CITIC PACIFIC

Half-Year Report 2012

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:

- We are 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.
- We are also the biggest dedicated special steel manufacturer in China.
- Our property projects enjoy prime locations in China's economic centers.

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.

Special Steel

23% of assets

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 wires and bars, 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

31% of assets

The Sino Iron project is 100% owned by CITIC Pacific, which has rights 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.

Sino Iron has dedicated infrastructure facilities that include a power station, a desalination plant and a large scale port. Once in operation, in conjunction with 12 ships for iron ore delivery, Sino Iron will ensure a stable, quality supply of iron ore to CITIC Pacific's special steel plants, as well as other steel producers in China.

Property

mainland China

16% of assets

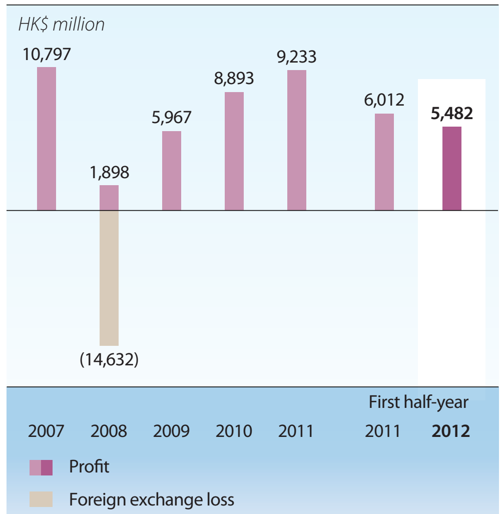
CITIC Pacific focuses on developing medium and large-scale projects in mainland China. Properties are located in prime areas of Shanghai and major cities in the Yangtze River delta area and Hainan Province. Some key projects currently under development include a resort in Shenzhou Peninsula of Hainan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

Content

Financial Highlights

In HK$ million	Half-year ended 30 June 2012	2011	Increase/ (Decrease) %
Profit attributable to ordinary shareholders	**5,482**	6,012	(9)
Special steel	**524**	1,398	(63)
Iron ore mining	**(110)**	(370)	70
Mainland China property	**549**	1,707	(68)
Gain on disposal of assets	**2,494**	296	743
Cash inflows from business operations	**1,243**	5,023	(75)
Other cash inflows	**5,331**	2,048	160
Capital expenditure	**13,435**	10,882	23
EBITDA[1]	**9,612**	10,550	(9)
Earnings per share (HK$)	**1.50**	1.65	(9)
Dividends per share (HK$)	**0.15**	0.15	–

Profit attributable to ordinary shareholders



In HK$ million	As at 30 Jun 2012	As at 31 Dec 2011	Increase/ (Decrease) %
Total assets	**246,321**	229,739	7
Net debt	**76,829**	67,777	13
Cash and bank deposits	**35,607**	30,930	15
Available committed banking facilities	**15,513**	15,350	1
Total ordinary shareholders' funds and perpetual capital securities	**83,434**	80,958	3
Net debt to total capital[2] (%)	**48**	46	

Notes:

1 Earnings before interest expense, taxation, depreciation and amortisation

2 Net debt to total capital = Net debt/(Equity + net debt)

Net debt = Debt – cash and bank deposits

Equity = total ordinary shareholders' funds and perpetual capital securities

Total assets

Chairman's Letter to Shareholders

Dear Shareholders,

Despite considerable economic uncertainty and slowing growth in global markets in the first half of 2012, CITIC Pacific recorded a profit attributable to ordinary shareholders of HK$5,482 million, 9% lower than in the same period of 2011. Included in this result is HK$2,494 million from the sale of our interest in CITIC Guoan and an investment property revaluation of HK$909 million. Excluding these items, profit from continuing business activities declined significantly, primarily due to lower profit contribution from the special steel business as margins were reduced. However, we retained our market leadership in that sector and performed considerably better than many of our peers, recording profits month-by-month. Income from our mainland China development properties was also less in comparison to last year's high base, which included the delivery of two office buildings in Shanghai.

Our Finances

Our company's financial flexibility was further enhanced in the past six months with an addition of HK$33 billion in new financing including a total of US$1.1 billion bonds and a HK$7.1 billion syndicated loan. This is a testament to the confidence that investors and the market have in our company and our businesses.

The sale of our 50% interest in CITIC Guoan that we agreed in 2011 was completed in June with the receipt of HK$4 billion equivalent in cash. At the end of June, our cash, bank deposits and available committed facilities totalled HK$51 billion. Gearing was 48%, which is higher than ideal but not a concern to us because it is within the plan.

Financially, we are in a comfortable position to meet all our investment needs and repay maturing debts this year. Our treasury team structures our debt profile so that the amount maturing each year does not exceed our ability to raise new funds in subsequent years.

The board is recommending an interim dividend of HK$0.15 per share.

Our Businesses

Iron Ore Mining

Since the beginning of the year, significant progress has been made on the Sino Iron project, a result of the hard work and commitment of our CITIC Pacific Mining team and all of our contractors.

The Sino Iron project is Australia's first large-scale, fully integrated magnetite mining and processing project and is pioneering the growth of a new industry in the country.

