.55	18.73	22.18	**23.20**
Debt										
Debt	10,528	14,580	21,218	18,293	28,654	57,234	65,675	83,683	98,707	**116,629**
Bank deposits	5,511	2,417	2,579	3,679	8,045	18,296	21,553	24,558	30,930	**32,821**
Net debt/total capital	12%	25%	32%	24%	26%	44%	42%	46%	46%	**50%**
Interest cover *	8x	15x	11x	20x	50x	(13)x	17x	21x	16x	**9x**
Capital employed	48,554	51,696	60,461	65,002	88,329	107,002	126,066	152,029	179,665	**201,307**
Property, plant and equipment	4,335	6,066	8,871	9,491	12,154	23,865	40,032	63,334	85,132	**100,445**
Investment properties	7,923	8,115	8,645	9,604	10,895	11,230	11,164	13,579	15,270	**16,359**
Properties under development	679	1,672	1,849	2,712	4,288	9,848	11,237	12,161	9,817	**9,856**
Leasehold land	1,194	1,596	1,618	1,712	1,641	1,483	1,581	1,597	2,277	**2,524**
Jointly controlled entities	4,085	7,852	10,413	14,922	17,446	21,140	22,097	21,681	21,278	**20,443**
Associated companies	22,584	21,439	23,239	16,459	17,812	14,924	5,797	6,345	7,222	**7,499**
Other financial assets	1,027	1,121	929	2,819	7,502	1,063	2,198	448	345	**351**
Intangible assets	1,570	1,736	1,746	3,536	4,557	8,934	10,868	12,944	16,202	**17,253**
Stockmarket capitalization	43,332	48,444	47,038	58,952	96,338	30,556	76,258	73,704	51,092	**42,188**
Number of shareholders	12,198	11,554	11,262	10,433	8,571	8,712	8,565	8,490	8,379	**8,380**
Staff	12,174	15,915	19,174	23,822	24,319	28,654	30,329	29,886	33,295	**34,781**
For the year *(in HK$ million)*										
Net profit/(loss) after tax										
Net profit/(loss) after tax	1,147	3,551	3,934	8,384	10,797	(12,734)	5,967	8,893	9,233	**6,954**
per share *(HK$)*	0.52	1.62	1.79	3.77	4.91	(5.70)	1.63	2.44	2.53	**1.91**
Contribution by major business										
Special Steel	178	438	808	1,333	2,242	1,617	1,415	2,102	1,994	**211**
Iron Ore Mining	–	–	–	–	–	(123)	376	(346)	(423)	**(781)**
Property										
Mainland China	112	125	154	308	197	523	524	583	2,324	**911**
Hong Kong and others	243	434	952	1,727	534	490	397	377	708	**734**
Energy	229	439	368	268	494	(1,090)^	886	1,959	1,588	**1,136**
Roads and tunnels	578	276	362	411	412	443	437	502	518	**561**
Dah Chong Hong	253	284	233	297	417	320	402	775	617	**536**
CITIC Telecom	116	120	122	191	157	181	196	248	299	**299**
Other investments	815	1,671	992	3,520	1,469	483	1,892	1,987	168	**2,699**
Net gain from listing of subsidiary companies	–	–	–	–	4,552†	–	–	–	–	**–**
Fair value change of investment properties	(588)	198	700	1,189	1,171	(80)	137	1,298	1,891	**1,547**
EBITDA	3,126	5,666	6,412	11,882	15,160	(9,950)	10,765	15,744	18,398	**15,059**
Dividends per share *(HK$)*										
Regular	1.00	1.10	1.10	1.10	1.20	0.30	0.40	0.45	0.45	**0.45**
Special	–	–	–	0.60	0.20	–	–	–	–	**–**
Cover	0.5x	1.5x	1.6x	3.4x	4.1x	(19.0)x	4.1x	5.4x	5.6x	**4.2x**

Note:

(1) Prior years' figures have been restated to reflect the Group's adoption of Hong Kong Financial Reporting Standards following the adoption of revised accounting standard of HKAS 12 "Income Tax" in year 2002 and HKAS 12 (amendments) – "Deferred Tax: Recovery of Underlying Assets" in 2011.

(2) 2008 & 2009 figures have been restated to reflect the Group's adoption of HKAS 17 (amendments) – "Leases".

(3) 2008 figures have been restated to reflect the Group's adoption of HK(IFRIC)-Int 13 "Customer Loyalty Programmes".

(4) The adoption of HKFRS 8 "Operating segments" in year 2009 has resulted in a change of presentation in segment information, in particular the aviation segment had been included in other investments segment.

* Interest cover represents EBITDA ÷ interest expense charged to profit and loss account.

^ The figures included HK$449 million impairment loss.

† Includes spin-off profit from the IPO of subsidiary companies, Dah Chong Hong and CITIC Telecom in 2007.

Corporate Governance

Corporate Governance Practices

CITIC Pacific is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interests of our shareholders. At CITIC Pacific, we attach importance to our people, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect the laws, rules and regulations of each country and area in which we operate, and we strive to ensure for our people a healthy and safe working environment which is our paramount concern. We endeavour to contribute to the sustainable development of CITIC Pacific, with particular focus on our accountability to shareholders and stakeholders. This report describes how CITIC Pacific has applied its corporate governance practices to its everyday activities.

CITIC Pacific has applied the principles and complied with all the code provisions of the code on corporate governance practices (which was effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 and the corporate governance code (“CG Code”) during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 to the Listing Rules except that in respect of code provision A.6.7 of the CG Code, Mr. Carl Yung Ming Jie (re-designated as a non-executive director as from 31 December 2012), Mr. André Desmarais (a non-executive director) and Mr. Alexander Reid Hamilton (an independent non-executive director) were not able to attend the annual general meeting of CITIC Pacific held on 18 May 2012 (“AGM”). Mr. Carl Yung was ill, while Mr. Alexander Reid Hamilton and Mr. André Desmarais were away from Hong Kong due to other engagements. Mr. Peter Kruyt, the alternate director to Mr. André Desmarais, attended the AGM.

For the year 2012, CITIC Pacific had made further progress with its corporate governance practices including:

- Formalized CITIC Pacific’s Corporate Governance Policy and Inside Information/Price Sensitive Information Disclosure Policy;
- Established the Nomination Committee and two meetings were held to review the board composition, diversity and to identify additional candidates to be appointed as an independent non-executive director of CITIC Pacific;
- Changed the composition of the board with the appointment of one additional independent non-executive director and resignation of two executive directors – the board now comprises four executive directors and eight non-executive directors of which four of them are independent;
- Carried out a self assessment of the performance of the board; and
- Rolled out the continuous professional development program for directors, including arranging a visit to the mine site, arranging presentations and for review relevant reading materials on developments on laws and regulations and corporate governance.

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

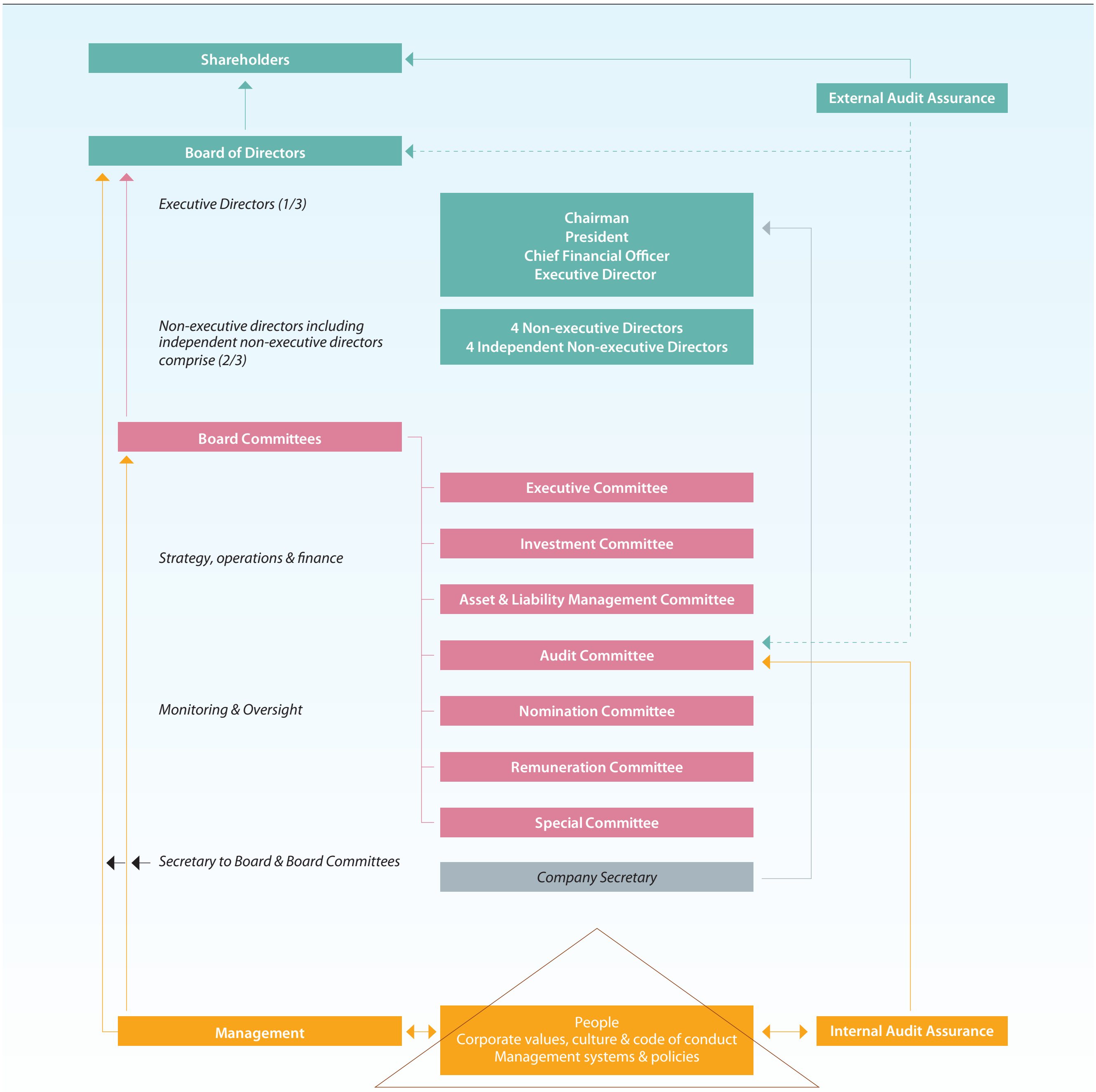
Preservation of Value and Strategy

CITIC Pacific is a company with multiple businesses in a few industries. We are not simply an investment holding company, but rather an operating company. Our activities are concentrated in three main businesses: manufacturing special steel, mining iron ore and property in mainland China. We have other businesses but they represent only 28% of the assets of the company. When we analyse a business, we look at its market position, competitiveness, future prospects and our desire to influence its management.

Corporate Governance

Our strategy is clear. We will continue to invest capital in special steel, mining iron ore, their related upstream and downstream industries, and property in mainland China. We will consider expanding into products, upstream or downstream from our existing businesses, but they should have synergies with, or supplement and enhance the value of the main businesses, particularly steel and mining. Our expectation is that our businesses will generate a return on capital invested above the cost of our own capital and generate cash flow to the benefit of the company and its shareholders. By pursuing this strategy, CITIC Pacific expects to generate and preserve value for all its shareholders.

Corporate Governance Structure



Board of Directors

Overall accountability

The members of the board of directors are individually and collectively accountable to the shareholders for the success and sustainable development of CITIC Pacific. The board provides direction and approval in relation to matters concerning CITIC Pacific's business strategies, policies and plans, while the day-to-day business operations are delegated to the executive management. The board is accountable to the shareholders, and in discharging their corporate accountability, directors of CITIC Pacific are required to pursue excellence in the interests of the shareholders and fulfill their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements.

During the year, the board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his responsibilities. The board is of the view that all directors have given sufficient time and attention to the Group's affairs and the board operates effectively as a whole. The board also noted the time involved by the directors in the company and other public companies held by the directors.

Board composition and changes during 2012

With effect from 31 December 2012, an additional independent non-executive director was appointed to the board whilst at the same time, two executive directors have resigned from the board. The board currently comprises four executive directors, four non-executive directors and four independent non-executive directors. Non-executive directors (including independent non-executive directors) comprise two-third of the board, of which independent non-executive directors make up one-third of the board.

In relation to the four non-executive directors who are not independent (as considered by the Stock Exchange), Mr. André Desmarais is the deputy chairman, president and co-chief executive officer of a shareholder indirectly owning a stake of more than 1% in CITIC Pacific; Mr. Ju Weimin is a vice president, the chief financial officer and secretary of CITIC Limited (a subsidiary company of CITIC Group Corporation); Mr. Yin Ke is a director of a company in which CITIC Limited (a subsidiary company of CITIC Group Corporation) is a substantial shareholder; and Mr. Carl Yung Ming Jie was an executive director of CITIC Pacific from 2000 to 2012.

CITIC Pacific has received from each independent non-executive director a confirmation of his independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all independent non-executive directors are independent. Brief biographical particulars of the directors, together with information about the relationships among them, are set out on pages 120 to 122.

All directors, including the non-executive directors, have a specific term of appointment which is not more than three years since his re-election by shareholders at the general meeting. Each director has entered into an appointment letter with CITIC Pacific and pursuant to Article 104(A) of the articles of association of CITIC Pacific, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at the annual general meeting during which they retire. Separate resolutions are proposed for the election of each director. One-third of the directors, or if their number is not a multiple of three then the number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

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Dr. Xu Jinwu was appointed as an independent non-executive director of CITIC Pacific with effect from 31 December 2012. He will hold office until the forthcoming annual general meeting of CITIC Pacific to be held on 16 May 2013 and is then eligible for re-election at such meeting. Thereafter, he will be subject to retirement by rotation and re-election in accordance with CITIC Pacific's Articles of Association. Induction materials were provided to Dr. Xu upon appointment and subsequently briefing sessions were given to him so that he has a proper understanding of CITIC Pacific's operations and businesses and is aware of his responsibilities under the requirement of the relevant regulatory bodies.

Board responsibilities and delegation

The board collectively determines the overall strategies of CITIC Pacific, monitors performance and the related risks and controls in pursuit of the strategic objectives of CITIC Pacific. Day-to-day management of CITIC Pacific is delegated to the executive director or officer in charge of each business unit and function, who reports back to the board. Each business unit leader and corporate functional leader is a member of the executive committee, which meets monthly to review the operating and financial performance of CITIC Pacific. All board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of CITIC Pacific, including reports and recommendations on significant matters. All board members are provided with monthly management updates of the business operations of CITIC Pacific. Should separate independent professional advice be considered necessary by the directors, independent professional services would be made available to the directors upon request.

The board has delegated certain functions to the respective committees, the details of which are set out below. Matters specifically reserved for the board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, selection of directors, changes to appointments such as company secretary and external auditor, remuneration policy for directors and senior management, terms of reference of board committees, as well as major corporate policies such as code of conduct and whistle-blowing policy.

CITIC Pacific has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers with a combined aggregate limit of liability of HK$100,000,000.

Details of the responsibilities, membership, attendance and activities during the year of each board committee are set out on pages 101 to 109.

Continuous Professional Development Programme

CITIC Pacific has rolled out a continuous professional development programme ("CPD Program") for directors with an aim to improve their general understanding of CITIC Pacific's business, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. In addition, directors may also choose to attend external courses, conferences and luncheons organized by various local organisations.

Under CITIC Pacific's CPD Program, the board visited the Sino Iron project in Australia in November 2012. Directors also attended briefings and reviewed the monthly business updates and other reading materials provided to them concerning latest developments in corporate governance practices and relevant legal and regulatory developments. A record of the directors' participation in the continuous professional development program is kept with the company secretary.

A summary of directors' participation in CITIC Pacific's CPD Program and other external training for the period from 1 January 2012 to 31 December 2012 is as follows:

	Attending briefings/seminars	Reading materials/ regulatory updates/ management monthly updates	Paying site visit
Executive Directors			
Mr. Chang Zhenming	√	√	√
Mr. Zhang Jijing	√	√	√
Mr. Vernon Francis Moore	√	√	√
Mr. Liu Jifu	√	√	
Mr. Kwok Man Leung (Note 1)	√	√	√
Mr. Milton Law Ming To (Note 1)	√	√	√
Non-executive Directors			
Mr. André Desmarais	√	√	√
Mr. Peter Kruyt (alternate director to Mr. André Desmarais)	√	√	√
Mr. Ju Weimin	√	√	√
Mr. Yin Ke	√	√	√
Mr. Carl Yung Ming Jie (Note 2)	√	√	
Independent Non-executive Directors			
Mr. Alexander Reid Hamilton	√	√	√
Mr. Gregory Lynn Curl	√	√	√
Mr. Francis Siu Wai Keung	√	√	√
Dr. Xu Jinwu (Note 3)			

Note: (1) resigned as executive director with effect from 31 December 2012
(2) re-designated as non-executive director with effect from 31 December 2012
(3) Dr. Xu Jinwu was appointed as independent non-executive director with effect from 31 December 2012. Induction materials and briefings were provided to Dr. Xu upon his appointment.

Board meetings and attendance

The board meets regularly to review financial and operating performance of CITIC Pacific and to discuss future strategy. Four regular board meetings and one special board meeting were held in 2012. At the board meetings, the board reviewed significant matters including CITIC Pacific's annual and half-year financial statements, annual budget, proposals for final and interim dividends, annual report and half-year report, and connected transactions. At each of the regular board meetings, the board received a written report from the president on CITIC Pacific's major businesses, investments and projects, and corporate activities. During the year the board received detailed briefings on the progress of the Sino Iron project. In November 2012, a board meeting was held at the mine site in Australia where the board made a site visit in respect of its Sino Iron project. In December 2012, a special board meeting was held to approve a connected transaction and certain continuing connected transactions, the details of which are set out in the announcements of CITIC Pacific dated 18 December 2012 and 28 December 2012 in which detailed information of such transactions were presented to the board. A schedule of board meetings dates is fixed for each year ahead whenever possible and the dates of the next regular board meetings are fixed at the close of each board meeting. At least 14 days' formal notice of all regular board meetings is given to all directors, and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and board

Corporate Governance

papers for each meeting are sent to all directors at least three days in advance of every regular board meeting. All minutes of the board meetings are kept by the company secretary. Copies are provided to directors and the original minutes are available to all directors for inspection. In addition to the board meetings, the chairman also holds a meeting with the non-executive directors (including independent non-executive directors) without the presence of executive directors on an annual basis.

The attendance record of each director at board meetings and general meeting in 2012 is set out below:

	Board Meeting	Annual General Meeting on 18 May 2012
Number of Meetings	**5**	**1**
Executive Directors		
Mr. Chang Zhenming – Chairman	5/5	1/1
Mr. Zhang Jijing – Managing Director (title changed to President)	5/5	1/1
Mr. Vernon Francis Moore – Group Finance Director (title changed to Chief Financial Officer)	5/5	1/1
Mr. Liu Jifu	4/5	1/1
Mr. Kwok Man Leung (Note 1)	5/5	1/1
Mr. Milton Law Ming To (Note 1)	5/5	1/1
Non-executive Directors		
Mr. André Desmarais (Note 2)	2/5	0/1
Mr. Peter Kruyt (alternate director to Mr. André Desmarais)	4/5	1/1
Mr. Ju Weimin	5/5	1/1
Mr. Yin Ke	4/5	1/1
Mr. Carl Yung Ming Jie (Note 3)	3/5	0/1
Independent Non-executive Directors		
Mr. Alexander Reid Hamilton	4/5	0/1
Mr. Gregory Lynn Curl	4/5	1/1
Mr. Francis Siu Wai Keung	5/5	1/1
Dr. Xu Jinwu (Note 4)	0/0	0/0

Note: (1) resigned as executive director with effect from 31 December 2012
(2) where Mr. André Desmarais could not attend a board or general meeting, Mr. Peter Kruyt had attended them
(3) re-designated as non-executive director with effect from 31 December 2012
(4) appointed as independent non-executive director with effect from 31 December 2012

Chairman and the President

Mr. Chang Zhenming serves as the chairman of CITIC Pacific and Mr. Zhang Jijing as the president (former title as managing director) of CITIC Pacific. The president plays the same role and has the same responsibilities as that of the managing director. The chairman and the president have separate defined responsibilities whereby the chairman is primarily responsible for leadership and effective functioning of the board, ensuring key issues are promptly addressed by the board, as well as providing strategic direction of CITIC Pacific. The president is responsible for the day-to-day management of CITIC Pacific and the effective implementation of corporate strategy and policies. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the board.

Board Committees

The board has appointed a number of committees to discharge the board functions including the nomination committee which was established on 1 March 2012. Sufficient resources are provided to enable the board committees to undertake their specific roles. The respective role, responsibilities and activities of each board committee are set out below:

Executive Committee

The board has established an executive committee for communication of the direction and priorities of CITIC Pacific and sharing information with and amongst senior executives about CITIC Pacific's key developments and business issues. This committee's activities include:

- receiving guidance from the chairman and president on CITIC Pacific's strategic direction and priorities;

- receiving and considering reports from group treasury and group financial control department on CITIC Pacific's results and forecasts;

- receiving and considering reports from leaders of CITIC Pacific's major businesses on their results, activities and prospects of their respective businesses; and

- receiving and considering quarterly reports from group internal auditor on internal controls of the group, and reports from other corporate functional leaders when required.

The executive committee is chaired by the president (an executive director) and its membership includes the chief financial officer (an executive director), one other executive director, two executive vice presidents, leaders of major businesses in the group and leaders of key head office functions. The chairman has the right to attend any executive committee meetings. The executive committee met eleven times in 2012. The relevant executive directors as listed below together with the corporate functional leaders and leaders of major operating businesses attended the executive committee meetings. Full minutes of the meetings are kept by the company secretary, which were sent to the committee members after each meeting.

The meeting attendance of directors is as follows:

Membership and Attendance

Members	Attendance/Number of Meetings
Executive Directors	
Mr. Zhang Jijing (Chairman)	11/11
Mr. Vernon Francis Moore	11/11
Mr. Liu Jifu (Note 1)	4/11
Mr. Kwok Man Leung (Note 2)	11/11
Mr. Milton Law Ming To (Note 2)	9/11

Note: (1) five of the meetings were attended by his representative
(2) resigned as executive director and appointed as executive vice president with effect from 31 December 2012

Corporate Governance

Remuneration Committee

The principal role of the remuneration committee is to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind, share options and other plans. The remuneration committee reviews and approves the management's remuneration proposals with reference to the board's corporate goals and objectives and considers salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in CITIC Pacific's group, so as to align management incentives with shareholder interests.

The committee currently comprises three independent non-executive directors with Mr. Francis Siu Wai Keung as the chairman. The executive vice president, Mr. Kwok Man Leung, serves as the secretary of the committee with effect from 1 January 2013, and minutes for the meetings are sent to the committee members within a reasonable time after the meetings. The revised full terms of reference are available on CITIC Pacific's website (http://www.citicpacific.com/en/investors/corporate-governance_remuneration.html) and the Stock Exchange's website.

The composition of the remuneration committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/Number of Meetings
Independent Non-executive Directors	
Mr. Francis Siu Wai Keung (Chairman)	1/1
Mr. Alexander Reid Hamilton	1/1
Mr. Gregory Lynn Curl	1/1

Work Done in 2012

The remuneration committee completed the following reviews in 2012:

1. reviewed and approved the remuneration policy;

2. approved the grant of share options by Dah Chong Hong under the Post-IPO Shares Option Scheme;

3. approved the salaries and bonuses of the executive directors and senior executives; and

4. considered the proposed amendments to its terms of reference to take into account the new code provisions which took effect from 1 April 2012 and recommended their adoption by the board.

During the review, no director took part in any discussion about his own remuneration.

During the year, the remuneration committee had communicated with the chairman and/or the president about proposals relating to the remuneration packages of other executive directors and senior management.

Details of CITIC Pacific's remuneration policies are set out in the Human Resources section on pages 147 to 148, and directors' emoluments and retirement benefits are disclosed on pages 189 to 190. Share options granted under the CITIC Pacific Share Incentive Plan 2000 which ended on 30 May 2010 are disclosed on pages 132 to 135.

The remuneration paid to the directors, by name, for the year ended 31 December 2012 is set out in Note 12 to the financial statements. The remuneration paid to the senior management, by band for the year ended 31 December 2012 is set out below.

Remuneration of senior management other than directors for the full year of 2012

Total Remuneration Bands	Number of Executives
Below HK$3,000,000	0
HK$3,000,001 – HK$6,000,000	8
HK$6,000,001 – HK$9,000,000	5
HK$9,000,001 – HK$12,000,000	0
HK$12,000,001 – HK$15,000,000	1
	14

Note: the above does not include (i) an executive who has resigned during the year 2012; (ii) an executive who has joined CITIC Pacific during the year 2012 and (iii) three new executives as from 1 January 2013

Audit Committee

The audit committee acts on behalf of the board in providing oversight of CITIC Pacific's financial reporting, annual audit and interim review, internal control as well as corporate governance. It consists of three non-executive directors, Mr. Francis Siu Wai Keung (chairman), Mr. Alexander Reid Hamilton and Mr. Yin Ke. Mr. Siu and Mr. Hamilton are independent non-executive directors having the relevant professional qualification and expertise in financial reporting matters. The audit committee meets four times a year with CITIC Pacific's external auditor, the chief financial officer, group financial controller and the external and internal auditors attending the meetings, taking part in the discussions and answering questions from the committee members. By invitation of the audit committee, other directors and senior executives may also attend the meetings. The audit committee chairman and other committee members also meet in separate private sessions with the external auditor and group internal auditor without the presence of management.

Duties of the Audit Committee

The authority, role and responsibilities of the audit committee are set out in written terms of reference which are available on CITIC Pacific's website (http://www.citicpacific.com/en/investors/corporate-governance_audit.html) and the Stock Exchange's website. The committee reviews its terms of reference at least once a year to ensure they remain in line with the requirements of the CG Code. Amendments to the terms of reference are submitted to the board for approval.

Under its terms of reference, the audit committee shall:

- Review and monitor the integrity of financial information of CITIC Pacific and provide oversight of the financial reporting process;

- Monitor the effectiveness of external audit and oversee the appointment, remuneration and terms of engagement of CITIC Pacific's external auditor, as well as their independence;

- Oversee the system of internal control and risk management, including the group's internal audit function as well as arrangements for concerns raised by staff on financial reporting and other matters ("whistle-blowing");

Corporate Governance

- Starting from March 2012, undertake corporate governance functions delegated from the board, including:

  (a) reviewing CITIC Pacific's policies and practices on corporate governance and making recommendations to the board as well as CITIC Pacific's compliance with the CG Code and disclosures in the Corporate Governance Report;

  (b) reviewing and monitoring:

    (i) the training and continuous professional development of directors and senior management;

    (ii) the Company's policies and practices on compliance with legal and regulatory requirements, the group's code of conduct; and

    (iii) the group's whistle-blowing policy and system.

Committee composition and meeting attendance

The composition of the audit committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/Number of Meetings
Independent Non-executive Directors	
Mr. Francis Siu Wai Keung (chairman with effect from the conclusion of the board meeting held on 1 Mar 2012)	4/4
Mr. Alexander Reid Hamilton (chairman until the conclusion of the board meeting held on 1 Mar 2012)	4/4
Non-executive Director	
Mr. Yin Ke	2/4
Other Attendees	
Group Finance Director (title changed to Chief Financial Officer)	4/4
Group Financial Controller/Director of Financial Control	4/4
Group Internal Auditor	4/4
External Auditor	4/4

The company secretary acts as secretary to the committee. Sufficient resources are made available to the committee when required. An agenda and accompanying committee papers are sent to the committee members at least three days prior to each meeting. The company secretary prepares full minutes of the audit committee meetings with details of the matters considered by the committee members. The draft minutes are sent to all committee members for comment after each meeting and the final version of the minutes is sent to the committee members for their records within a reasonable time after the meeting.

The chairman of the committee summarizes the activities of the committee and highlights issues arising and reports to the board after each audit committee meeting.

Work Done in 2012

The audit committee performed the following in 2012:

Financial reporting	Reviewed the 2011 annual financial statements, annual report and results announcement
	Reviewed the 2012 half-year financial statements, half-year report and results announcement
	Recommended to the board approval of the 2011 annual report and 2012 half-year report
	Examined checklists for compliance with statutory and Listing Rules requirements for ensuring the integrity of the financial statements
External audit and interim review	Reviewed Audit Committee Reports of PricewaterhouseCoopers ("PwC") on their statutory audit of 2011 annual financial statements and their independent review of 2012 half-year financial statements
	Discussed any financial reporting and control matters set out in the Audit Committee Reports submitted by PwC, or addressed in representation letters issued by management to PwC, and reviewed the status of assurances provided by the business and functional management with respect to the integrity of the financial statements
	Reviewed PwC's plans for their independent review of CITIC Pacific's 2012 half-year financial statements and their statutory audit of the 2012 annual financial statements, including the audit scope and the nature of their work
	Considered the independence of PwC as the external auditor of CITIC Pacific
Internal control and internal audit	Examined management's annual self-assessments of the effectiveness of the internal controls of the group, including adequacy of the staff resources, qualifications and experience of CITIC Pacific's accounting and finance functions
	Reviewed the internal audit charter and approved group internal audit's annual internal audit plan and reviewed the overall audit work progress in each committee meeting
	Reviewed group internal audit's quarterly reports on findings, recommendations, management response and progress in rectification of internal control and other matters
	Reviewed the staffing and resources of the group internal audit department
	Noted any significant changes in financial or other risks faced by CITIC Pacific and reviewed management's response to them
Corporate governance and CG Code requirements	Reviewed and approved the revisions to the terms of reference of CITIC Pacific's audit committee in response to the new CG Code requirements effective from 1 April 2012
	Reviewed two whistle-blowing cases referred by internal audit, which were resolved by the management
	Reviewed reports submitted by the management on the group's compliance with the code of conduct, regulatory and statutory obligations, and internal policies regarding the conduct of business and corporate governance work
	Reviewed the training and continuous professional development of directors and senior management
	Reviewed CITIC Pacific's Corporate Governance Policy, Inside Information/Price Sensitive Information Disclosure Policy, Code of Conduct and other corporate governance practices under the CG Code
	Reviewed CITIC Pacific's compliance with the CG Code and disclosures in the Corporate Governance Report

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In the audit committee meeting of February 2013, the audit committee reviewed and approved CITIC Pacific's annual financial statements and annual report for the year ended 31 December 2012, and considered reports from the external and internal auditors. The audit committee recommended that the board approves the 2012 annual report.

Nomination Committee

The board established a nomination committee on 1 March 2012. The full terms of reference are available on CITIC Pacific's website (http://www.citicpacific.com/en/investors/corporate-governance_nomination.html) and the Stock Exchange's website.

The nomination committee is authorised by the board to determine the policy for the nomination of directors, to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. The committee also reviews the size, structure and composition of the board and assesses the independence of independent non-executive directors.

The nomination committee comprises three members, two of whom are independent non-executive directors, and is chaired by the chairman of the board. The nomination committee meets at least annually and at such other times as it shall require. The company secretary acts as secretary to the committee. The committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at CITIC Pacific's expenses if necessary.

The nomination committee held two meetings in 2012 with full attendance by the committee members in person or by telephone. The company secretary prepared full minutes of the nomination committee meetings and the draft minutes were sent to all committee members. One set of resolutions was passed by circular by all the committee members in February 2013.

The composition of the nomination committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/Number of Meetings
Executive Director	
Mr. Chang Zhenming (Chairman)	2/2
Independent Non-executive Directors	
Mr. Alexander Reid Hamilton	2/2
Mr. Gregory Lynn Curl	2/2

Work Done in 2012

The nomination committee completed the following work in 2012:

1. reviewed the structure, size and composition of the board;
2. considered the proposal to reduce the size of the board; and
3. recommended the appointment of an independent non-executive director and re-designation of an executive director to a non-executive director for approval by the board.

In February 2013, the nomination committee also recommended the re-election of all the retiring directors at the forthcoming annual general meeting.

Investment Committee

The investment committee was set up in May 2009 to provide advice to the chairman, the president and the board on:

- investment plans, feasibility studies and proposed disposals or divestments initiated by the businesses in the group or the committee itself;
- the strategy and planning of CITIC Pacific; and
- the annual operating and capital expenditure budgets and business plans of CITIC Pacific and businesses in the group, amendments to approved budgets and unbudgeted capital expenditure.

The committee is chaired by the chairman of the board. The other members are the president (an executive director), chief financial officer (an executive director) and two executive vice presidents. Prior to the committee meetings, business proposals and feasibility studies are prepared by the proposing business, and the group's business development department provides analysis to facilitate discussions. Depending on the availability of members, discussions are made either in physical meetings or in writing. Discussion results will be notified to people concerned with implementation for information and follow up.

The committee meets on an "as required" basis. In 2012, there were 13 discussions of the committee covering 17 topics.

Membership and Participation

Members	Participation/Number of Meetings
Executive Directors	
Mr. Chang Zhenming (Chairman)	13/13
Mr. Zhang Jijing	13/13
Mr. Vernon Francis Moore	13/13
Mr. Kwok Man Leung (Note)	13/13
Mr. Milton Law Ming To (Note)	13/13

Note: resigned as executive director and appointed as executive vice president with effect from 31 December 2012

Corporate Governance

Asset and Liability Management Committee

The asset and liability management committee was established in October 2008 to review the financial position and financial risk management of CITIC Pacific. The principal responsibilities of the asset and liability management committee are to:

- review regularly the asset and liability balances of CITIC Pacific in aggregate and at subsidiary level;
- set limits on exposure at group, subsidiary or business unit levels in relation to
  – asset and liability structure
  – counterparties
  – currencies
  – interest rates
  – commitments and contingent liabilities;
- review and approve financing plans;
- approve the use of new financial products; and
- establish hedging policies.

The committee is chaired by the chief financial officer (an executive director). Other members include two executive vice presidents, the group treasurer, the group financial controller, and the executives with responsibility for treasury, treasury risk management and financial control.

The chief financial officers of major business units may be invited to attend and report at the meetings of the asset and liability management committee from time to time. The committee met eleven times during 2012 to consider the matters within its terms of reference.

The meeting attendance of directors is as follows:

Membership and Attendance

Members	Attendance/Number of Meetings
Executive Directors	
Mr. Vernon Francis Moore (Chairman)	11/11
Mr. Kwok Man Leung (Note)	9/11
Mr. Milton Law Ming To (Note)	10/11

Note: resigned as executive director and appointed as executive vice president with effect from 31 December 2012

Special Committee to Deal with Matters Relating to Investigations of CITIC Pacific

A special committee to deal with matters relating to the investigations of CITIC Pacific was established in April 2009 to

- approve communications between CITIC Pacific and any relevant authorities or third parties in relation to the investigations by the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force;
- consider the issue of legal professional privilege and to make decisions on behalf of CITIC Pacific in connection therewith; and
- seek legal and professional advice on behalf of CITIC Pacific as well as approve their fees.

The committee comprises three members, namely, Mr. Zhang Jijing (executive director), Mr. Ju Weimin (non-executive director) and Mr. Francis Siu Wai Keung (independent non-executive director). No physical committee meetings were held during the year, and the committee members reviewed the matters concerning the protection of legal professional privilege by way of circulation and received written independent legal advice.

On 28 March 2012, the Court of Appeal handed down judgment, overturning the Court of First Instance's judgment of 18 March 2011, ruling that the six documents voluntarily handed to the Securities and Futures Commission were protected by legal professional privilege. The Court of Appeal's judgment is final and conclusive as no appeal has been made to the Court of Final Appeal, and CITIC Pacific is in the process of recovering its legal costs of this part of the proceedings and seeking return of the relevant privileged documents.

CITIC Pacific filed a notice of appeal on 9 January 2012 against the judgment in relation to approximately 1,600 further items handed down by the Court of First Instance on 19 December 2011. The hearing dates of this part of the proceedings remain to be fixed pending response from the Department of Justice.

Accountability and Audit

Financial Reporting

The board of directors recognises the importance of integrity of financial information and acknowledges its responsibility for preparing financial statements that give a true and fair view of the group's affairs and of its results and cash flows in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance. The board endeavours to present to shareholders a balanced and understandable assessment of CITIC Pacific's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable. CITIC Pacific's annual report 2011 received Bronze Award for Written Text: multi-industry (Products & Services) from an international award programme for the annual report industry, the ARC Awards, in the 2012 International ARC Awards Competition.

The adoption of new or amended accounting standards that became effective during the year has not had a significant impact on the accounts except for those disclosed in Note 1(a) on page 162.

The responsibilities of the external auditor with respect to the accounts for the year ended 31 December 2012 are set out in the Independent Auditor's Report on page 261.

Corporate Governance

External Auditors and their Remuneration

The external auditors perform independent review or audit of the financial statements prepared by the management. Since 1989, PwC has been engaged as CITIC Pacific's external auditor. The audit engagement partner responsible for the audit of CITIC Pacific is generally changed every seven years to ensure independence. The current audit partner has been engaged since 2011 to replace the previous one who was first appointed in 2006. During the year, PwC's fees for its services were approximately as follows:

Statutory audit fee: HK$36 million (2011: HK$26 million).