The infrastructure required for the project is enormous in scale and scope. Our construction efforts include building the mine pit; the processing area, which comprises crushers and the world's largest grinding mills; 30-kilometre slurry and water pipelines; a power plant that is the largest and cleanest in the Pilbara in Western Australia; a 51-gigalitre desalination plant, which creates a fresh water supply for the project; and a new port, the first to be built in the area in nearly 40 years.

Physical construction of the first production line is now complete, and commissioning of all individual components is well underway. Power is being generated 24 hours a day, and the supply of fresh water from the desalination plant will start in a month. Construction of common facilities for all six lines is also nearing completion.

However, we will not be able to meet our target of integrated commissioning and beginning trial production of the first production line by the end of August, despite the deadline that China Metallurgical Group Corporation ("MCC") committed to. MCC is the contractor responsible for the processing area, which remains the primary cause of the delay. I will, in later paragraphs, talk about some of the key reasons why this happened, and I will outline what we are doing to best deal with the situation in order to reach our target of beginning first line production.

Our team recently held another detailed review with MCC and went through all the milestones that need to be met in order to achieve first production. Based on our discussions, integrated commissioning of the first production line is planned to begin in October and trial production is expected to start in November.

Commissioning is the process of verifying that the plant has been built according to the engineering drawings, documenting the process, testing the control systems, and finally test running. This begins with individual components, and when they can all run smoothly on their own then commissioning of the whole production line can begin. The current status of the main components is as follows:

Component	Status
Mining	Pre-stripped 153 million tonnes of material Accumulated 5 million tonnes of magnetite ore Ready for the operation of the first production line
Power plant	Now generating continuous power 24 hours a day
Desalination plant	Ready to supply fresh water in September
Slurry and water pipelines	Pressure tested and ready to operate
Dewatering plant	First unit is expected to be in operation in November
Port	Port facilities are expected to be ready for operation by mid-September Barges are ready Tugs and transshippers will be ready by September
Stackers/ reclaimer	Ready for testing
Tailings area	First tailing area ready
Crusher	First crusher is ready for testing
Concentrator area	First production line is being commissioned First conveyor is under commissioning

Chairman's Letter to Shareholders

As you can deduce from the table above, the majority of the components are undergoing commissioning or are ready to begin operations. There is no question that tremendous progress has been made in the last six months. However, it is also a fact that we will not be able to produce iron ore later this month, which is a disappointment to us and to you.

There are a number of reasons for the delay, and our CITIC Pacific Mining team has been working closely with MCC to resolve all the issues. I would like to share with you some of the challenges we faced, which ranged from inexperience to equipment delivery delays caused by extreme weather such as cyclones.

I have spoken before that as pioneers in developing the world's largest magnetite iron ore mine we have faced unpredictable challenges in completing a project of this scale. MCC, although an experienced contractor in China, the complications and the amount of work involved in building such a large and complex project in Australia far exceeded their expectations.

The main difficulties in commissioning the project include the following: First, the commissioning process for an iron ore mine in Australia is very different from that in China. There are strict commissioning requirements, ranging from the certification of construction completion documents by licensed Australian engineers to meeting stringent safety regulation standards. Second, commissioning of control systems such as "e-houses" must be done by qualified Australian electricians. Given the mining boom in Australia in recent years, there has been a particularly acute shortage of these technicians. Third, commissioning also requires the assistance of equipment service providers, of which there are hundreds, and the on-going need to process the visas of these workers has continued to be complicated and time consuming.

As the employer of MCC, we do bear our share of the responsibility. But at this point, the end is in sight. We have been working closely with MCC to facilitate resolution of all remaining obstacles they face to meet their obligations to us. MCC has assigned many more personnel to the task, and many vendors have also sent experienced staff. We have also been recruiting to fill critical positions for the commencement of operations. The majority of people who will fill these positions have been recruited from within Australia. Additionally, we have secured the services of a number of magnetite processing experts from China, who will play a key role in the transfer of the requisite specialist skills and knowledge.

Bringing the first line into production as soon as possible continues to be the top priority for our company and our management team. Personally, I have used the majority of the time I spend as CITIC Pacific Chairman on this project. I have frequent dialogues and hold regular meetings with the senior management of MCC, and I have visited Perth and the mine site three times in the last six months to review progress with MCC and our team. We remain firmly committed to what we set out to do.

Special Steel

In general, there was lower market demand for steel products, both domestically and overseas, in the first six months of 2012. This resulted in losses for many steel producers. In contrast, CITIC Pacific Special Steel as the market leader remained profitable every month during this period. However, profit contribution from this business decreased 63% from the same period in 2011 as product prices remained low and margins were reduced, even though sales volume was above last year's level.

We expect the rest of 2012 will continue to be tough for this business. The increase in steel-making capability in China has also created a situation of over-capacity, which poses challenges to all steel manufacturers particularly when market demand is weak. As China's largest dedicated special steel producer, CITIC Pacific Special Steel is well positioned in the market it serves and will continue to leverage its expertise and know-how to remain profitable in a difficult operating environment. China's transition from an investment-driven economy to a consumer-oriented one will also create opportunities for our special steel business as demand for higher end products increases.

Property in mainland China

Residential property sales in mainland China continued to be affected by measures put in place by the government. Our projects in Shanghai's Qingpu and Jiangsu's Wuxi sold at a slow pace. On the other hand, our developments in Yangzhou, Jiangsu province and Hainan's Shenzhou Peninsula have been selling satisfactorily as there are no purchasing restrictions where the projects are located.

The situation is quite different for our office and commercial projects, where demand is strong. The first two towers of our Shanghai Lu Jia Zui financial district project were delivered in the first half of 2011 to Agricultural Bank of China and China Construction Bank. We continue to see strong interest from other financial institutions that would like us to build their regional headquarters in the area. The result is that we have signed sales agreements of approximately HK$13 billion with two banks for whom we will be building two more office towers. Construction of these two towers has already begun.

Looking at our other businesses, energy had a lower profit contribution in the first six months, mainly due to decreased electricity generated at our main asset – Ligang Power Station – and decreased contribution from our coal mine. Our two listed companies, Dah Chong Hong and CITIC Telecom, as well as the two tunnels in Hong Kong continued to generate stable profits and deliver cash to our company.

Our Objectives for the Rest of 2012

Our top priority and key focus remain steadfastly on bringing the Sino Iron project into production so it can begin generating cash and contributing to our bottom line.

The uncertain global economic environment and the slower growth of the Chinese economy will no doubt affect our businesses. The goal we set for ourselves is that our businesses have to perform better than our competitors and must strive to be leaders in their respective fields. I am pleased to say that our special steel business has done just that. Our colleagues in special steel have been achieving profit month by month, when most others are doing poorly. It is in these difficult times that our resilience and strength shine through, and I have every confidence that our company will ride through this challenging period and come out stronger and better.

On behalf of the board, I would like to thank our employees, our investors and lenders for their continued support and faith in our long-term business prospects.

Chang Zhenming
Chairman
Hong Kong, 16 August 2012

Financial Review

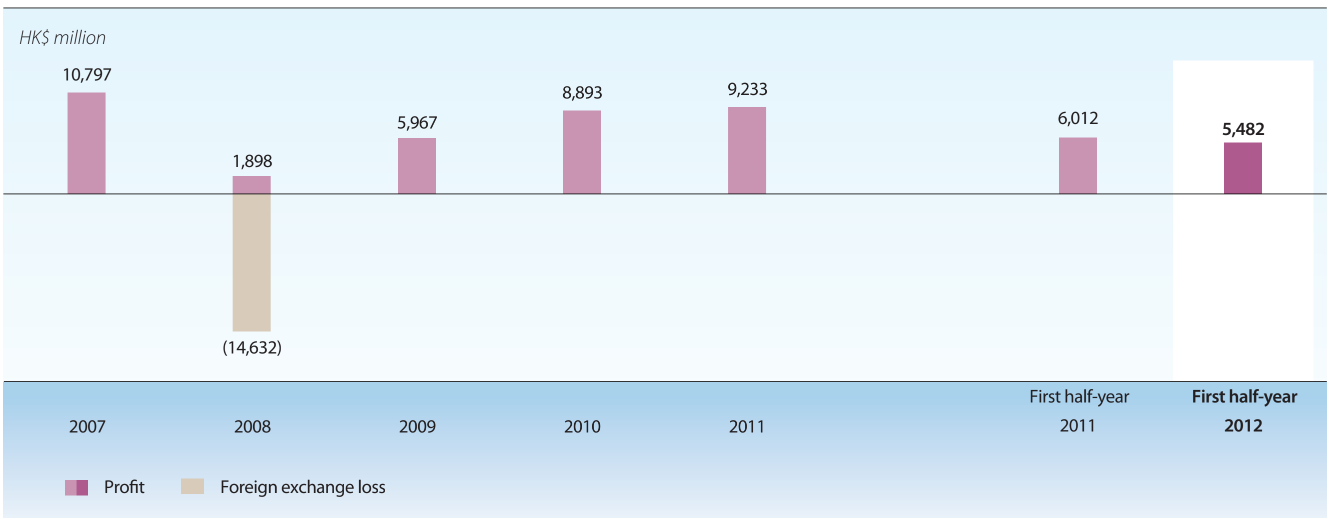
Summary

As a direct result of the ongoing global economic weakness and lower economic growth in mainland China, the contribution from our core businesses slowed in the first half of 2012. Earnings from continuing business operations dropped by 46% to HK$2,504 million, resulting mainly from a decrease in the contribution of special steel and property businesses in China. Including the one-off items of HK$3,403 million, total profit attributable to ordinary shareholders reduced 9% to HK$5,482 million.

Financial Results

	Half-year ended 30 June				Note to the Financial
In HK$ million	**2012**	2011	Increase/(Decrease)		Statements
Revenue	**49,919**	45,940	3,979	9%	2
Profit from consolidated activities	**5,964**	5,554	410	7%	
Gain on disposal of assets	**2,494**	296	2,198	743%	
Change in fair value of investment properties	**901**	1,338	(437)	(33)%	
Net finance charges	**(244)**	(65)	179	275%	5
Taxation	**(950)**	(1,422)	(472)	(33)%	6
Profit attributable to ordinary shareholders	**5,482**	6,012	(530)	(9)%	