Fees for other services, including special audits, advisory services relating to accounting system, review of systems of internal control, review of the half-year financial statements and tax services: HK$6 million (2011: HK$8 million).

Other audit firms provided recurring audit services to subsidiaries at a fee of approximately HK$33 million (2011: HK$27 million) and provided other services for fees of HK$5 million (2011: HK$21 million).

Internal Controls

The board has overall responsibility for maintaining a sound and effective internal control system, which is designed and operated to provide reasonable assurance that the business objectives of CITIC Pacific in the following areas are achieved:

- effectiveness and efficiency of operations, including the achievement of performance and operating targets and the safeguarding of assets by the management;

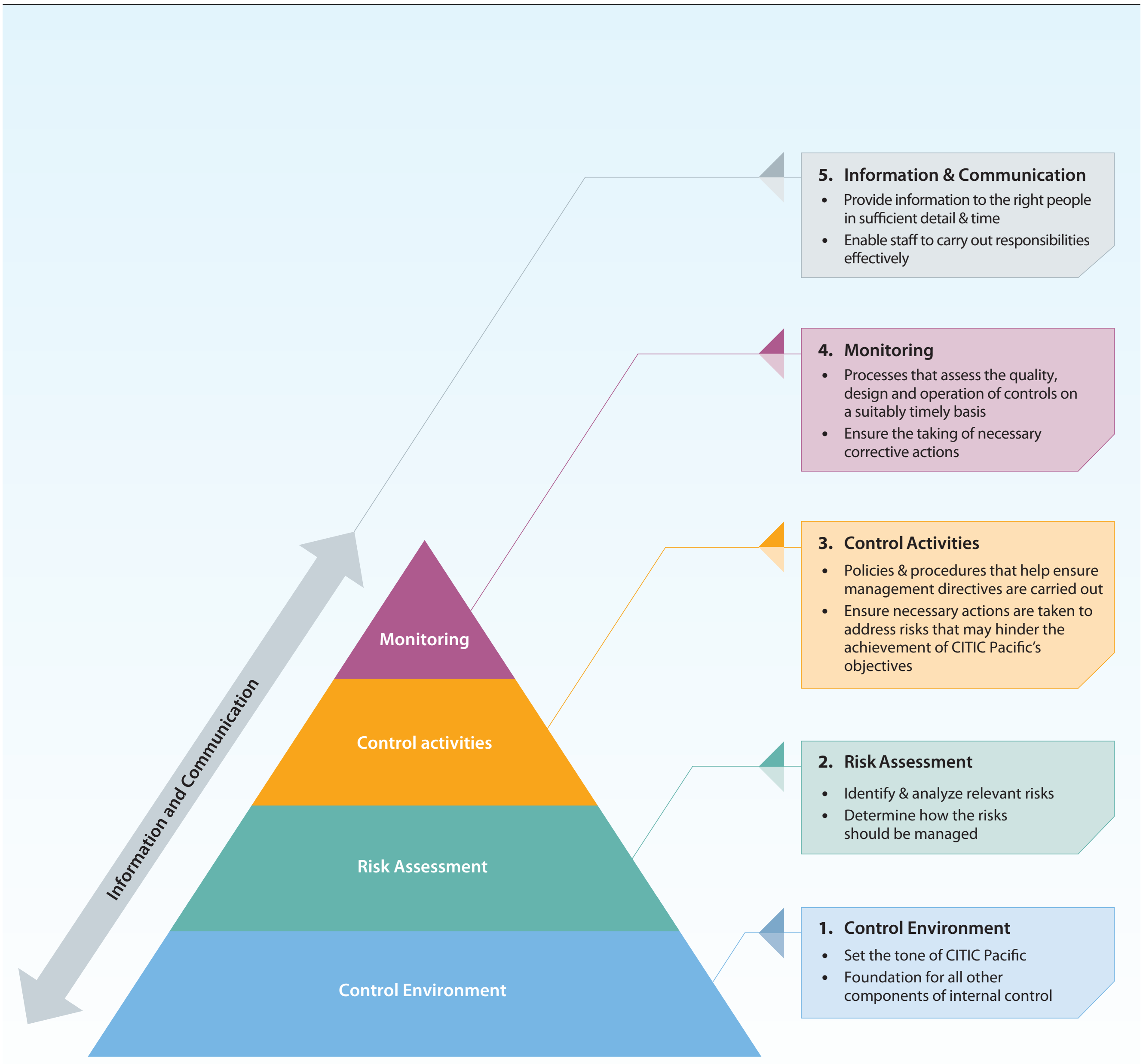
- reliability of financial and operating information provided by the management, including management accounts and statutory and public financial reports; and

- compliance with applicable laws and regulations by business units and functions.

CITIC Pacific's internal control framework

CITIC Pacific has developed an integrated internal control framework for providing assurance of the achievement of its business objectives, which is consistent with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework and the Basic Standard for Enterprise Internal Control (the "Basic Standard") which takes effect from 2012 in mainland China and is commonly called China-Sox.

The internal control framework adopted by CITIC Pacific is demonstrated below:



Corporate Governance

Key control policies and measures

Under the CITIC Pacific's internal control framework, the following key control policies and measures are implemented in the everyday activities, which are summarized below:

Key control policies and measures undertaken by CITIC Pacific	
Control Environment	• Corporate governance policy, human resources policy manual and code of conduct governing the conduct of business and governance work. • Whistle-blowing policy for facilitating internal reporting on suspected malpractice. • Inside information and price sensitive information disclosure policy on reporting and disseminating price-sensitive information.
Risk Assessment	• The risk management functions under group treasury department to identify and assess risks on different areas across CITIC Pacific. Further information in this regard is set out in the Risk Management Section of this Annual Report. • Asset and liability management committee and risk management functions of other board committees to oversee management of both financial and non-financial risks. • Executive committee of CITIC Pacific as well as steering and management committees at the business unit level for ongoing monitoring of business, operational and other risks. • Production and review of risk assessment reports, as well as a variety of insurance arrangements to manage insurable risks.
Control Activities	• Major controls systems and processes, including budgetary and cost controls, financial reporting systems and processes for management reporting, corporate policies and procedures for approvals, reviews and segregation of duties in everyday activities.
Monitoring	• Ongoing compliance monitoring and internal control reviews under the oversight of the audit committee (please refer to the section headed "Monitoring of internal control effectiveness" below). • CITIC Pacific's company secretariat and group legal functions for overall assessing and monitoring procedures in place to ensure compliance with Listing Rules and overseeing compliance matters in respect of applicable laws and other major regulations. • Group internal audit reporting directly to the audit committee and conducting independent reviews on the internal controls and risk management.
Information and Communication	• Implementation, maintenance and continuous development of enterprise resource planning (ERP) and information systems to support CITIC Pacific's businesses and operations, including financial controls and treasury management functions. • CITIC Pacific's intranet and corporate email systems for dissemination of corporate messages on a timely basis. • Corporate website and shareholders communication policy to ensure shareholders are informed of balanced and understandable information about CITIC Pacific and are encouraged to participate in general meetings of CITIC Pacific.

Monitoring of internal control effectiveness

On behalf of the board, the audit committee during the year evaluated the effectiveness of the internal control system of the group, including financial, operational and compliance controls and risk management, as well as adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions, and their training programme and budget.

Major internal control reviews conducted during the year is summarized below:

Internal control monitoring	Particulars of major work done	Observations
Internal audit	• Reviewed the reports of group internal audit undertaken in accordance with the annual internal audit plan approved by the audit committee • Evaluated the adequacy of resources and competency of the group internal audit function in discharging the internal audit responsibilities; also reviewed the progress of the internal audit work against the approved internal audit plan	• Internal audit findings and recommendations, management's responses and remedial actions taken were considered at each audit committee meeting • Reports to the board on such reviews where appropriate
Compliance assessments	• Reviewed the compliance declarations undertaken by business units and head office functions of CITIC Pacific, whereby cases of non-compliance with laws, the Listing Rules or other regulations, code of conduct or other corporate policies are required to be reported to the audit committee on an annual basis • Considered any non-compliance cases noted in the internal audit reports	• No significant non-compliance cases were noted during the year
Control self-assessments	• Reviewed the results of consolidated control self-assessments made by management of business units and head office functional departments, of their material controls and risk management activities undertaken with reference to the CITIC Pacific's internal control framework • Ensured documentation in relation to the management's control self assessments were reviewed by group internal audit • Reviewed letters of representation from executive management of business units confirming that their control self assessments remain correct and that their financial statements are prepared in accordance with the group's financial reporting policies	• No material issues were identified during the year; business units and head office functions have indicated certain areas of internal control which they intend to further enhance • Positive confirmations from management were noted
Review of the accounting and finance functions under the CG Code requirements	• Engaged an external consultancy firm to conduct an independent review on the adequacy and competence of the staff of the accounting and finance functions of the group • Reviewed self assessments made by business units, group financial control, group treasury and group internal audit of the resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes and budget	• Resources in the accounting and finance functions of the group are considered adequate • Qualifications and experience of the staff of the accounting and finance functions are satisfactory overall • Training activities and budgets have been given continual attention during the year and are satisfactory

Corporate Governance

The board and management will continue to look into opportunities for further enhancing the effectiveness of the internal control system of the group by ensuring that adequate and effective internal controls are in place under CITIC Pacific's internal control framework, and that they are in conformity with the internal control requirements under the Listing Rules and other applicable regulations and laws in different jurisdictions.

Internal Audit

CITIC Pacific regards group internal audit as an important part of the board and audit committee's oversight function. The principal objective of group internal audit, which is set out in an internal audit charter, is to provide the board and the management with useful information and recommendations on the adequacy and effectiveness of the internal control system of the group.

Authority and accountability

Under the internal audit charter endorsed by the audit committee, the group internal audit function is authorized by the board to have access to all records, people and physical properties relevant to the performance of internal audit. The group internal auditor has unrestricted access to the chairman of the audit committee and reports directly to the audit committee for direction and accountability. This reporting relationship enables group internal audit to provide an objective assurance to the effectiveness of the internal control system of the group.

Duties

The duties of group internal audit are prescribed under the internal audit charter. It requires that (a) internal audits are conducted with proficiency, objectivity and due professional care in compliance with the standards, guidelines, and the code of ethics of the Institute of Internal Auditors; (b) audit testing and reviews are carried out at all levels of the group to provide reasonable assurance as to whether the system of internal control is adequate; the assets of the group are properly safeguarded; the operations are conducted effectively and efficiently in accordance with the group's policies and procedures as well as relevant laws and regulations; and the accounting records of the audited entities and operations are reliable and (c) special reviews are conducted by group internal audit when required by the management, the audit committee or the board.

Internal audit resources and major work done in 2012

The group internal audit function, led by the group internal auditor, comprised 28 audit staff members at 31 December 2012 who are based in Hong Kong, Perth, Shanghai and Guangzhou respectively to provide audit services to various business units and functions of the group.

During the year, the group internal auditor prepared and submitted the annual internal audit plan to the audit committee for approval, according to a risk-based audit priority weighting policy. Pursuant to the approved annual plan, detailed audit planning for each audit, followed by field visits and discussions with management, was conducted with the use of a risk-based audit methodology. Reports to the management were prepared after completion of the audit work, and were summarized for review at each audit committee meeting. Continual follow-up work was undertaken by group internal audit to establish the extent of completion of remedial actions taken by the management, with follow-up results, audit progress and available resources reviewed by the audit committee at each committee meeting.

In 2012, group internal audit issued internal audit reports and observation papers to the management covering various operational and functional units of the group, including iron and steel operations, property, energy, head office functions, Dah Chong Hong Holdings Limited and CITIC Telecom International Holdings Limited. Group internal audit also conducted other reviews during the year.

Other tasks performed by the group internal audit function and the group internal auditor during the year include:

- Provided oversight of the whistle-blowing channels whereby staff concerns about conduct of the business are raised and where appropriate investigations into reported cases are conducted; in 2012, two cases were received through the whistle-blowing channels, which were mainly in relation to minor human resources issues.

- Attended all monthly meetings of the executive committee to ensure that the group internal auditor stays abreast of all major developments in the group and the audit work progress and major audit findings are reported on a monthly basis (quarterly reporting was conducted prior to May 2012).

- Worked together with the management of a special steel business in mainland China and an external consultancy firm, with respect to the implementation of the internal control requirements under the Basic Standard for Enterprise Internal Control (the "Basic Standard" or commonly called the "China-Sox") for ensuring full compliance with the regulations.

- Conducted reviews on the contract policy manuals and payment procedures of selected business units, as well as related approval documentations, with the objective of ensuring the review and approval processes are clearly defined in the policies and approval documentations.

- Carried out ongoing assessments of information technology controls pursuant to the annual audit plan.

- Assisted in the monitoring of the 2012 internal control and compliance self-assessment exercises for major business units and head office functions, regarding internal controls, risk management activities, compliance with legal and regulatory requirements, as well as adequacy, qualification, experience and training programmes of the financial reporting functions of the group.

- Exchanged viewpoints on corporate governance matters with an external consultancy firm; evaluated the internal control automation tools available from an external consultant during the year.

- Implemented continuous training and development programmes, including quarterly sharing sessions and training workshops, for all internal audit staff to enhance their audit skill sets and knowledge; introduction of data analytic tools, standardization of audit programmes, as well as development of an enhanced audit finding classification methodology were noted during the year.

- Benchmarked the internal audit charter against the 2012 version of the International Professional Practices Framework issued by the Institute of Internal Auditors to ensure that CITIC Pacific's internal audit function remains in line with internationally recognized internal audit practices; thereafter submitted the internal audit charter to the audit committee for endorsement.

Business Ethics

Code of conduct

At CITIC Pacific, we consider ethical corporate culture and employees' honesty and integrity to be important assets. We endeavour to comply with the laws and regulations of the countries in which we operate, and all directors and employees are required to act responsibly to ensure that the reputation of CITIC Pacific is not tarnished. To uphold a high standard of integrity in all aspects of everyday activities, CITIC Pacific adopts a code of conduct which provides employees with a set of defined ethical standards for adherence. The code of conduct is posted on CITIC Pacific's intranet for reference by all staff. New employees are informed of the rules and standards set out in

Corporate Governance

the code of conduct at the date of joining CITIC Pacific, and are required to acknowledge their understanding of the code of conduct. The heads of business units are charged with the responsibility of disseminating the code of conduct requirements to the people concerned, and are required to report the compliance status of the code of conduct on a bi-annual basis to the head of group human resources. The audit committee receives reports on the execution of the code of conduct and its compliance at least once a year and, where necessary, recommendations were made to the board and management for implementation.

Whistle-blowing policy

CITIC Pacific considers the whistle-blowing channels as a useful means of identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. CITIC Pacific has adopted a whistle-blowing policy setting out principles and procedures for guiding the directors and employees of CITIC Pacific in reporting cases of fraud, corruption or misconduct in a fair and proper manner.

According to the whistle-blowing policy, concerns can be raised in writing to the group internal auditor, chairman of the audit committee, the president or the chairman of the board by post to a designated post box. In addition, emails and phone calls to confidential hotlines can be sent directly to the group internal auditor. Upon receipt of the report, group internal audit will undertake an initial enquiry and, if appropriate, subsequent investigation work. Where necessary, the head of human resources will be involved in handling relevant cases about staff conduct. Results of the enquiry and investigation are reported directly to the chairman of the audit committee or the president where appropriate. The whistle-blowing policy is posted on CITIC Pacific's intranet. During 2012, group internal audit received two cases mainly in relation to minor human resources issues of an operation in Hong Kong. They were handled according to CITIC Pacific's whistle blowing policy to the satisfaction of the audit committee, management and the whistle-blowers.

Good employment practices

In Hong Kong, CITIC Pacific has broadly followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to ensure legal compliant, non-discriminatory and professional employment practices are implemented.

Directors' and Relevant Employees' Securities Transactions

CITIC Pacific has adopted the model code for securities transactions by directors of listed companies ('model code') contained in Appendix 10 of the Listing Rules. All directors confirmed that they have complied with the required standard set out in the model code throughout 2012. The interests held by individual directors in CITIC Pacific's securities at 31 December 2012 are set out in the Directors' Report on pages 142 to 143.

In addition to the requirements set out in CITIC Pacific's code of conduct, the company secretary regularly writes to executive management and other relevant employees who are privy to unpublished price sensitive information, as reminders of their responsibility to comply with the provisions of the model code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

Company Secretary

The company secretary is a full time employee of CITIC Pacific and has day-to-day knowledge of CITIC Pacific's affairs. The company secretary reports to the president of CITIC Pacific who is the chief executive as described under the Listing Rules. During 2012, the company secretary has taken no less than 15 hours of relevant professional training.

Constitutional Documents

There are no changes in the constitutional documents of CITIC Pacific during the year under review.

Communication with shareholders

CITIC Pacific considers effective communication with shareholders essential to enable them to have a clear assessment of the enterprise performance as well as accountability of the board of directors. Major means of communication with shareholders of CITIC Pacific are as follows:

Information Disclosure at Corporate Website

CITIC Pacific endeavours to disclose all material information about the group to all interested parties as widely and as timely as possible. CITIC Pacific maintains a corporate website at http://www.citicpacific.com, where important information about CITIC Pacific's activities and corporate matters such as annual reports and half-year reports to shareholders, announcements, business development and operations, corporate governance practices and other information is available for review by shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on CITIC Pacific's website.

During 2012, CITIC Pacific issued press announcements in respect of a number of notifiable transactions and connected transactions, which can be viewed on CITIC Pacific's website (http://www.citicpacific.com/en/investors/announce_index.php).

General Meetings with Shareholders

CITIC Pacific's annual general meeting provides a useful platform for direct communication between the board and shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

Voting by Poll

Resolutions put to vote at the general meetings of CITIC Pacific (other than on procedural matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and CITIC Pacific respectively on the same day as the poll.

Investor relations

CITIC Pacific aims to generate sustainable shareholder value over the long-term, and we recognise that effective management of stakeholder relationships, including those with investors, is key to realising that value. We believe that company objectives and shareholder objectives should be aligned for long-term value creation, and we hope that our shareholders agree with our conviction that sustainable long-term growth is more important than short-term gains.

Corporate Governance

CITIC Pacific acknowledges its responsibility to engage with shareholders and respond respectfully to their questions. We aspire to transparent and open communications and are committed to timely disclosure of relevant and material information. We meet with investors regularly to update them on our business progress and strategy. In addition, we attempt to respond promptly to questions received from the media and individual shareholders. We endeavour to share both financial and non-financial information that is relevant and material, and we attempt to clearly communicate our business strategy through biannual and other timely communications. In all cases, great care is taken to ensure that price sensitive information is not disclosed selectively. When announcements are made through the Stock Exchange, the same information will be made available on CITIC Pacific's website.

When we achieve major business milestones, we will consider inviting groups of investors to visit our facilities, such as the Sino Iron project in Western Australia, our steel plants and property projects. These requests can be made through the company's Investor Relations department and will be given due consideration, so long as they do not interfere with regular business operations.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of CITIC Pacific as required to be disclosed pursuant to the mandatory disclosure requirement under the CG Code which took effect from 1 April 2012:

Convening of extraordinary general meeting on requisition by shareholders

In accordance with Section 113 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong), shareholder(s) holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of CITIC Pacific as at the date of the deposit carries the right of voting at general meetings of CITIC Pacific, may require the directors of CITIC Pacific to convene an extraordinary general meeting ("EGM"). The written requisition must state the objects of the meeting and must be signed by the shareholder(s) concerned and deposited at the registered office of CITIC Pacific at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for the attention of the company secretary. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the directors of CITIC Pacific do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months from the date of the original requisition.

The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors of CITIC Pacific.

Procedures for directing shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the board of directors of CITIC Pacific in writing through the company secretary whose contact details are as follows:

The Company Secretary
CITIC Pacific Limited
32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Email: contact@citicpacific.com
Tel No. : +852 2820 2184
Fax No. : +852 2918 4838

The company secretary will forward the shareholders' enquiries and concerns to the board of directors and/or relevant board committees of CITIC Pacific, where appropriate, to answer the shareholders' questions.

Procedures for putting forward proposals at general meetings by shareholders

Shareholders are requested to follow Section 115A of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) for including a resolution at an annual general meeting of CITIC Pacific ("AGM"). The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at an AGM to which the requisition relates, or not less than 50 shareholders holding shares in CITIC Pacific on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved at an AGM.

(ii) CITIC Pacific shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of CITIC Pacific entitled to receive notice of an AGM unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of CITIC Pacific at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for the attention of the company secretary not less than 6 weeks before an AGM in the case of a requisition requiring notice of a resolution and not less than 1 week before an AGM in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet CITIC Pacific's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of CITIC Pacific, an AGM is called for a date 6 weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

Pursuant to Article 108 of CITIC Pacific's Articles of Association, no person other than a retiring director shall, unless recommended by the board for election, be eligible for election to the office of director at any general meeting, unless a shareholder shall have given notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to CITIC Pacific in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Board of Directors

CHANG Zhenming *(Chairman, Executive Director)*
Age 56: Mr. Chang is responsible for the leadership and effective functioning of the board, ensuring that key issues are addressed by the board. He provides the strategic direction for CITIC Pacific. From 2000 to 2005 he served as an executive director, from 2006 as a non-executive director, and since 2009 as the chairman of CITIC Pacific. He is the chairman of CITIC Group Corporation, CITIC Limited and CITIC Hong Kong (Holdings) Limited, the vice chairman of CITIC International Financial Holdings Limited and a non-executive director of China CITIC Bank International Limited. He was the vice-chairman and a non-executive director of China CITIC Bank Corporation Limited and a non-executive director and deputy chairman of Cathay Pacific Airways Limited. Mr. Chang is the chairman of both the investment committee and the nomination committee.

Gregory Lynn CURL *(Independent Non-executive Director)*
Age 64: a director since 2011. He joined Temasek Holdings (Private) Limited as president on 1 September 2010, following his retirement from Bank of America in March 2010. He is also a director of Post Holdings, Inc. He was a director of the University of Virginia's Jefferson Scholars Foundation, The Enstar Group, Inc., Grupo Financiero Santander Serfin, and a non-executive director of China Construction Bank Corporation. Mr. Curl is a member of both the remuneration committee and the nomination committee.

André DESMARAIS *(Non-executive Director)*
Age 56: a director since 1997. He is deputy chairman, president and co-chief executive officer of Power Corporation of Canada and a senior advisor to the International Advisory Council of China Association for the Promotion of Industrial Development.

Alexander Reid HAMILTON *(Independent Non-executive Director)*
Age 71: a director since 1994. He is an independent non-executive director of Shangri-La Asia Limited, Esprit Holdings Limited, COSCO International Holdings Limited, Octopus Cards Limited, DBS Bank (Hong Kong) Limited and JF China Region Fund, Inc. He was a partner of PricewaterhouseCoopers. Mr. Hamilton is a member of the audit committee, the remuneration committee and the nomination committee.

JU Weimin *(Non-executive Director)*
Age 49: a director since 2009. He is the chairman and a non-executive director of Asia Satellite Telecommunications Holdings Limited and CITIC Resources Holdings Limited, a non-executive director of CITIC Securities Company Limited, China CITIC Bank Corporation Limited and China CITIC Bank International Limited and a director of CITIC International Financial Holdings Limited and CITIC Hong Kong (Holdings) Limited. He is also a vice president, the chief financial officer and secretary of CITIC Limited. He was the chairman of CITIC Trust Co. Ltd, an executive director and a vice president of CITIC Group Corporation. Mr. Ju is a member of the special committee.

LIU Jifu *(Executive Director)*
Age 69: a director since 2001. He is a director of CITIC Hong Kong (Holdings) Limited and CITIC International Financial Holdings Limited, and a non-executive director of CITIC Telecom International Holdings Limited. He was with the Financial and Economics Research Institute in the Chinese Academy of Social Sciences, an executive director of China Everbright Group Limited and the chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd. Mr. Liu is a member of the executive committee.

Vernon Francis MOORE *(Chief Financial Officer, Executive Director)*
Age 66: Mr. Moore is responsible for treasury, financial control, risk management and corporate communications and investor relations for the CITIC Pacific Group. He has been a director since 1990, transferring from CITIC Hong Kong (Holdings) Limited ("CITIC HK"). He is a director of CITIC Pacific Mining Management Pty Ltd, the chairman of New Hong Kong Tunnel Company Limited and Western Harbour Tunnel Company Limited, and an independent non-executive director of CLP Holdings Limited. He was a non-executive director of Cathay Pacific Airways Limited, and from 1987 to 2007 an executive director of CITIC HK. Mr. Moore is the chairman of the asset and liability management committee, a member of both the executive committee and the investment committee.

Francis SIU Wai Keung *(Independent Non-executive Director)*
Age 58: a director since 2011. He is an independent non-executive director of GuocoLand Limited and Hua Xia Bank Co., Limited, and has been appointed as an independent non-executive director of China Communications Services Corporation Limited, Hop Hing Group Holdings Limited and Beijing Hualian Hypermarket Co., Ltd with effect from 28 June 2012, 1 September 2012 and 13 September 2012 respectively. He joined KPMG Manchester, UK in 1979 and returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. From 2000 to 2002, he was a senior partner of KPMG Shanghai Office. From 2002 to March 2010, he was a senior partner of KPMG Beijing Office, and a senior partner of Northern Region, KPMG China. Mr. Siu is the chairman of both the audit committee and remuneration committee, and a member of the special committee.

XU Jinwu *(Dr. -Ing.) (Independent Non-executive Director)*
Age 63: a director with effect from 31 December 2012. He is the vice president of The Chinese Society for Metals (中國金屬學會) and the chairman of the Metallurgical Equipment Committee of The Chinese Society for Metals (中國金屬學會冶金設備分會). He was appointed as the president of the University of Science and Technology Beijing in 2004 and retired with effect from 27 January 2013. He served as an independent director of Ningbo Donly Transmission Equipment Co., Ltd. from January 2006 to January 2012 and Xinyu Iron & Steel Co., Ltd. from April 2006 to April 2009.

YIN Ke *(Non-executive Director)*
Age 49: a director since 2009. He is the chief executive officer, executive director and vice chairman of CITIC Securities International Company Limited, an executive director and vice chairman of CITIC Securities Company Limited, and a non-executive director of Hui Xian Asset Management Limited (the manager of Hui Xian Real Estate Investment Trust, which was listed on the Hong Kong Stock Exchange in April 2011). He is also a director of Hui Xian Investment Limited and Beijing Oriental Plaza Co., Ltd. He resigned as a non-executive director of Dah Chong Hong Holdings Limited with effect from 31 December 2012. He was a non-executive director of Zhongxing Shenyang Commercial Building Group Co., Ltd. and CITIC Dameng Holdings Limited. Mr. Yin is a member of the audit committee.

Carl YUNG Ming Jie *(Non-executive Director)*
Age 44: re-designated as non-executive director with effect from 31 December 2012. He joined CITIC Pacific in 1993. He was an executive director since 2000 and deputy managing director from 2007 to 2012.

Board of Directors

ZHANG Jijing *(President, Executive Director)*
Age 57: Mr. Zhang is responsible for the day-to-day management of CITIC Pacific and the effective implementation of corporate strategy and policies. He served as a non-executive director from April 2009 and re-designated as an executive director from November 2009. He is a vice president of CITIC Limited, the chairman of CITIC Pacific China Holdings Limited, a director of CITIC Hong Kong (Holdings) Limited and a non-executive director of CITIC Resources Holdings Limited. He was as an executive director and a vice president of CITIC Group Corporation, the head of the strategy and planning department of CITIC Limited, a non-executive director of CITIC Securities Company Limited and a non-executive director of China CITIC Bank Corporation Limited. He also previously served as the managing director of CITIC Australia Group and a director and vice president of CITIC Australia Pty. Ltd. Mr. Zhang is the chairman of the executive committee and a member of both the investment committee and the special committee.

Peter KRUYT *(Alternate Director to André Desmarais)*
Age 57: an alternate director to André Desmarais since 2003. He is vice president of Power Corporation of Canada, chairman of Power Pacific Corporation Limited and the Canada China Business Council, and president and chief executive officer of Victoria Square Ventures Inc.

Management Team

Group Executives

Chang Zhenming
Chairman and Executive Director of CITIC Pacific

Zhang Jijing
President and Executive Director of CITIC Pacific

Vernon Francis Moore
Chief Financial Officer and Executive Director of CITIC Pacific

Liu Jifu
Executive Director of CITIC Pacific

Kwok Man Leung
Age 44: executive vice president of CITIC Pacific, joined CITIC Pacific in 1993. Mr. Kwok is responsible for coordinating new project developments as well as assisting the President in managing the operations of the Group with a focus in coordinating the special steel, PRC property, Dah Chong Hong Holdings Limited, CITIC Telecom International Holdings Limited, infrastructure and other businesses of CITIC Pacific. Mr. Kwok is in charge of the business development and group human resources & administration of CITIC Pacific. Mr. Kwok is a member of the executive committee, the investment committee and the asset and liability management committee.

Milton Law Ming To
Age 49: executive vice president of CITIC Pacific, joined CITIC Pacific in 1992. Mr. Law is responsible for managing the operations of Hong Kong property, shipping and resources trading, and assisting the President in liaising with the iron ore mining and energy businesses. Mr. Law is a member of the executive committee, the investment committee and the asset and liability management committee.

Yu Yapeng
Age 57: vice president of CITIC Pacific, chairman of CITIC Pacific Special Steel Co., Ltd. since 2012, joined CITIC Pacific in 1993. Mr. Yu is in charge of the special steel business of CITIC Pacific. From 1988 to June 2008, he has been the chief engineer, executive vice general manager and general manager of Jiangyin Xingcheng Special Steel Works Co., Ltd. He was the vice chairman of China Special Steel Enterprises Association since 1997 and now is the chairman of China Special Steel Enterprises Association. He is a director and the president of CITIC Pacific Special Steel group since 2008 and the chairman of Daye Special Steel Co., Ltd since 2010. He is a member of the executive committee.

Hua Dongyi *PhD*
Age 48: vice president of CITIC Pacific, chairman and chief executive officer of CITIC Pacific Mining Management Pty Ltd, appointed in January 2010. Dr. Hua is in charge of the iron ore mining business of CITIC Pacific. He joined CITIC Group Corporation in 2002. During the past 20 years, Dr. Hua has held executive management positions in international projects in the PRC, the Philippines, Pakistan, Angola and Algeria. He has extensive experience in project management, FIDIC contract management, and cost and risk management. Dr. Hua is a member of the executive committee.

Management Team

Liu Yong
Age 49: vice president of CITIC Pacific, managing director of CITIC Pacific China Holdings Limited, which assumes the overall management responsibility of CITIC Pacific's property business portfolio in the PRC. Mr. Liu has more than 20 years' business experience of real estate development and operation in mainland China. He has served as general manager of Shenzhen Changcheng Investment Holding Co., Ltd and the chairman of CITIC Real Estate Investment (Shanghai) Company. He is a senior professional manager. Mr. Liu is a member of the executive committee.

Li Yajun
Age 49: vice president of CITIC Pacific, general manager of CITIC Pacific energy department, joined the Ligang Power plant in 1987. Mr. Li is in charge of the energy business of CITIC Pacific. He is the chairman of Sunburst Energy Development Co., Ltd., Jiangsu Ligang Electric Power Company Limited and Jiangyin Ligang Electric Power Generation Company Limited. Mr. Li has over 23 years' practical experience in power plant management. In recent years, he has been involved in coal and other energy industries. He also has extensive experience in investment and capital management. Mr. Li is a member of the executive committee.

Fei Yiping
Age 49: vice president of CITIC Pacific, group financial controller, appointed in 2009. He joined CITIC Group Corporation in 1991. He is a director and chief financial officer of CITIC Hong Kong (Holdings) Limited, and a non-executive director of Dah Chong Hong Holdings Limited. He is responsible for the financial control, tax services and financial information management systems of the Group. He has over 13 years of experience in accounting and financial management. Mr. Fei is a member of both the executive committee and the asset and liability management committee.

Luan Zhenjun
Age 45: vice president of CITIC Pacific, group treasurer, joined CITIC Pacific in 2012. He joined China CITIC Bank in 1992. He was a deputy general manager in the finance department of CITIC Group Corporation before joining CITIC Pacific. Mr. Luan is responsible for the Group's financing, banking relations and risk management. Mr. Luan is a member of both executive committee and the asset and liability management committee.

Ricky Choy Wing Kay
Age 38: vice president of CITIC Pacific, company secretary and group general counsel, joined CITIC Pacific in 2008. He is a qualified solicitor in Hong Kong. He previously practiced as a commercial lawyer in private practice in Hong Kong. He is a member of the executive committee.

Corporate Functional Leaders

Holly Chen Meng
Age 46: director of group investor relations & corporate communications, joined CITIC Pacific in 2001. Prior to that, she worked for over 10 years at investment banks including Lehman Brothers, Merrill Lynch and Citibank, where she obtained extensive experience in corporate finance and corporate communications. She is a member of the executive committee.

Alan Lee Kwok Wing
Age 50: director of financial control department, joined the internal audit department of Dah Chong Hong Holdings Limited in 1992 and had been CITIC Pacific's head of internal audit since 1996 until 2000. He is a certified public accountant, previously worked for an international accountant firm. He is a member of the asset and liability management committee.

Raymond Ma Wai Man
Age 46: group internal auditor, joined CITIC Pacific in 2008. He has over 24 years of experience in auditing and finance. He is a fellow member of The Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He is a member of the executive committee.

Other Operating Business Leaders

Special Steel

Xie Wei
Age 48: president of CITIC Pacific Special Steel Co., Ltd., joined CITIC Pacific in 2010. From 1996 to June 2008, he has been the vice general manager, general manager, chairman of Baosteel No.5 Steel Co., Ltd. and the assistant general manager of Baosteel Group. From May 2006 to May 2010, he has been the assistant general manager of Baoshan Iron & Steel Co., Ltd., general manager of Baosteel Special Steel Co., Ltd. and general manager of Baosteel Special Steel Business Unit. He is the deputy director of China Special Steel Institute and Shanghai Institute of Metal since 2000. He has been a director, executive vice president and the president of CITIC Pacific Special Steel group since May 2010. He is a director of Daye Special Steel Co., Ltd. since April 2011 and the chairman of Jiangyin Xingcheng Special Steel Works Co., Ltd. since August 2012.

Iron Ore Mining

Liu Shuchun
Age 49: managing director and chief operating officer of CITIC Pacific Mining Management Pty Ltd. Before becoming the managing director and chief operating officer of CITIC Pacific Mining, he was previously the executive director of mining, processing and infrastructure at the CITIC Pacific Mining Sino Iron Project. He joined CITIC Pacific Mining in 2009. He has over 20 years' experience having previously held engineering, project management and senior management positions within the China Jiangsu International Group, and CITIC Construction. Mr. Liu has overseen large projects in the Middle East, Latin America and Africa. He holds a master degree in Civil Engineering.

Property

Aaron Wong Ha Hang
Age 54: director, property department in Hong Kong, joined CITIC Pacific in 1996. He is an executive director of Hong Kong Resort Company Limited and a director of New Hong Kong Tunnel Company Limited. Before that, he worked for an international consulting firm in the United Kingdom and in Hong Kong. Mr. Wong is a member of the executive committee.

Tunnels

Miranda Yip Siu Wai
Age 49: general manager of New Hong Kong Tunnel Company Limited ("NHKTC"), joined NHKTC in 1999 as deputy general manager. She was appointed as executive director and general manager in 2004. She has extensive experience in public administration.

Dah Chong Hong Holdings

Yip Moon Tong
Age 60: chief executive officer of Dah Chong Hong Holdings Limited ("DCH Holdings"), listed on the Hong Kong Stock Exchange, joined DCH Holdings Group in 1992. He has over 30 years of experience, in both the public and private sectors, in engineering and motor vehicle businesses.

Directors' Report

The directors have pleasure in presenting to shareholders their report for the year ended 31 December 2012.

Principal Activities

The principal activity of CITIC Pacific is to hold the subsidiaries, associates and joint ventures through which its business operations are carried out, employing staff and raising finance. Their major areas of operation are set out in the Business Review on pages 14 to 67.

Dividends

The directors declared an interim dividend of HK$0.15 per share for the year ended 31 December 2012 which was paid on 24 September 2012. The directors are recommending to shareholders at the forthcoming annual general meeting the payment of a final divided of HK$0.30 per share in respect of the year ended 31 December 2012, payable on 5 June 2013 to shareholders on the Register of Members at the close of business on 27 May 2013. This represents a total distribution for the year of HK$1,642 million.

Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in Note 28 to the financial statements.

Donations

Donations made by CITIC Pacific and its subsidiary companies during the year amounted to HK$4 million.

Fixed Assets

Movements of fixed assets are set out in the Financial Statements on pages 191 to 196.

Major Customers and Suppliers

The aggregate percentage of purchases from CITIC Pacific and its subsidiary companies' five largest suppliers is less than 30%. The aggregate percentage of sales to CITIC Pacific and its subsidiary companies' five largest customers is less than 30%.

None of the directors, their associates nor any shareholders (which to the knowledge of the directors own more than 5% of CITIC Pacific's share capital) were interested at any time in the year in the above suppliers or customers.

Subsidiary Companies

The names of the principal subsidiary companies, their principal places of operation, their countries of incorporation and particulars of their issued share capital are set out in Note 44 to the financial statements.

Issue of Debt and Perpetual Capital Securities

On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of CITIC Pacific, issued and sold JPY8.1 billion in aggregate principal amount of guaranteed floating rate notes due 2035 ("JPY Notes") to investors for general corporate purposes pursuant to the subscription agreement dated 26 October 2005. Each noteholder will have the right at such noteholder's option to require the issuer to redeem all of such noteholder's JPY Notes on 28 October 2015 at 81.29% of the principal amount of such JPY Notes. All of the JPY Notes remained outstanding at 31 December 2012.

On 16 August 2010, CITIC Pacific issued and sold a total of US$150 million principal amount of 6.9% notes due 2022 ("Notes"), to an investor pursuant to the purchase agreement dated 11 August 2010. All of the Notes remained outstanding at 31 December 2012.

On 15 April 2011, CITIC Pacific issued and sold a total of US$500 million principal amount of 6.625% notes due 2021 ("US$500m Notes") to investors under the US$2,000 million medium term note programme (as subsequently increased to US$4,500 million on 25 September 2012, the "MTN Programme") established on 6 April 2011 pursuant to the subscription agreement dated 8 April 2011. The US$500m Notes are listed on the Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange"). All of the US$500m Notes remained outstanding at 31 December 2012.

On 15 April 2011, CITIC Pacific issued and sold a total of US$750 million principal amount of 7.875% perpetual subordinated capital securities ("Securities") to investors pursuant to the subscription agreement dated 8 April 2011. The Securities are listed on the Hong Kong Stock Exchange. All of the Securities remained outstanding at 31 December 2012.

On 3 August 2011, CITIC Pacific issued and sold a total of CNY1,000 million principal amount of 2.7% unlisted notes due 2016 ("CNY Notes") under the MTN Programme to investors pursuant to the subscription agreement dated 27 July 2011. All of the CNY Notes remained outstanding at 31 December 2012.

On 27 February 2012, Jiangyin Xingcheng Special Steel Works Co., Ltd., a wholly owned subsidiary of CITIC Pacific, issued and sold a total of RMB800 million principal amount of 6% short term commercial paper due 2013 ("Commercial Paper") to investors. All of the Commercial Paper remained outstanding at 31 December 2012.

On 21 March 2012, CITIC Pacific issued and sold a total of US$750 million principal amount of 6.875% Notes due 2018, and on 26 April 2012, CITIC Pacific issued an additional US$350 million principal amount of 6.875% Notes due 2018, which were consolidated to form a single series (together, the "US$1,100m Notes") under the MTN Programme to investors pursuant to subscription agreements dated 12 March 2012 and 17 April 2012, respectively. The US$1,100m Notes are listed on the Hong Kong Stock Exchange. All of the US$1,100m Notes remained outstanding at 31 December 2012.

On 20 June 2012, Hubei Xin Yegang Steel Co., Ltd., a wholly owned subsidiary of CITIC Pacific, issued and sold a total of RMB500 million principal amount of 5.23% medium term notes due 2017 ("RMB Notes 1") to investors. All of the RMB Notes 1 remained outstanding at 31 December 2012.

On 17 October 2012, CITIC Pacific issued and sold a total of US$750 million principal amount of 6.8% Notes due 2023, and on 11 December 2012, CITIC Pacific issued an additional US$250 million principal amount of 6.8% Notes due 2023, which were consolidated to form a single series (together, the "US$1,000m Notes") under the MTN Programme to investors pursuant to subscription agreements dated 8 October 2012 and 4 December 2012, respectively. The US$1,000m Notes are listed on the Hong Kong Stock Exchange. All of the US$1,000m Notes remained outstanding at 31 December 2012.

Directors' Report

On 27 November 2012, Jiangyin Xingcheng Special Steel Works Co., Ltd., a wholly owned subsidiary of CITIC Pacific, issued and sold a total of RMB200 million principal amount of 6.06% medium term notes due 2017 ("RMB Notes 2") to investors. All of the RMB Notes 2 remained outstanding at 31 December 2012.

Borrowings

Particulars of borrowings of CITIC Pacific and its subsidiary companies are set out in Note 29 to the financial statements.

Directors

With effect from 31 December 2012, Dr Xu Jinwu was appointed as an independent non-executive director, Mr Carl Yung Ming Jie was re-designated as a non-executive director and Messrs Kwok Man Leung and Milton Law Ming To resigned as executive directors of CITIC Pacific and were appointed as executive vice presidents of CITIC Pacific.

Except for the above changes, the directors of CITIC Pacific whose names and biographical details appear on pages 120 to 122 were the directors in office during the whole of the financial year ended 31 December 2012.

In accordance with Article 95 of the Articles of Association of CITIC Pacific, Dr Xu Jinwu will hold office only until the next following general meeting of CITIC Pacific and is then eligible for re-election. In addition, pursuant to Article 104(A) of the Articles of Association of CITIC Pacific, Messrs Chang Zhenming, Vernon Francis Moore, Liu Jifu and Yin Ke shall retire by rotation in the forthcoming annual general meeting to be held on 16 May 2013 and, being eligible, offer themselves for re-election.

Management Contract

CITIC Pacific entered into a management agreement with CITIC Hong Kong (Holdings) Limited ("CITIC HK") on 11 April 1991 but with retrospective effect from 1 March 1990 in which CITIC HK agreed to provide management services to CITIC Pacific and its subsidiary companies for a management fee calculated on a cost basis to CITIC HK payable quarterly in arrears. The management agreement is terminable by two months' notice by either party. Messrs Chang Zhenming, Zhang Jijing, Liu Jifu and Ju Weimin had indirect interests in the management agreement as they are directors of CITIC HK. A copy of the management agreement will be available for inspection at the annual general meeting of CITIC Pacific to be held on 16 May 2013.

Directors' Interests in Contracts of Significance

None of the directors of CITIC Pacific has, or at any time during the year had, an interest which is or was material, either directly or indirectly, in any contract with CITIC Pacific, any of its subsidiary companies, its holding company or any of its fellow subsidiary companies, which was significant in relation to the business of CITIC Pacific, and which was subsisting at the end of the year or which had subsisted at any time during the year.

Competing Interests

Both Messrs Zhang Jijing and Ju Weimin are non-executive directors of CITIC Resources Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange. CITIC Resources Holdings Limited is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing and oil exploration, development and production. Further details of its nature, scope and size of its business as well as its management can be found in the latest annual report of CITIC Resources Holdings Limited. In the event that there are transactions between CITIC Resources Holdings Limited and CITIC Pacific, Messrs Zhang Jijing and Ju Weimin will abstain from voting. Save as disclosed above, Mr Zhang and Mr Ju are not directly or indirectly interested in any business that constitutes or may constitute a competing business of CITIC Pacific.

Related Party Transactions

CITIC Pacific and its subsidiary companies entered into certain transactions in the ordinary course of business and on normal commercial terms which were "Related Parties Transactions", the details of which are set out in Note 40 to the financial statements of CITIC Pacific. Some of these transactions also constitute "Continuing Connected Transactions" and "Connected Transactions" under the Listing Rules as summarized below.

Connected Transactions

Set out below is information in relation to certain connected transactions involving CITIC Pacific and/or its subsidiaries, particulars of which were previously disclosed in the announcements of CITIC Pacific and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of CITIC Pacific. The full text of each announcement can be found on http://www.citicpacific.com/en/investors/announce_index.php.

1. On 13 June 2012, 萬寧仁信發展有限公司 (Wanning Renxin Development Company Limited) ("Wanning Renxin", a wholly-owned subsidiary of CITIC Pacific) as the employer entered into a construction contract with 中信國華國際工程承包有限責任公司海南分公司 (CITIC International Contracting Co., Ltd., Hainan Subsidiary) ("CIC Hainan") as the contractor, pursuant to which CIC Hainan was engaged by Wanning Renxin to carry out the construction works for the block number M1-3 and basement carpark of the residential towers located at Shenzhou Peninsula, Wanning City, Hainan Province, the PRC ("Shenzhou Peninsula") Lot no. C-13, Cove One for a contract sum of RMB50,718,487.21.

   CIC Hainan is a connected person of CITIC Pacific as it is a wholly-owned subsidiary of CITIC Group Corporation, the controlling shareholder of CITIC Pacific.

2. On 15 October 2012, 萬寧金信發展有限公司 (Wanning Jinxin Development Company Limited) ("Wanning Jinxin", a non-wholly owned subsidiary of CITIC Pacific) as the employer entered into a construction contract with CIC Hainan as the contractor, pursuant to which CIC Hainan was engaged by Wanning Jinxin to carry out the construction works for the 21 villas numbered V1 to V21 and 11 residential blocks numbered A1 to A11 located at Shenzhou Peninsula Lot no. C01, Cove One for a contract sum of RMB138,000,000.

3. On 20 November 2012, 揚州信泰房地產開發有限公司 (Yangzhou Xintai Property Development Company Limited) (a wholly-owned subsidiary of CITIC Pacific) entered into a capital injection agreement with 上海信泰置業有限公司 (Shanghai Xintai Property Company Limited) ("Shanghai Xintai") and 中信建設有限責任公司 (CITIC Construction Co., Ltd.) ("CITIC Construction", the sole equity holder of Shanghai Xintai before the capital injection) for the acquisition of 99.2% equity interest in Shanghai Xintai by injecting RMB1,240,000,000 into Shanghai Xintai as its registered capital.

Directors' Report

Shanghai Xintai is principally engaged in property development and investment and provision of property management services. It owns two pieces of land located in Area B of Shanghai World Expo site.

Both Shanghai Xintai and CITIC Construction are wholly-owned subsidiaries of CITIC Group Corporation and therefore are connected persons of CITIC Pacific. The transaction was completed during the year.

4. On 18 December 2012, CITIC Pacific agreed to dispose of 444,500,000 shares (approximately 18.63% interest at that time) in CITIC Telecom International Holdings Limited ("CITIC Telecom", a subsidiary of CITIC Pacific) and accordingly, its wholly-owned subsidiary, Onway Assets Holdings Ltd. ("Onway") entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with CITIC Investment (HK) Limited ("CITIC Investment") to sell to CITIC Investment the entire capital of Silver Log Holdings Ltd. ("Silver Log") and all outstanding liabilities owed by Silver Log to CITIC Pacific for the aggregate consideration of HK$773,430,000 (the "Disposal"). Silver Log holds 444,500,000 shares in CITIC Telecom.

   Assuming no changes in the percentage shareholding of CITIC Pacific and its subsidiaries in CITIC Telecom and no change in the issued share capital of CITIC Telecom from 18 December 2012 to completion of the Disposal (the "Completion"), the shareholding of CITIC Pacific and its subsidiaries in CITIC Telecom will be reduced from 60.58% to 41.95% as a result of the Disposal. Upon Completion, CITIC Telecom will cease to be a subsidiary of CITIC Pacific.

   As part of the Disposal, Silver Log as the subsidiary of CITIC Group Corporation after Completion and certain subsidiaries of CITIC Pacific will enter into a management rights agreement to regulate their relationship with each other in respect of their shareholdings in CITIC Telecom. The Disposal was completed on 21 February 2013.

   CITIC Investment is a connected person of CITIC Pacific by virtue of its being a wholly-owned subsidiary of CITIC Group Corporation.

Non-Exempt Continuing Connected Transactions

Set out below is information in relation to certain non-exempt continuing connected transactions involving CITIC Pacific and/or its subsidiaries, particulars of which were previously disclosed in the announcements of CITIC Pacific and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of CITIC Pacific. The full text of each announcement can be found on http://www.citicpacific.com/en/investors/announce_index.php.

1. On 24 November 2010, 中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) ("CEC", a non-wholly owned subsidiary of CITIC Telecom and in which CITIC Group Corporation holds 45.09% interest) entered into an exclusive service agreement (the "Exclusive Service Agreement") with two subsidiaries of CITIC Telecom, China Enterprise Netcom Corporation Limited ("CEC-HK") and CITIC Telecom International CPC Limited ("CPC"). Under the Exclusive Service Agreement, CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC for a term of three years to facilitate the provision of value-added telecom services to these customers. CEC will be responsible for arranging, operating and maintaining all necessary technical and support services exclusively in the PRC to service the customers of CEC-HK and CPC in the PRC. A service fee shall be payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand

and CEC-HK and CPC on the other shall be entitled to share the surplus equally. The annual caps for the transactions under the Exclusive Service Agreement for the two years ended 31 December 2012 and the ten months ending 31 October 2013 are estimated to be US$40,000,000 (approximately HK$312,000,000), US$55,000,000 (approximately HK$429,000,000) and US$60,000,000 (approximately HK$468,000,000) respectively. In accordance with the Listing Rules, CEC is an associate of CITIC Group Corporation, and therefore is a connected person of CITIC Pacific.

The aggregate service fee paid by CEC-HK and CPC to CEC under the Exclusive Service Agreement for the year ended 31 December 2012 was approximately HK$155,775,000.

2. In the ordinary and usual course of business, CITIC Pacific and its subsidiaries maintain bank balances with China CITIC Bank Corporation Limited ("CITIC Bank") and China CITIC Bank International Limited ("China CITIC Bank International", formerly CITIC Ka Wah Bank Limited and CITIC Bank International Limited) on normal commercial terms. On 6 May 2010, CITIC Pacific entered into a master agreement with CITIC Bank and China CITIC Bank International setting out that the bank balances and deposits maintained by the group with CITIC Bank and China CITIC Bank International would be no more than HK$1,400 million in aggregate on any given day for the period from 31 May 2010 to 31 December 2010 and the two years ended 31 December 2011 and 31 December 2012.

   CITIC Bank and China CITIC Bank International are subsidiaries of CITIC Group Corporation, a controlling shareholder of CITIC Pacific, and are therefore connected persons of CITIC Pacific.

   As at 31 December 2012, the aggregate bank balances maintained by the group with CITIC Bank and China CITIC Bank International totalled approximately HK$1,058 million.

   The group will continue with the bank deposit arrangements with CITIC Bank and its relevant subsidiaries after 31 December 2012. On 28 December 2012, CITIC Pacific entered into a new master agreement with CITIC Bank for the period commencing on 1 January 2013 in respect of the continuing bank deposit arrangements with CITIC Bank and its relevant subsidiaries setting out that the aggregate maximum bank balance maintained by the group with CITIC Bank and its relevant subsidiaries on any given day for the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 will not exceed HK$1,400 million.

The independent non-executive directors of CITIC Pacific have reviewed the aforesaid continuing connected transactions for the year ended 31 December 2012 (the "Transactions") and confirm that:

a. the Transactions have been entered into in the ordinary and usual course of business of CITIC Pacific;

b. the Transactions have been entered into on normal commercial terms or on terms no less favourable to CITIC Pacific than terms available to or from (as appropriate) independent third parties; and

c. the Transactions were entered into, in all material respects, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of CITIC Pacific as a whole.

Directors' Report

CITIC Pacific's auditor was engaged to report on the group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the group in pages 130 to 131 of the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by CITIC Pacific to the Hong Kong Stock Exchange.

On 20 August 2007, Catak Enterprises Corp. (a wholly-owned subsidiary of CITIC Pacific) entered into a sale and purchase agreement with China Metallurgical Group Corp. ("MCC") for the disposal of a 20% interest in Sino Iron Pty Ltd ("Sino Iron", a wholly owned subsidiary of CITIC Pacific) ("Disposal") at cost, i.e. for a consideration equivalent to 20% of all the funds provided to Sino Iron Holdings Pty Ltd ("Sino Iron Holdings") by the group up to the date of completion of the Disposal together with interest. The group's shareholding in Sino Iron would be reduced to 80% as a result of the Disposal if it proceeded to completion. An advance payment of HK$2,130 million was made by MCC in 2009 of which, at the instructions of MCC, HK$842 million has been applied by MCC to the Sino Iron project. Further details are set out in Note 40(a)(iii) to the financial statements.

On 11 May 2010, Sino Iron entered into a second supplemental contract to the general construction contract dated 24 January 2007 (as amended on 20 August 2007) with MCC Mining (Western Australia) Pty Ltd ("MCC Mining", a wholly owned subsidiary of MCC), the lead construction contractor for the iron ore mining project, pursuant to which Sino Iron agreed to pay an additional US$835 million to MCC Mining. The general construction contract dated 24 January 2007 as amended on 20 August 2007 and supplemented by the second supplemental contract is hereinafter referred to collectively as the "General Construction Contract".

On 30 December 2011, Sino Iron further entered into a third supplemental contract to the General Construction Contract with MCC Mining pursuant to which Sino Iron agreed to pay an additional US$822.1 million to MCC Mining for the completion of the first two production lines and the common facilities for the whole six production lines.

Upon completion of the Disposal, MCC will, through Metallurgical Corporation of China Ltd., become a substantial shareholder of Sino Iron Holdings and will become a connected person of CITIC Pacific. The General Construction Contract as further supplemented by the third supplemental contract and the transactions contemplated thereunder will constitute a continuing connected transaction for CITIC Pacific.

As at 31 December 2012, the Disposal had not yet been completed. Accordingly, the General Construction Contract as further supplemented by the third supplemental contract and the transactions contemplated thereunder did not constitute a continuing connected transaction for CITIC Pacific during the year.

Share Option Plan Adopted by CITIC Pacific

CITIC Pacific Share Incentive Plan 2000

CITIC Pacific adopted the CITIC Pacific Share Incentive Plan 2000 (the "Plan 2000") on 31 May 2000 which expired on 30 May 2010. The major terms of the Plan 2000 are as follows:

1. The purpose of the Plan 2000 is to promote the interests of CITIC Pacific and its shareholders by (i) providing the participants with additional incentives to continue and increase their efforts in achieving success in the business of CITIC Pacific, and (ii) attracting and retaining the best available personnel to participate in the on-going business operation of CITIC Pacific.

2. The participants of the Plan 2000 are any director, executive or employee of CITIC Pacific or its subsidiaries as invited by the board.

3. The maximum number of shares over which options may be granted under the Plan 2000 shall not exceed 10% of (i) the issued share capital of CITIC Pacific from time to time or (ii) the issued share capital of CITIC Pacific as at the date of adopting the Plan 2000, whichever is the lower.

4. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of CITIC Pacific in issue.

5. The exercise period of any option granted under the Plan 2000 must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The exercise price determined by the board will be at least the higher of (i) the closing price of CITIC Pacific's shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of CITIC Pacific's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of CITIC Pacific's shares.

During the period between the adoption of the Plan 2000 and its expiry, CITIC Pacific has granted six lots of share options:

Date of grant	**Number of share options**	**Exercise price per share** HK$
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
19 November 2009	13,890,000	22.00
14 January 2010	880,000	20.59

All options granted and accepted under the Plan 2000 can be exercised in whole or in part within 5 years from the date of grant.

The share options at the exercise price of HK$18.20 per share, HK$19.90 per share, HK$22.10 per share and HK$47.32 per share expired at the close of business on 27 May 2007, 31 October 2009, 19 June 2011 and 15 October 2012 respectively.

None of the share options granted under the Plan 2000 were exercised or cancelled, but options for 12,320,000 shares have lapsed during the year ended 31 December 2012. A summary of the movements of the share options under the Plan 2000 during the year ended 31 December 2012 is as follows:

Directors' Report

A. CITIC Pacific directors

Name of director	Date of grant	Exercise price HK$	Number of share options: Balance as at 01.01.12	Exercised/ cancelled during the year ended 31.12.12	Lapsed during the year ended 31.12.12	Balance as at 31.12.12	Percentage to issued share capital
Chang Zhenming	16.10.07	47.32	500,000	–	500,000	–	
	19.11.09	22.00	600,000	–	–	600,000	
						600,000	0.016
Zhang Jijing	19.11.09	22.00	500,000	–	–	500,000	0.014
Vernon Francis Moore	16.10.07	47.32	600,000	–	600,000	–	
	19.11.09	22.00	500,000	–	–	500,000	
						500,000	0.014
Liu Jifu	16.10.07	47.32	700,000	–	700,000	–	
	19.11.09	22.00	500,000	–	–	500,000	
						500,000	0.014
Carl Yung Ming Jie	16.10.07	47.32	800,000	–	800,000	–	
	19.11.09	22.00	500,000	–	–	500,000	
						500,000	0.014
Kwok Man Leung	16.10.07	47.32	600,000	–	600,000	N/A	N/A
	19.11.09	22.00	500,000	–	–	(Note 1)	(Note 1)
Milton Law Ming To	16.10.07	47.32	800,000	–	800,000	N/A	N/A
	19.11.09	22.00	500,000	–	–	(Note 1)	(Note 1)

Note:

1. Mr Kwok Man Leung and Mr Milton Law Ming To resigned as directors with effect from 31 December 2012.

B. CITIC Pacific employees working under continuous contracts (as defined in the Employment Ordinance), other than the directors

Date of grant	Exercise price HK$	Number of share options: Balance as at 01.01.12	Exercised/ cancelled during the year ended 31.12.12	Lapsed during the year ended 31.12.12	Balance as at 31.12.12
16.10.07	47.32	3,200,000	–	3,200,000	–
19.11.09	22.00	6,940,000	–	–	6,940,000
14.01.10	20.59	880,000	–	–	880,000

C. Others

Date of grant	Exercise price HK$	Number of share options: Balance as at 01.01.12	Exercised/ cancelled during the year ended 31.12.12	Lapsed during the year ended 31.12.12	Balance as at 31.12.12
16.10.07	47.32	4,600,000 (Note 2)	–	4,600,000	–
19.11.09	22.00	3,110,000 (Note 2)	–	520,000	2,590,000

Note:

2. These are in respect of share options granted to former directors or employees under continuous contracts, who have subsequently retired or resigned.

CITIC Pacific Share Incentive Plan 2011

As the Plan 2000 expired on 30 May 2010, CITIC Pacific adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011. The major terms of the Plan 2011 are as follows:

1. The purpose of the Plan 2011 is to promote the interests of CITIC Pacific and its shareholders by (i) providing the eligible participants with additional incentives to continue and increase their efforts in achieving success in the business of CITIC Pacific group, and (ii) attracting and retaining the best available personnel to participate in the on-going business operation of CITIC Pacific group.

2. The eligible participants of the Plan 2011 are any employee, executive director, non-executive director, independent non-executive director or officer, consultant or representative of any member of CITIC Pacific group as the board may in its discretion select.

3. The total number of shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of the shares in issue as at the date of adopting the Plan 2011. As at 28 February 2013, the total number of shares available for issue under the Plan 2011 is 364,944,416, representing 10% of the issued share capital of CITIC Pacific.

4. The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares of CITIC Pacific in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of CITIC Pacific in issue, such further grant shall be subject to separate approval by the shareholders of CITIC Pacific in general meeting.

5. The exercise period of any option granted under the Plan 2011 must not be more than ten years commencing on the date of offer of the grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

Directors' Report

7. The subscription price determined by the board will be at least the higher of (i) the nominal value of CITIC Pacific's shares; (ii) the closing price of CITIC Pacific's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of offer of the grant; and (iii) the average of the closing prices of CITIC Pacific's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the grant.

8. The Plan 2011 shall be valid and effective until 11 May 2021.

No share options were granted under the Plan 2011 during the year ended 31 December 2012.

Share Option Plans Adopted by Subsidiaries of CITIC Pacific

CITIC Telecom International Holdings Limited ("CITIC Telecom")*

CITIC Telecom adopted a share option plan ("CITIC Telecom Share Option Plan") on 17 May 2007. The major terms of the CITIC Telecom Share Option Plan are as follows:

1. The purpose of the CITIC Telecom Share Option Plan is to attract and retain the best quality personnel for the development of CITIC Telecom's businesses; to provide additional incentives to CITIC Telecom Directors and CITIC Telecom Employees (both as defined herebelow); and to promote the long term financial success of CITIC Telecom by aligning the interests of grantees to shareholders of CITIC Telecom.

2. The grantees of the CITIC Telecom Share Option Plan are any person employed by CITIC Telecom or any of its subsidiaries ("CITIC Telecom Employees") and any person who is an officer or director (whether executive or non-executive) of CITIC Telecom or any of its subsidiaries ("CITIC Telecom Directors") as the board of CITIC Telecom may in its absolute discretion select.

3. The maximum number of shares of CITIC Telecom ("CITIC Telecom Shares") over which options may be granted under the CITIC Telecom Share Option Plan must not exceed 10% of (i) the CITIC Telecom Shares in issue from time to time; or (ii) the CITIC Telecom Shares in issue as at the date of adopting the CITIC Telecom Share Option Plan, whichever is the lower. As at 28 February 2013, the maximum number of shares available for issue under the CITIC Telecom Share Option Plan is 109,631,500, representing approximately 4.57% of the issued share capital of CITIC Telecom.

4. The total number of CITIC Telecom Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the CITIC Telecom Shares in issue. Where any further grant of options to a grantee would result in the CITIC Telecom Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the CITIC Telecom Shares in issue, such further grant shall be subject to separate approval by the shareholders of CITIC Telecom in its general meeting.

5. The exercise period of any option granted under the CITIC Telecom Share Option Plan must not be more than 10 years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

** ceased to be a subsidiary of CITIC Pacific with effect from 21 February 2013*

7. The subscription price determined by the board of CITIC Telecom will not be less than the higher of (i) the closing price of CITIC Telecom Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of CITIC Telecom Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of CITIC Telecom Shares.

8. The CITIC Telecom Share Option Plan shall be valid and effective till 16 May 2017.

Since the adoption of the CITIC Telecom Share Option Plan, CITIC Telecom has granted three lots of share options:

Date of grant	Number of share options	Exercise period	Exercise price per share HK$
23.05.07	18,720,000	23.05.07 – 22.05.12	3.26
17.09.09	17,912,500	17.09.10 – 16.09.15	2.10
17.09.09	17,912,500	17.09.11 – 16.09.16	2.10
19.08.11	24,227,500	19.08.12 – 18.08.17	1.54
19.08.11	24,227,500	19.08.13 – 18.08.18	1.54

All options granted were accepted except for options for 115,000 shares granted on 17 September 2009 and options for 200,000 shares granted on 19 August 2011. The share options granted on 23 May 2007 have expired at the close of business on 22 May 2012. The remaining options granted and accepted under the CITIC Telecom Share Option Plan can be exercised in whole or in part within 5 years from the date of commencement of the exercise period.

During the year ended 31 December 2012, none of the options granted was cancelled, but options for 682,500 shares were exercised and options for 16,255,500 shares have lapsed.

The grantees were CITIC Telecom Directors or CITIC Telecom Employees. None was granted to the directors, chief executive or substantial shareholders of CITIC Pacific.

Dah Chong Hong Holdings Limited ("DCH Holdings")

Pre-IPO Share Option Scheme

DCH Holdings adopted the Pre-IPO Share Option Scheme ("Pre-IPO Scheme") on 28 September 2007. The major terms of the Pre-IPO Scheme are as follows:

a. The purpose of the Pre-IPO Scheme is to recognise the contributions of certain directors and employees of the DCH Holdings Group to the growth of the DCH Holdings Group and to incentivise such persons going forward.

b. The participants of the Pre-IPO Scheme are any employee of the DCH Holdings Group as the board of DCH Holdings may in its absolute discretion select.

c. The maximum number of shares over which share options may be granted under the Pre-IPO Scheme shall not exceed 18,000,000 shares, being 1% of the total number of issued shares immediately following the commencement of dealings in DCH Holdings' shares on the Hong Kong Stock Exchange.

d. The grantee shall not, within 6 months from the listing of DCH Holdings, exercise any of the share options granted under the Pre-IPO Scheme.

Directors' Report

e. The exercise period of any share option granted under the Pre-IPO Scheme must not be more than 5 years commencing from the date of grant.

f. The acceptance of an offer of the grant of the share option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

g. The subscription price shall be HK$5.88 per share which is equal to the initial public offer price of DCH Holdings' shares upon listing.

h. No share options will be offered or granted under the Pre-IPO Scheme upon the commencement of dealings in DCH Holdings' shares on the Hong Kong Stock Exchange.

Since the adoption of the Pre-IPO Scheme, DCH Holdings has granted one lot of share options before its listing:

Date of grant	Number of share options	Exercise period	Exercise price per share HK$
3.10.2007	18,000,000	17.4.2008 – 2.10.2012	5.880

All share options granted and accepted were fully vested on the date of grant but have a lock-up period of 6 months from the listing of DCH Holdings and are then exercisable in whole or in part within 5 years from the date of grant. All the share options granted under the Pre-IPO Scheme had been exercised by the close of business on 2 October 2012.

The grantees were directors or employees of the DCH Holdings Group working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of CITIC Pacific.

A summary of the movements of share options under the Pre-IPO Scheme during the year ended 31 December 2012 is as follows:

	Number of share options			
Balance as at 1.1.12	Granted during the year ended 31.12.12	Lapsed/ cancelled during the year ended 31.12.12	Exercised during the year ended 31.12.12	Balance as at 31.12.12
3,455,000	–	–	3,455,000*	–

* The weighted average closing price of the shares of DCH Holdings immediately before the dates on which the share options were exercised was HK$8.64.

Post-IPO Share Option Scheme

DCH Holdings adopted the Post-IPO Share Option Scheme ("Post-IPO Scheme") on 28 September 2007. The major terms of the Post-IPO Scheme are as follows:

a. The purpose of the Post-IPO Scheme is to attract and retain the best quality personnel for the development of DCH Holdings' businesses; to provide additional incentives to the employees of the DCH Holdings Group and to promote the long term financial success of DCH Holdings by aligning the interests of grantees to DCH Holdings' shareholders.

b. The participants of the Post-IPO Scheme are any employee of the DCH Holdings Group as the board of DCH Holdings may in its absolute discretion select.

c. The maximum number of shares over which share options may be granted under the Post-IPO Scheme and any other schemes of DCH Holdings shall not in aggregate exceed 10% of (i) the shares of DCH Holdings in issue immediately following the commencement of dealings in DCH Holdings' shares on the Hong Kong Stock Exchange or (ii) the shares of DCH Holdings in issue from time to time, whichever is the lower. As at 28 February 2013, the maximum number of shares available for issue under the Post-IPO Scheme was 114,150,000, representing approximately 6.24% of the issued share capital of DCH Holdings. Share options lapsed in accordance with the terms of the Post-IPO Scheme or any other schemes of DCH Holdings will not be counted for the purpose of calculating the 10% limit.

d. The total number of shares issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of DCH Holdings in issue.

e. The exercise period of any share option granted under the Post-IPO Scheme must not be more than 10 years commencing from the date of grant.

f. The acceptance of an offer of the grant of the share option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

g. The subscription price determined by the board of DCH Holdings will not be less than whichever is the higher of (i) the closing price of DCH Holdings' shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of DCH Holdings' shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share of DCH Holdings.

h. The Post-IPO Scheme shall be valid and effective till 27 September 2017, after which no further share options will be granted.

Since the adoption of the Post-IPO Scheme, DCH Holdings has granted the following share options:

Date of grant	**Number of share options**	**Exercise period**	**Exercise price per share** HK$
7.7.2010	23,400,000	7.7.2010 – 6.7.2015	4.766
8.6.2012	24,450,000	8.6.2013 – 7.6.2017*	7.400

* Subject to a vesting scale

The share options granted on 7 July 2010 were accepted and fully vested on the date of grant and are then exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of DCH Holdings immediately before the grant on 7 July 2010 was HK$4.69 per share. The remaining contractual life of the share options is 2.5 years.

Directors' Report

Of the share options granted on 8 June 2012, 24,250,000 were accepted and 200,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 5 July 2012). The share options granted are subject to a vesting scale. 25% of the share options granted will vest on the first anniversary of the date of grant. Further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of DCH Holdings immediately before the grant on 8 June 2012 was HK$7.49 per share. The remaining contractual life of the share options is 4.4 years.

The grantees were directors or employees of DCH Holdings Group working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of CITIC Pacific.

A summary of the movements of share options under the Post-IPO Scheme during the year ended 31 December 2012 is as follows:

		Number of share options			
Date of Grant	Balance as at 1.1.12	Granted during the year ended 31.12.12	Lapsed/ cancelled during the year ended 31.12.12	Exercised during the year ended 31.12.12	Balance as at 31.12.12
7.7.2010	13,430,000	–	–	5,140,000*	8,290,000
8.6.2012	–	24,450,000◊	–	–	24,250,000

◊ Of the share options granted, 24,250,000 were accepted and 200,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 5 July 2012).

* The weighted average closing price of the shares of DCH Holdings immediately before the dates on which the share options were exercised was HK$8.18.

The average fair value of the share options granted under the Post-IPO Scheme during the year ended 31 December 2012 measured at the date of grant of 8 June 2012 was HK$2.30 per share option based on the following assumptions using the Binomial Lattice Model:

– Share price at the grant date	HK$7.40
– Exercise price	HK$7.40
– Expected volatility of DCH Holding's share price	50% per annum
– Share option life	5 years
– Expected dividend yield	4.0% per annum
– Average risk-free interest rate (based on Hong Kong Exchange Fund Notes)	0.36% per annum
– Early exercise assumption	Option holders will exercise when the share price is at least 160% of the exercise price
– Rate of leaving service during the exercise period	6.0% per annum

The volatility rate of the share price of DCH Holdings was determined with reference to the movement of DCH Holdings' historical share price as well as the trend of the volatility rate over recent years.

Taking into account the probability of leaving employment and early exercise behaviour, the expected life of the grant was estimated to be about 4.1 years.

The total expense recognised in DCH Holdings' income statement for the year ended 31 December 2012 in respect of the grant of the aforesaid 24,250,000 share options for the shares of DCH Holdings is approximately HK$18 million based on the vesting scale.

All the share options forfeited before expiry will be treated as lapsed share options which will not be added back to the number of shares available to be issued under the Post-IPO Scheme.

Disclosure Pursuant to Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, set out below are the changes in monthly salaries for the following directors with effect from 1 January 2013:

	Changes	
Director	2012 Monthly Salary (with effect from 1 January 2012) HK$	**2013 Monthly Salary (with effect from 1 January 2013) HK$**
Chang Zhenming*	–	**–**
Zhang Jijing	339,570	**353,160**
Vernon Francis Moore	424,580	**441,570**
Liu Jifu	130,630	**135,860**
Carl Yung Ming Jie**	323,400	**–**

* Mr. Chang Zhenming receives a monthly cash allowance of HK$100,000.

** Mr. Carl Yung Ming Jie was re-designated as non-executive director with effect from 31 December 2012

Note: for information in relation to the 2012 full year emoluments of the directors, please refer to Note 12 to the financial statements

Directors' Report

Directors' Interests in Securities

The interests of the directors in shares of CITIC Pacific or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 2012 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in CITIC Pacific and associated corporations

Name of director	Number of shares: Personal interests unless otherwise stated	Percentage to issued share capital
CITIC Pacific Limited		
Vernon Francis Moore	4,200,000 (Note 1)	0.115
Liu Jifu	840,000	0.023
André Desmarais	8,145,000 (Note 2)	0.223
Carl Yung Ming Jie	300,000	0.008
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.001
CITIC Telecom International Holdings Limited		
Vernon Francis Moore	200,000 (Note 1)	0.008

Note:
1. Trust interest
2. Corporate interest in respect of 8,000,000 shares and family interest in respect of 145,000 shares

2. Share options in CITIC Pacific

The interests of the directors in the share options (being regarded as unlisted physically settled equity derivatives) of CITIC Pacific are stated in detail in the preceding section "Share Option Plan Adopted by CITIC Pacific".

3. Share options in associated corporations

CITIC Resources Holdings Limited

				Number of share options				
Name of director	Date of grant	Exercise price HK$	Exercise period	Balance as at 01.01.12	Granted during the year ended 31.12.12	Exercised/ lapsed/ cancelled during the year ended 31.12.12	Balance as at 31.12.12	Percentage to issued share capital
Zhang Jijing	02.06.05	1.018	02.06.06 – 01.06.13	10,594,315	–	–	10,594,315	0.135

Save as disclosed above, as at 31 December 2012, none of the directors of CITIC Pacific had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of CITIC Pacific or its associated corporations or any interests which are required to be entered into the register kept by CITIC Pacific pursuant to section 352 of the SFO or any interests which are required to be notified to CITIC Pacific and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Save as disclosed above, at no time during the year were there any subsisting agreements enabling the directors of CITIC Pacific to acquire benefits by means of acquisition of shares in, or debentures of, CITIC Pacific or any other corporate, which at the relevant time, CITIC Pacific, any of its subsidiary companies, its holding company or any of its fellow subsidiary companies was a party.