Profit attributable to ordinary shareholders



Earnings per share

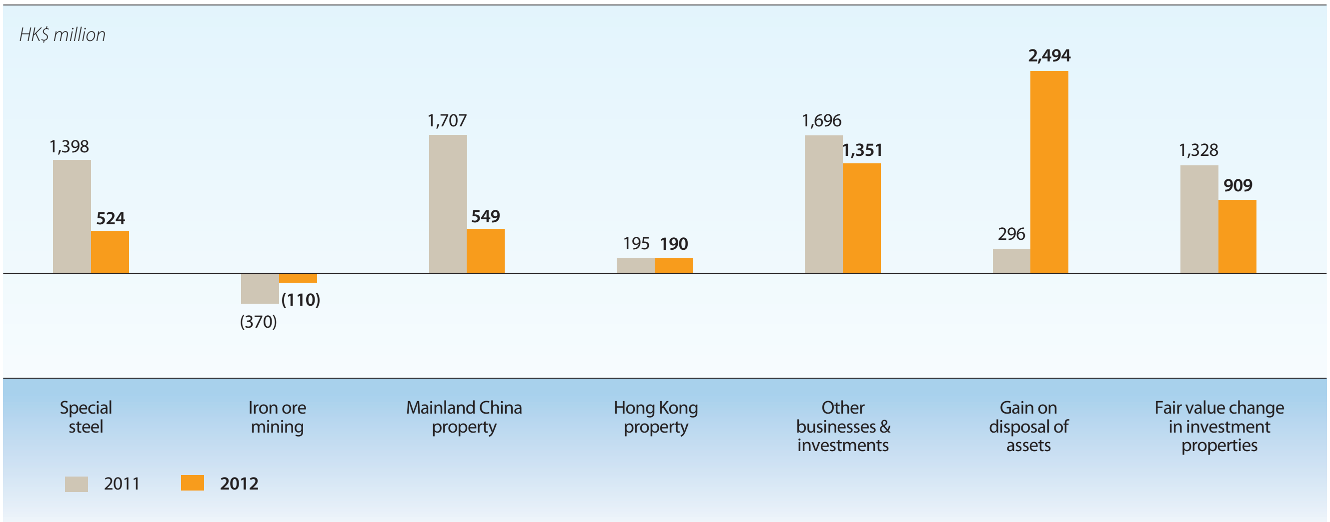
Earnings per share were HK$1.50 in the first half of 2012 compared with HK$1.65 in the first half of 2011, a decrease of 9%. The number of shares outstanding was 3,649,444,160 at both 30 June 2011 and 2012.

Contribution and assets by business

In HK$ million	Contribution Half-year ended 30 June 2012	Contribution Half-year ended 30 June 2011	Assets As at 30 June 2012	Assets As at 31 December 2011
Special steel	**524**	1,398	**57,532**	56,273
Iron ore mining*	**(110)**	(370)	**76,449**	66,997
Mainland China property	**549**	1,707	**39,629**	40,352
Hong Kong property	**190**	195	**14,836**	14,004
Energy	**500**	824	**9,309**	8,910
Tunnels	**273**	244	**2,089**	1,977
Dah Chong Hong	**346**	328	**21,948**	20,822
CITIC Telecom	**154**	152	**3,362**	3,354
Other investments	**78**	148	**3,643**	5,865
Continuing business operations	**2,504**	4,626	**228,797**	218,554
Gain on disposal of assets	**2,494**	296		
Fair value change in investment properties	**909**	1,328		
Others	**(425)**	(238)		
Profit attributable to ordinary shareholders	**5,482**	6,012		

* for the purpose of segment analysis, Iron ore mining includes the mining operation in Western Australia, the 8 ships delivered to transport our mine's iron ore to China, and the cost of mining rights

Contribution by business



Special steel: A total of 3.87 million tonnes of special steel products were sold during the period, 12% more than last year, although most of the volume increase was from steel billets, which commanded lower prices. The overall price of our products declined 11% in the first half from a year ago, which led to the gross profit in 2012 being reduced because the average margin fell due to a lower average selling price, as a result of both weaker demand and new plate products being tested by customers subsequent to certification.

Financial Review

Iron ore mining: Construction of the iron ore mine in Australia continued throughout the period. Four vessels were delivered in the period and eight were operating at 30 June 2012. A loss of HK$110 million was recorded, which represented by an operating loss of vessels to be used to carry our iron ore but currently chartered to third parties, and non-capitalised bank loan interest attributable to the assets of the pre-stripping operations at the mine. The loss in the first half of 2011 was due primarily to the provision for a mismatch between the supply of gas under the current contract and the revised timetable for completion of the iron ore mine.

Mainland China property: Net contribution in the sector during the first half of 2012 was much lower than 2011. Two towers at our Lujiazui office development in Shanghai were delivered in 2011. Leasing business was comparatively steady. Our commercial investment properties, CITIC Square and Westgate, were fully leased, and Royal Pavilion and Ningbo Pacific Plaza had occupancy rates of approximately 90% and 75% respectively at 30 June 2012.

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Sales	**465**	1,532	(1,067)	(70)%
Leasing	**212**	216	(4)	(2)%
Others and operating expenses	**(128)**	(41)	(87)	(212)%
Total	**549**	1,707	(1,158)	(68)%

Hong Kong property: Earnings of leasing business benefited from rising rental and higher occupancy rates of our investment properties in Hong Kong.