Substantial Shareholders

As at 31 December 2012, the interests of the substantial shareholders, other than the directors of CITIC Pacific or their respective associate(s), in the shares of CITIC Pacific as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Interest in the shares of CITIC Pacific

Name	Number of shares of CITIC Pacific	Percentage to issued share capital
CITIC Group Corporation	2,098,736,285	57.508
CITIC Limited	2,098,736,285	57.508
CITIC Investment (HK) Limited	1,351,250,082	37.026
CITIC HK	747,486,203	20.482
Heedon Corporation	598,261,203	16.393
Full Chance Investments Limited	450,416,694	12.342
Newease Investments Limited	450,416,694	12.342
Skyprofit Holdings Limited	450,416,694	12.342
Honpville Corporation	310,988,221	8.522

CITIC Group Corporation is a substantial shareholder of CITIC Pacific holding its indirect interest through its wholly-owned subsidiary companies as follows:

Name of subsidiary company of CITIC Group Corporation	Number of shares of CITIC Pacific	Percentage to issued share capital
CITIC Limited	2,098,736,285	57.508
CITIC Investment (HK) Limited	1,351,250,082	37.026
CITIC HK	747,486,203	20.482
Full Chance Investments Limited	450,416,694	12.342
Newease Investments Limited	450,416,694	12.342
Skyprofit Holdings Limited	450,416,694	12.342

Directors' Report

CITIC HK is a substantial shareholder of CITIC Pacific holding its indirect interest through its wholly-owned subsidiary companies as follows:

Name of subsidiary company of CITIC HK	Number of shares of CITIC Pacific	Percentage to issued share capital
Affluence Limited	46,089,000	1.263
Winton Corp.	30,718,000	0.842
Westminster Investment Inc.	101,960,000	2.794
Jetway Corp.	122,336,918	3.352
Cordia Corporation	32,258,064	0.884
Honpville Corporation	310,988,221	8.522
Hainsworth Limited	93,136,000	2.552
Southpoint Enterprises Inc.	10,000,000	0.274
Raymondford Company Limited	2,823,000	0.077

CITIC Group Corporation is the holding company of CITIC Limited. CITIC Limited is the holding company of CITIC Investment (HK) Limited and CITIC HK. CITIC Investment (HK) Limited is the direct holding company of Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited. CITIC HK is the direct holding company of Heedon Corporation, Hainsworth Limited, Affluence Limited and Barnsley Investments Limited. Heedon Corporation is the direct holding company of Winton Corp., Westminster Investment Inc., Jetway Corp., Kotron Company Ltd. and Honpville Corporation. Kotron Company Ltd. is the direct holding company of Cordia Corporation. Affluence Limited is the direct holding company of Man Yick Corporation which is the direct holding company of Raymondford Company Limited. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc.

Accordingly,

(i) the interests of CITIC Group Corporation in CITIC Pacific duplicate the interests of CITIC Limited in CITIC Pacific;

(ii) the interests of CITIC Limited in CITIC Pacific duplicate the interests of CITIC Investment (HK) Limited and CITIC HK in CITIC Pacific;

(iii) the interests of CITIC Investment (HK) Limited in CITIC Pacific duplicate the interests of Full Chance Investments Limited, Newease Investments Limited and Skyprofit Holdings Limited in CITIC Pacific;

(iv) the interests of CITIC HK in CITIC Pacific duplicate the interests in CITIC Pacific of all its direct and indirect subsidiary companies as described above;

(v) the interests of Heedon Corporation in CITIC Pacific duplicate the interests in CITIC Pacific of all its direct and indirect subsidiary companies as described above;

(vi) the interests of Kotron Company Ltd. in CITIC Pacific duplicate the interests of Cordia Corporation in CITIC Pacific;

(vii) the interests of Affluence Limited in CITIC Pacific duplicate the interests in CITIC Pacific of its direct and indirect subsidiary companies as described above;

(viii) the interests of Man Yick Corporation in CITIC Pacific duplicate the interests of Raymondford Company Limited in CITIC Pacific; and

(ix) the interests of Barnsley Investments Limited in CITIC Pacific duplicate the interests of Southpoint Enterprises Inc. in CITIC Pacific.

Shareholding Statistics

Based on the share register records of CITIC Pacific, set out below is a shareholding statistic chart of the registered shareholders of CITIC Pacific as at 31 December 2012:

Number of shares held	Number of shareholders	Percentage
1 to 1,000	4,233	50.51
1,001 to 10,000	3,279	39.13
10,001 to 100,000	791	9.44
100,001 to 1,000,000	68	0.81
1,000,001 above	9	0.11
Total:	**8,380**	**100**

As at 31 December 2012, the total number of issued shares of CITIC Pacific was 3,649,444,160 and based on the share register records of CITIC Pacific, HKSCC Nominees Limited held 1,569,869,199 shares representing 43.02% of the issued share capital of CITIC Pacific.

Share Capital

CITIC Pacific has not redeemed any of its shares during the year ended 31 December 2012. Neither CITIC Pacific nor any of its subsidiary companies has purchased or sold any of CITIC Pacific's shares during the year ended 31 December 2012.

Service Contracts

As at 31 December 2012, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the group and any director proposed for re-election at the forthcoming annual general meeting.

Directors' Report

Continuing Disclosure Requirements under Rule 13.22 of the Listing Rules in Relation to Financial Assistance to Affiliated Companies

CITIC Pacific has included a proforma combined balance sheet of the relevant affiliated companies as required therein under Rule 13.22 of the Listing Rules. Affiliated companies include associated companies and jointly controlled entities.

Proforma combined balance sheet of affiliated companies

In HK$ million	CITIC Pacific Limited and its subsidiary companies' attributable interests as at 31 December 2012
Fixed Assets	15,913
Other Financial Assets	22
Deferred tax assets	3
Intangible Assets	1,730
Other Non Current Assets	1,627
Net Current Assets	3,141
Total Assets Less Current Liabilities	22,436
Long Term Borrowings	(5,795)
Deferred Tax Liabilities	(375)
Loan from Shareholders	(5,325)
	10,941

Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who shall retire and, being eligible, shall offer themselves for re-appointment.

Sufficiency of Public Float

Based on information that is publicly available to CITIC Pacific and within the knowledge of the directors, the directors confirm that CITIC Pacific has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2012.

By Order of the Board,
Chang Zhenming
Chairman
Hong Kong, 28 February 2013

Human Resources

CITIC Pacific is proud to have an engaged and competent workforce that supports the business strategies and sustainable development of our businesses worldwide. We attract and retain talent by providing an environment that promotes fairness, respect and a high standard of business ethics. We also offer competitive rewards to motivate outstanding performance and provide equal opportunities for employment, advancement and development. We encourage and support continuous learning and personal development of our employees through training opportunities and financial sponsorships.

As of the end of December 2012, CITIC Pacific, including our principal subsidiaries, employed a total of 34,781 employees (2011: 33,295). We have maintained a workforce with stable turnover for a number of years; in 2012, our overall turnover rate was 16.2% (2011: 17.4%).

Headcount by Location	**31 December 2012**	31 December 2011
Hong Kong	**4,839**	4,731
Mainland China	**28,455**	27,462
Australia	**907**	656
Other countries*	**580**	446
Total	**34,781**	33,295

* Other countries include Singapore, Japan, Taiwan, Canada and the US.

Headcount by Business Segment	**31 December 2012**	31 December 2011
Headquarters	**239**	240
Special Steel	**14,335**	13,858
Property	**1,987**	1,687
Iron Ore Mining	**944**	694
Energy	**1,241**	1,171
Dah Chong Hong	**14,961**	14,671
CITIC Telecom	**581**	554
Others	**493**	420
Total	**34,781**	33,295

Remuneration

CITIC Pacific offers competitive remuneration packages designed to attract, motivate and retain talented people. To ensure internal equity and market competitiveness, we review remuneration packages annually by referencing the pay levels of comparable positions in the market.

In addition to offering guaranteed base pay and comprehensive employee benefits, CITIC Pacific recognises business and individual performance through performance-based bonus schemes. In support of our "pay for performance" principle, our operating business units have developed systematic mechanisms to measure both individual and business performance. Based on their specific industry characteristics and modes of operation, each operating business unit defines reasonable performance measures or Key Performance Indicators (KPIs) in line with its own business focus and priorities. The total bonus awarded to employees is determined according to business results or achievement of KPIs, if applicable, of the respective operating business units.

Human Resources

For senior management employees, share options may be granted under the prevailing share options plan as a long-term incentive. Details of the granting of options are reported on pages 132 to 136. In May 2011, CITIC Pacific adopted a new share option plan, namely, the CITIC Pacific Share Incentive Plan 2011 ('the Plan 2011'). Details of the Plan 2011 are reported on pages 135 to 136.

Remuneration Committee

The Remuneration Committee, established in August 2003, comprises three independent non-executive directors. The committee meets at least once a year to review and approve the remuneration of executive directors and other key executives based on the following principles:

- No individual should be involved in decisions relating to his/her own remuneration.
- Remuneration should reasonably reflect performance, responsibilities and complexity, as well as time commitment, in order to attract, motivate and retain high calibre employees.
- Remuneration should be determined with reference to the market pay levels of comparable listed companies as agreed by the Remuneration Committee and the top management.

In 2012, the total remuneration paid to the directors was HK$55 million (2011: HK$60 million). Further information on individual directors' emoluments can be found on page 189.

Culture Building

CITIC Pacific has transformed from a company with a diverse set of investments into a company focusing its operations on three core businesses employing a widespread workforce. We appreciate the challenges of developing a successful business and managing a diverse workforce across different locations and place great importance on aligning the values of the people within our company. We encourage our core operating business units to build a corporate culture that supports their long-term business development and sustainability.

In 2012, CITIC Pacific China Holdings ("CP China"), our subsidiary for property operations in mainland China, embarked on its journey to build a corporate culture. In alignment with the shared values and business characteristics of CITIC Pacific, CP China developed and presented its vision, mission and core values in a statement: the "2012 Consensus". To reinforce and sustain culture building within the company, this statement was followed up with a series of promotions, focus group training, workshops, and communication and sharing sessions.

This year, CITIC Pacific Mining also launched a Cultural Capability Programme to promote mutual understanding between its Chinese and Australian employees.

People Development

With its strong emphasis on Human Capital, CITIC Pacific's overriding goal is to create a positive learning culture and an environment conducive to supporting staff development. The Manpower Developer Award granted by the Employees Retraining Board in April 2012 is recognition of our great efforts and achievements in building leadership and management capabilities, as well as in expanding business and professional expertise, competencies and skill sets of staff, through organizing a wide range of internal and external training and development programmes.

We also encourage and support continuous learning of individual staff at all levels through our external training sponsorship of job-related courses, ranging from short seminars to post-graduate study programmes. Each year, some senior executives participate in overseas field trips or programmes organised by prestigious universities.

To sustain a positive momentum in building leadership capabilities and succession pipelines, this year we launched the second cohort of the CITIC Pacific Leadership Development Programme (CPLDP) in partnership with the Hong Kong University of Science and Technology. So far, more than 65 senior managers from headquarters and our subsidiaries with high performance and potential have completed the CPLDP. In light of the prominent success of the programme, CITIC Pacific will launch the 3rd cohort and also a new CPLDP training module in mid 2013.

During the year, a number of management and generic skills training programmes were organised at headquarters to satisfy the identified needs of employees covering subsidiaries in Hong Kong for producing desirable job performance. Specific management training initiatives were also undertaken at subsidiary level, such as the Foundations of Management Programme and the Management Masterclass Programme implemented by CITIC Pacific Mining in Australia, and the Middle Managers Programme and the Engineers Development Programme by Special Steel Group in mainland China, which were supported by local universities or training institutes.

With regard to professional and functional training, CITIC Pacific invested great effort and resources into helping its employees acquire the up-to-date knowledge, skills and insights needed to maintain high work standards and accomplish business objectives in compliance with legal and industry requirements. For example, we set up training sessions and seminars, such as the Accounting Updates Seminars, the HR Management Learning Series and the Internal Audit Training, for employees from Hong Kong and mainland China. Annual conferences were also held in the 3rd quarter of 2012 for Finance and HR Functions within CITIC Pacific. These conferences have provided a solid platform not only for sharing expertise and insights among participants and experts from internal and external, but also for enhancing functional alignment and developing teamwork. To promote occupational health and safety, CITIC Pacific and its subsidiaries carried out regular training and assessments to ensure employees have a positive and healthy work environment.

Human Resources

Growing the young talents to build CITIC Pacific's bench strength is essential for sustainability. To this end, we continued our CITIC Pacific Management Trainee (MT) Programme at headquarters. Through a 2-year traineeship, high calibre university graduates are developed as functional or business specialists with support of both comprehensive training and development programmes and mentoring by senior executives. The 2010 intake of MTs who graduated this summer were offered a permanent job to pursue their future careers with CITIC Pacific.

Starting in April 2012, we launched a new learning initiative at our headquarters, the CITIC Pacific Lunch & Learn. Through informal sharing or training sessions conducted at lunchtime, we promoted employee wellness and encouraged staff to achieve work-life balance. A variety of topics were covered which include physical and mental health, personal development, leisure activities and other subjects of interest to our employees. In view of the positive responses we have received, we will continue the CITIC Pacific Lunch & Learn in 2013.

To support the increasing demand for training and development at CITIC Pacific, the CITIC Pacific Training Centre was set up in July 2012 at CITIC Tower in Hong Kong to provide a well-equipped and convenient facility for organising quality training programmes and activities.

Employee Care

Employee wellness is critical for establishing employee engagement, loyalty and trust as well as for building a sustainable workforce. In our efforts to ensure employee wellness, CITIC Pacific and its subsidiaries provide employees and their families with education, wellness and support activities throughout the year, such as annual outings, annual dinners and parties, family days, team-building, sports competitions, cultural shows, and specific interest classes. While providing employees with an appropriate balance between work and personal life, these activities also strengthen team spirit and internal communication by bringing together employees from different functions and departments, and even different companies.

Corporate Social Responsibility

CITIC Pacific continued its commitment to corporate social responsibility across a wide range of areas, including environmental protection, youth-nurturing programmes and community services. Thanks to their contributions, CITIC Pacific and its subsidiaries in Hong Kong have for a number of years been awarded the Caring Company logo by the Hong Kong Council of Social Service.

Environmental Protection

As a socially responsible company, CITIC Pacific endeavours to operate our businesses in an environmentally responsible manner and in compliance with local environmental protection regulations. Every effort is put into minimising the environmental impacts of our businesses. In addition to ensuring that the relevant policies are in place and that our core operating business units are complying with them, CITIC Pacific factors environmental protection into the key results areas for measuring the performance of operating business units, wherever applicable.

Nurturing Youth

CITIC Pacific believes that the nurturing and education of the younger generation is critical for the long-term development of a community. In 2012, CITIC Pacific and its subsidiaries in different locations such as CITIC Pacific Mining in Australia, Special Steel Group in mainland China, and Dah Chong Hong, CITIC Telecom CPC and New Hong Kong Tunnel in Hong Kong launched technical and graduate traineeship programmes and apprenticeships for fresh graduates. They also offered summer internship opportunities to students.

As one of the initiatives for nurturing the younger generation, Jiangyin Xingcheng Special Steel entertained more than 250 visitors at their steel manufacturing plants in 2012, while New Hong Kong Tunnel hosted 11 student and community visits to the Eastern Harbour Tunnel.

Corporate Social Responsibility

Community Services

Through our participation in various events, donations and fundraising initiatives organised by various charities, CITIC Pacific demonstrates a high level of commitment to serving the local communities in which our businesses operate.

Throughout 2012, CITIC Pacific and its subsidiaries in Hong Kong continued their support of charity and fundraising events organised by the Community Chest, Oxfam and the Hong Kong Red Cross. This year, we again participated in Green Day, Skip lunch Day, Love Teeth Day and Dress Casual Dress organised by the Community Chest and Oxfam Rice Sales.

In 2012, following the examples of Dah Chong Hong, CITIC Telecom International and New Hong Kong Tunnel, CITIC Pacific headquarters officially announced the establishment of its volunteer group, the "Caring People Team". With caring for people as its mission, the Team has put much effort into delivering love and care to the elderly, children and the underprivileged in the community.

In partnership with a wide range of non-profit organisations, 122 members of the Caring People Team including their families and friends dedicated 336 hours providing voluntary services to the community in the 8 months since the Team was established. From May through December 2012, the Caring People Team participated in voluntary services such as the Elderly Visit in Tuen Ng Festival organised by the Neighbourhood Advice-Action Council, the Mother's Day – Oxfam Rice Sale, the ORBIS Mid-Autumn Charity Sale, the Zurich Presents-Apple Daily Charity Run 2012 organised by Oxfam Hong Kong, and the Carol Singing Festival 2012 organised by the Child Development Matching Fund.

CITIC Pacific's subsidiaries in mainland China also took part in a wide variety of charitable events by organising blood donations, raising funds for people suffering from serious illnesses, and making donations to local charities that provide opportunities for basic education to children from poor families.

Contents of Financial Statements and Notes

Consolidated Profit and Loss Account

For the year ended 31 December 2012

In HK$ million	Note	2012	As restated 2011
Continuing operations			
Revenue	3	**93,272**	96,890
Cost of sales		**(83,529)**	(83,636)
Gross profit		**9,743**	13,254
Other income and net gains	4	**3,673**	1,843
Distribution and selling expenses		**(3,202)**	(2,854)
Other operating expenses		**(4,315)**	(4,493)
Change in fair value of investment properties		**1,506**	1,835
Profit from consolidated activities	5 & 6	**7,405**	9,585
Share of results of			
Jointly controlled entities	5	**2,145**	3,080
Associated companies	5	**690**	729
Profit before net finance charges and taxation		**10,240**	13,394
Finance charges		**(1,862)**	(1,104)
Finance income		**720**	694
Net finance charges	7	**(1,142)**	(410)
Profit before taxation		**9,098**	12,984
Taxation	8	**(1,347)**	(2,495)
Profit for the year from continuing operations		**7,751**	10,489
Discontinued operations			
Profit for the year from discontinued operations	35a	**497**	494
Profit for the year		**8,248**	10,983
Attributable to:			
Ordinary shareholders of the Company	9	**6,954**	9,233
Holders of perpetual capital securities		**463**	331
Non-controlling interests		**831**	1,419
		8,248	10,983
Profit attributable to ordinary shareholders of the Company arising from:			
Continuing operations		**6,655**	8,934
Discontinued operations		**299**	299
		6,954	9,233
Dividends	10	**(1,642)**	(1,642)
Earnings per share for profit attributable to shareholders of the Company during the year (HK$)	11		
Basic earnings per share from:			
Continuing operations		**1.83**	2.45
Discontinued operations		**0.08**	0.08
		1.91	2.53
Diluted earnings per share from:			
Continuing operations		**1.83**	2.45
Discontinued operations		**0.08**	0.08
		1.91	2.53

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

In HK$ million	**2012**	As restated 2011
Profit for the year	**8,248**	10,983
Other comprehensive income, net of tax		
Cash flow hedging reserves movement from interest rate swap and foreign exchange contracts	**(1,139)**	(2,923)
Fair value changes from other financial assets	**(5)**	(112)
Transfer to profit and loss account on impairment of other financial assets	**15**	98
Surplus on revaluation of properties transferred from self-use properties to investment properties	**61**	–
Share of other comprehensive income of jointly controlled entities and associated companies	**(39)**	43
Exchange translation differences	**(43)**	2,488
Reserves released on disposal/dilution of interest in jointly controlled entities and non-current assets held for sale	**(431)**	(132)
Reserve released upon disposal/liquidation of subsidiary companies	**(1)**	(109)
Total comprehensive income for the year	**6,666**	10,336
Total comprehensive income for the year attributable to		
Ordinary shareholders of the Company	**5,368**	8,404
Holders of perpetual capital securities	**463**	331
Non-controlling interests	**835**	1,601
	6,666	10,336
Total comprehensive income for attributable to Ordinary shareholders of the Company arising from:		
Continuing operations	**5,070**	8,110
Discontinued operations	**298**	294
	5,368	8,404

Consolidated Balance Sheet

As at 31 December 2012

In HK$ million	Note	**2012**	2011
Non-current assets			
Property, plant and equipment	15	**100,445**	85,132
Investment properties	15	**16,359**	15,270
Properties under development	15	**8,712**	6,628
Leasehold land – operating leases	15	**2,524**	2,277
Jointly controlled entities	17	**20,443**	21,278
Associated companies	18	**7,499**	7,222
Other financial assets	19	**351**	345
Intangible assets	20	**17,253**	16,202
Deferred tax assets	33	**2,342**	1,647
Derivative financial instruments	32	**121**	928
Non-current deposits and prepayments	21	**1,908**	4,031
		177,957	160,960
Current assets			
Properties under development		**1,144**	3,189
Properties held for sale		**3,830**	1,493
Other assets held for sale	22	**379**	2,388
Inventories	23	**11,803**	14,125
Derivative financial instruments	32	**255**	401
Debtors, accounts receivable, deposits and prepayments	24	**15,464**	16,253
Cash and bank deposits		**32,821**	30,930
		65,696	68,779
Assets of disposal group classified as held for sale	35b(i)	**3,733**	–
		69,429	68,779
Current liabilities			
Bank loans, other loans and overdrafts			
secured	29	**1,456**	1,329
unsecured	29	**20,677**	26,328
Creditors, accounts payable, deposits and accruals	25	**24,402**	30,577
Derivative financial instruments	32	**201**	159
Provision	34	**1,870**	–
Provision for taxation		**1,065**	1,514
		49,671	59,907
Liabilities of disposal group classified as held for sale	35b(ii)	**1,260**	–
		50,931	59,907
Net current assets		**18,498**	8,872
Total assets less current liabilities		**196,455**	169,832
Non-current liabilities			
Long term borrowings	29	**94,496**	71,050
Deferred tax liabilities	33	**3,343**	3,373
Derivative financial instruments	32	**4,777**	4,747
Provisions and deferred income	34	**1,973**	2,649
		104,589	81,819
Net assets	5	**91,866**	88,013
Equity			
Share capital	26	**1,460**	1,460
Perpetual capital securities	27	**5,953**	5,951
Reserves	28	**76,170**	72,452
Proposed dividend		**1,095**	1,095
Total ordinary shareholders' funds and perpetual capital securities		**84,678**	80,958
Non-controlling interests in equity		**7,188**	7,055
Total equity		**91,866**	88,013

Chang Zhenming
Chairman

Zhang Jijing
President

Vernon F. Moore
Chief Financial Officer

Balance Sheet

As at 31 December 2012

In HK$ million	Note	2012	2011
Non-current assets			
Property, plant and equipment	15	**17**	10
Subsidiary companies	16	**98,940**	80,889
Jointly controlled entities	17	**5,127**	5,138
Associated companies	18	**1,879**	1,987
Derivative financial instruments	32	**–**	161
		105,963	88,185
Current assets			
Derivative financial instruments	32	**27**	326
Amounts due from subsidiary companies	16	**6,127**	4,896
Debtors, accounts receivable, deposits and prepayments	24	**257**	193
Cash and bank deposits		**13,989**	10,715
		20,400	16,130
Current liabilities			
Bank loans, other loans and overdrafts			
– unsecured	29	**10,407**	13,936
Amounts due to subsidiary companies	16	**6,528**	6,223
Creditors, accounts payable, deposits and accruals	25	**745**	293
Derivative financial instruments	32	**99**	419
Provision for taxation		**1**	1
		17,780	20,872
Net current assets/(liabilities)		**2,620**	(4,742)
Total assets less current liabilities		**108,583**	83,443
Non-current liabilities			
Long term borrowings	29	**52,451**	30,221
Derivative financial instruments	32	**2,674**	2,739
		55,125	32,960
Net assets		**53,458**	50,483
Equity			
Share capital	26	**1,460**	1,460
Perpetual capital securities	27	**5,953**	5,951
Reserves	28	**44,950**	41,977
Proposed dividend		**1,095**	1,095
Total ordinary shareholders' funds and perpetual capital securities		**53,458**	50,483

Chang Zhenming
Chairman

Zhang Jijing
President

Vernon F. Moore
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December 2012

In HK$ million	Note	2012	As restated 2011
Cash flows from operating activities			
Profit before taxation from continuing operations	5	**9,098**	12,984
Profit before taxation from discontinued operations	5	**538**	559
Share of results of jointly controlled entities and associated companies		**(3,026)**	(3,994)
Net finance charges		**1,144**	410
Net exchange gain		**(51)**	(348)
Income from other financial assets		**(4)**	(7)
Depreciation and amortisation		**3,098**	2,180
Impairment losses		**173**	652
Provision for gas contract		**415**	109
Share-based payment		**31**	11
Loss on disposal of property, plant and equipment		**2**	–
Gain on disposal of investment properties		**–**	(296)
Net gain on properties reclassified as asset held for sale		**(78)**	–
Change in fair value of investment properties		**(1,506)**	(1,835)
Net gain from disposal/deemed disposal of jointly controlled entities and associated companies		**(2,454)**	(209)
Net gain on disposal of subsidiary companies		**(165)**	(230)
Operating profit before working capital changes		**7,215**	9,986
Decrease in properties held for sale		**1,610**	2,777
Decrease/(increase) in inventories		**2,407**	(2,468)
Decrease/(increase) in debtors, accounts receivable, deposits and prepayments		**283**	(2,182)
(Decrease)/increase in creditors, accounts payable, deposits and accruals		**(2,068)**	1,121
Effect of foreign exchange rate changes		**(13)**	470
Cash generated from operating activities		**9,434**	9,704
Income taxes paid		**(1,915)**	(1,770)
Cash generated from operating activities after income taxes paid		**7,519**	7,934
Interest received		**586**	647
Interest paid		**(4,724)**	(3,815)
Realised exchange (loss)/gain		**(8)**	70
Other finance charges and financial instruments		**(289)**	(106)
Net cash from consolidated activities before increase of properties under development		**3,084**	4,730
Increase in properties under development		**(1,718)**	(2,065)
Net cash generated from consolidated activities		**1,366**	2,665

Consolidated Cash Flow Statement

For the year ended 31 December 2012

In HK$ million	Note	2012	As restated 2011
Cash flows from investing activities			
Purchase of:			
Subsidiary companies (net of cash and cash equivalents acquired)	38	**(1,405)**	(185)
Properties under development for own use		**(237)**	(1,070)
Property, plant and equipment		**(14,378)**	(14,450)
Leasehold land – operating leases		**(308)**	(67)
Intangible assets		**(2,056)**	(2,112)
Other financial assets		**(13)**	–
Proceeds of:			
Disposal of property, plant and equipment and investment properties		**863**	892
Sale of other financial assets		**5**	–
Disposal of interests in jointly controlled entities		**4,294**	1,727
Disposal of subsidiary companies (net of cash and cash equivalents disposed)	38	**220**	1,799
Refund of deposit received		**(842)**	–
Settlement of consideration payable for acquisition of a subsidiary company		**(48)**	–
Increase in bank deposits maturing after more than 3 months		**(365)**	(1,379)
Decrease/(increase) in pledged deposits with banks		**1,099**	(1,243)
Net payments for non-current deposits and prepayments		**(2,534)**	(1,405)
Investment in jointly controlled entities and associated companies		**(63)**	(94)
Deposit paid for acquisition of a subsidiary company		**(76)**	–
Repayment in loans to jointly controlled entities and associated companies		**2**	226
Dividend received from jointly controlled entities and associated companies		**1,964**	823
Income received from other financial assets		**4**	7
Net cash used in investing activities		**(13,874)**	(16,531)
Cash flows from financing activities			
Issue of shares pursuant to the share option plan	28	**–**	16
New borrowings		**65,775**	41,420
Repayment of loans		**(47,498)**	(27,581)
Decrease in non-controlling interests		**(653)**	(724)
Dividends paid to shareholders of the Company		**(1,642)**	(1,642)
Proceeds of issue of perpetual capital securities, net of transaction costs		**–**	5,782
Distribution made to holders of perpetual capital securities		**(461)**	(230)
Net cash from financing activities		**15,521**	17,041
Net increase in cash and cash equivalents		**3,013**	3,175
Cash and cash equivalents at 1 January		**27,964**	24,237
Effect of foreign exchange rate changes		**(16)**	552
Cash and cash equivalents at 31 December		**30,961**	27,964
Cash and cash equivalents included in assets of disposal group classified as held for sale at 31 December		**(351)**	–
Cash and cash equivalents of continuing operations at 31 December		**30,610**	27,964
Analysis of the balances of cash and cash equivalents			
Cash and bank deposits		**32,821**	30,930
Bank deposits with maturities over 3 months		**(1,744)**	(1,379)
Bank overdrafts and pledged deposits		**(467)**	(1,587)
		30,610	27,964

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities						
In HK$ million	Share capital	Perpetual capital securities	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**1,460**	**5,951**	**44,068**	**29,479**	**80,958**	**7,055**	**88,013**
Profit for the year	–	463	–	6,954	7,417	831	8,248
Other comprehensive income, net of tax, for the year							
Share of other comprehensive income of jointly controlled entities and associated companies	–	–	41	(82)	(41)	2	(39)
Fair value changes of other financial assets	–	–	(5)	–	(5)	–	(5)
Transfer to profit and loss account on impairment of other financial assets	–	–	15	–	15	–	15
Surplus on revaluation of properties transfer from self-used properties to investment properties	–	–	61	–	61	–	61
Exchange translation differences	–	–	(45)	–	(45)	2	(43)
Cash flow hedging reserves movement from interest rate swaps and foreign exchange contracts	–	–	(1,139)	–	(1,139)	–	(1,139)
Reserves released on disposal of a subsidiary	–	–	(1)	–	(1)	–	(1)
Reserves released on disposal/dilution of interest in jointly controlled entities	–	–	(252)	(179)	(431)	–	(431)
Total comprehensive income for the year	–	463	(1,325)	6,693	5,831	835	6,666
Transactions with owners							
Acquisition of subsidiaries	–	–	–	–	–	20	20
Dilution disposal of interest in subsidiary companies	–	–	4	–	4	(4)	–
Dividends paid to shareholders of the Company	–	–	–	(1,642)	(1,642)	–	(1,642)
Dividends paid to non-controlling interests	–	–	–	–	–	(548)	(548)
Acquisition of interests from non-controlling interests	–	–	(30)	–	(30)	(225)	(255)
Distribution to holders of perpetual capital securities	–	(461)	–	–	(461)	–	(461)
Share-based payment	–	–	18	–	18	13	31
Transfer from profits to general and other reserves	–	–	159	(159)	–	–	–
Release upon lapse of share options	–	–	(188)	188	–	–	–
Capital contributed from non-controlling interest	–	–	–	–	–	44	44
Distribution to non-controlling interest	–	–	–	–	–	(2)	(2)
	–	(461)	(37)	(1,613)	(2,111)	(702)	(2,813)
Balance at 31 December 2012	**1,460**	**5,953**	**42,706**	**34,559**	**84,678**	**7,188**	**91,866**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities						
In HK$ million	Share capital	Perpetual capital securities	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
Balance at 1 January 2011	1,459	–	44,492	22,395	68,346	5,872	74,218
Profit for the year	–	331	–	9,233	9,564	1,419	10,983
Other comprehensive income, net of tax, for the year							
Share of other comprehensive income of jointly controlled entities and associated companies	–	–	122	(80)	42	1	43
Fair value changes of other financial assets	–	–	(112)	–	(112)	–	(112)
Transfer to profit and loss account on impairment of other financial assets	–	–	98	–	98	–	98
Exchange translation differences	–	–	2,307	–	2,307	181	2,488
Cash flow hedging reserves movement from interest rate swaps and foreign exchange contracts	–	–	(2,923)	–	(2,923)	–	(2,923)
Reserves released on disposal of a subsidiary	–	–	(109)	–	(109)	–	(109)
Reserves released on disposal/dilution of interest in jointly controlled entities	–	–	(95)	(37)	(132)	–	(132)
Total comprehensive income for the year	–	331	(712)	9,116	8,735	1,601	10,336
Transactions with owners							
Acquisition of subsidiaries	–	–	–	–	–	284	284
Dilution/disposal of interest in subsidiary companies	–	–	8	–	8	(1)	7
Dividends paid to shareholders of the Company	–	–	–	(1,642)	(1,642)	–	(1,642)
Dividends paid to non-controlling interests	–	–	–	–	–	(623)	(623)
Acquisition of interests from non-controlling interests	–	–	(64)	–	(64)	(63)	(127)
Distribution to holders of perpetual capital securities	–	(230)	–	–	(230)	–	(230)
Share-based payment	–	–	7	–	7	4	11
Transfer from profits to general and other reserves	–	–	322	(322)	–	–	–
Issue of shares pursuant to the share option plan	1	–	15	–	16	–	16
Issuance of perpetual capital securities	–	5,850	–	–	5,850	–	5,850
Capital contributed from non-controlling interest	–	–	–	–	–	48	48
Distribution to non-controlling interest	–	–	–	–	–	(67)	(67)
Transaction costs related to issuance of perpetual capital securities	–	–	–	(68)	(68)	–	(68)
	1	5,620	288	(2,032)	3,877	(418)	3,459
Balance at 31 December 2011	1,460	5,951	44,068	29,479	80,958	7,055	88,013

Notes to the Financial Statements

1 Significant accounting policies

(a) Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements ("the Accounts") of CITIC Pacific Limited (the "Company") and its subsidiary companies (together the "Group") are set out below. These policies have been consistently applied to each of the years presented. The Accounts have been prepared in accordance with HKFRS, and under the historical cost convention, except as disclosed in the accounting policies below in (h) and (w). Adoption of the amendments which became effective in 2012 does not have a significant impact on the Accounts.

The following new standards, amendments and interpretation which have been issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as of 31 December 2012 may impact the Group in future years but are not yet effective for the year ended 31 December 2012:

Standard No.	Title	Applicable accounting period to the Group
HKAS 1 (Amendment)	Presentation of financial statements	2013
HKFRS 9	Financial instruments	2015
HKFRS 10	Consolidated financial statements	2013
HKFRS 11	Joint arrangements	2013
HKFRS 12	Disclosures of interest in other entities	2013
HKFRS 13	Fair value measurements	2013
HK (IFRIC) Int 20	Stripping costs in the production phase of a surface mine	2013
HKAS 32 (Amendment)	Financial instruments: presentation – offsetting financial assets and financial liabilities	2014
HKFRS 7 (Amendment)	Financial instruments: disclosures – disclosures – offsetting financial assets and financial liabilities	2013
Annual Improvements 2009-2011 Cycle		2013

The above standards, amendments or interpretation will be adopted in the years listed. Based on the current assessment, the Group anticipates that the application of the above revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

(b) Basis of consolidation

The consolidated financial statements incorporate the accounts of the Company and all its subsidiary companies made up to the balance sheet date. The results of subsidiary companies acquired or disposed of during the year are included as from the effective dates of acquisition or up to the effective dates of disposal respectively.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiary companies have been changed where necessary in the consolidated accounts to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(c) Goodwill

Goodwill arising on the acquisition of subsidiary companies, jointly controlled entities and associated companies represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree at the date of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Positive goodwill will be stated in the consolidated balance sheet as a separate asset or included within jointly controlled entities and associated companies at cost less accumulated impairment losses and is subject to impairment testing at least annually. Impairment losses on goodwill are not reversed. Negative goodwill is recognised in profit and loss account immediately on acquisition.

(d) Subsidiary companies and non-controlling interests

A subsidiary company is a company which is controlled by the Company through share ownership or otherwise. Control represents the power to govern the financial and operating policies of that company.

The acquisition method of accounting is used to account for the acquisition of subsidiary companies. The consideration transferred for the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. There is a choice, on the basis of each acquisition to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Non-controlling interest is the equity in a subsidiary which is not attributable, directly or indirectly, to a parent. The Group treats transactions with non-controlling interests (namely, acquisitions of additional interests and disposals of partial interests in subsidiaries that do not result in a loss of control) as transactions with equity owners of the Group, instead of transactions with parties not within the Group. For purchases of additional interests in subsidiaries from non-controlling shareholders, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of partial interests to non-controlling shareholders are also recorded in equity.

When control is lost, any remaining interest in the subsidiary company is re-measured to fair value and the difference between the fair value and the carrying value is recognised in the profit and loss account.

Investments in subsidiary companies are carried in the Company's balance sheet at cost less any impairment. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(e) Jointly controlled entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year, unless the jointly controlled entity is classified as held for sale (or included in a disposal group held for sale), and adjusted by impairment losses, if any. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition.

When the Group's share of losses equals or exceeds its interest in the jointly controlled entity, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

Share of results of jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less any impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(f) Associated companies

Associated companies are companies, other than subsidiary companies and jointly controlled entities, in which the Group generally holds not more than 50 per cent of the equity share capital for the long term and over whose management it can exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, unless the associated company is classified as held for sale (or included in a disposal group held for sale), and adjusted by impairment losses, if any. The consolidated balance sheet includes the Group's share of net assets of the associated companies, after attributing fair values to the net assets at the date of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

Share of results of associated entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's balance sheet, the investments in associated companies are stated at cost less any impairment. The results of associated companies are only reflected to the extent dividends are received or are receivable.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment.

Property, plant and equipment include leasehold land classified as finance leases. Please refer to note 1(m) for the accounting policy on leasehold land classified as finance leases.

Assets in the course of construction for production, rental or administrative purposes are carried at cost, less any impairment. Cost includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads.

Construction in progress in respect of the iron ore mining project includes expenditure such as bank charges, interest costs, equipment hire costs, consultants' costs and depreciation costs. Such costs are capitalised until commencement of mine production and then amortised in accordance with note 1(o).

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rate specified below.

Property, plant and equipment are depreciated at rates sufficient to write off their cost, less impairment losses, if any, to their estimated residual values, over their estimated useful lives on a straight line basis at the following annual rates:

Freehold land is not amortised.