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Sales	**1**	18	(17)	(94)%
Leasing	**189**	177	12	7%
Total	**190**	195	(5)	(3)%

Energy: The energy division in overall showed a 39% decrease. The power generation business contributed less resulting from two power units at Ligang plant in Jiangsu upgrading their flue-gas denitrification systems and were offline for three months, and the end of an income tax concession in 2011, partly offset by uplift of electricity tariffs. Full operations of the two power units were resumed in June. Lower earnings of the coal mine in Shandong were due to a drop in both coal prices and sales volume, as a result of the slowing economy.

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Power generation	**214**	423	(209)	(49)%
Coal	**286**	401	(115)	(29)%
Total	**500**	824	(324)	(39)%

Tunnels: Higher earnings were mainly attributable to increased traffic flow between Hong Kong and Kowloon. Average daily traffic for the Eastern and Western Harbour Tunnels increased 2% and 6% respectively as compared to the first half of 2011.

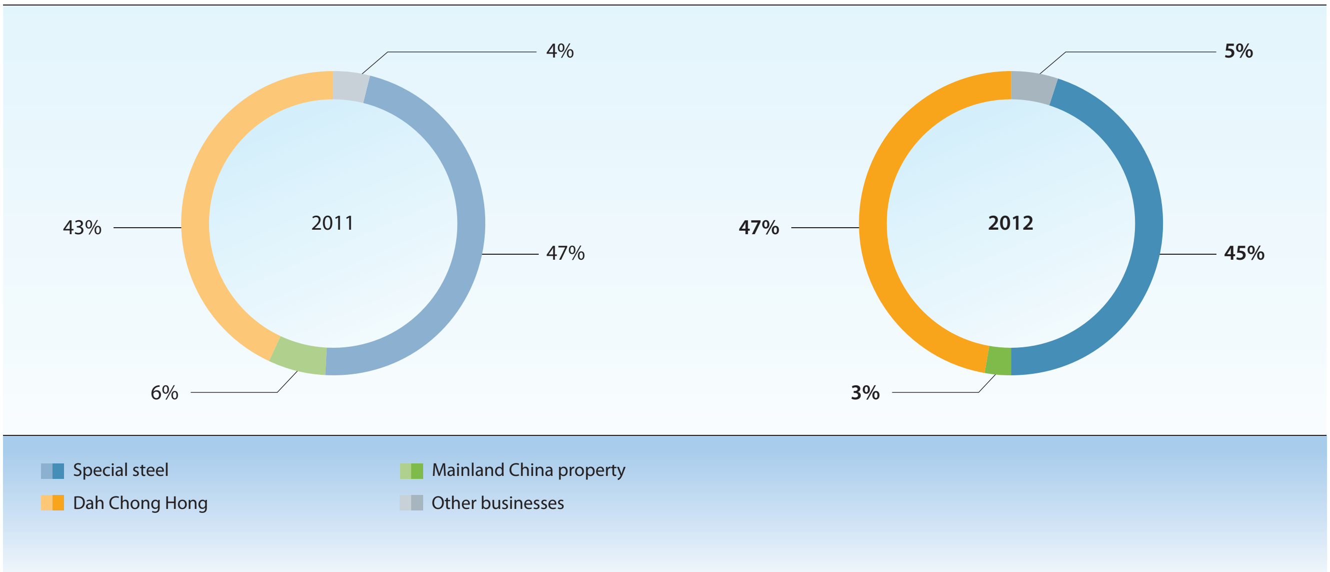
Dah Chong Hong: The 5% increase in contribution was attributable to the growth of the food and consumer products businesses in both Hong Kong and the PRC, and a remeasurement gain of an investment property classified as asset held for sale recognised in 2012, but offset by the slowing down of the automobile market in the PRC affecting the gross margin on new car sales.

CITIC Telecom: Earnings shared from CITIC Telecom increased by 1% mainly due to the growth of business which was partly offset by the increase in depreciation and amortisation expenses, and other operating expenses.

Revenue

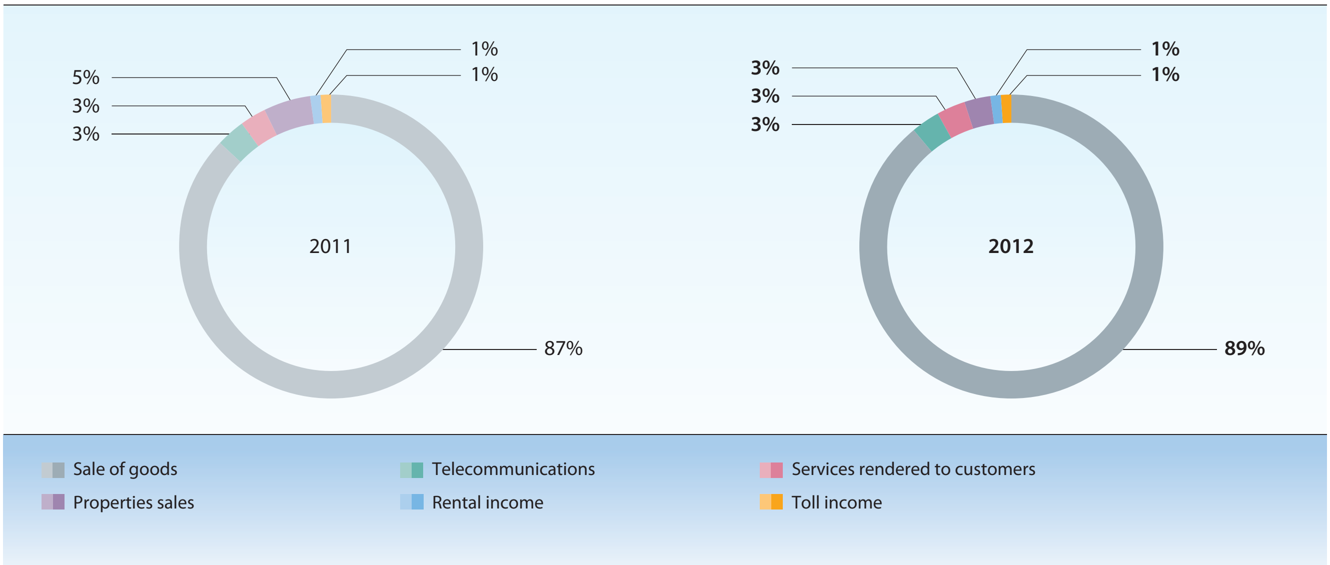
Revenue increased from HK$45,940 million in the first half of 2011 to HK$49,919 million in the first half of 2012. Special Steel and Dah Chong Hong accounted for the majority of the consolidated revenue of CITIC Pacific in 2012 as in previous years.

By business



Financial Review

By nature



Gain on disposal of assets

A one-off gain of HK$2,494 million was recognised on the sale of our entire interest in CITIC Guoan during the first half of 2012, while the gain in 2011 was made by the sale of the Honest Motors Building.

Change in the fair value of investment properties

The fair value of investment properties increased by HK$909 million in the first half of 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$65 million to HK$244 million was the result of higher interest expenses on increased borrowings to finance capital expenditure during the period, in particular the Australian mining project, partly offset by higher interest income on a higher level of cash and bank deposits.

Taxation

Taxation decreased by 33%, mainly due to decline in both profits from special steel operations and the deferred taxation provision for the revaluation surplus of investment properties in mainland China.

Cash Flows

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Source of cash:				
Cash inflows from business operations	**1,243**	5,023	(3,780)	(75)%
Other cash inflows	**5,331**	2,048	3,283	160%
Net borrowings	**14,035**	7,656	6,379	83%
Issue of shares and perpetual capital securities, net of transaction costs	**–**	5,798	(5,798)	(100)%
Sub-total	**20,609**	20,525	84	–
Use of cash:				
Capital expenditure	**(13,435)**	(10,882)	2,553	23%
Dividends paid to ordinary shareholders	**(1,095)**	(1,095)	–	–
Distribution made to holders of perpetual capital securities	**(230)**	–	230	n/a
Other cash outflows	**(445)**	(648)	(203)	(31)%
Sub-total	**(15,205)**	(12,625)	2,580	20%
Net increase in cash	**5,404**	7,900	(2,496)	(32)%

Although the amount the Group generated from business operations – HK$1,243 million – was a 75% decrease over the same period last year, it was compensated by other cash receipts including the proceeds of the disposal of CITIC Guoan of HK$4,285 million. During the period, the Group made new borrowings of HK$39 billion, HK$14 billion in addition to the scheduled loan repayment of HK$25 billion in order to finance capital expenditure in particular of our Australian mining project. The use of cash comprised capital expenditure, dividend distribution to ordinary shareholders, the first distribution to holders of perpetual capital securities (which were issued in 2011 to raise US$750 million cash), and various other payments. As a result, the Group generated net cash inflow of HK$5,404 million for the first half of 2012.

Financial Review

Cash inflows from business operations

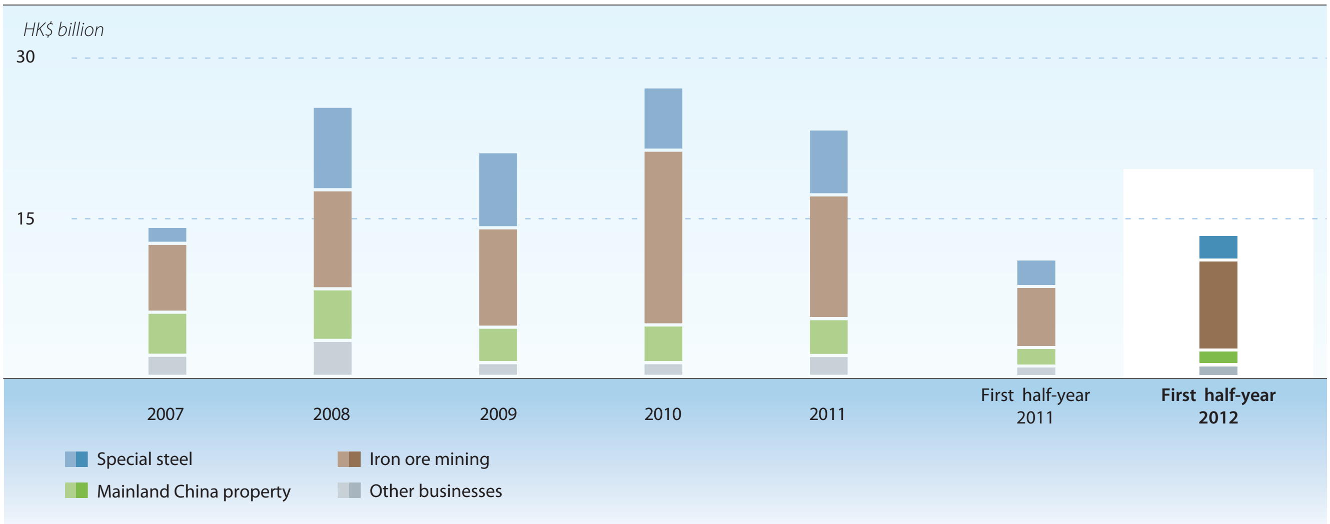
Cash inflow generated from business operations in the first half of 2012 decreased by 75% to HK$1,243 million, mainly due to slow turnover of vehicle stock in the PRC at Dah Chong Hong resulting from slowdown of the automobile market.