Other buildings	2%-10% or the remaining lease period of the land where applicable
Plant and machinery	6%-20%
Other property, plant and equipment, comprising vessels, telecommunications equipment, traffic equipment, cargo lighters, computer installations, motor vehicles, furniture, fixture and equipment	4%-25%

Assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Note 4, in the consolidated profit and loss account.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(h) Investment properties

Investment properties are interests in land and/or buildings which are held to earn rentals or for capital appreciation or both. These include land held for a currently undetermined future use. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated profit and loss account.

(i) Properties under development

Properties under development consist of land for development and buildings under construction and development.

Properties under development for own use – investments in leasehold land are amortised over the lease term, and are stated at cost less accumulated amortisation and any accumulated impairment. Amortisation of leasehold land is capitalised as the cost of buildings during the construction period. The investments in buildings under construction and development are stated at cost less any accumulated impairment losses.

Properties under development for sale are carried at the lower of cost and the estimated net realisable value. Given the Group's diverse portfolio of property development projects, there is presently not a uniform operating cycle and hence properties under development for sale with the development expected to be completed within one year from the balance sheet date are classified under current assets. Such development properties are transferred to investment property when and only when there is a change in use as evidenced by the commencement of an operating lease to another party.

Properties under development for investment purposes are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss account.

(j) Capitalisation of development costs

Property development expenditure, including borrowing costs and professional fees, is capitalised as cost of development.

Borrowing costs incurred on assets under development that take a substantial period of time to get ready for their intended use or sale are capitalised into the carrying value of the assets under development.

The capitalisation rate applied to funds borrowed for the development of assets is based on the attributable cost of funds to the Group.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(k) Properties held for sale

Properties held for sale consisting of leasehold land and buildings are classified under current assets and stated at the lower of cost and net realisable value. Leasehold land is stated at cost less accumulated amortisation and any impairment. Building costs are stated at cost less any impairment.

(l) Other assets held for sale and discontinued operations

Other assets held for sale are stated at their carrying amount which is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(m) Leasehold land

Leasehold land under operating lease and finance lease arrangements is stated at cost less accumulated amortisation and impairment. Leasehold land is amortised on a straight-line basis over the lease term.

(n) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment loss, if any. They comprise goodwill, expenditure on mining rights, car dealerships and a vehicular tunnel concessions. The accounting policies for goodwill and exploration, evaluation and development expenditure of mining rights are outlined in accounting policies 1(c) and 1(o).

Amortisation of the vehicular tunnel concession is based on the actual traffic volume in the year compared to the projected traffic volume for the remainder of the concession period.

(o) Mining exploration, evaluation and development expenditure

Mining exploration, evaluation and development expenditures incurred are capitalised and carried forward in respect of each identifiable area of interest where the rights to mine are current and:

- it is expected that the expenditure will be recouped by future development and commercial exploitation or sale; or,

- at the balance sheet date, exploration and evaluation activities have reached a stage, which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations are continuing.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(o) Mining exploration, evaluation and development expenditure (continued)

Development costs represent costs accumulated for an area of interest where the decision has been made to develop the mine. Development costs include such costs as plant hire, contractor site labour costs and resource assessment costs. Exploration and evaluation assets are transferred to development costs when this decision has been made. Development costs are tested for impairment in accordance with note 1(y).

Amortisation of costs carried forward is not charged until production commences. When production commences, capitalised expenditures on exploration, evaluation and development are amortised over the life of the area of interest to which they relate. Amortisation is recognised in the consolidated profit or loss on a unit of production method over the estimated useful lives of intangible assets from the date that they are available for use. Unamortised expenditure relating to that area of interest is written off in the period that abandonment is decided.

Provision for restoration costs is made at the time when the activities which give rise to the need for restoration occur, and would form part of the costs of property, plant and equipment. The need for a provision is assessed annually such that full provision is made by the end of the exploration life of each area.

The ultimate recoupment of costs carried forward for exploration, evaluation and development phases is dependent on the successful development and commercial exploitation of sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration phase and accordingly, production has not commenced.

Subsequent to the commencement of mining production, expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in consolidated profit or loss when incurred.

Mining exploration, evaluation and development expenditure is written down to its recoverable amount if it is lower than its carrying amount.

(p) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit and loss account.

(q) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Provisions

Provisions are made when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not made for future operating losses.

(t) Share capital

Share capital issued by the Company is recorded at the proceeds received, net of direct issue costs.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Geographically, management considers separate segments as mainland China, Hong Kong, Australia and others. The performance of the operating segments is assessed on the profit attributable to the shareholders of the Company. Gain from leveraged foreign exchange contracts and net exchange gain are attributable to the corporate segment, as the cash position of the Group is managed centrally by the corporate treasury function.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(v) Revenue recognition

(i) Sales of goods

Revenue arising from the sales of goods is generally recognised on the delivery of goods to customers. Revenue is after deduction of any trade discounts.

Revenue arising from the sale of motor vehicles is recognised when the registration document is issued or on delivery of the vehicle, whichever is earlier. This is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Rendering of services

Commission income is recognised when the goods concerned are sold to customers.

Revenue arising from the rendering of repairing services is recognised when the relevant work is completed.

Revenue from the provision of telecommunications services is recognised upon delivery of the service.

(iii) Sales of properties under development and properties held for sale

Revenue from sales of properties under development is only recognised when the significant risks and rewards of ownership have been transferred to the buyer. The Group considers that the significant risks and rewards of ownership are transferred when the buildings contracted for sale are completed and the relevant permits essential for the delivery of the properties have been issued by the authorities.

Revenue from completed properties held for sale is recognised at the date when the sales agreement is signed.

(iv) Toll income

Toll income is recognised as revenue when the service is provided.

(v) Rental income

Rental income is recognised as revenue on a straight-line basis over the period of the relevant lease.

(vi) Dividend income

Dividend income is recognised when the right to receive the dividend is established.

Dividends proposed or declared after their balance sheet date by companies in which the Group has an investment are not recognised as revenue at the balance sheet date but on the date when the right to receive the dividend is established.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(w) Financial instruments

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) available-for-sale financial assets and, (iv) derivative financial instruments. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at every reporting date.

Purchases and sales of all categories financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except financial assets carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been legally transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this sub-category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, unless maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors, accounts receivable, deposits and prepayments in the balance sheet.

Loans and receivables and held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(w) Financial instruments (continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are carried at fair value, or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the profit and loss account.

(iv) Derivative financial instruments

Derivatives are stated at fair value. The gain or loss on change in fair values is recognised in the profit and loss account unless the derivative qualifies for hedge accounting.

Cash flow hedges

Where a derivative qualifies for hedge accounting and is designated as a cash flow hedge, whether on the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and the ineffective part in the profit and loss account. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in hedging reserve will be recognised in the profit and loss account in the same period or periods during which the transaction it hedges is recognised in the profit and loss account. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit and loss. The ineffective portion is recognised immediately in profit and loss.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 32. Movements on the hedging reserve in shareholders' equity are shown in Note 28. When the remaining maturity of the hedged item is more than 12 months, the full fair value of a hedging derivative is classified as a non-current asset or liability.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(x) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable and receivable under operating leases are accounted for on a straight line basis over the respective periods of the leases.

(y) Impairment of assets

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication the carrying value of these assets may not be recoverable. If such assets are considered to be impaired, the impairment to be recognised in the profit and loss account is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (called cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(z) Inventories

Inventories comprise mainly iron ore, scrap metal, steel, motor vehicles, spare parts, electrical appliances, food and other trading items. They are valued at the lower of cost and net realisable value. Cost represents the actual cost of purchase or production and is calculated on the first-in first-out, specific identification or weighted average basis as appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(aa) Foreign currencies

The consolidated and the Company's accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions in foreign currencies are translated into the functional currency at the rates ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as a qualifying cash flow hedge or net investment hedge.

Assets and liabilities of subsidiary companies, jointly controlled entities and associated companies, together with all other monetary assets and liabilities expressed in foreign currencies, are translated into Hong Kong dollars at the rates of exchange at the balance sheet date. Results in foreign currencies are translated at the average rates of exchange ruling during the year. All resulting exchange differences are recognised as a separate component of equity – exchange fluctuation reserve.

Exchange differences arising from the translation of the net investment in foreign entities, and of financial instruments which are designated as hedges of such investment, are taken directly to the exchange fluctuation reserve. On the disposal of these investments, such exchange differences are recognised in the consolidated profit and loss account as part of the profit or loss on disposal.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(aa) Foreign currencies (continued)

When a gain or loss on a non-monetary item is recognised directly in equity, any translation difference on that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the profit and loss account any translation difference on that gain or loss is recognised in the profit and loss account.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the rate of exchange ruling at the balance sheet date. Such differences are taken directly to the exchange fluctuation reserve.

(bb) Deferred taxation

The balance sheet liability method is adopted whereby deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; or in respect of those temporary differences which arise either from goodwill not deductible for tax purposes, or relating to investments in subsidiary companies to the extent that the Group controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Provision for withholding tax that will arise on the remittance of retained earnings is only made where there is a current intention to remit such earnings.

Deferred tax assets are recognised to the extent that their future utilisation is probable. Deferred tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(cc) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(cc) Employee benefits (continued)

(ii) Share-based payments

The Group operates a share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period with a corresponding increase in capital reserve.

Fair values of share option awards, measured at the date of grant of the award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The fair value excludes the impact of any non-market services and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of the revision, if any, in the consolidated profit and loss account.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Investment properties

The fair values of investment properties are determined annually by independent qualified valuers on an open market value at the balance sheet date on an existing use basis calculated on the net income allowing for reversionary potential.

(ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(y). For the purposes of impairment testing, goodwill acquired has been allocated to individual cash-generating units which are reviewed for impairment based on forecast operating performance and cash flows. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. Cash flow projections are prepared on the basis of reasonable assumptions reflective of prevailing and future market conditions, and are discounted appropriately.

Notes to the Financial Statements

2 Critical accounting estimates and judgements (continued)

(iii) Impairment of assets

The Group has made substantial investments in tangible and intangible assets. The Group considers impairment assessment as an area requiring extensive application of judgement and estimation. Assets that have an indefinite useful life are tested for impairment annually. Other assets are reviewed for impairment when there is an indication that the carrying value of these assets may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit and loss account.

Mining operation

The Group's mining operation is considered as a separate cash generating unit. Whenever events or circumstances indicate an impairment may have occurred, the Group tests whether assets attributable to the Group's mining operations have suffered any impairment. The recoverable amount of the mining operation is determined based on fair value less costs to sell which is based on cashflow projections that incorporate best estimates of selling prices, ore grades, exchange rates, production rates, future capital expenditure and production costs over the life of the mine. In line with normal practice in the mining industry, the cash flow projections are based on long term mine plans covering the expected life of the operation. Assumptions about selling prices, operating costs, exchange rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Property, plant and equipment

The Group reviews property, plant and equipment, other than mining operation plant, for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on the best information available. The Group derives the required cash flow estimates from historical experience and internal business plans. To determine recoverable amount, the Group uses cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate.

Properties under development

The Group writes down properties under development to their recoverable amount based on the assessment of recoverability which takes into account cost to completion based on past experience and cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate. Write downs are recorded where events or changes in circumstances indicate that the balances may not be fully realised. The identification of write downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties under development is adjusted to profit and loss account in the period in which such estimate is changed.

Jointly controlled entities and associated companies

The Group regularly reviews investments in jointly controlled entities and associated companies for impairment based on both quantitative and qualitative criteria. Such analysis typically includes various estimates and assumptions, the intent and ability to hold to maturity or until forecasted recovery, the financial health, cash flow projections and future prospects of the companies.

Notes to the Financial Statements

2 Critical accounting estimates and judgements (continued)

(iii) Impairment of assets (continued)

Debtors, accounts receivable, deposits and prepayments

Debtors, accounts receivable, deposits and prepayments are assessed and impairment provided based on regular review of the ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the impairment loss would affect the profit in future years.

(iv) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful life of the respective assets using the straight-line method. The management periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

(v) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in Note 1(z). Management estimates the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group’s profit and net asset value.

(vi) Fair value of derivative financial instruments

The fair values of outstanding derivative transactions are based on independent valuations by Reval Inc., a derivative risk management and hedge accounting solutions firm, and are cross checked against fair values obtained from major financial institutions. Judgement is required in determining such valuations. Changes in the underlying assumptions could materially impact profit and loss or equity.

(vii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management’s expectation that future taxable profit will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(viii) Metallurgical Corporation of China Ltd ("MCCL") were appointed as the EPC (engineering, procurement and construction) contractor for the processing area and related facilities at the Group's Sino Iron project in Western Australia. The fixed price contract amount is US$3.4 billion.

On 30 January 2013, MCCL announced that it had incurred costs over the value of the contract and had provided additional funding of US$858 million to MCC Mining (Western Australia) Pty Ltd ("MCC WA"), its wholly owned subsidiary responsible for delivering MCCL's obligations under the contract.

Notes to the Financial Statements

2 Critical accounting estimates and judgements (continued)

(viii) (continued)

As at the date of this report MCCL has not claimed any additional costs from the Company or its subsidiary companies, other than minor contract variations in the normal course of operations, and the Company believes the Group has satisfied all obligations under the contract.

Under the contract, the Group has a right to claim liquidated damages from MCC WA for certain delays in the completion of their project scope at a daily amount of 0.15% of the value of the main contract (approximately US$5 million per day, with a cap of approximately US$530 million in total). As at balance date the cumulative days delay that has been incurred has resulted in the contractual cap to the liquidated damages being reached.

No amounts have been recognised as either receivable from or payable to MCCL or its subsidiaries in the financial statements, pending the completion of the contract and settlement of any potential outstanding claims by either party. As set out in the announcement of the Company dated 30 January 2013 (the "Announcement"), the Company will decide on the appropriate steps to take including entering into commercial negotiations with MCCL at the completion of the project to resolve any outstanding issues including the above delay payments and the independent assessment referred to in the Announcement. However, should the Group enter into commercial negotiations with MCCL and these negotiations result in additional contractual amounts being agreed, this may impact on the carrying value of the project.

(ix) Sino Iron and Korean Steel, subsidiary companies of the Company, are party to Mining Right and Site Lease Agreements with Mineralogy Pty Ltd (Mineralogy). Those agreements provide their right to construct the Sino Iron project and take 2 billion tonnes of magnetite ore.

The Company is also a party to an Option Agreement with Mineralogy, pursuant to which the Company has four options to acquire a company each with a right to extract 1 billion tonnes of magnetite ore in the vicinity of the Sino Iron project. The Company exercised the first option under the Option Agreement on 13 April 2012. Mineralogy has an obligation under the Agreement to nominate a company acceptable to the Company (with the right to extract the 1 billion tonnes under a Mining Right and Site Lease Agreement). So far, Mineralogy has nominated three companies and subsequently withdrawn two of its nominations. The Company is of the view that the remaining company does not satisfy the requirements of the Option Agreement.

The Group has received notices from Mineralogy alleging that certain terms of the Mining Right and Site Lease Agreements have been breached and suggesting that the Option Agreement has been repudiated.

In relation to the Mining Right and Site Lease Agreements, Mineralogy has asked the Supreme Court of Western Australia to make declarations in connection with the following aspects of the Mining Right and Site Lease Agreements: (1) the proper construction of the provision pursuant to which royalty is payable to Mineralogy for Magnetite Ore which has been 'taken' under these agreements, and (2) the subsidiary companies' entitlement to construct a temporary workshop on the breakwater at Cape Preston. The Company maintains that ore is "taken" once it has passed through the primary crusher. The royalty under the relevant limb of the royalty provision is AUD0.30 per tonne of magnetite ore, escalated for CPI changes since March 2006. The Company considers its subsidiary companies are entitled to construct the temporary workshop without first seeking Mineralogy approval.

Notes to the Financial Statements

2 Critical accounting estimates and judgements (continued)

(ix) (continued)

On 22 November 2012, the Supreme Court of Western Australia granted the Company, and the relevant affected subsidiaries, an injunction against Mineralogy to restrain Mineralogy from purporting to terminate the Mining Right and Site Lease Agreements in connection with the royalty issue. The injunction will remain in place until the court makes a decision on the issues in dispute between the parties as described above.

On 15 February 2013 the Court set the first matter down for hearing on 23 to 24 April 2013.

In relation to the Option Agreement, the Company (and the relevant affected members of the Group) have sought declarations from the Supreme Court of Western Australia as to the continuation of their rights under the Option Agreement.

This matter is likely to be heard later in the year.

The Company is firmly of the view that Mineralogy's claims are without foundation and will continue to contest all claims vigorously and as such there have been no entries made to the financial statements in relation to these matters.

3 Turnover and Revenue

The principal activities of CITIC Pacific Limited are holding its subsidiary companies, jointly controlled entities and associated companies (collectively the "Investee Companies"), and raising finance. Revenue generating activities of the Group are conducted through the subsidiaries. The principal activities of the Investee Companies are set out in Note 44 to the financial statements.

Revenue of the Group comprises the total invoiced value of goods supplied net of government taxes where applicable, charges for telecommunication services, fees from services rendered to customers, gross proceeds from sale of properties, gross property rental and godown and cold storage income, and toll income analysed as follows:

	Group	
In HK$ million	**2012**	As restated 2011
Sale of goods	**85,541**	87,669
Services rendered to customers	**3,084**	2,637
Properties sales	**2,824**	4,845
Rental income	**868**	869
Toll income	**812**	797
Others	**143**	73
Continuing operation	**93,272**	96,890
Discontinued operations		
Telecommunications (note 35)	**3,610**	3,196
	96,882	100,086

Notes to the Financial Statements

3 Turnover and Revenue (continued)

The Group's customer base is diversified and there is no single customer with which transactions have exceeded 10% of the Group's revenue.

Further details regarding the Group's principal activities are disclosed in the following notes to the financial statements.

4 Other income and net gains

	Group	
In HK$ million	**2012**	As restated 2011
Other income		
Commission income, subsidy income, rebates and others	**999**	753
Dividend income from other financial assets		
– Listed shares	**4**	7
	1,003	760
Net exchange gain (note i)	**51**	348
Net gain from disposal/deemed disposal of jointly controlled entities and associated companies	**2,454**	209
Net gain from disposal of subsidiary companies	**165**	230
Net gain from disposal of investment properties	**–**	296
	2,619	735
	3,673	1,843

Notes:

(i) The net exchange gain of HK$51 million (2011: HK$348 million) above mainly represents the net exchange gain on revaluation of monetary items in foreign currencies.

Notes to the Financial Statements

5 Segment information

(a) Revenue and profit attributable to ordinary shareholders of the Company and holders of perpetual capital securities

In HK$ million	Year ended 31 December 2012 Revenue Note (a)	Profit/(loss) from consolidated activities	Share of results of jointly controlled entities	Share of results of associated companies	Finance income	Finance charges	Group total	Segment allocations Note (b)	Segment profit/(loss)	Taxation	Non-controlling interests	Profit/(loss) attributable to ordinary shareholders of the Company
Special steel	40,358	735	270	59	220	(901)	383	(7)	376	(52)	(113)	211
Iron ore mining	213	(700)	–	–	–	(331)	(1,031)	(1)	(1,032)	251	–	(781)
Property												
Mainland China	3,523	1,077	271	–	184	(69)	1,463	13	1,476	(603)	38	911
Hong Kong	243	370	–	264	–	–	634	126	760	(26)	–	734
Energy	18	(34)	1,294	–	29	–	1,289	–	1,289	(153)	–	1,136
Tunnels	812	528	247	–	3	–	778	–	778	(87)	(130)	561
Dah Chong Hong	48,014	1,821	12	(1)	33	(270)	1,595	(131)	1,464	(522)	(406)	536
Other investments	91	2,425	51	18	–	–	2,494	–	2,494	205	–	2,699
Change in fair value of investment properties	–	1,506	–	350	–	–	1,856	–	1,856	(287)	(22)	1,547
Corporate												
General and administration expenses	–	(397)	–	–	–	–	(397)	–	(397)	(73)	–	(470)
Exchange gain	–	74	–	–	–	–	74	–	74	–	–	74
Net finance charges	–	–	–	–	251	(291)	(40)	–	(40)	–	–	(40)
Continuing operations total	93,272	7,405	2,145	690	720	(1,862)	9,098	–	9,098	(1,347)	(633)	7,118
Discontinued operations:												
CITIC Telecom	3,610	349	1	190	1	(3)	538	–	538	(41)	(198)	299
Total	96,882	7,754	2,146	880	721	(1,865)	9,636	–	9,636	(1,388)	(831)	7,417
									Profit attributable to:			
									Holders of perpetual capital securities			(463)
												6,954

Notes:

(a) Companies making up each reportable segment are set out in note 44.

(b) Segment allocations arising from property leases between segments were carried out at arms' length rentals.

Notes to the Financial Statements

5 Segment information (continued)

(a) Revenue and profit attributable to ordinary shareholders of the Company and holders of perpetual capital securities (continued)

In HK$ million	Revenue Note (a)	Profit/(loss) from consolidated activities	Share of results of jointly controlled entities	Share of results of associated companies	Finance income	Finance charges	Group total	Segment allocations Note (b)	Segment profit/(loss)	Taxation	Non-controlling interests	Profit/(loss) attributable to ordinary shareholders of the Company
	Year ended 31 December 2011 (as restated)											
Special steel	44,043	2,926	142	28	317	(676)	2,737	(6)	2,731	(440)	(297)	1,994
Iron ore mining	83	(256)	–	–	–	(188)	(444)	–	(444)	21	–	(423)
Property												
Mainland China	5,459	2,116	1,141	–	94	(14)	3,337	10	3,347	(853)	(170)	2,324
Hong Kong	249	516	–	132	–	–	648	86	734	(26)	–	708
Energy	23	287	1,367	–	11	–	1,665	–	1,665	(77)	–	1,588
Tunnels	797	539	198	–	2	–	739	–	739	(89)	(132)	518
Dah Chong Hong	46,109	1,946	23	4	23	(248)	1,748	(90)	1,658	(513)	(528)	617
Other investments	127	(55)	209	19	–	–	173	–	173	(5)	–	168
Change in fair value of investment properties	–	1,835	–	546	–	–	2,381	–	2,381	(393)	(97)	1,891
Corporate												
General and administration expenses	–	(441)	–	–	–	–	(441)	–	(441)	(40)	–	(481)
Exchange gain	–	172	–	–	–	–	172	–	172	–	–	172
Net finance charges	–	–	–	–	247	22	269	–	269	(80)	–	189
Continuing operations total	96,890	9,585	3,080	729	694	(1,104)	12,984	–	12,984	(2,495)	(1,224)	9,265
Discontinued operations:												
CITIC Telecom	3,196	374	–	185	1	(1)	559	–	559	(65)	(195)	299
Total	100,086	9,959	3,080	914	695	(1,105)	13,543	–	13,543	(2,560)	(1,419)	9,564
								Profit attributable to:				
								Holders of perpetual capital securities				(331)
												9,233

Notes:

(a) Companies making up each reportable segment are set out in note 44.

(b) Segment allocations arising from property leases between segments were carried out at arms' length rentals.

Notes to the Financial Statements

5 Segment information (continued)

(a) Revenue and profit attributable to ordinary shareholders of the Company and holders of perpetual capital securities (continued)

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

	Group	
		As restated
In HK$ million	**2012**	2011
Mainland China	**75,255**	78,804
Hong Kong	**10,123**	9,711
Other countries	**7,894**	8,375
	93,272	96,890

(b) Assets and liabilities

An analysis of the Group's segment assets and liabilities by operating segment is as follows:

	Segment assets#		Investments in jointly controlled entities		Investments in associated companies		Total assets		Segment liabilities#		Total net assets		Additions of non-current assets[1] (other than financial instruments and deferred tax assets)	
In HK$ million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
By principal activities														
Special steel	**52,421**	53,175	**2,866**	2,872	**335**	226	**55,622**	56,273	**(26,058)**	(27,295)	**29,564**	28,978	**4,256**	6,507
Iron ore mining	**81,577**	66,997	**–**	–	**–**	–	**81,577**	66,997	**(40,393)**	(42,059)	**41,184**	24,938	**15,278**	13,672
Property														
Mainland China	**34,459**	33,304	**6,164**	7,048	**–**	–	**40,623**	40,352	**(8,466)**	(9,616)	**32,157**	30,736	**3,213**	1,819
Hong Kong	**8,671**	7,685	**–**	–	**6,902**	6,319	**15,573**	14,004	**(325)**	(283)	**15,248**	13,721	**–**	300
Energy	**2,960**	2,011	**6,756**	6,899	**–**	–	**9,716**	8,910	**(423)**	(352)	**9,293**	8,558	**219**	4
Tunnels	**942**	956	**1,266**	1,021	**–**	–	**2,208**	1,977	**(144)**	(153)	**2,064**	1,824	**1**	2
Dah Chong Hong	**19,816**	20,355	**254**	239	**236**	228	**20,306**	20,822	**(11,402)**	(12,347)	**8,904**	8,475	**1,077**	2,088
Other investments	**411**	2,687	**3,137**	3,156	**26**	22	**3,574**	5,865	**(66)**	(571)	**3,508**	5,294	**–**	–
Corporate	**14,454**	11,185	**–**	–	**–**	–	**14,454**	11,185	**(66,983)**	(47,897)	**(52,529)**	(36,712)	**–**	7
Continuing operations total	**215,711**	198,355	**20,443**	21,235	**7,499**	6,795	**243,653**	226,385	**(154,260)**	(140,573)	**89,393**	85,812	**24,044**	24,399
Discontinued operations														
CITIC Telecom	**3,733**	2,884	**–**	43	**–**	427	**3,733**	3,354	**(1,260)**	(1,153)	**2,473**	2,201	**362**	320
Segment assets/(liabilities)	**219,444**	201,239	**20,443**	21,278	**7,499**	7,222	**247,386**	229,739	**(155,520)**	(141,726)	**91,866**	88,013	**24,406**	24,719

Corporate segment assets and liabilities mainly represent financial instruments, cash and bank deposits and borrowings which are managed centrally by the group treasury function and are not allocated to individually reportable segments.

[1] Non-current assets are amounts expected to be recovered more than twelve months after the year end.

Segment assets and segment liabilities are presented with intercompany balances eliminated.

Notes to the Financial Statements

5 Segment information (continued)

(b) Assets and liabilities (continued)

An analysis of the Group's non-current assets (other than financial instruments and deferred tax assets) by geographical area is as follows:

	Group	
In HK$ million	**2012**	2011
Mainland China	**78,817**	75,103
Australia	**75,973**	62,017
Hong Kong	**19,804**	20,344
Other countries	**549**	576
	175,143	158,040

6 Profit from consolidated activities

	Group	
		As restated
In HK$ million	**2012**	2011
The profit from consolidated activities is arrived at after crediting:		
Rental income from:		
(i) Investment properties		
– gross income	**878**	883
– less: direct outgoings	**(79)**	(50)
	799	833
(ii) Other operating leases	**204**	187

Notes to the Financial Statements

6 Profit from consolidated activities (continued)

In HK$ million	Group 2012	As restated 2011
and after charging:		
Continuing operations		
Cost of inventories/properties sold	**71,846**	70,835
The following expenses which are included in cost of sales, distribution and selling expenses and other operating expenses:		
Staff costs	**4,279**	3,765
Depreciation of property, plant and equipment	**2,732**	1,878
Amortisation of leasehold land – operating lease	**52**	37
Amortisation of intangible assets	**162**	140
Other operating expenses	**4,315**	4,493
Auditor's remuneration	**65**	50
Contributions to staff retirement schemes	**150**	131
Impairment losses provision on (Note)		
Jointly controlled entity	**30**	–
Other financial assets	**15**	98
Property, plant and equipment	**98**	526
Trade and other receivables	**23**	15
Operating lease rentals		
Land and buildings	**500**	396
Discontinued operations		
The following expenses which are included in cost of sales, distribution and selling expenses and other operating expenses:		
Staff costs	**338**	291
Depreciation of property, plant and equipment	**138**	116
Amortisation of intangible assets	**14**	9
Auditor remuneration	**4**	3
Contributions to staff retirement schemes	**15**	9
Impairment losses provision on (Note)		
Trade and other receivables	**7**	13

Note:

In HK$ million	2012	As restated 2011
Impairment losses by operating segment:		
Continuing operations		
Iron ore mining (a)	**64**	147
Special steel (b)	**6**	344
Dah Chong Hong (c)	**51**	50
Other investments (d)	**45**	98
	166	639
Discontinued operations		
CITIC Telecom	**7**	13
	173	652

(a) An impairment loss provision was made for the surplus project equipment for Iron Ore Mining segment.

(b) An impairment loss was recognised in 2011 for two blast furnaces, a converter and other facilities that have ceased their production due to certain environmental issue.

(c) Impairment loss of Dah Chong Hong was mainly related to fixed assets and other receivables.

(d) Impairment provision was made for listed and unlisted investments.

Notes to the Financial Statements

6 Profit from consolidated activities (continued)

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
In HK$ million	**2012**	2011
Within 1 year	**830**	796
After 1 year but within 5 years	**1,048**	776
After 5 years	**158**	81
	2,036	1,653

7 Net finance charges

	Group	
In HK$ million	**2012**	As restated 2011
Finance charges		
Interest expense		
Bank loans and overdrafts wholly repayable within five years	**2,305**	2,041
Bank loans not wholly repayable within five years	**1,930**	1,622
Other loans wholly repayable within five years	**111**	136
Other loans not wholly repayable within five years	**882**	267
	5,228	4,066
Amount capitalised	**(3,513)**	(2,891)
	1,715	1,175
Other finance charges	**135**	106
Other financial instruments		
Fair value loss	**38**	98
Ineffectiveness on cash flow hedges	**(26)**	(275)
	1,862	1,104
Finance income		
Interest income	**(720)**	(694)
	1,142	410

The capitalisation rates applied to funds borrowed are between 2.5% and 5.3% per annum (2011: 2.7% and 4.9% per annum).

Notes to the Financial Statements

8 Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year. Tax outside Hong Kong 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:

(a)

	Group	
In HK$ million	**2012**	As restated 2011
Continuing operations		
Current taxation		
Hong Kong profits tax	**220**	220
Tax outside Hong Kong	**1,251**	1,799
Deferred taxation (Note 33)		
Changes in fair value of investment properties	**284**	390
Origination and reversal of other temporary differences	**(408)**	97
Effect of tax rate changes	**–**	(11)
	1,347	2,495
Discontinued operations		
Current taxation		
Hong Kong profits tax	**55**	45
Tax outside Hong Kong	**1**	4
Deferred taxation (Note 33)		
Origination and reversal of other temporary differences	**(15)**	16
	41	65

(b) Aggregate current and deferred tax relating to items credited to hedging reserve:

	Group	
In HK$ million	**2012**	2011
Deferred tax relating to mining assets and others	**455**	759

Notes to the Financial Statements

8 Taxation (continued)

Taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Group	
In HK$ million	**2012**	As restated 2011
Profit before taxation	**9,098**	12,984
Less: share of results of		
jointly controlled entities	**(2,145)**	(3,080)
associated companies	**(690)**	(729)
	6,263	9,175
Calculated at Hong Kong profits tax rate of 16.5% (2011:16.5%)	**1,033**	1,514
Effect of different taxation rates in other jurisdictions	**138**	282
Effect of non-taxable income and non-deductible expenses	**(416)**	(286)
Utilisation of tax losses previously unrecognised net of tax losses not recognised	**245**	69
Under provision in prior years	**30**	73
Effect of tax rate changes	**–**	(11)
Withholding tax on interest income and undistributed profits of certain PRC operations	**223**	335
Others	**94**	519
Taxation	**1,347**	2,495

9 Profit attributable to shareholders of the Company

The Group's profit attributable to shareholders of the Company is recorded in the financial statements of the Company to the extent of a profit of HK$4,692 million (2011: HK$1,951 million).

10 Dividends

In HK$ million	**2012**	2011
2011 Final dividend paid: HK$0.30 (2010: HK$0.30) per share	**1,095**	1,095
Interim		
2012 Interim dividend paid: HK$0.15 (2011: HK$0.15) per share	**547**	547
Final		
2012 Final dividend proposed: HK$0.30 (2011: HK$0.30) per share	**1,095**	1,095
	1,642	1,642
Dividend per share (HK$)	**0.45**	0.45

Notes to the Financial Statements

11 Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of the Company of HK$6,954 million (2011: HK$9,233 million). The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders of the Company adjusted for the effect of the conversion of dilutive potential ordinary shares of subsidiary companies, the effect of which is not material to the Group.

The basic earnings per share is based on the number of 3,649,444,160 shares in issue during the year (2011: weighted average number of 3,649,232,965 shares). The diluted earnings per share for 2012 is the same as the basic earnings per share as it is deemed that no potential additional ordinary shares would be issued at no consideration from the exercise of options because the exercise price was above the average market price of the Company's shares for the year ended 31 December 2012.

12 Directors' emoluments

The remuneration of each director for the year ended 31 December 2012 is set out below:

In HK$ million **Name of director**	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefits	**2012 Total**	2011 Total
Chang Zhenming#	–	1.23	1.00	–	**2.23**	2.22
Zhang Jijing#	–	4.12	1.40	0.01	**5.53**	6.12
Vernon Francis Moore#	–	5.25	6.52	0.01	**11.78**	13.16
Liu Jifu#	–	1.68	4.43	0.01	**6.12**	8.01
André Desmarais	0.35	–	–	–	**0.35**	0.35
Ju Weimin	0.35	–	–	–	**0.35**	0.35
Yin Ke[1]	0.63	–	–	–	**0.63**	0.59
Carl Yung Ming Jie#	–	5.17	–	0.20	**5.37**	2.67
Alexander Reid Hamilton	0.55	–	–	–	**0.55**	0.50
Gregory Lynn Curl	0.44	–	–	–	**0.44**	0.27
Francis Siu Wai Keung	0.60	–	–	–	**0.60**	0.36
Xu Jinwu	–	–	–	–	**–**	–
Steve Kwok Man Leung#	–	4.22	6.23	0.20	**10.65**	11.95
Milton Law Ming To#	–	4.30	5.92	0.20	**10.42**	12.02
Li Shilin	–	–	–	–	**–**	0.21
Wang Ande	–	–	–	–	**–**	0.86
Willie Chang	–	–	–	–	**–**	0.18
Hansen Loh Chung Hon	–	–	–	–	**–**	0.16
Norman Ho Hau Chong	–	–	–	–	**–**	0.14
	2.92	25.97	25.50	0.63	**55.02**	60.12

Dr. Xu Jinwu has been appointed as an Independent Non-executive Director with effect from 31 December 2012.

Mr. Carl Yung Ming Jie has been re-designated as a Non-executive Director with effect from 31 December 2012.

Mr. Steve Kwok Man Leung and Mr. Milton Law Ming To resigned as Executive Directors with effect from 31 December 2012.

The persons marked '#' above are considered as key management personnel of the Group.

[1] Included fee of HK$0.18 million from listed subsidiary companies of the Group.

Notes to the Financial Statements

13 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2011: three) are directors whose emoluments are disclosed in note 12.

The aggregate emoluments in respect of the other two individuals (2011: two) are as follows:

In HK$ million	**2012**	2011
Salaries and other emoluments	**5.63**	4.67
Discretionary bonuses	**14.97**	22.31
Retirement scheme contribution	**0.54**	0.36
Share based payment	**2.26**	–
	23.40	27.34

The numbers of the two individuals with emoluments within the following bands were:

	2012	2011
HK$8,000,001 – HK$9,000,000	**1**	–
HK$11,000,001 – HK$12,000,000	**–**	1
HK$14,000,001 – HK$15,000,000	**1**	–
HK$15,000,001 – HK$16,000,000	**–**	1

14 Retirement benefits

Hong Kong employees are offered the option to enrol in one of the MPF Master Trust Schemes under the CITIC Group MPF Scheme – the Fidelity Retirement Master Trust, the Hang Seng Mandatory Provident Fund and the Allianz Global Investors (previously RCM) Mandatory Provident Fund. All these master trust schemes are defined contribution schemes and are administered in accordance with the terms and provisions of the respective trust deeds and are subject to the Mandatory Provident Fund Schemes Ordinance.

Employees of the Group's subsidiaries in mainland China and other locations are required to participate in defined contribution retirement schemes administered and operated by the respective local authorities and contributions are made according to the local mandatory requirements.