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Cash inflows/(outflows) by business:				
Special steel	**2,023**	2,579	(556)	(22)%
Iron ore mining	**191**	(55)	246	n/a
Mainland China property	**198**	1,170	(972)	(83)%
Sub-total	**2,412**	**3,694**	**(1,282)**	**(35)%**
Hong Kong property	**141**	113	28	25%
Energy	**(58)**	15	(73)	n/a
Tunnels	**302**	292	10	3%
Dah Chong Hong	**(1,385)**	954	(2,339)	n/a
CITIC Telecom	**143**	193	(50)	(26)%
Others	**(312)**	(238)	(74)	(31)%
Total	**1,243**	5,023	(3,780)	(75)%

Other cash inflows

	Half-year ended 30 June			
In HK$ million	**2012**	2011	Increase/(Decrease)	
Proceeds of divestment of a business	**4,285**	–	4,285	n/a
Dividend received from jointly controlled entities and associated companies	**729**	188	541	288%
Proceeds of sale of fixed assets and investment properties	**126**	610	(484)	(79)%
Others	**191**	1,250	(1,059)	(85)%
Total	**5,331**	2,048	3,283	160%

Capital expenditure



In HK$ million	Half-year ended 30 June 2012	2011	Increase/(Decrease)	
Special steel	**2,316**	2,516	(200)	(8)%
Iron ore mining	**9,058**	6,030	3,028	50%
Mainland China property	**1,191**	1,591	(400)	(25)%
Sub-total	**12,565**	**10,137**	**2,428**	**24%**
Others	**870**	745	125	17%
Total	**13,435**	10,882	2,553	23%

For the first half of 2012, the capital expenditure in our special steel mills was mainly comprised of construction of Xingcheng Phase III, Xin Yegang Phase II and the Jiangdu pellet plant.

Capital expenditure for iron ore mining in the first half of 2012 included payment upon delivery for four vessels as compared with one in the first half of 2011, as well as continuing expenditure as the construction of the first production line and the common facilities for all six production lines.

Our property development projects on the mainland continued but slowed as compared with the first half of 2011.

Financial Review

Capital commitments

As at 30 June 2012, the contracted capital commitments of CITIC Pacific Limited and its subsidiary companies amounted to HK$6.9 billion.

The future capital expenditure will be funded by the Group's cash and deposits, as well as available credit facilities. Pages 23 and 24 describe the HK$35.6 billion of cash and deposits held by the Group and HK$15.5 billion of available committed facilities as of 30 June 2012.

Financial Position

In HK$ million	**As at 30 June 2012**	As at 31 December 2011	Increase/(Decrease)		Note to the Financial Statements
Total assets	**246,321**	229,739	16,582	7%	
Derivative financial instrument assets	**877**	1,329	(452)	(34)%	17
Derivative financial instrument liabilities	**5,174**	4,906	268	5%	17
Inventories	**15,727**	14,125	1,602	11%	
Net debt	**76,829**	67,777	9,052	13%	
Total ordinary shareholders' funds and perpetual capital securities	**83,434**	80,958	2,476	3%	

Total assets

Total assets increased from HK$229,739 million at the end of 2011 to HK$246,321 million at the end of the first half 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