Notes to the Financial Statements

15 Fixed assets and properties under development

(a) Group

In HK$ million	Fixed assets								
	Property, plant and equipment								
	Leasehold land – finance leases and self-use properties (Note ii)	Plant and machinery (Note ii)	Construction in progress (Note i, ii & iii)	Others (Note iv)	Sub-total	Investment properties	Leasehold land – operating leases (Note v)	Properties under development (Note i, ii & v)	Total
Cost or valuation									
At 1 January 2012	13,670	23,472	50,712	9,506	97,360	15,270	2,496	6,790	121,916
Exchange adjustments	6	(14)	(5)	14	1	(52)	3	(4)	(52)
Additions (Note (vii))	190	324	14,246	834	15,594	–	286	1,711	17,591
Acquisition of subsidiary companies	–	–	–	58	58	–	–	1,536	1,594
Cost adjustment	–	–	–	–	–	(36)	–	–	(36)
Disposals	(124)	(588)	(171)	(319)	(1,202)	(61)	(5)	–	(1,268)
Change in fair value of investment properties	–	–	–	–	–	1,506	–	–	1,506
Transfer upon completion	6,107	6,592	(12,936)	280	43	–	–	(43)	–
Transfer to investment properties/properties under development classified under current assets/inventories	10	–	–	(32)	(22)	(284)	–	(1,098)	(1,404)
Transfer from non-current deposits	–	–	880	3,738	4,618	–	–	–	4,618
Transfer to assets of disposal group classified as held for sale	(161)	–	(134)	(1,441)	(1,736)	–	–	–	(1,736)
Adjustment	(4)	(57)	(2)	(7)	(70)	16	18	(18)	(54)
At 31 December 2012	19,694	29,729	52,590	12,631	114,644	16,359	2,798	8,874	142,675
Accumulated depreciation, amortisation and impairment									
At 1 January 2012	2,386	6,304	273	3,265	12,228	–	219	162	12,609
Exchange adjustments	3	3	–	10	16	–	1	–	17
Acquisition of subsidiary companies	–	–	–	8	8	–	–	–	8
Charge for the year (Note (ix))	445	1,518	–	907	2, 870	–	52	–	2,922
Depreciation capitalised to construction in progress	314	159	–	34	507	–	–	–	507
Written back on disposals	(16)	(279)	–	(147)	(442)	–	2	–	(440)
Impairment loss	–	1	64	33	98	–	–	–	98
Transfer to investment properties/current assets	(14)	–	–	(26)	(40)	–	–	–	(40)
Transfer to assets of disposal group classified as held for sale	(13)	–	–	(979)	(992)	–	–	–	(992)
Adjustment	1	(4)	–	(51)	(54)	–	–	–	(54)
At 31 December 2012	3,106	7,702	337	3,054	14,199	–	274	162	14,635
Net book value									
At 31 December 2012	16,588	22,027	52,253	9,577	100,445	16,359	2,524	8,712	128,040
Represented by									
Cost	19,694	29,729	52,590	12,631	114,644	–	2,798	8,874	126,316
Valuation	–	–	–	–	–	16,359	–	–	16,359
	19,694	29,729	52,590	12,631	114,644	16,359	2,798	8,874	142,675

Notes to the Financial Statements

15 Fixed assets and properties under development (continued)

(a) Group (continued)

In HK$ million	Fixed assets – Property, plant and equipment: Leasehold land – finance leases and self-use properties (Note ii)	Plant and machinery (Note ii)	Construction in progress (Note i, ii & iii)	Others (Note iv)	Sub-total	Investment properties	Leasehold land – operating leases (Note v)	Properties under development (Note i, ii & v)	Total
Cost or valuation									
At 1 January 2011	11,398	19,209	38,514	4,056	73,177	13,579	1,769	10,072	98,597
Exchange adjustments	383	759	289	70	1,501	366	75	342	2,284
Additions (Note (vii))	308	499	15,646	777	17,230	1	86	1,976	19,293
Acquisition of subsidiary companies	91	89	12	157	349	–	16	–	365
Disposals	(161)	(637)	(27)	(192)	(1,017)	(511)	(10)	(1,746)	(3,284)
Change in fair value of investment properties	–	–	–	–	–	1,835	–	–	1,835
Transfer upon completion	2,010	3,549	(5,763)	2,387	2,183	–	509	(2,692)	–
Transfer to investment properties/properties under development classified under current assets/inventories	–	–	(77)	(30)	(107)	190	–	(1,408)	(1,325)
Transfer from properties held for sale	–	–	–	–	–	–	–	246	246
Transfer from non-current deposits	–	–	2,118	1,787	3,905	–	–	–	3,905
Reclassification	(359)	4	–	494	139	(190)	51	–	–
At 31 December 2011	13,670	23,472	50,712	9,506	97,360	15,270	2,496	6,790	121,916
Accumulated depreciation, amortisation and impairment									
At 1 January 2011	2,110	5,040	150	2,543	9,843	–	172	191	10,206
Exchange adjustments	77	236	1	36	350	–	11	–	361
Acquisition of subsidiary companies	19	37	–	66	122	–	1	–	123
Charge for the year (Note (ix))	365	1,120	–	509	1,994	–	37	1	2,032
Depreciation capitalised to construction in progress	52	183	–	21	256	–	–	–	256
Written back on disposals	(139)	(563)	(26)	(111)	(839)	–	(2)	(30)	(871)
Impairment loss	95	250	148	33	526	–	–	–	526
Transfer to investment properties/current assets	–	1	–	(25)	(24)	–	–	–	(24)
Reclassification	(193)	–	–	193	–	–	–	–	–
At 31 December 2011	2,386	6,304	273	3,265	12,228	–	219	162	12,609
Net book value									
At 31 December 2011	11,284	17,168	50,439	6,241	85,132	15,270	2,277	6,628	109,307
Represented by									
Cost	13,670	23,472	50,712	9,506	97,360	–	2,496	6,790	106,646
Valuation	–	–	–	–	–	15,270	–	–	15,270
	13,670	23,472	50,712	9,506	97,360	15,270	2,496	6,790	121,916

Notes to the Financial Statements

15 Fixed assets and properties under development (continued)

(a) Group (continued)

Notes:

(i) During the year, interest capitalised in properties under development and construction in progress amounted to HK$375 million (2011: HK$453 million) and HK$3,101 million (2011: HK$1,935 million) respectively.

(ii) As at 31 December 2012, certain of the Group's property, plant and equipment and properties under development with an aggregate carrying value of HK$54,384 million (2011: HK$43,323 million) were pledged to secure loan and banking facilities granted to certain subsidiary companies.

(iii) As at 31 December 2012, construction in progress is comprised of the development of an iron ore mine in Western Australia amounted to HK$48,760 million (2011: HK$42,072 million), expansion of the Group's special steel mills amounted to HK$3,497 million (2011: HK$8,479 million) and others of HK$333 million (2011: HK$161 million).

(iv) Other property, plant and equipment mainly comprise vessels, hotels, traffic equipment, cargo lighters, computer installations, telecommunications equipment, motor vehicles and furniture, fixtures and equipment.

(v) As at 31 December 2012 and 2011, certain of the Group's properties under development were in the process of applying for certificates of land use rights in the PRC.

(vi) Commitments of the Group in respect of additions to fixed assets and properties under development:

In HK$ million	2012	2011
Authorised but not contracted for property, plant and equipment, properties under development and leasehold land classified as operating leases	1,635	602
Contracted but not provided for property, plant and equipment, properties under development and leasehold land classified as operating leases	5,898	11,954

(vii) Additions to fixed assets and properties under development by operating segment:

In HK$ million	2012	2011
Special steel	3,711	5,436
Iron ore mining	10,902	10,413
Property	1,741	2,010
Tunnels	1	2
Dah Chong Hong	1,051	1,233
CITIC Telecom	173	187
Other investments	12	12
	17,591	19,293

Notes to the Financial Statements

15 Fixed assets and properties under development (continued)

(a) Group (continued)

Notes: (continued)

(viii) Additions to fixed assets and properties under development by geographical area:

In HK$ million	2012	2011
Mainland China	**6,226**	8,249
Hong Kong	**355**	591
Overseas	**11,010**	10,453
	17,591	19,293

(ix) Depreciation and amortisation charge for the year by segment:

In HK$ million	2012	2011
Special steel	**1,910**	1,421
Iron ore mining	**141**	24
Property	**250**	92
Energy	**1**	–
Tunnels	**5**	5
Dah Chong Hong	**472**	366
CITIC Telecom	**138**	118
Other investments	**5**	6
	2,922	2,032

(b) Company

	Motor vehicles, equipment, furniture and fixtures	
In HK$ million	2012	2011
Cost		
At 1 January	**110**	104
Additions	**11**	7
Disposals	**(3)**	(1)
At 31 December	**118**	110
Accumulated depreciation		
At 1 January	**100**	97
Charge for the year	**4**	4
Written back on disposals	**(3)**	(1)
At 31 December	**101**	100
Net book value, at cost		
At 31 December	**17**	10

Notes to the Financial Statements

15 Fixed assets and properties under development (continued)

(c) The tenure of the properties of the Group is as follows:

In HK$ million	Leasehold land – finance leases and self-use properties		Investment properties		Properties under development (note)		Leasehold land – operating leases		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Leasehold properties held										
In Hong Kong										
Leases of over 50 years	**37**	37	**581**	845	**–**	–	**–**	–	**618**	882
Leases of between 10 to 50 years	**1,832**	1,982	**6,355**	5,420	**502**	441	**–**	–	**8,689**	7,843
Leases of less than 10 years	**12**	12	**–**	–	**–**	–	**–**	–	**12**	12
In mainland China										
Leases of over 50 years	**127**	119	**2,029**	1,998	**2,928**	2,500	**527**	510	**5,611**	5,127
Leases of between 10 to 50 years	**12,844**	11,092	**7,036**	6,589	**5,444**	3,849	**2,261**	1,976	**27,585**	23,506
Leases of less than 10 years	**185**	159	**–**	–	**–**	–	**–**	–	**185**	159
Properties held overseas										
Freehold	**233**	229	**358**	418	**–**	–	**–**	–	**591**	647
Leases of between 10 to 50 years	**4,424**	40	**–**	–	**–**	–	**10**	10	**4,434**	50
	19,694	13,670	**16,359**	15,270	**8,874**	6,790	**2,798**	2,496	**47,725**	38,226

Note: The total amount includes properties under development for sale classified as non-current assets of HK$6,725 million (2011: HK$4,662 million) and the remaining balance represents properties under development for own use.

(d) Property Valuation

Investment properties were revalued at 31 December 2012 by the following independent, professionally qualified valuers.

Properties located in	**Valuers**
Hong Kong and Shanghai	Knight Frank Petty Limited
Japan	Network Real Estate Appraisal Co Ltd

Notes to the Financial Statements

15 Fixed assets and properties under development (continued)

(e) Fixed assets and properties held for sale under current assets of the Group let under operating leases to generate rental income are as follows:

In HK$ million	Investment properties	Leasehold land – finance leases and self-use properties	Other fixed assets	Fixed assets total	Properties held for sale
Cost or valuation	**16,359**	**638**	**361**	**17,358**	**1,652**
Accumulated depreciation/impairment	**–**	**(197)**	**(179)**	**(376)**	**–**
Net book value at 31 December 2012	**16,359**	**441**	**182**	**16,982**	**1,652**
Depreciation charges/amortisation charges for the year	**–**	**20**	**49**	**69**	**–**
Cost or valuation	15,270	184	318	15,772	–
Accumulated depreciation/impairment	–	(19)	(162)	(181)	–
Net book value at 31 December 2011	15,270	165	156	15,591	–
Depreciation charges/amortisation charges for the year	–	5	47	52	–

16 Subsidiary companies

In HK$ million	Company 2012	2011
Non-current		
Unlisted shares, at cost less impairment losses	**1,996**	1,996
Amounts due from subsidiary companies (Note)	**96,944**	78,893
	98,940	80,889
Current		
Amounts due from subsidiary companies (Note)*	**6,127**	4,896
Amounts due to subsidiary companies (Note)*	**(6,528)**	(6,223)
	(401)	(1,327)

Particulars of the principal subsidiary companies are shown in Note 44.

Note: Amounts due from/to subsidiary companies are unsecured and interest bearing at market rates except for amounts due from subsidiary companies of approximately HK$42,423 million (2011: HK$42,886 million) and amounts due to subsidiary companies of approximately HK$6,495 million (2011: HK$6,179 million), which are non-interest bearing. The non-current amounts due from subsidiary companies are not repayable within 12 months from the balance sheet date, and the current amounts due from/to subsidiary companies have no fixed repayment terms. The amounts were not in default or impaired except for a provision for impairment loss of HK$274 million which was made in 2012 (2011: HK$485 million).

* These amounts approximate their fair value.

Notes to the Financial Statements

17 Jointly controlled entities

In HK$ million	Group 2012	Group 2011
Share of net assets	**15,359**	15,746
Goodwill and intangible assets		
At 1 January	**2,011**	2,018
Acquisition during the year	**–**	29
Disposal	**–**	(63)
Amortisation	**(51)**	(48)
Exchange differences	**–**	75
Transfer to assets of disposal group classified as held for sale	**(29)**	–
At 31 December	**1,931**	2,011
	17,290	17,757
Loans due from jointly controlled entities (Note b)	**3,153**	3,522
Loans due to jointly controlled entities (Note b)	**–**	(1)
	20,443	21,278

In HK$ million	Company 2012	Company 2011
Unlisted shares, at cost	**4,244**	4,244
Less: Impairment less on investment	**(30)**	–
Loans due from jointly controlled entities	**913**	894
	5,127	5,138

Notes to the Financial Statements

17 Jointly controlled entities (continued)

Note:

(a) Jointly controlled entities include the Western Harbour Tunnel Company Limited ("WHTCL") whose year end is 31 July which is not coterminous with the Group's year end. The results of certain jointly controlled entities (including WHTCL) have been equity accounted for based on their unaudited financial statements for the years ended 31 December 2012 and 2011.

(b) Loans due from jointly controlled entities and loans due to jointly controlled entities are interest bearing at market rates except for loans to jointly controlled entities of approximately HK$930 million (2011: HK$1,317 million), which are non-interest bearing. These loans are not repayable within 12 months from the balance sheet date and were not in default or impaired, and the carrying amounts approximate their fair value.

(c) The following amounts represent the Group's share of the assets and liabilities, and revenue and results of jointly controlled entities and are included in the consolidated balance sheet and the consolidated profit and loss account using the equity method and after adjusting for goodwill and amortisation:

In HK$ million	**2012**	2011
Assets:		
Non-current assets	**17,487**	17,537
Current assets	**17,811**	15,746
	35,298	33,283
Liabilities:		
Non-current liabilities	**(7,305)**	(7,509)
Current liabilities	**(12,702)**	(9,477)
	(20,007)	(16,986)
Net assets	**15,291**	16,297
Revenue	**21,678**	28,468
Expenses	**(18,883)**	(24,361)
	2,795	4,107
Taxation	**(658)**	(853)
Profit for the year	**2,137**	3,254
Share of jointly controlled entities' capital commitments (Note i)		
authorised but not contracted for	**455**	346
contracted but not provided for	**1,182**	1,147

Note:

(i) The Group has fully contributed its attributable portion of capital and loans to the respective jointly controlled entities.

(ii) There are no material contingent liabilities for 2012 and 2011 to be shared by the Group.

(d) Particulars of the principal jointly controlled entities are shown in Note 44.

Notes to the Financial Statements

18 Associated companies

In HK$ million	Group 2012	2011
Share of net assets	**5,282**	4,922
Goodwill		
At 1 January	**65**	65
Transfer to assets of disposal group classified as held for sale	**(65)**	–
At 31 December	**–**	65
Loans due from associated companies (Note b)	**2,224**	2,243
Loans due to associated companies (Note b)	**(7)**	(8)
	7,499	7,222
Investment at cost:		
Unlisted shares	**2,637**	2,879

In HK$ million	Company 2012	2011
Investment at cost:		
Unlisted shares	**53**	53
Loans due from associated companies	**1,833**	1,942
Loans due to associated companies	**(7)**	(8)
	1,879	1,987

Dividend income from associated companies during the year is as follows:

In HK$ million	Group 2012	2011
Unlisted associated companies	**198**	166

Note:

(a) Associated companies include the Hong Kong Resort Company Limited ("HKR") whose year end is 31 March which is not coterminous with the Group's year end. The results of certain associated companies including HKR have been equity accounted for based on their unaudited financial statements for the years ended 31 December 2012 and 2011.

(b) Loans due from associated companies and loans due to associated companies are interest bearing at market rates except for loans due to associated companies of approximately HK$7 million (2011: HK$8 million), which are non-interest bearing. These loans are not repayable within 12 months from the balance sheet date and were not in default or impaired except for a provision for impairment loss of HK$24 million made in 2007 for the loans due from an associated company. The carrying amounts of the loans approximate their fair value.

(c) Particulars of the principal associated companies are shown in Note 44.

Notes to the Financial Statements

18 Associated companies (continued)

Summarised financial information of the associated companies on a gross basis:

In HK$ million	**2012**	2011
Assets	**24,368**	24,516
Liabilities	**14,371**	14,760
Revenue	**7,735**	9,416
Profit	**1,949**	1,579
Capital commitments		
authorised but not contracted for	**113**	261
contracted but not provided for	**396**	561
Contingent liabilities	**116**	125

19 Other financial assets

	Group	
In HK$ million	**2012**	2011
Available for sale financial assets		
Listed investments, at fair value		
Shares listed in Hong Kong	**257**	252
	257	252
Others		
Unlisted investments		
Shares, at cost	**13**	13
Investment fund, at fair value	**81**	80
	351	345

Other financial assets are denominated in the following currencies:

	Group	
In HK$ million	**2012**	2011
Hong Kong dollars	**269**	264
Other currencies	**82**	81
	351	345

Notes to the Financial Statements

20 Intangible assets

In HK$ million	Goodwill	Other intangible assets: Mining assets	Other intangible assets: Vehicular tunnel	Others	Total
Cost					
At 1 January 2012	**1,410**	**13,506**	**2,000**	**888**	**17,804**
Exchange adjustment	**3**	**1**	**–**	**6**	**10**
Additions	**–**	**1,731**	**–**	**–**	**1,731**
Acquisition of subsidiary companies	**36**	**–**	**–**	**32**	**68**
Disposal	**–**	**–**	**–**	**(9)**	**(9)**
Transfer to assets of disposal group classified as held for sale	**(476)**	**–**	**–**	**(136)**	**(612)**
At 31 December 2012	**973**	**15,238**	**2,000**	**781**	**18,992**
Accumulated amortisation and impairment losses					
At 1 January 2012	**54**	**21**	**1,432**	**95**	**1,602**
Exchange adjustments	**–**	**–**	**–**	**1**	**1**
Charge for the year	**–**	**4**	**117**	**55**	**176**
Impairment Loss	**3**	**–**	**–**	**3**	**6**
Written back on disposal	**–**	**–**	**–**	**(9)**	**(9)**
Transfer to assets of disposal group classified as held for sale	**–**	**–**	**–**	**(37)**	**(37)**
At 31 December 2012	**57**	**25**	**1,549**	**108**	**1,739**
Net book value					
At 31 December 2012	**916**	**15,213**	**451**	**673**	**17,253**
Cost					
At 1 January 2011	1,213	10,820	2,000	361	14,394
Exchange adjustment	7	(14)	–	21	14
Additions	–	2,700	–	21	2,721
Acquisition of subsidiary companies	190	–	–	485	675
At 31 December 2011	1,410	13,506	2,000	888	17,804
Accumulated amortisation and impairment losses					
At 1 January 2011	54	21	1,320	55	1,450
Exchange adjustments	–	–	–	3	3
Charge for the year	–	–	112	37	149
At 31 December 2011	54	21	1,432	95	1,602
Net book value					
At 31 December 2011	1,356	13,485[1]	568	793	16,202

[1] Including mining rights provision of HK$1,192 million (2011: HK$1,648 million), which consists of a non-current portion of HK$Nil (2011: HK$1,524 million). For details see Note 34.

Notes to the Financial Statements

20 Intangible assets (continued)

The amortisation charge for the year is included in 'other operating expenses' in the consolidated profit and loss account.

As at 31 December 2012, the vehicular tunnel right is amortised over the remaining franchise period, whilst the mining assets are currently under construction and will be amortised on a unit of production basis on completion of construction and when the mine is in production. The Group estimates that it will take a total of 3 billion tonnes of iron ore, of which mining rights for 2 billion tonnes have been paid and an option for 1 billion tonnes exercised but not yet completed, over a period of approximately 33 years.

Analysed by:

	31 December 2012				31 December 2011			
	Goodwill	Other intangible assets			Goodwill	Other intangible assets		
In HK$ million		Mining assets	Vehicular tunnel[(a)]	Others		Mining assets	Vehicular tunnel[(a)]	Others
Special steel	**265**	**–**	**–**	**2**	265	–	–	2
Iron ore mining	**23**	**15,213**	**–**	**–**	23	13,485	–	–
Property								
Mainland China	**277**	**–**	**–**	**1**	277	–	–	1
Tunnels	**7**	**–**	**451**	**–**	7	–	568	–
CITIC Telecom	**–**	**–**	**–**	**–**	437	–	–	80
Dah Chong Hong	**344**	**–**	**–**	**670[(b)]**	347	–	–	710[(b)]
	916	**15,213**	**451**	**673**	1,356	13,485	568	793

Notes:

(a) The vehicular tunnel right represents a franchise to operate the Eastern Harbour Crossing for the period ending 7 August 2016. At the end of the franchise period, the assets of the franchise will be vested in the franchisor, the Hong Kong government, for no compensation other than for certain plant, machinery and equipment as specified under the terms of the franchise.

(b) Others mainly include car dealership of Dah Chong Hong group amounting to HK$625 million (2011: HK$660 million).

21 Non-current deposits and prepayments

	Group	
In HK$ million	**2012**	2011
Non-current deposits represent deposit payments for:		
Construction of vessels	**–**	2,728
Acquisition and construction of other property, plant and equipment mainly in relation to the Group's steel plant new phases and the Australian iron ore mining project	**1,908**	1,194
Prepayment for rental of certain telecommunication facilities	**–**	109
	1,908	4,031

Notes to the Financial Statements

22 Other assets held for sale

As at 31 December 2012, interests in a jointly controlled entity and certain properties located in PRC were classified as other assets held for sale.

As at 31 December 2011, interests in a jointly controlled entity (see Note 40 (c)) and certain properties located in PRC were classified as other assets held for sale.

23 Inventories

	Group	
In HK$ million	**2012**	2011
Raw materials	**2,953**	3,845
Work-in-progress	**1,368**	1,711
Finished goods	**6,866**	7,987
Others	**616**	582
	11,803	14,125

An amount of HK$287 million (2011: HK$121 million) for write-down and HK$24 million (2011: HK$28 million) for reversal of write-down of inventories to net realisable value have been included in cost of sales in the profit and loss account.

24 Debtors, accounts receivable, deposits and prepayments

	Group		Company	
In HK$ million	**2012**	2011	**2012**	2011
Trade debtors and bills receivable aged:				
Within 1 year	**6,579**	7,375	**–**	–
Over 1 year	**20**	48	**–**	–
	6,599	7,423	**–**	–
Accounts receivable, deposits and prepayments	**8,865**	8,830	**257**	193
	15,464	16,253	**257**	193

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 approximate their fair value.

(iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK$311 million (2011: HK$185 million), dividend receivable from jointly controlled entities of HK$2,120 million (2011: HK$1,738 million), and amounts due from associated companies of HK$122 million (2011: HK$138 million) which are unsecured, interest free and recoverable on demand.

Notes to the Financial Statements

24 Debtors, accounts receivable, deposits and prepayments (continued)

As of 31 December 2012, trade debtors of HK$380 million (2011: HK$332 million) were past due but not impaired. These relate to a number of independent customers which have no recent history of default. The ageing analysis of these trade debtors is as follows:

In HK$ million	**2012**	2011
Less than 3 months	**197**	274
3 to 6 months	**66**	35
Over 6 months	**117**	23
	380	332

Movements in the provision for impairment of trade debtors are as follows:

In HK$ million	**2012**	2011
At 1 January	**128**	123
Exchange adjustments	**(1)**	3
Acquisition of subsidiary companies	**7**	–
Provision for impairment loss during the year	**16**	22
Receivables written off during the year	**(1)**	(6)
Provision written back during the year	**(8)**	(14)
Transfer to assets of disposal group classified as held for sale	**(42)**	–
At 31 December	**99**	128

The creation and release of provision for impairment losses has been included in other operating expenses in the consolidated profit and loss account. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

As of 31 December 2012, trade debtors of HK$91 million (2011: HK$187 million) were individually determined to be impaired. These receivables mainly relate to customers which are in an unexpected difficult economic situation. It was assessed that a portion of such receivables is expected to be recovered. Consequently, specific provision for impairment loss of HK$16 million (2011: HK$44 million) was recognised against the receivables. The Group does not hold any collateral over these balances.

Accounts receivable, deposits and prepayments do not contain impaired assets.

Notes to the Financial Statements

25 Creditors, accounts payable, deposits and accruals

	Group		Company	
In HK$ million	**2012**	2011	**2012**	2011
Trade creditors and bills payable aged:				
Within 1 year	**10,666**	13,173	**–**	–
Over 1 year	**308**	204	**–**	–
	10,974	13,377	**–**	–
Accounts payable, deposits and accruals	**13,428**	17,200	**745**	293
	24,402	30,577	**745**	293

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

26 Share capital

	Number of shares of HK$0.40 each	HK$ million
Authorised:		
At 31 December 2011 and 2012	6,000,000,000	2,400
Issued and fully paid:		
At 1 January 2011	3,648,688,160	1,459
Issue of shares pursuant to the Plan 2000	756,000	1
At 31 December 2011	3,649,444,160	1,460
At 1 January 2012 and 31 December 2012	3,649,444,160	1,460

Share Option Plan

During the period between the adoption of the CITIC Pacific Share Incentive Plan 2000 ("the Plan 2000") on 31 May 2000 and its expiry on 30 May 2010, the Company has granted six lots of share options:

					Outstanding balance	
Grant date	Number of options granted	Percentage of the issued share capital	Exercise price HK$	Closing price before grant date HK$	At 31 December 2012	At 31 December 2011
28 May 2002	11,550,000	0.32%	18.20	18.10	–	–
1 November 2004	12,780,000	0.35%	19.90	19.90	–	–
20 June 2006	15,930,000	0.44%	22.10	22.50	–	–
16 October 2007	18,500,000	0.51%	47.32	47.65	–	11,800,000
19 November 2009	13,890,000	0.38%	22.00	21.40	12,130,000	12,650,000
14 January 2010	880,000	0.02%	20.59	19.98	880,000	880,000

All options granted and accepted under the Plan 2000 can be exercised in whole or in part within 5 years from the date of grant.

The share options at the exercise price of HK$18.20 per share, HK$19.90 per share, HK$22.10 per share and HK$47.32 per share expired at the close of business on 27 May 2007, 31 October 2009, 19 June 2011 and 15 October 2012 respectively.

Notes to the Financial Statements

26 Share capital (continued)

Other than the Plan 2000, certain of the Company's subsidiary companies have issued equity-settled share-based payments to certain of their employees. The aggregate amount of the share-based payments recognised by these companies is not material to the Group.

As the Plan 2000 expired on 30 May 2010, the Company adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 ("the Plan 2011") on 12 May 2011, pursuant to which the board may at its discretion offer to grant share options to any eligible participant including any employee, executive director, non-executive director, independent non-executive director, consultant or representative of any member of the Group who shall make payment of HK$1 to the Company on acceptance. The exercise price determined by the board will be at least the higher of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer the grant; and (iii) the average of the closing prices of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of offer of the grant. The maximum number of the Company's shares which may be issued upon exercise of all share options to be granted under the Plan 2011 must not exceed 10% of the Company's shares in issue as at the date of adopting the Plan 2011 (i.e. as at 31 December 2012, the maximum number of shares available for issue under the Plan 2011 is 364,944,416 shares).

No share options were granted under the Plan 2011 during the years ended 31 December 2012 and 2011.

(a) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Average exercise price in HK$ per share	**Options**	Average exercise price in HK$ per share	Options
At 1 January		**25,330,000**		31,376,000
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	22.10	(756,000)
Lapsed	**46.25**	**(12,320,000)**	23.53	(5,290,000)
At 31 December		**13,010,000**		25,330,000
Weighted average remaining contractual life		**1.89 years**		1.92 years

Details of share options exercised during the year:

Exercise price HK$	Number of shares **2012**	2011
22.10	**–**	756,000
	–	756,000

There were no share options exercised in 2012. The related weighted average share price at the time of exercise in 2011 was HK$23.56 per share.

Notes to the Financial Statements

27 Perpetual capital securities

In April 2011, the Company issued perpetual subordinated capital securities (the "perpetual capital securities") with a nominal amount of US$750 million (approximately HK$5,850 million) for cash. These securities are perpetual and the distribution payments can be deferred at the discretion of the Company. Therefore, perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The amounts as at 31 December 2012 and 2011 included the accrued distribution payments.

28 Reserves

(a) Group

In HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General and other reserves	Retained profits	Total
At 1 January 2012	36,533	29	1,019	(1,618)	142	8,870	(2,513)	1,606	29,479	73,547
Share of reserves of associated companies and jointly controlled entities	–	–	–	–	–	37	4	–	(82)	(41)
Exchange translation differences	–	–	–	–	–	(45)	–	–	–	(45)
Reserves released on disposal/dilution of interest in jointly controlled entities	–	–	(79)	279	(7)	(423)	–	(22)	(179)	(431)
Reserves released upon disposal of a subsidiary company	–	–	(1)	–	–	–	–	–	–	(1)
Cash flow hedges										
Fair value loss in the year	–	–	–	–	–	–	(610)	–	–	(610)
Transfer to construction in progress	–	–	–	–	–	–	(1,646)	–	–	(1,646)
Transfer to net finance charges	–	–	–	–	–	–	662	–	–	662
Tax effect	–	–	–	–	–	–	455	–	–	455
	–	–	–	–	–	–	(1,139)	–	–	(1,139)
Fair value loss of other financial assets	–	–	–	–	(5)	–	–	–	–	(5)
Transfer to profit and loss account on impairment of other financial assets	–	–	–	–	15	–	–	–	–	15
Surplus on revaluation of properties transfer from self-used properties to investment properties	–	–	–	–	–	–	–	61	–	61
Dilution of interest in a subsidiary company	–	–	–	–	–	–	–	4	–	4
Acquisition of interests from non-controlling interests	–	–	–	–	–	–	–	(30)	–	(30)
Released upon lapse of share options	–	–	(188)	–	–	–	–	–	188	–
Share-based payments	–	–	18	–	–	–	–	–	–	18
Transfer from profits to general and other reserves	–	–	–	–	–	–	–	159	(159)	–
Profit attributable to shareholders of the Company	–	–	–	–	–	–	–	–	6,954	6,954
Dividends (Note 10)	–	–	–	–	–	–	–	–	(1,642)	(1,642)
At 31 December 2012	36,533	29	769	(1,339)	145	8,439	(3,648)	1,778	34,559	77,265

Notes to the Financial Statements

28 Reserves (continued)

(a) Group (continued)

In HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General and other reserves	Retained profits	Total
Representing										
At 31 December 2012 after proposed final dividend										76,170
2012 final dividend proposed										1,095
										77,265
Retained by										
Company and subsidiary companies	36,533	29	765	(611)	140	8,042	(3,653)	2,031	25,703	68,979
Jointly controlled entities	–	–	18	–	5	358	5	3	5,741	6,130
Associated companies	–	–	(5)	–	–	19	–	–	2,115	2,129
Non-current assets held for sale and discontinued operations	–	–	(9)	(728)	–	20	–	(256)	1,000	27
	36,533	29	769	(1,339)	145	8,439	(3,648)	1,778	34,559	77,265

Notes to the Financial Statements

28 Reserves (continued)

(a) Group (continued)

In HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General and other reserves	Retained profits	Total
At 1 January 2011	36,515	29	1,030	(1,655)	156	6,673	403	1,341	22,395	66,887
Share of reserves of associated companies and jointly controlled entities	–	–	(5)	–	–	121	7	(1)	(80)	42
Exchange translation differences	–	–	–	–	–	2,307	–	–	–	2,307
Reserves released on disposal of a jointly controlled entity	–	–	(10)	37	–	(122)	–	–	(37)	(132)
Reserves released upon disposal of a subsidiary company	–	–	–	–	–	(109)	–	–	–	(109)
Cash flow hedges										
Fair value loss in the year	–	–	–	–	–	–	(2,716)	–	–	(2,716)
Transfer to construction in progress	–	–	–	–	–	–	(1,631)	–	–	(1,631)
Transfer to net finance charges	–	–	–	–	–	–	665	–	–	665
Tax effect	–	–	–	–	–	–	759	–	–	759
	–	–	–	–	–	–	(2,923)	–	–	(2,923)
Fair value loss of other financial assets	–	–	–	–	(112)	–	–	–	–	(112)
Transfer to profit and loss account on impairment of other financial assets	–	–	–	–	98	–	–	–	–	98
Dilution of interest in a subsidiary company	–	–	–	–	–	–	–	8	–	8
Acquisition of interests from non-controlling interests	–	–	–	–	–	–	–	(64)	–	(64)
Issue of shares pursuant to the share option plan	18	–	(3)	–	–	–	–	–	–	15
Share-based payments	–	–	7	–	–	–	–	–	–	7
Transfer from profits to general and other reserves	–	–	–	–	–	–	–	322	(322)	–
Profit attributable to shareholders of the Company	–	–	–	–	–	–	–	–	9,233	9,233
Dividends (Note 10)	–	–	–	–	–	–	–	–	(1,642)	(1,642)
Transaction costs related to issuance of perpetual capital securities	–	–	–	–	–	–	–	–	(68)	(68)
At 31 December 2011	36,533	29	1,019	(1,618)	142	8,870	(2,513)	1,606	29,479	73,547

Notes to the Financial Statements

28 Reserves (continued)

(a) Group (continued)

In HK$ million	Share premium	Capital redemption reserve	Capital reserve	Goodwill	Investment revaluation reserve	Exchange fluctuation reserve	Hedging reserve	General and other reserves	Retained profits	Total
Representing										
At 31 December 2011 after proposed final dividend										72,452
2011 final dividend proposed										1,095
										73,547
Retained by										
Company and subsidiary companies	36,533	29	927	(1,618)	130	8,074	(2,514)	1,581	20,524	63,666
Jointly controlled entities	–	–	26	–	5	332	1	25	5,824	6,213
Associated companies	–	–	(5)	–	–	18	–	–	2,115	2,128
Non-current assets held for sale	–	–	71	–	7	446	–	–	1,016	1,540
	36,533	29	1,019	(1,618)	142	8,870	(2,513)	1,606	29,479	73,547

Notes to the Financial Statements

28 Reserves (continued)

(b) Company

In HK$ million	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	Retained profits	Total
At 1 January 2012	**36,533**	**29**	**880**	**(2,489)**	**8,119**	**43,072**
Issue of shares pursuant to the share option plan	**–**	**–**	**–**	**–**	**–**	**–**
Cash flow hedges						
Fair value loss in the year	**–**	**–**	**–**	**(618)**	**–**	**(618)**
Transfer to net finance charges	**–**	**–**	**–**	**541**	**–**	**541**
	–	**–**	**–**	**(77)**	**–**	**(77)**
Profit attributable to shareholders of the Company (Note 9)	**–**	**–**	**–**	**–**	**4,692**	**4,692**
Release upon lapse of share options	**–**	**–**	**(181)**	**–**	**181**	**–**
Dividends (Note 10)	**–**	**–**	**–**	**–**	**(1,642)**	**(1,642)**
At 31 December 2012	**36,533**	**29**	**699**	**(2,566)**	**11,350**	**46,045**
Representing						
At 31 December 2012 after proposed final dividend						**44,950**
2012 final dividend proposed						**1,095**
						46,045
At 1 January 2011	36,515	29	883	(1,338)	7,878	43,967
Issue of shares pursuant to the share option plan	18	–	(3)	–	–	15
Cash flow hedges						
Fair value loss in the year	–	–	–	(1,728)	–	(1,728)
Transfer to net finance charges	–	–	–	577	–	577
				(1,151)	–	(1,151)
Profit attributable to shareholders of the Company (Note 9)	–	–	–	–	1,951	1,951
Dividends (Note 10)	–	–	–	–	(1,642)	(1,642)
Transaction costs related to issuance of perpetual capital securities	–	–	–	–	(68)	(68)
At 31 December 2011	36,533	29	880	(2,489)	8,119	43,072
Representing						
At 31 December 2011 after proposed final dividend						41,977
2011 final dividend proposed						1,095
						43,072

Notes to the Financial Statements

28 Reserves (continued)

(c) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees.

(iii) Goodwill

The Goodwill reserve is as a result of goodwill arising on acquisitions prior to year 2001 which under the then prevailing Accounting Standards was reflected in reserves rather than as a separate asset.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.

(vi) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow.

(vii) General and other reserves

General and other reserves comprise reserves of the mainland China subsidiaries appropriated according to the articles of association of the relevant subsidiaries and the mainland China rules and regulations used for specific purposes before distribution of dividend, and reserves arising from assets revaluation and transactions with non-controlling interests.

(viii) Distributable reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$7,992 million (2011: HK$4,836 million).

Notes to the Financial Statements

29 Borrowings

(a)

In HK$ million	Group 2012	Group 2011	Company 2012	Company 2011
Short term borrowings				
Bank loans				
unsecured	**9,604**	7,815	**3,900**	1,000
secured	**441**	757	**–**	–
	10,045	8,572	**3,900**	1,000
Other loans				
unsecured	**987**	–	**–**	–
secured	**137**	189	**–**	–
	1,124	189	**–**	–
Current portion of long term borrowings	**10,964**	18,896	**6,507**	12,936
Total short term borrowing	**22,133**	27,657	**10,407**	13,936
Long term borrowings				
Bank loans				
unsecured	**68,127**	69,900	**36,411**	36,875
secured	**13,340**	13,124	**–**	–
	81,467	83,024	**36,411**	36,875
Other loans				
unsecured	**23,993**	6,922	**22,547**	6,282
Less: current portion of long term borrowings	**(10,964)**	(18,896)	**(6,507)**	(12,936)
Total long term borrowings	**94,496**	71,050	**52,451**	30,221
Total borrowings	**116,629**	98,707	**62,858**	44,157
Analysed into:				
unsecured	**102,711**	84,637	**62,858**	44,157
secured	**13,918**	14,070	**–**	–
	116,629	98,707	**62,858**	44,157

Notes to the Financial Statements

29 Borrowings (continued)

(a) (continued)

Note:

(i) On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of the Company, issued and sold JPY8.1 billion in aggregate principal amount of guaranteed floating rate notes due 2035 ("JPY Notes") to investors for general corporate purposes pursuant to the subscription agreement dated 26 October 2005. Each noteholder will have the right at such noteholder's option to require the issuer to redeem all of such noteholder's JPY Notes on 28 October 2015 at 81.29% of the principal amount of such JPY Notes. All of the JPY Notes remained outstanding at 31 December 2012.

(ii) On 16 August 2010, the Company issued and sold a total of USD150 million principal amount of 6.9% notes due 2022 ("USD Notes"), to an investor pursuant to the purchase agreement dated 11 August 2010. All of the USD Notes remained outstanding at 31 December 2012.

(iii) On 15 April 2011, the Company issued and sold a total of US$500 million principal amount of 6.625% notes due 2021 ("USD Bond 1") to investors under the USD4.5 billion medium term note programme established on 6 April 2011 and supplemented on 25 September 2012 pursuant to the subscription agreement dated 8 April 2011. All of the USD Bond 1 remained outstanding at 31 December 2012.

(iv) On 3 August 2011, the Company issued and sold a total of RMB1 billion principal amount of 2.7% notes due 2016 ("RMB Bond") to investors under the USD4.5 billion medium term note programme established on 6 April 2011 and supplemented on 25 September 2012 pursuant to the subscription agreement dated 27 July 2011. All of the RMB Bond remained outstanding at 31 December 2012.

(v) On 27 February 2012, Jiangyin Xingcheng Special Steel Works Co., Ltd., a wholly owned subsidiary of the Company, issued and sold a total of RMB800 million principal amount of 6% short term commercial paper due 2013 ("Commercial Paper") to investors. All of the Commercial Paper remained outstanding at 31 December 2012.

(vi) On 21 March and 26 April 2012, the Company issued and sold a total of US$750 million and US$350 million principal amounts of 6.875% notes due 2018 ("USD Bond 2") to investors under the US$4.5 billion medium term note programme established on 6 April 2011 and supplemented on 25 September 2012 pursuant to the subscription agreements dated 12 March 2012 and 17 April 2012 respectively. All of the USD Bond 2 remained outstanding at 31 December 2012.

(vii) On 20 June 2012, Hubei Xin Yegang Steel Co., Ltd., a wholly owned subsidiary of the Company, issued and sold a total of RMB500 million principal amount of 5.23% medium term notes due 2017 ("RMB Notes 1") to investors. All of the RMB Notes 1 remained outstanding at 31 December 2012.

(viii) On 17 October and 11 December 2012, the Company issued and sold a total of US$750 million and US$250 million principal amount of 6.8% notes due 2023 ("USD Bond 3") to investors under the USD4.5 billion medium term note programme established on 6 April 2011 and supplemented on 25 September 2012 pursuant to the subscription agreement dated 8 October and 4 December 2012 respectively. All of the USD Bond 3 remained outstanding at 31 December 2012.

(ix) On 27 November 2012, Jiangyin Xingcheng Special Steel Works Co., Ltd., a wholly owned subsidiary of the Company, issued and sold a total of RMB200 million principal amount of 6.06% medium term notes due 2017 ("RMB Notes 2") to investors. All of the RMB Notes 2 remained outstanding at 31 December 2012.

(x) Bank loans and other loans, other than the JPY Notes, are fully repayable on or before 2032 and bear interest mainly at the prevailing market rates.

(xi) As at 31 December 2012, certain of the Group's inventories, deposits, accounts receivable, and self-use properties with an aggregate carrying value of HK$0.9 billion (2011: HK$1.7 billion) were pledged to secure loans and banking facilities granted to certain subsidiary companies of the Group. In addition, assets of HK$63.3 billion (2011: HK$53 billion) of the iron ore mining project were pledged under project finance arrangement. This amount included cash and bank balances of HK$1.1 billion (2011: HK$1.3 billion). 12 completed ships with carrying value of HK$5.4 billion (2011: 4 completed ships with carrying value of HK$1.8 billion and shipbuilding contracts of HK$3.4 billion for 8 ships being built) to transport iron ore were also pledged as security for the ships financing. The aggregate values of assets pledged for various facilities amounted to approximately HK$69.6 billion (2011: HK$59.9 billion).

(xii) Bank loans of the Group and the Company not wholly repayable within five years amounted to HK$39.4 billion (2011: HK$39.9 billion) and HK$6.5 billion (2011: HK$6.5 billion) respectively. Other loans of the Group and the Company not wholly repayable within five years amounted to HK$21.5 billion (2011: HK$5.1 billion) and HK$21.5 billion (2011: HK$5.1 billion) respectively.

Notes to the Financial Statements

29 Borrowings (continued)

(b) The maturity of the Group's and the Company's long term borrowings is as follows:

In HK$ million	Group 2012	Group 2011	Company 2012	Company 2011
Bank loans are repayable				
in the first year	**10,964**	18,896	**6,507**	12,936
in the second year	**17,565**	11,268	**10,322**	5,940
in the third to fifth years inclusive	**23,386**	21,170	**13,118**	11,476
after the fifth year	**29,552**	31,690	**6,464**	6,523
	81,467	83,024	**36,411**	36,875
Other loans are repayable				
in the third to fifth years inclusive	**2,677**	1,871	**1,231**	1,231
after the fifth year	**21,316**	5,051	**21,316**	5,051
	23,993	6,922	**22,547**	6,282
	105,460	89,946	**58,958**	43,157

(c) The exposure of the Group's and the Company's total borrowings to interest-rate changes is as follows:

In HK$ million	Group 2012	Group 2011	Company 2012	Company 2011
Total borrowings	**116,629**	98,707	**62,858**	44,157
Borrowing at fixed rates for more than one year (from balance sheet date)	**(23,708)**	(6,382)	**(22,761)**	(6,382)
Interest rate swaps converting floating to fixed	**(26,729)**	(27,790)	**(18,029)**	(19,365)
Borrowings subject to interest-rate changes	**66,192**	64,535	**22,068**	18,410

The effective interest rate per annum on the Group's and the Company's borrowings after considering the impact of interest rate swaps (converting floating to fixed rates of interest) was as follows:

	Group 2012	Group 2011	Company 2012	Company 2011
Total borrowings	**4.3%**	4.0%	**4.1%**	3.7%

Notes to the Financial Statements

29 Borrowings (continued)

(d) The fair value of borrowings is HK$115,100 million (2011: HK$97,101 million). The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. These fair values, as compared to the carrying values, would have reflected an unrealised gain of HK$1,529 million (2011: HK$1,606 million). This unrealised gain has not been recorded in the financial statements as the borrowings were not held for trading purposes, and accordingly have been accounted for at amortised cost.

(e) The carrying amounts of the total borrowings are denominated in the following currencies:

	Group		Company	
In HK$ million	**2012**	2011	**2012**	2011
Hong Kong dollar	**20,019**	20,696	**17,112**	18,279
US dollar	**78,351**	58,012	**44,515**	24,647
Renminbi	**17,196**	18,873	**1,231**	1,231
Other currencies	**1,063**	1,126	**–**	–
	116,629	98,707	**62,858**	44,157

The Group has the following undrawn borrowing facilities:

	Group		Company	
In HK$ million	**2012**	2011	**2012**	2011
Floating rate				
expiring within one year	**10,043**	4,382	**2,121**	1,723
expiring beyond one year	**14,233**	14,295	**12,600**	13,660
	24,276	18,677	**14,721**	15,383

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation

Financial risk factors

The Group is exposed to a variety of financial risks and manages them through a combination of financial instruments.

An Asset and Liability Management Committee ("ALCO") was set up by the board in October 2008 to oversee and monitor the exposures of the Group and it meets on a monthly basis.

Financial risk management is centralised at head office but execution and monitoring of specific risks and raising finance may be delegated to business units.

(a) Exposure to interest rate fluctuations

The Group aims to maintain a suitable mixture of fixed rate and floating rate borrowings in order to stabilise interest costs over time despite rate movements. The Group uses interest rate swaps and other instruments to modify the interest rate characteristics of its borrowings. As at 31 December 2012, HK$50.4 billion (2011: HK$34.2 billion) of the Group's total borrowings were effectively paying fixed rates and the remaining were effectively paying a floating rate of interest. In addition, HK$3.2 billion forward starting swaps were outstanding that had not become effective as of 31 December 2012 (2011: HK$2 billion).

At 31 December 2012, if interest rates had been 0.5% higher/lower, with all other variables held constant, the hypothetical impact is summarised as follows:

	Group			
	0.5% higher		0.5% lower	
In HK$ million	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)
Bank borrowings	**(287)**	**–**	**287**	**–**
Cash and bank deposits	**163**	**–**	**(163)**	**–**
Derivatives	**45**	**850**	**(44)**	**(877)**

	Company			
	0.5% higher		0.5% lower	
In HK$ million	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)
Bank borrowings	**(112)**	**–**	**112**	**–**
Cash and bank deposits	**70**	**–**	**(70)**	**–**
Derivatives	**40**	**497**	**(42)**	**(504)**

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(a) Exposure to interest rate fluctuations (continued)

At 31 December 2011, if interest rates had been 0.5% higher/lower, with all other variables held constant, the hypothetical impact is summarised as follows:

	Group			
	0.5% higher		0.5% lower	
In HK$ million	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)
Bank borrowings	(165)	–	165	–
Cash and bank deposits	154	–	(154)	–
Derivatives	44	916	(40)	(948)

	Company			
	0.5% higher		0.5% lower	
In HK$ million	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)	Hypothetical impact on profit/(loss)	Hypothetical impact on equity increase/(decrease)
Bank borrowings	(93)	–	93	–
Cash and bank deposits	54	–	(54)	–
Derivatives	44	542	(46)	(551)

The Group holds AUD/USD plain vanilla forward contracts with an aggregate notional amount of AUD112 million outstanding at 31 December 2012 (2011: AUD733 million). These derivatives qualify and are accounted for as hedges against movements in the AUD/USD spot exchange rate. Therefore changes in the fair value of the derivatives as a result of movements in the AUD/USD spot exchange rate are recognised in the hedging reserve whilst the residual changes in fair value of these derivatives largely reflecting movements in the differential between Australian and US interest rates are recorded in profit and loss.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(b) Exposure to foreign currency fluctuations

CITIC Pacific is based in Hong Kong and has determined that its functional currency is the Hong Kong Dollar. CITIC Pacific conducts its business mainly in Hong Kong, mainland China and Australia. Therefore it is subject to the risk of changes in the foreign exchange rates of the US Dollar, Renminbi and Australian Dollar and to a lesser extent, Japanese Yen and Euro. To minimise currency exposure, non-HK Dollar assets are usually financed by borrowings in the same currency as the asset or cash flow from it. Achieving this objective is not always possible due to limitations in financial markets and regulatory constraints, particularly on investment in mainland China as the Renminbi is currently not a freely convertible currency. In addition, regulations in mainland China require 'registered capital', which usually accounts for at least one third of the total investment amount for projects in mainland China to be paid in foreign currency.

The future revenue from the Group's Australian iron ore mining project is denominated in USD and this is its functional currency for accounting purposes. A substantial portion of its development and operating expenditure are denominated in Australian Dollars. As of 31 December 2012 the plain vanilla forward contracts had a notional amount of AUD112 million (2011: AUD733 million).

CITIC Pacific has funded the iron ore mining project and the acquisition of bulk cargo vessels by USD loans to match the future cash flow of these assets. The Company's investments in the iron ore mining project and bulk cargo vessels (whose functional currency is in USD) have been designated as an accounting hedge against other USD loans at the corporate level. Cross currency swaps were employed to minimise currency exposure for JPY Notes and Dah Chong Hong's AUD loan.

Sensitivity analysis

The following table indicates the approximate change in the Group's profit/(loss) and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date, and that all other variables, in particular interest rates, remain constant.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(b) Exposure to foreign currency fluctuations (continued)

	Group					
In HK$ million	Hypothetical increase in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)	Hypothetical decrease in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)
2012						
USD	**1%**	**(242)**	**(152)**	**1%**	**242**	**152**
RMB	**2%**	**123**	**–**	**2%**	**(123)**	**–**
AUD	**15%**	**(115)**	**136**	**15%**	**115**	**(136)**
YEN	**10%**	**(10)**	**–**	**10%**	**10**	**–**
Pound Sterling	**10%**	**1**	**–**	**10%**	**(1)**	**–**
EURO	**10%**	**(3)**	**–**	**10%**	**3**	**–**

	Company					
In HK$ million	Hypothetical increase in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)	Hypothetical decrease in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)
2012						
USD	**1%**	**(244)**	**(152)**	**1%**	**244**	**152**
RMB	**2%**	**64**	**–**	**2%**	**(64)**	**–**

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(b) Exposure to foreign currency fluctuations (continued)

	Group					
In HK$ million	Hypothetical increase in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)	Hypothetical decrease in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)
2011						
USD	1%	(234)	–	1%	234	–
RMB	1%	51	–	1%	(51)	–
AUD	15%	(32)	877	15%	32	(877)
YEN	10%	(10)	–	10%	14	–
Pound Sterling	10%	(153)	–	10%	153	–
EURO	10%	4	–	10%	(4)	–

	Company					
In HK$ million	Hypothetical increase in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)	Hypothetical decrease in foreign exchange rates	Effect on profit/ (loss)	Effect on equity increase/ (decrease)
2011						
USD	1%	(237)	–	1%	237	–
RMB	1%	(9)	–	1%	9	–

(c) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. At 31 December 2012, if there had been a 5% change in the market value of available-for-sale securities with all other variables held constant, the Group's equity would have increased/(decreased) by HK$13 million (2011: HK$13 million).

The Group is subject to commodity price risks such as iron ore and coal, and price risks associated with input costs and costs of goods sold. The Group has not entered into derivatives to manage such exposures.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(d) Credit exposure

The Group's credit risk is primarily related to deposits placed with banks and the continued ability of the banks to deliver on foreign exchange and derivatives. Operating businesses have trade and accounts receivables.

The Group's cash and deposits with banks are placed with major financial institutions. Counterparty limits are closely monitored for all financial institutions with whom the Group is doing business. Unless specially approved by ALCO, the Group only deals with international financial institutions with an investment grade credit rating except for leading PRC financial institutions that do not have an international credit rating. The amount of counterparties' lending exposure to the Group is an important consideration as a means to control credit risk.

Trade receivables are presented net of allowances for bad and doubtful debts. Credit risk in respect of trade and accounts receivables is dispersed since the customers are large in number and spread across different industries and geographical areas. Accordingly, the Group has no significant concentration of such credit risk. Each core operating business has a policy of credit control in place under which credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are due within 15 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

(e) Liquidity risk

Liquidity risk is managed 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. Refinancing is allocated such that there is a reasonable amount coming due in any one period. In addition, the Company has established co-operative agreements with major PRC banks.

The Group's liquidity management procedures involve regularly projecting cashflows in major currencies, and considering the level of liquid assets and new financings necessary to meet these cash flow requirements.

The Group seeks to secure financing from a diversified set of counterparties on the most competitive terms in the market. At the end of 2012 CITIC Pacific had multiple borrowing relationships with financial institutions in Hong Kong, PRC and other markets. The Group diversifies its funding mix through bank borrowings and accessing the capital markets and seeks to maintain a mix of short-and long-term borrowings to stagger maturities and minimise financing risk. In 2013 and 2014, the funding requirements of the Group are expected to continue be met through cash flows generated from operating activities, drawdown of undrawn borrowing facilities, roll-over of existing facilities as well as arrangement of new facilities. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(e) Liquidity risk (continued)

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to their maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, based on floating interest rate or exchange rates (where applicable) prevailing at the balance sheet date.

	Group			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012				
Bank and other borrowings	**(26,162)**	**(20,791)**	**(33,095)**	**(64,485)**
Derivative financial instruments	**(855)**	**(859)**	**(1,985)**	**(1,574)**
Trade creditors, accounts and other payable	**(24,174)**	**(49)**	**(179)**	**–**
At 31 December 2011				
Bank and other borrowings	(30,606)	(13,479)	(28,217)	(48,794)
Derivative financial instruments	(921)	(781)	(1,744)	(1,821)
Trade creditors, accounts and other payable	(30,104)	(427)	(46)	–

	Company			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012				
Bank and other borrowings	**(12,586)**	**(12,136)**	**(17,936)**	**(33,902)**
Derivative financial instruments	**(508)**	**(513)**	**(1,110)**	**(810)**
Trade creditors and accounts payable	**(745)**	**–**	**–**	**–**
Amounts due to subsidiary companies	**(6,528)**	**–**	**–**	**–**
Financial guarantee (Note)	**(23,693)**	**(8,386)**	**(593)**	**–**
At 31 December 2011				
Bank and other borrowings	(15,057)	(6,769)	(14,170)	(14,968)
Derivative financial instruments	(592)	(463)	(947)	(925)
Trade creditors and accounts payable	(293)	–	–	–
Amounts due to subsidiary companies	(6,223)	–	–	–
Financial guarantee (Note)	(13,653)	(10,477)	(8,386)	(811)

Note: These amounts are financial guarantees from the Company to its subsidiaries representing the hypothetical payment should the guarantees be crystalised, however based on the operating results, the Company does not expect them to be crystalised.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(e) Liquidity risk (continued)

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, based on interest or exchange rates (where applicable) prevailing at the balance sheet date.

	Group			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012				
Forward foreign exchange contracts – cash flow hedges				
outflow	**(720)**	**–**	**–**	**–**
inflow	**919**	**–**	**–**	**–**
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	**(315)**	**(10)**	**(274)**	**(637)**
inflow	**300**	**2**	**249**	**1,029**

	Company			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012				
Forward foreign exchange contracts – cash flow hedges				
outflow	**–**	**–**	**–**	**–**
inflow	**–**	**–**	**–**	**–**
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	**–**	**–**	**–**	**–**
inflow	**–**	**–**	**–**	**–**

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Financial risk factors (continued)

(e) Liquidity risk (continued)

	Group			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2011				
Forward foreign exchange contracts – cash flow hedges				
outflow	(3,961)	(720)	–	–
inflow	4,901	884	–	–
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	(2,887)	(6)	(30)	(670)
inflow	2,814	3	13	1,147

	Company			
In HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2011				
Forward foreign exchange contracts – cash flow hedges				
outflow	–	–	–	–
inflow	–	–	–	–
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	–	–	–	–
inflow	–	–	–	–

The foreign exchange contracts that are not qualified for hedge accounting as at 31 December 2012 consist of cross currency swap contracts and forward exchange contracts for hedging JPY Notes and trade flows in foreign currencies respectively. The gains and losses in the fair market value of these contracts are reflected in the profit and loss account.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Fair value estimation

The fair value of financial derivative instrument is generated from software provided by Reval Inc. ("Reval"), a derivative risk management and hedge accounting solutions firm, which uses a discounted cashflow model with independently sourced market data to determine the fair value. The fair value generated by Reval is cross checked against price quotations obtained from major financial institutions. The fair value of the forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. The fair value of the interest rate swap is calculated as the net present value of the estimated future cash flows discounted at the market quoted rate.

The fair value of listed securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using the applicable price/earnings ratios for similar listed companies adjusted for the specific circumstances of the issuer.

The fair values of financial liabilities for disclosure purpose are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments, except for the global bonds which are based on quoted market prices at the balance sheet date without any deduction for transaction cost. The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2012 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt. The fair value of borrowings is disclosed in note 29(d).

The fair value of loans receivable is estimated as the present value of future cash flows, discounted at the current market interest rates for similar financial instruments.

The carrying values less impairment provisions of trade and other receivables and trade and other payables are a reasonable approximation of their fair values.

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument recognised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Fair value estimation (continued)

(i) Financial instruments carried at fair value (continued)

In HK$ million	Group				Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
2012								
Assets								
Available-for-sale financial assets								
Listed	**257**	**–**	**–**	**257**	**–**	**–**	**–**	**–**
Unlisted	**–**	**–**	**81**	**81**	**–**	**–**	**–**	**–**
Derivative financial instruments								
Interest rate swaps	**–**	**187**	**–**	**187**	**–**	**–**	**–**	**–**
Forward exchange contracts	**–**	**189**	**–**	**189**	**–**	**27**	**–**	**27**
Liabilities								
Derivative financial instruments								
Interest rate swaps	**–**	**4,969**	**–**	**4,969**	**–**	**2,746**	**–**	**2,746**
Forward exchange contracts	**–**	**9**	**–**	**9**	**–**	**27**	**–**	**27**

In HK$ million	Group				Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
2011								
Assets								
Available-for-sale financial assets								
Listed	252	–	–	252	–	–	–	–
Unlisted	–	–	80	80	–	–	–	–
Derivative financial instruments								
Interest rate swaps	–	279	–	279	–	–	–	–
Forward exchange contracts	–	1,050	–	1,050	–	487	–	487
Liabilities								
Derivative financial instruments								
Interest rate swaps	–	4,842	–	4,842	–	2,671	–	2,671
Forward exchange contracts	–	64	–	64	–	487	–	487

There were no significant transfers between instruments in Level 1 and Level 2 during the year.

Notes to the Financial Statements

30 Financial Risk Management and Fair Values Estimation (continued)

Fair value estimation (continued)

(i) Financial instruments carried at fair value (continued)

The movements of the balance of financial instruments measured at fair value based on Level 3 are as follows:

In HK$ million	Group Unlisted available-for-sale equity securities
At 1 January 2012	80
Net unrealized gains recognised in other comprehensive income during the year	3
Net loss recognized in profit and loss account during the year	(2)
At 31 December 2012	81
At 1 January 2011	58
Purchase	11
Net unrealized gains recognised in other comprehensive income during the year	11
At 31 December 2011	80

(ii) Fair values of financial instruments carried at cost or amortised cost

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011 except as follows:

	2012		2011	
In HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
The Group				
Bank loans	**91,647**	**88,900**	91,785	90,257
Global bonds (USD Notes/Bond)	**20,150**	**21,111**	3,885	3,669
Domestic bond (RMB Notes)	**864**	**981**	–	–
Commercial paper	**987**	**987**	–	–
Private placement (USD Notes, JPY Notes & RMB Bond)	**2,981**	**3,121**	3,037	3,175
The Company				
Bank loans	**40,311**	**37,854**	37,875	36,470
USD Bond	**20,150**	**21,111**	3,885	3,669
Private placement (USD Note & RMB Bond)	**2,397**	**2,532**	2,397	2,514

Notes to the Financial Statements

31 Capital risk management

The Group's primary objective when managing capital is to safeguard the Group's ability to provide returns for shareholders and to support the Group's stability and growth. The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a strong shareholders' equity position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group's leverage ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank deposits. Total capital is total ordinary shareholders' funds and perpetual capital securities, as shown in the consolidated balance sheet, plus net debt.

The leverage ratios at 31 December 2012 and 2011 were as follows:

In HK$ million	**2012**	2011
Total borrowings	**116,629**	98,707
Less: Cash and bank deposits	**32,821**	30,930
Net debt	**83,808**	67,777
Total ordinary shareholders' funds and perpetual capital securities	**84,678**	80,958
Total capital	**168,486**	148,735
Leverage ratio	**50%**	46%

CITIC Pacific has developed a set of standard loan covenants to facilitate the management of its loan portfolio and debt compliance and cover most of CITIC Pacific's loan portfolio. The financial covenants that are effective at 31 December 2012 are generally limited to three categories, namely, a minimum net worth undertaking where the Group has to maintain a net worth of greater or equal to HK$25 billion, a maximum ratio of total borrowings to net worth where the consolidated borrowings of the Group cannot exceed 1.5 times consolidated net worth and a limit of pledged assets to 30% or below as a ratio of the Group's consolidated total assets. CITIC Pacific monitors these ratios on a regular basis and was in compliance with these loan covenants as at 31 December 2012.

Notes to the Financial Statements

32 Derivative financial instruments

	Group			
	2012		2011	
In HK$ million	Assets	Liabilities	Assets	Liabilities
Qualified for hedge accounting – cash flow hedges				
Interest-rate instruments	**–**	**4,690**	–	4,566
Forward foreign exchange instruments	**184**	**–**	1,047	–
	184	**4,690**	1,047	4,566
Not qualified for hedge accounting				
Interest-rate instruments	**187**	**279**	279	276
Forward foreign exchange instruments	**5**	**9**	3	64
	192	**288**	282	340
	376	**4,978**	1,329	4,906
Less: current portion				
Interest-rate instruments	**66**	**192**	73	95
Forward foreign exchange instruments	**189**	**9**	328	64
	255	**201**	401	159
	121	**4,777**	928	4,747

	Company			
	2012		2011	
In HK$ million	Assets	Liabilities	Assets	Liabilities
Qualified for hedge accounting – cash flow hedges				
Interest-rate instruments	**–**	**2,469**	–	2,397
Forward foreign exchange instruments	**27**	**27**	487	487
	27	**2,496**	487	2,884
Not qualified for hedge accounting				
Interest-rate instruments	**–**	**277**	–	274
Forward foreign exchange instruments	**–**	**–**	–	–
	–	**277**	–	274
	27	**2,773**	487	3,158
Less: current portion				
Interest-rate instruments	**–**	**72**	–	93
Forward foreign exchange instruments	**27**	**27**	326	326
	27	**99**	326	419
	–	**2,674**	161	2,739

Notes to the Financial Statements

32 Derivative financial instruments (continued)

(i) Forward foreign exchange instruments

The notional amount of the outstanding forward foreign exchange instruments at 31 December 2012 was HK$1,018 million (2011: HK$7,552 million).

The effective portions of gains and losses on forward foreign exchange contracts associated with highly probable forecast underlying transactions denominated in foreign currency expected to occur at various dates within the next 4 months are recognised in the hedging reserve in equity as of 31 December 2012 and will be recognised in the profit and loss account in the period or periods during which the underlying hedged transactions affect the profit and loss account.

(ii) Interest rate instruments

The notional amount of outstanding interest rate swap contracts at 31 December 2012 was HK$29,929 million (2011: HK$29,790 million). In addition, the Group had cross currency interest rate swap contracts with an aggregate notional amount of HK$644 million (2011: HK$400 million). At 31 December 2012, the fixed interest rates under interest rate swaps varied from 0.56% to 5.10% per annum (2011: 0.84% to 5.24% per annum). The effective portion of gains and losses on interest rate swap contracts qualifying for hedge accounting as of 31 December 2012 are recognised in the hedging reserve in equity and are released to the profit and loss account to match relevant interest payments which are mainly calculated using Hong Kong Interbank offered rate (HIBOR) or London Interbank offered rate (LIBOR).

Notes to the Financial Statements

33 Deferred taxation

(a) Group

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation is realised or settled. The components of deferred tax assets and (liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Deferred tax arising from									
	Depreciation allowances in excess of related depreciation		Losses		Revaluation of investment properties and valuation of other properties		Mining assets and others		Total	
In HK$ million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
At 1 January	**(409)**	(415)	**3,063**	2,281	**(2,086)**	(1,626)	**(2,294)**	(2,046)	**(1,726)**	(1,806)
Exchange adjustment	**4**	(2)	**2**	(1)	**5**	(77)	**(3)**	(31)	**8**	(111)
Credited to reserve	**–**	–	**–**	–	**–**	–	**455**	759	**455**	759
Effect of tax rate change	**–**	6	**–**	–	**–**	7	**–**	(2)	**–**	11
(Charged)/credited to consolidated profit and loss account										
– continuing operations	**53**	13	**385**	788	**(284)**	(390)	**(30)**	(898)	**124**	(487)
– discontinued operations	**(2)**	(11)	**14**	(5)	**–**	–	**3**	–	**15**	(16)
Transfer to disposal group classified as held for sales	**63**	–	**(49)**	–	**–**	–	**12**	–	**26**	–
Others	**–**	–	**–**	–	**–**	–	**97**	(76)	**97**	(76)
At 31 December	**(291)**	(409)	**3,415**	3,063	**(2,365)**	(2,086)	**(1,760)**	(2,294)	**(1,001)**	(1,726)

	Group	
In HK$ million	**2012**	2011
Net deferred tax assets recognised on the consolidated balance sheet	**2,342**	1,647
Net deferred tax liabilities recognised on the consolidated balance sheet	**(3,343)**	(3,373)
	(1,001)	(1,726)

Notes to the Financial Statements

33 Deferred taxation (continued)

(b) Deferred tax assets unrecognised

The Group has not recognised deferred tax assets in respect of the following items:

	Group	
In HK$ million	**2012**	2011
Deductible temporary differences	**15**	22
Tax losses	**5,514**	4,006
Taxable temporary differences	**(880)**	(814)
	4,649	3,214

	Company	
In HK$ million	**2012**	2011
Deductible temporary differences	**11**	18
Tax losses	**825**	757
	836	775

Note: Tax losses in certain tax jurisdictions of HK$905 million (2011: HK$554 million) will expire within the next five years. The remaining amounts do not expire under current tax legislation.

(c) Deferred tax liabilities not recognised

At 31 December 2012, temporary differences relating to the undistributed profits of subsidiary companies amounted to HK$3,248 million (2011: HK$2,425 million). Deferred tax liabilities of HK$163 million (2011: HK$124 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiary companies and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

Notes to the Financial Statements

34 Provisions and deferred income

In HK$ million	Site restoration	Mining rights	Gas contract	Deferred income	Total
Balance at 1 January 2012	**461**	**1,524**	**489**	**175**	**2,649**
Transfer to current liabilities	**–**	**(1,524)**	**(253)**	**–**	**(1,777)**
Provisions made/additions during the year	**896**	**–**	**279**	**21**	**1,196**
Disposal	**–**	**–**	**–**	**(7)**	**(7)**
Transfer to liabilities of disposal group classified as held for sale	**–**	**–**	**–**	**(88)**	**(88)**
Balance at 31 December 2012	**1,357**	**–**	**515**	**101**	**1,973**
Balance at 1 January 2011	338	1,511	302	103	2,254
Provisions made/additions during the year	123	13	187	72	395
Balance at 31 December 2011	461	1,524	489	175	2,649

Site restoration

A provision of HK$896 million (2011: HK$123 million) was made during the year ended 31 December 2012 in respect of a subsidiary's obligation to rectify environmental damage with a corresponding increase in property, plant and equipment. Amortisation of this asset will occur from the production date, using the units of production method.

Mining rights

The Mining Right and Site Lease Agreements entered into by two subsidiary companies of the Group in connection with the Sino Iron Project in Western Australia contain a clause that, unless certain exceptions apply, each subsidiary is to pay an amount if either of them produces less than 6 million tonnes of iron ore by March 2013. Under such clause, if the conditions for payment are met and the exceptions are not applicable, the amount payable is calculated by reference to the royalty payable on the amount of magnetite ore required to produce 6 million tonnes of iron ore concentrate. Due to changes in the iron ore market the formula for determining the amount in the contract is not capable of calculation. In the event that a liability crystallizes as a result of such clause, a provision has been made for this liability as reasonably estimated by the Group and as required by accounting standards. Therefore, the amount provided for in the accounts may differ from any eventual liability. A corresponding increase in intangible mining assets has been made in relation to this provision. The Group has commenced a reassessment of its liability under these clauses.

Gas contract

In accordance with the Group's contracted gas purchases, the Group is obligated to pay and/or take delivery of set levels of gas commencing on October 2011. Such gas contracts have liquidated damages clauses requiring damages be paid should the set levels of gas purchased not be adhered to. Due to the potential mismatch of the gas delivery under contracts and the production schedule, utilisation of such gas levels is projected to be at a lower rate at certain points in time and therefore a provision for the estimated damages payable has been accrued based on a combination of liquidated damages and losses from the on-sale of surplus gas. The Group has mitigated any potential liquidated damages in the short term through amendments in agreements with the gas supplier and is currently in discussions to mitigate the potential longer term liquidated damages payable.

Notes to the Financial Statements

35 Discontinued operations

The assets and liabilities related to CITIC Telecom International Holdings Limited (CITIC Telecom), a 60.58% owned subsidiary of the Company, have been presented as held for sale following the Sale and Purchase Agreement made between a wholly-owned subsidiary company of the Company and CITIC Group Corporation, an ultimate holding company, on 18 December 2012 to dispose 18.63% interest in CITIC Telecom. Upon completion, CITIC Telecom has ceased to be a subsidiary of the Company. As a result, the financial results of CITIC Telecom will no longer be consolidated with that of the Group. After completion, the Company expects to equity account for its shareholding in CITIC Telecom. On 21 February 2013, all the conditions precedent of the Sale and Purchase Agreement had been fulfilled and the transaction was completed.

The presentation of comparative information in respect of the year ended 31 December 2011 has been restated to show the discontinued operations separately from continuing operations.

(a) Analysis of the result of discontinued operations is as follows:

In HK$ million	**2012**	2011
Revenue	**3,610**	3,196
Expenses	**(3,072)**	(2,637)
Profit before tax of discontinued operations	**538**	559
Taxation	**(41)**	(65)
Profit for the year from discontinued operations	**497**	494
Profit for the year from discontinued operations attributable to:		
Ordinary shareholders of the company	**299**	299
Non-controlling interests	**198**	195
Profit for the year from discontinued operations	**497**	494

(b) (i) Assets of disposal group classified as held for sale

In HK$ million	**2012**
Property, plant and equipment	744
Intangible assets	573
Other non-current assets	694
Other current assets	1,722
Total	3,733

(ii) Liabilities of disposal group classified as held for sale

In HK$ million	**2012**
Trade and other payables	801
Other current liabilities	305
Other non-current liabilities	154
Total	1,260

(c) Cash flows from discontinued operations

In HK$ million	**2012**	2011
Operating cash flows	**284**	271
Investing cash flows	**(60)**	(89)
Financing cash flows	**(128)**	(254)
Total cash flows	**96**	(72)

Notes to the Financial Statements

36 Capital commitments

	Group	
In HK$ million	**2012**	2011
Authorised but not contracted for (Note a)	**1,902**	792
Contracted but not provided for (Note b)	**5,972**	13,009

	Company	
In HK$ million	**2012**	2011
Contracted but not provided for	**–**	–

Note a

	Group	
		As restated
In HK$ million	**2012**	2011
Authorised but not contracted for Analysis by operating segment		
Continuing operations		
Special Steel	**1,262**	270
Dah Chong Hong	**594**	446
Property – Mainland China	**11**	10
	1,867	726
Discontinued operations		
CITIC Telecom	**35**	66
	1,902	792

Note b

	Group	
		As restated
In HK$ million	**2012**	2011
Contracted but not yet paid nor accrued		
Analysis by operating segment		
Continuing operations		
Special steel	**1,303**	3,225
Iron ore mining	**1,455**	7,696
Property		
Mainland China	**2,773**	1,866
Hong Kong	**234**	29
Dah Chong Hong	**155**	117
Other investments	**31**	32
	5,951	12,965
Discontinued operations		
CITIC Telecom	**21**	44
	5,972	13,009

Notes to the Financial Statements

37 Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

	Group		Company	
In HK$ million	**2012**	As restated 2011	**2012**	As restated 2011
Properties commitments				
Continuing operations				
Within 1 year	**483**	387	**51**	49
After 1 year but within 5 years	**1,030**	716	**20**	65
After 5 years	**1,223**	830	**–**	–
	2,736	1,933	**71**	114
Discontinued operations				
Within 1 year	**31**	33	**–**	–
After 1 year but within 5 years	**33**	12	**–**	–
After 5 years	**–**	–	**–**	–
	64	45	**–**	–
Other commitments				
Continuing operations				
Within 1 year	**129**	42	**–**	–
After 1 year but within 5 years	**533**	174	**–**	–
After 5 years	**335**	374	**–**	–
	997	590	**–**	–
Discontinued operations				
Within 1 year	**38**	49	**–**	–
After 1 year but within 5 years	**5**	28	**–**	–
After 5 years	**–**	–	**–**	–
	43	77	**–**	–
	3,840	2,645	**71**	114

Notes to the Financial Statements

38 Business combinations, acquisitions and disposals

(a) Purchase of subsidiary companies

During the year ended 31 December 2012, the subsidiary companies of the Group completed several business acquisitions. The major acquisition is as follow:

(i) On 20 November 2012, a subsidiary gained control over 上海信泰置業有限公司 through capital injection of RMB1,240 million. Upon completion of the capital injection, the Group held 99.2% equity interest in 上海信泰置業有限公司, and the capital injected has been used to repay a then existing loan from the sole equity holder of 上海信泰置業有限公司 before the capital injection. 上海信泰置業有限公司 is principally engaged in property development and investment and provision of property management services, and it owns two pieces of land located at Shanghai World Expo Site which is expected to become a new central business district with substantial development potential.

The aggregate revenue and net profit of the acquired companies for the period from their respective dates of acquisitions to 31 December 2012 are insignificant to the Group. The acquisitions do not have any significant impact to the Group's revenue and profit for the year if they had occurred on 1 January 2012.

During the year ended 31 December 2011, the subsidiaries of the Group completed several business acquisitions. The major acquisitions are as follows:

(i) On 1 January 2011, a subsidiary gained control over Shenzhen Shenye Shiye Limited ("Shenye") through obtaining a casting vote in all shareholders' meetings as stated in the equity transfer agreement with no further transfer of consideration. As a result, Shenye Group changed from jointly controlled entities to subsidiaries of the Group. Shenye Group is engaged in sales of motor vehicles and spare parts, provision of after-sales services and conducting customer surveys for the manufacturers or suppliers.

(ii) In November 2011, a subsidiary acquired a 49% equity interest in Smart Joint Investment Limited and its subsidiaries and together with a 50% equity interest in each of Power Success Management Limited and Smartways Limited and their subsidiaries (collectively known as "Target Group") and the related shareholders' loans. The Target Group is engaged in sales of motor vehicles and spare parts, provision of after-sales services and conducting customer surveys for the manufacturers or suppliers.

(iii) On 2 September 2010, a subsidiary entered into the Framework Agreement with CITIC Group Corporation, CE-SCM Network Technology Co., Ltd. ("CE-SCM"), Information Centre of State-owned Assets Supervision & Administration Commission of the State Council ("SASACIC") and China Enterprise Communications Ltd. ("CEC"), pursuant to which the Group will acquire the entire equity interest of China Enterprise Netcom Corporation Limited ("CEC-HK") from China Enterprise Communication Technology (Holding) Limited. The Group completed the acquisitions of CEC-HK on 29 July 2011. CEC-HK is engaged in the provision of telecommunications leasing and technology services.

(iv) In August 2011, a subsidiary of the Group acquired 55% equity interest in 湖北新冶鋼汽車零部件有限公司(「新冶鋼零部件」). 新冶鋼零部件 is engaged in production and sale of auto parts. In October 2011, the subsidiary increased its equity interest in 新冶鋼零部件 to 80%.

Notes to the Financial Statements

38 Business combinations, acquisitions and disposals (continued)

(a) Purchase of subsidiary companies (continued)

The acquired companies contributed an aggregate revenue of HK$3,743 million and aggregate net profit of HK$259 million to the Group for the period from the date of acquisition to 31 December 2011.

If these business combination had occurred on 1 January 2011, the Group's turnover and profit for the year would have been approximately HK$101,353 million and approximately HK$11,018 million respectively. These amounts have been calculated by adopting the Group's accounting policies and adjusting the results of the relevant subsidiaries to reflect the additional amortisation and depreciation that would have been charged assuming the fair value adjustments to intangible assets, property, plant and equipment and leasehold land – operating lease had been applied from 1 January 2011, together with the consequential tax effects.

The acquisitions completed during the years ended 31 December 2012 and 31 December 2011 had the following effect on the Group's assets and liabilities on their respective dates of acquisitions:

In HK$ million	**2012**	2011
Net assets acquired		
Property, plant and equipment	**50**	227
Properties under development	**1,536**	–
Leasehold land-operating lease	**–**	15
Intangible assets	**32**	485
Inventories	**85**	451
Debtors, accounts receivable, deposits and prepayments	**191**	1,011
Deferred tax assets	**–**	2
Cash and bank deposits	**144**	308
Creditors, accounts payable, deposits and accruals	**(380)**	(1,162)
Bank loans and other loans	**–**	(364)
Taxation	**(6)**	(10)
Deferred tax liabilities	**(3)**	(82)
Less: Previously held interests in jointly controlled entities	**(116)**	(174)
Less: Loss on disposal of jointly controlled entities	**–**	2
Fair value of net assets acquired	**1,533**	709
Goodwill (Note)	**36**	190
Non-controlling interests arising from acquisitions of subsidiaries	**(20)**	(284)
	1,594	615
Less: consideration payable	**–**	(52)
Less: deposit for acquisition of a subsidiary	**–**	(66)
Less: consideration satisfied by property, plant and equipment	**–**	(4)
Consideration paid, satisfied in cash	**1,594**	493
Less: cash acquired	**(144)**	(308)
Net cash outflow	**1,405**	185

Note:

Goodwill arose from the acquisitions represents the control premium paid, the benefits of expected synergies to be achieved from integrating the subsidiaries into the Group's existing businesses, future market development and the acquired workforce. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the Financial Statements

38 Business combinations, acquisitions and disposals (continued)

(b) Disposal of subsidiary companies

In HK$ million	**2012**	2011
Net assets disposed		
Investment properties	**56**	–
Properties under development	**–**	1,716
Debtors, accounts receivable, deposits and prepayments	**–**	1
Cash and bank deposits	**–**	34
Creditors, accounts payable, deposits and accruals	**(1)**	(39)
	55	1,712
Gain on disposal	**165**	230
Release of reserve	**–**	(109)
Consideration	**220**	1,833
Satisfied by:		
Cash	**220**	1,833
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary companies		
Cash consideration	**220**	1,833
Cash and bank deposits disposed of	**–**	(34)
	220	1,799

Subsidiary companies disposed during the year ended 31 December 2012 and 31 December 2011 mainly represent a company holdings a property in Hong Kong and Shanghai respectively.

Notes to the Financial Statements

39 Contingent liabilities

	Company	
In HK$ million	**2012**	2011
The Company provided guarantees in respect of bank facilities as follows:		
Subsidiary companies	**33,941**	34,744
Associated company	**45**	35
Other performance guarantees		
Subsidiary companies	**3,616**	4,577
	37,602	39,356

Note:

(i) The Company has provided a guarantee to support derivatives transactions to a wholly owned subsidiary of the Company.

(ii) The Company has provided a guarantee to support the offtake guarantee between the wholly owned subsidiaries of the Company.

(iii) In the normal course of the Group's business, there are a number of claims now outstanding by or against the Group. While the outcome of such claims cannot be readily predicted, management believes that they will be resolved without material adverse financial effect on the consolidated financial position or liquidity of the Group.

(iv) The Group is subject to ever stricter environmental laws and regulations concerning its operations and products. These laws may require the Group to take remedial action and rehabilitation works to reduce the effects on the environment of previous actions by the Group. The ultimate requirement for remedial action and rehabilitation works and its cost are inherently difficult to predict but the estimated cost of undisputed environmental obligations has been provided for in these accounts. Whilst the amount of future costs could be significant and material to the Group's results in the period they are recognised, it is not possible to estimate the amounts involved, although management does not expect these costs to have a material adverse financial effect on the consolidated financial position or liquidity of the Group.

(v) Following CITIC Pacific's announcement of a foreign exchange related loss, on 22 October 2008, the Hong Kong Securities and Futures Commission ("SFC") announced that it had commenced a formal investigation into the affairs of CITIC Pacific. On 3 April 2009, the Commercial Crime Bureau of the Hong Kong Police Force began an investigation of suspected offences relating to the same matter.

On 18 November 2009, the Acting Secretary for the Financial Services and the Treasury said that the SFC's investigation has been completed while the Police's investigation is still ongoing.

In the absence of the findings of these investigations being made available to CITIC Pacific and due to the inherent difficulties involved in attempting to predict the outcome of such investigations and in assessing the possible findings, the directors do not have sufficient information to reasonably estimate the fair value of contingent liabilities (if any) relating to such investigations, the timing of the ultimate resolution of those matters or what the eventual outcome may be. However, based on information currently available, the directors are not aware of any matters arising from the above investigations that might have a material adverse financial impact on the consolidated financial position or liquidity of the Group.

Notes to the Financial Statements

40 Material related party transactions

Where one party has the ability to control the other party or exercise significant influence in making financial and operating decisions of another party, they are considered to be related. Parties are also considered to be related if one party is subject to control and another party is subject to control, joint control or significant influence both by the same third party.

(a) Transactions with state-owned enterprises (other than companies within the CITIC Group Corporation)

CITIC Pacific Limited is controlled by CITIC Group Corporation which owns 57.5% of the Company's shares. CITIC Group Corporation is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as 'state-owned enterprises'). Therefore, transactions with state-owned enterprises are regarded as related party transactions.

For the purpose of related party disclosure, the Group has identified to the extent practicable whether its customers and suppliers are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structures and the ownership structures change over time as a result of transfers and privatisation programs. The Group has certain transactions with other state-owned enterprises including but are not limited to sales and purchases of goods and services, payments for utilities, acquisition of property interests, depositing and borrowing money and entering into derivative financial instruments. In the ordinary course of the Group's businesses, transactions occur with state-owned enterprises.

The more significant transactions with state-owned enterprises are as follows:

(i) As at 31 December 2012, there were derivative liabilities of HK$4,027 million (2011: HK$3,894 million) in relation to outstanding financial instrument transactions with state-owned banks. They are included in the balances disclosed in Note 32.

(ii) Balances (other than derivatives) with state-owned banks

In HK$ million	**2012**	2011
Bank balances and deposits	**20,263**	18,945
Bank loans	**63,550**	73,319

Notes to the Financial Statements

40 Material related party transactions (continued)

(a) Transactions with state-owned enterprises (other than companies within the CITIC Group Corporation) (continued)

(iii) Transactions with China Metallurgical Group

On 24 January 2007, Sino Iron Pty Ltd., a wholly owned subsidiary of the Company, ("Sino Iron") entered into a general construction contract ("the Contract") with China Metallurgical Group Corp., a state-owned enterprise ("MCC"). Pursuant to the Contract, MCC is responsible for the procurement of mining equipment, design, construction and installation of the primary crushing plant, concentrator, pellet plant, material handling system, camp and other auxiliary infrastructure facilities ("the Works to be conducted by MCC") at an amount not exceeding US$1,106 million (approximately HK$8,630 million). The price for the Works to be conducted by MCC is capped and no increase to the contract sum can be made unless otherwise agreed by both parties. On 20 August 2007, Sino Iron entered into supplemental agreements with MCC in relation to, amongst other things, the adjustment to the scope of the works to be conducted by MCC to extend to the second 1 billion tonnes of iron ore to be extracted and the revision of the contract sum to US$1,750 million (approximately HK$13,650 million). On 11 May 2010, Sino Iron and MCC entered into a supplemental contract to increase the contract sum by US$835 million to US$2,585 million due to the changes in the cost structure of the industry.

Sino Iron and MCC also agreed that the remaining works (other than works to be conducted by MCC) shall be contracted out to third parties directly by Sino Iron and such works shall be managed by MCC. Sino Iron agreed to pay 1% of the relevant contract price (excluding any fee for training, interest, transportation, insurance and tax expenses) to MCC as management fees for the MCC managed works.

On 30 December 2011, Sino Iron and MCC entered into a supplemental contract to increase the contract sum by US$822 million to US$3,407 million due to the failure by MCC to take into consideration the full impact of the increase in the construction costs related to mining projects, including labour shortages, higher costs of equipment and construction materials as well as foreign exchange volatility.

In HK$ million	**2012**	2011
Balances with MCC		
Trade, other receivables and prepayment	**–**	7,484
Trade payable and other payable to MCC	**–**	(1,813)
Deposit received from MCC for the acquisition of 20% interest in Sino Iron	**(1,288)**	(2,130)
Transaction with MCC		
Incurred costs on the Contract	**6,487**	5,937

On 20 August 2007, a wholly owned subsidiary of the Company, and MCC entered into an agreement for MCC to purchase 20% of Sino Iron for a consideration equivalent to 20% of all the funds provided to Sino Iron by CITIC Pacific for the development of the iron ore project up to the date of completion, plus interest. As at 31 December 2011, the Group held a deposit of approximately HK$2,130 million from MCC for the acquisition of 20% interest in Sino Iron. As at 31 December 2012, such deposit balance was reduced from approximately HK$2,130 million to approximately HK$1,288 million with the reduced amount being applied by MCC to the Sino Iron Project. The Company will be discussing with MCC in relation to further arrangement on the Sale and Purchase Agreement.

The Group holds 2.13% of MCC shares acquired at MCC's initial public offering.

Notes to the Financial Statements

40 Material related party transactions (continued)

(b) Transactions with other related parties

The Group also had the following significant transactions and balances with other related parties:

In HK$ million	**2012**	2011
Transactions with jointly controlled entities		
(i) Recurring transactions		
Interest income	**151**	270
Dividend income	**2,487**	1,312
Sales	**446**	418
Service income	**14**	20
	3,098	2,020
Purchases	**3,406**	303
Service charges	**59**	79
	3,465	382
Transactions with associated companies		
(i) Recurring transactions		
Dividend income	**198**	166
Sales	**85**	733
Service income	**14**	15
	297	914
Purchases	**190**	69
Rental charge	**16**	69
Service charge	**9**	7
	215	145

Notes to the Financial Statements

40 Material related party transactions (continued)

(c) Transactions with CITIC Group Corporation

In HK$ million	**2012**	2011
Balances with fellow subsidiary companies within CITIC Group Corporation		
(i) Bank balances	**1,058**	632
(ii) Bank loans	**740**	553
(iii) Trade and other payables	**76**	260
(iv) Trade, other receivable and prepayment	**2**	65
Transactions with fellow subsidiary and associated companies within CITIC Group Corporation		
(i) Sales	**2**	102
(ii) Service fee paid	**102**	139

On 2 September 2010, a subsidiary company of the Group, CITIC Telecom proposed to acquire from CITIC Group Corporation (i) a 8.23% equity interest in China Enterprise Communications Ltd. ("CEC"), a then 53.32% owned subsidiary of CITIC Group Corporation, (ii) a 100% equity interest in China Enterprise Netcom Corporation Limited, a then wholly owned subsidiary of CEC, and (iii) the right to purchase an additional 45.09% interest in CEC. Total consideration for the proposed acquisition amounted to HK$167 million. The acquisition of the 100% equity interest in China Enterprise Netcom Corporation Limited was completed on 29 July 2011, and the remaining transaction was completed during the year.

On 15 July 2011, a subsidiary company of the Group entered into a Sale and Purchase Agreement with a subsidiary company of CITIC Group Corporation to dispose of its 50% non-controlling interest in CITIC Guoan Co, Ltd, a jointly controlled entity, at a profit of approximately HK$2.5 billion. The consideration for the disposal is RMB3,511 million. The transaction was completed in June 2012.

On 20 November 2012, a subsidiary company of the Group entered into a capital injection agreement with a subsidiary company of CITIC Group Corporation and 上海信泰置業有限公司. Pursuant to the agreement, the Group injected capital of RMB1,240 million into 上海信泰置業有限公司 and thereby acquire a 99.2% equity interest in 上海信泰置業有限公司. For details, please refer to Note 38(a)(i).

Notes to the Financial Statements

41 Ultimate holding company

The Directors regard CITIC Group Corporation, a wholly state-owned company established under the laws of the PRC, as being the ultimate holding company of the Company.

42 Post balance sheet events

Subsequent to the balance sheet date, a subsidiary company, CITIC Telecom, of the Group entered into two sale and purchase agreements with Sable Holding Limited (a wholly-owned subsidiary of Cable & Wireless Communications Plc) and Portugal Telecom, SGPS, S.A., PT Participações SGPS, S.A. and PT Comunicações, S.A., respectively to acquire their entire interests in Companhia de Telecomunicações de Macau, S.A.R.L. (being a total of 79% interest), for a total cash consideration of approximately HK$9 billion, subject to adjustments as set out in the relevant sale and purchase agreements. Completion of the aforesaid acquisitions are conditional upon each other.

43 Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2013.

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies

The following are the principal subsidiary companies, jointly controlled entities and associated companies which in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of all companies would in the opinion of the directors result in particulars of excessive length.

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Subsidiary %	Particulars of issued shares+ No. of shares	Par value	Principal activities
SPECIAL STEEL							
Subsidiary companies:							
CITIC Pacific Special Steel International Trading Company Limited	British Virgin Islands	100	–	100	1	N/A	Trading
Daye Special Steel Co., Ltd.	People's Republic of China (Sino-foreign joint stock limited company)	58.13	–	58.13	449,408,480	RMB1	Steel making
Hubei Xin Yegang Steel Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Steel making
Jiangsu CP Xingcheng Special Steel Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Steel making
Jiangyin CP Xingcheng By-products Recycling Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Processing and recycling of metal slag and sale of its related recycled products
Jiangyin CP Xingcheng Industry Gas Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Production and sale of oxygen, liquefied oxygen, nitrogen and argon
Jiangyin Xingcheng Metalwork Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Developing and production of alloy and metal hardware
Jiangyin Xingcheng Special Steel Works Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Steel making
Jiangyin Xingcheng Steel Products Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Steel making

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
SPECIAL STEEL (continued)							
Subsidiary companies: (continued)							
Jiangyin Xingcheng Storage and Transportation Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Loading and unloading business
Tongling Xin Yaxing Coking & Chemical Co., Ltd.	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Production and sale of coal gas, coke and chemical related products
Wuxi Xingcheng Steel Products Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Production and sale of ferrous metal materials
中信泰富特鋼經貿有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Wholesale, retail and import/export of steel products, relevant materials and technology
江陰泰富興澄特種材料有限公司	People's Republic of China (Sino-foreign equity joint venture)	100	–	100	N/A	N/A	Production and sale of hot iron and the related products
江陰澄東爐料有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	General sales of scrap steel, alloys and coke
江陰興澄合金材料有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Steel making

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
SPECIAL STEEL (continued)							
Subsidiary companies: (continued)							
湖北中特新化能科技有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Production and sale of coal gas, coke and chemical related products
湖北新冶鋼特種鋼管有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Production of seamless steel tube
銅陵新亞星港務有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Port construction, operation and related service
湖北新冶鋼汽車零部件有限公司	People's Republic of China (Sino-foreign equity joint venture)	80	–	80	N/A	N/A	Production and sale of auto parts like shaft
中信泰富工程技術(上海)有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Engineering service for metallurgy and mining
Associated companies:							
湖北中航冶鋼特種鋼銷售有限公司	People's Republic of China (Sino-foreign equity joint venture)	40	–	40	N/A	N/A	Sale of steel

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
IRON ORE MINING							
Subsidiary companies:							
CITIC Pacific Mining Management Pty Ltd	Australia	100	–	100	1	N/A	Management services and mine planning works services
Korean Steel Pty Ltd	Australia	100	–	100	10,000	N/A	Mining extraction and processing of magnetite
Loreto Maritime Pte. Ltd.	Singapore	100	–	100	3	N/A	Build and own transshipment vessels and related facilities and equipment for iron ore product
MetaGas Pty Ltd	Australia	100	–	100	5,000,010	N/A	Gas procurement and trading
Pacific Resources Trading Pte. Ltd.	Singapore	100	–	100	10,080,001	N/A	General trading and related business
Pastoral Management Pty Ltd	Australia	100	–	100	5,000,010	N/A	Pastoral lease management
Sino Iron Pty Ltd	Australia	100	–	100	11,526	N/A	Construction of major plant and machinery to facilitate the magnetite iron ore project. Holder of 1 billion tonne magnetite iron ore mining right

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Subsidiary %	Particulars of issued shares+ No. of shares	Par value	Principal activities
IRON ORE MINING (continued)							
Subsidiary companies: (continued)							
Sino Iron Holdings Pty Ltd	Australia	100	–	100	2,605,473,744	N/A	Parent company of Sino Iron Pty Ltd, Balmoral Iron Holdings Pty Ltd and Cape Preston Resource Holdings Pty Ltd. No active trading
Bolein Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Burgeon Investments Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Cobikin Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Cosmos Light Holdings Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Silver Bliss Enterprises Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Tridot Enterprises Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Winrich Investments Holdings Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Bright Treasure Assets Holdings Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Long Glory Assets Limited	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Master Champ Assets Ltd.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Palesto Holdings Inc.	British Virgin Islands	100	–	100	1	US$1	Vessel owning
Parmigan Corp.	British Virgin Islands	100	–	100	1	US$1	Vessel owning

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
IRON ORE MINING (continued)							
Subsidiary companies: (continued)							
Cheng Xin Chartering Pte. Ltd.	Singapore	100	–	100	1	N/A	Chartering of vessels
Transshipment Leasing Pte. Ltd.	Singapore	100	–	100	35,000	N/A	Leasing of transshipment assets
Cheng Xin Shipmanagement Pte. Ltd.	Singapore	100	–	100	1	N/A	Management of vessels
Cape Preston Resource Holdings Pty Ltd	Australia	100	–	100	2	N/A	Not active
Pilbara Land Management Pty Ltd	Australia	100	–	100	2	N/A	Not active
PROPERTY							
People's Republic of China							
Subsidiary companies:							
CITIC Pacific (Yangzhou) Properties Co., Ltd.	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
Shanghai Super Property Co., Ltd.	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property investment and management
上海中信泰富廣場有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property investment and management
上海老西門新苑置業有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	100	–	100	N/A	N/A	Property development

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
PROPERTY (continued)							
People's Republic of China (continued)							
Subsidiary companies: (continued)							
上海珠街閣房地產開發有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	84.52	15.48	N/A	N/A	Property development
上海利通置業有限公司	People's Republic of China (Sino-foreign equity joint venture)	100	96.93	3.07	N/A	N/A	Property development
中信泰富（上海）物業管理有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property management
江陰興澄置業有限公司	People's Republic of China (Limited liability company)	100	–	100	N/A	N/A	Property development
無錫太湖景發展有限公司	People's Republic of China (Sino-foreign equity joint venture)	70	–	70	N/A	N/A	Sports related services
無錫太湖苑置業有限公司	People's Republic of China (Sino-foreign equity joint venture)	70	–	70	N/A	N/A	Property investment and development
中信泰富萬寧發展有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
中信泰富萬寧(聯合)開發有限公司	People's Republic of China (Limited liability company)	80	–	80	N/A	N/A	Property development
海南中泰物業服務有限公司	People's Republic of China (Limited liability company)	100	–	100	NA	N/A	Property management

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
PROPERTY (continued)							
People's Republic of China (continued)							
Subsidiary companies: (continued)							
萬寧中意發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧中榮發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧中宏發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧仁和發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧仁信發展有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
萬寧百納發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧金信發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧金誠發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
萬寧創遠發展有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
PROPERTY (continued)							
People's Republic of China (continued)							
Subsidiary companies: (continued)							
中信泰富萬寧瑞安發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
中信泰富萬寧天富發展有限公司	People's Republic of China (Sino-foreign co-operative joint venture)	99.9[1]	–	99.9	N/A	N/A	Property development
寧波信富置業有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
上海嘉頤房地產開發有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
上海嘉逸房地產開發有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
上海嘉諧房地產開發有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
紀亮(上海)房地產開發有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development
尊創(上海)賓館有限公司	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Property development

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
PROPERTY (continued)							
People's Republic of China (continued)							
Subsidiary companies: (continued)							
揚州信泰房地產開發有限公司	People's Republic of China (Limited liability company)	100	–	100	N/A	N/A	Property investment and development
中信泰富(上海)商業資產管理有限公司	People's Republic of China (Limited liability company)	100	–	100	N/A	N/A	Entrusted asset management
上海信泰置業有限公司	People's Republic of China (Limited liability company)	99.2	–	99.2	N/A	N/A	Property investment and development and provision of property management services
Jointly controlled entities@:							
上海瑞明置業有限公司	People's Republic of China (Sino-foreign equity joint venture)	50	50	–	–	–	Property development
上海瑞博置業有限公司θ	People's Republic of China (Sino-foreign equity joint venture)	50	50	–	–	–	Property development
中船置業有限公司θ	People's Republic of China (Sino-foreign equity joint venture)	50	50	–	–	–	Property development
Hong Kong							
Subsidiary companies:							
Borgia Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Famous Land Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Glenridge Company Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Hang Luen Chong Investment Company, Limited	Hong Kong	100	–	100	80,000	HK$100	Property investment

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
Hong Kong (continued)							
Subsidiary companies: (continued)							
Hang Luen Chong Property Management Company, Limited	Hong Kong	100	–	100	2	HK$1	Property management
Hang Wah Chong Investment Company Limited	Hong Kong	100	–	100	50,000	HK$100	Property investment
Lindenford Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Neostar Investment Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Pacific Grace Limited	Hong Kong	100	–	100	2	HK$1	Property investment
Tendo Limited	Hong Kong	100	–	100	2	HK$10	Property investment
Associated companies:							
CITIC Tower Property Management Company Limited	Hong Kong	40	–	40	–	–	Property management
Goldon Investment Limited	Hong Kong	40	–	40	–	–	Property investment
Hong Kong Resort Company Limited θ	Hong Kong	50	–	50	–	–	Property development
Konorus Investment Limited θ	Hong Kong	15	–	15	–	–	Property investment and development
Shinta Limited	Hong Kong	20	–	20	–	–	Property investment
ENERGY							
Subsidiary company:							
Sunburst Energy Development Co., Ltd.	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Investment holding

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares[+] No. of shares	Particulars of issued shares[+] Par value	Principal activities
ENERGY (continued)							
Jointly controlled entities [@]:							
Huaibei Go-On Power Company Ltd.	People's Republic of China (Sino-foreign equity joint venture)	12.5	–	12.5	–	–	Building, possession and operation of power plant and sale of electricity
Inner Mongolia Electric Power (Holdings) Company Limited	People's Republic of China (Sino-foreign equity joint venture)	35	–	35	–	–	Coal-fired power station operation and management
Jiangsu Ligang Electric Power Company Limited	People's Republic of China (Sino-foreign equity joint venture)	65.05	–	65.05	–	–	Electric power plant construction and operation
Jiangyin Ligang Electric Power Generation Company Limited [θ]	People's Republic of China (Foreign investment stock company)	71.35	–	71.35	1,420,000,000	RMB1	Electric power plant construction and operation
Widewin Investments Limited [θ]	British Virgin Islands	37.5	–	37.5	–	–	Investment holding
山東新巨龍能源有限責任公司	People's Republic of China (Sino-foreign equity joint venture)	30	–	30	N/A	N/A	Coal ores construction and sales
CIVIL INFRASTRUCTURE							
TUNNELS							
Subsidiary company:							
New Hong Kong Tunnel Company Limited	Hong Kong	70.8	–	70.8	75,000,000	HK$10	Tunnel operation
Jointly controlled entity [@]:							
Western Harbour Tunnel Company Limited [θ]	Hong Kong	35	–	35	–	–	Franchise to construct and operate the Western Harbour Crossing

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
ENVIRONMENTAL							
Jointly controlled entities @:							
Changzhou CGE Water Co., Ltd.	People's Republic of China (Sino-foreign equity joint venture)	24.01	–	24.01	–	–	Production and supply of tap water
Ecoserve Limited	Hong Kong	50	–	50	–	–	Design, construction and operation of refuse transfer station
Veolia Water (Kunming) Investment Limited	Hong Kong	25	–	25	–	–	Investment holding
Associated companies:							
Green Valley Landfill, Limited	Hong Kong	30	–	30	–	–	Landfill construction and operation
South China Transfer Limited	Hong Kong	30	–	30	–	–	Design, construction and operation of transfer station
CITIC Telecom International Holdings Limited (Listed In Hong Kong) #*	Hong Kong	60.57	–	60.57	2,386,675,370	HK$0.10	Investment holding
Dah Chong Hong Holdings Limited (Listed In Hong Kong) #	Hong Kong	55.68	–	55.68	1,829,743,000	HK$0.15	Investment holding

Notes to the Financial Statements

44 Principal subsidiary companies, jointly controlled entities and associated companies (continued)

Name	Place of incorporation/ principal place of operation (kind of legal entity)	Attributable to the Group %	Interest in equity shares held by Company %	Interest in equity shares held by Subsidiary %	Particulars of issued shares+ No. of shares	Particulars of issued shares+ Par value	Principal activities
OTHER INVESTMENTS							
Subsidiary companies:							
CITIC Pacific China Holdings Limited	People's Republic of China (Wholly foreign-owned enterprise)	100	–	100	N/A	N/A	Investment holding
CITIC Pacific Communications Limited	Bermuda	100	–	100	100,000	HK$1	Investment holding
CITIC Pacific Finance (2005) Limited	British Virgin Islands	100	100	–	1	US$1	Financing
Dah Chong Hong (Engineering) Limited	Hong Kong	100	–	100	1,551,000	HK$100	Engineering services
Jointly controlled entities @:							
CITIC Capital Holdings Limited	Hong Kong	21.39	–	21.39	–	–	Investment holding
上海國睿生命科技有限公司	People's Republic of China (Sino-foreign equity joint venture)	24.94	24.94	–	–	–	Research and development of tissue engineering products
Associated company:							
Cheer First Limited θ	Hong Kong	40	–	40	–	–	Financing

Note:

+ Represents ordinary shares, unless otherwise stated.

θ Affiliates which have been given financial assistance by the Company or its subsidiaries at 31 December 2012.

Subsidiaries separately listed on the main board of the Hong Kong Stock Exchange and including their respective group companies.

@ In accordance with the respective joint venture agreements, none of the participating parties has unilateral control over the economic activity.

1 Under the terms of the co-operative joint venture agreement, the Company is entitled to 80% of the distributable profit of the joint venture.

* On 21 February 2013, all the conditions precedent of the Sale and Purchase Agreement had been fulfilled and the transaction was completed. CITIC Telecom has ceased to be a subsidiary of the Company. As a result, the financial results of CITIC Telecom will no longer be consolidated with that of the Group and the Company expects to equity account for its shareholding in CITIC Telecom.

Independent Auditor's Report

To The Shareholders of CITIC Pacific Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC Pacific Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 154 to 260, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2013

Major Properties Held by the Group

as at 31 December 2012

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross area# (sq. m.)	Existing use
	Major Properties Held for Investment				
1.	CITIC Square, 1168 Nanjing Xi Lu, Jingan District, Shanghai, the PRC	2044	100	114,000	Office and Retail
2.	Royal Pavilion, 688 Hua Shan Lu, Jingan District, Shanghai, the PRC	2063	100	35,000	Serviced Apartment
3.	New Westgate Garden, Retail portion (Phase 1), Xi Zang Nan Lu/Jian Guo Dong Lu, Huang Pu District, Shanghai, the PRC	2072	100	23,000	Retail
4.	Pacific Plaza, Tower A, Jiang Dong District, Ningbo, the PRC	2046	100	49,000	Office and Retail
* 5.	Skyway House, 3 Sham Mong Road, Kowloon, H.K. KIL No. 9706 & the extension thereto	2041	100	29,000	Office and Retail
6.	Block C of Yee Lim Industrial Centre, 2-28 Kwai Lok Street, and 2-6 Kwai Hei Street, Kwai Chung, H.K. KCTL No. 333	2047	100	30,000	Cold Storage and Godown
7.	Wyler Centre 1, Basement workshops and Parking Spaces Nos P50 and P51 of Wyler Centre 2, 192-210 Tai Lin Pai Road, Kwai Chung, H.K. the Remaining Portion of KCTL No. 130 & the extension thereto	2047	100	37,000	Industrial
8.	Portion of CITIC Telecom Tower, No. 93 Kwai Fuk Road, Kwai Chung, H.K. KCTL No. 435	2047	100	21,000	Industrial
9.	111 Lee Nam Road, Ap Lei Chau, H.K. ALCIL No. 124	2047	100	60,000	Motor Services and Godown
10.	DCH Commercial Centre, No. 25, Westlands Road, H.K. IL No. 8854	2047	100	36,000	Office and Retail
11.	CITIC Tower, No. 1 Tim Mei Avenue, Central, H.K. IL No. 8822	2047	40	52,000	Office and Retail

** excluding a petrol filling station on the ground floor with an ancillary storage tank in part of the basement and a storeroom on the first floor*

 # area for lease

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross area# (sq. m.)	Existing use
	Major Properties Held for Sale				
1	Zhujiajiao New Town, Qing Pu District, Shanghai, the PRC	2046 –2076	100	13,700	Residential and Retail
2.	The Centre, Jiading District, Shanghai, the PRC	2046 –2076	100	1,800	Residential and Retail
3.	CITIC Plaza Shenhong, 1350 Sichuan Bei Lu, Hong Kou District, Shanghai, the PRC	2047 –2057	100	64,000	Office and Retail
4.	Noble Manor, Yangzhou, the PRC	2045 –2076	100	18,400	Residential and Retail
5.	Taihu Jinyuan, Wuxi, the PRC	2043 –2073	70	118,200	Residential and Retail
6.	The Sunbury, Shenzhou Peninsula, Wanning, Hainan, the PRC	2077	99.9	8,500	Residential

 # area for sale

Major Properties Held by the Group

as at 31 December 2012

Location/Lot no.	Stage of completion	Estimated completion date	Classification	Leasehold expiry	Group's interest %	Approximate site area (sq. m.)	Approximate gross floor area* (sq. m.)
Major Properties Under Development							
1. New Westgate Garden, Phase 2, Xi Zang Nan Lu/ Jian Guo Dong Lu, Huang Pu District, Shanghai, the PRC	Resettlement in progress	2017	Residential & Retail	2072	100	35,300	137,300
2. Lu Jia Zui New Financial District Project, Shanghai, the PRC	Phase 2 Construction in progress	in phases from 2011 onwards	Office, Residential & Retail	2044 –2074	50	198,900	583,800
3. Zhujiajiao New Town, Qing Pu District, Shanghai, the PRC	Construction in progress	in phases from 2009 onwards	Residential, Hotel & Retail	2046 –2078	100	518,700	385,500
4. The Centre, Jiading District, Shanghai, the PRC	Phase 2 Construction in progress	in phases from 2011 onwards	Office, Hotel, Residential & Retail	2046 –2076	100	121,400	445,300
5. Commercial Development, in Area B of Shanghai World Expo site, Pudong, Shanghai, the PRC	Design in progress	2016	Office & Retail	2061	99.2	12,500	57,700
6. Noble Manor, Yangzhou, the PRC	Phase 4 Design in progress	in phases from 2009 onwards	Residential	2045 –2076	100	141,300	152,000
7. Xing Cheng Jinyuan, Jiangyin, the PRC	Phase 2 Design in progress	in phases from 2011 onwards	Retail	2046	100	15,000	18,100
8. Resort Development, Shenzhou Peninsula, Wanning, Hainan, the PRC	Construction in progress	in phases from 2011 onwards	Residential, Hotel, Retail & Recreation	2057 –2079	80–100	3,898,100	1,578,600
9. Redevelopment at 109-135 Kadoorie Avenue, Kowloon, H.K.	Construction in progress	2015	Residential	2081	100	5,400	14,200

** permitted gross floor area*

	Leasehold expiry	Group's interest %	No. of guest room
Major Hotels in Operation			
1. Sheraton Shenzhou Peninsula Resort, Shenzhou Peninsula, Wanning, Hainan, the PRC	2057	99.9	308
2. Four Points By Sheraton Shenzhou Peninsula, Shenzhou Peninsula, Wanning, Hainan, the PRC	2057	99.9	338

Definition of Terms

Terms

Total debt	Short-term and long-term loans, notes and bonds
Net debt	Total debt less cash less bank deposits
Total capital	Total ordinary shareholders' funds and perpetual capital securities plus net debt
Cash inflows	Cash inflows represent cash generated from business operations after income taxes paid, and other cash inflows which principally include dividends from associated companies and jointly controlled entities, proceeds from divestments of businesses, sales of listed investments and sales of fixed assets and investment properties
EBITDA	Earnings before interest expense, taxation, depreciation and amortisation
Contribution by business	Segment profit/(loss) attributable to shareholders as described in Note 5 to the accounts on page 181

Ratios

Earnings per share	Profit attributable to shareholders divided by the weighted average number of shares (by days) in issue for the year
Leverage	Net debt divided by total capital

Corporate Information

Headquarters and Registered Office

32nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Telephone: +852 2820 2111
Fax: +852 2877 2771

Website

www.citicpacific.com contains a description of CITIC Pacific's business, copies of both the full and summary reports to shareholders, announcements, press releases and other information.

Stock Codes

The Stock Exchange of Hong Kong:	00267
Bloomberg:	267 HK
Reuters:	0267.HK
American Depositary Receipts:	CTPCY
CUSIP Reference No:	17304K102

Share Registrar

Shareholders should contact our Registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at +852 2980 1333, or by fax at +852 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

Investor Relations

Investors, shareholders and research analysts may contact our Investor Relations Department by telephone at +852 2820 2205, or by fax at +852 2522 5259 or by email at investor.relations@citicpacific.com.

Financial Calendar

Closure of Register:
(for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting)
13 May 2013 to 16 May 2013 (both days inclusive)

Closure of Register:
(for the purpose of ascertaining shareholders' entitlement to the proposed final dividend)
23 May 2013 to 27 May 2013 (both days inclusive)

Annual General Meeting:
16 May 2013, 11:00 a.m.
Granville and Nathan Room, Lower Lobby,
Conrad Hong Kong, Pacific Place,
88 Queensway, Hong Kong

Dividend payment: 5 June 2013

Annual Report 2012

Our Annual Report is also available as a Summary Financial Report. Both documents are printed in English and Chinese and are available on our website at www.citicpacific.com under the 'Investors' section.

Shareholders may choose to receive the Summary Financial Report or the Annual Report in printed form in either English or Chinese or both or by electronic means. Shareholders may at any time change their choice on these matters by writing to CITIC Pacific's Share Registrar.

Shareholders having difficulty in gaining access to these documents will promptly be sent printed copies free of charge upon request to CITIC Pacific's Share Registrar.

Non-shareholders are requested to write to the Company Secretary, CITIC Pacific Limited, 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, or by fax at +852 2877 2771 or by email at contact@citicpacific.com.

CITIC Pacific Ltd

32nd Floor, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

Tel +852 2820 2111
Fax +852 2877 2771

www.citicpacific.com

Stock code 00267