Financial Review

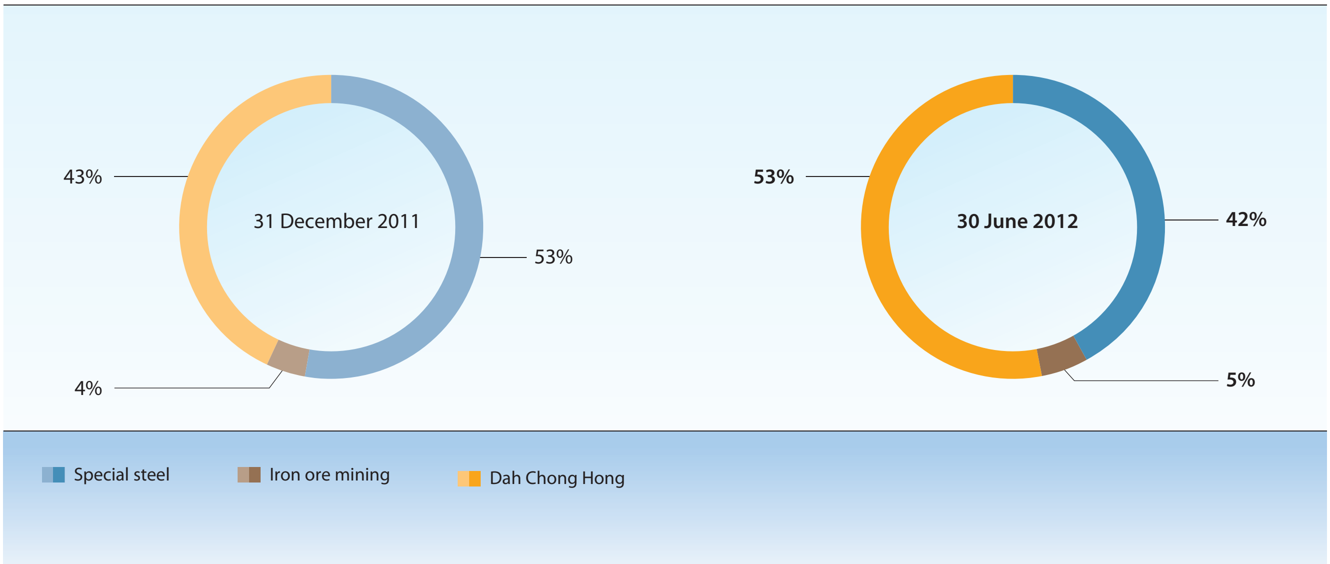
Derivative financial instruments

As at 30 June 2012, the Group had gross outstanding derivative instruments amounting to HK$35 billion. These derivative instruments had a negative fair value of HK$4.3 billion on 30 June 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	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
Forward foreign exchange contracts	**4,342**	7,552	**618**	986
Interest rate swaps	**30,640**	29,789	**(5,161)**	(4,842)
Cross currency swaps	**400**	400	**246**	279
Total	**35,382**	37,741	**(4,297)**	(3,577)

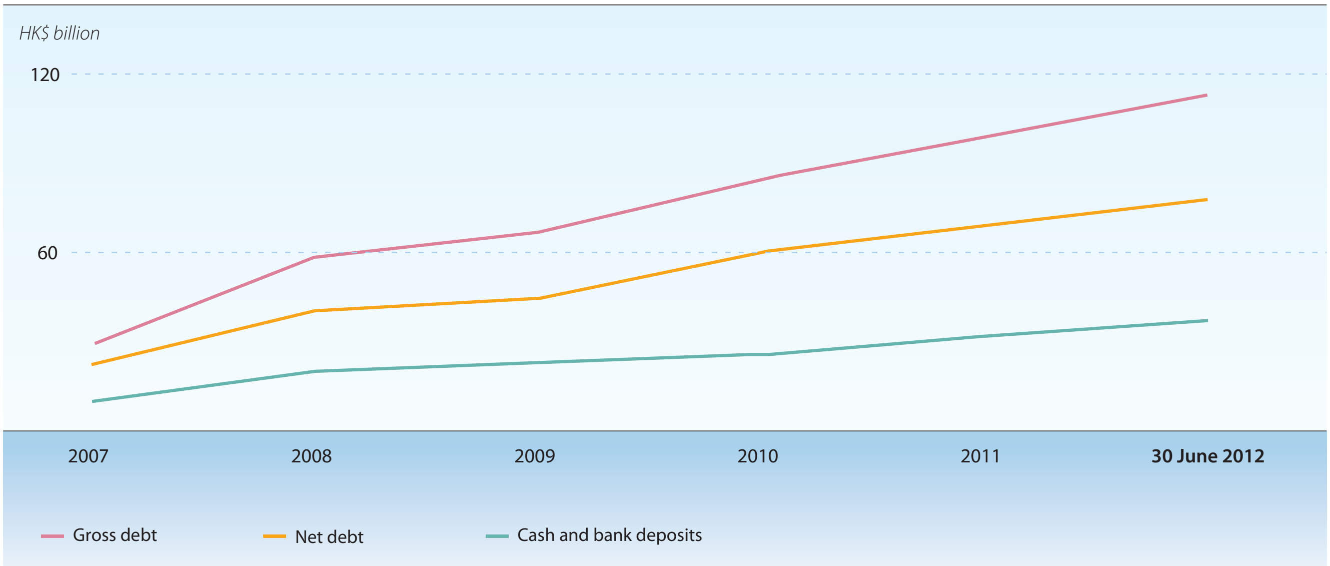
Inventories

Inventories comprises iron ore, scrap metal, steel, motor vehicles, spare parts, electrical appliances, food and other trading items. The inventory level of Dah Chong Hong as of 30 June 2012 was higher than that as of 31 December 2011 because vehicle stock in the PRC increased as a result of slowdown of the automobile market in mainland China, while the inventory of raw materials at special steel decreased. The breakdown by business of inventories is shown below:



Net debt

Net debt increased by 13%, in order to fund capital expenditure particularly the planned 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 21 to 24.

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$83,434 million at 30 June 2012 due to a profit for the first half of 2012, offset by dividends paid to ordinary shareholders and distribution to holders of perpetual capital securities of HK$1,325 million, a decrease of HK$708 million in the reserves for exchange translations, negative movements of HK$815 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 both corporate governance and management is to ensure that these risks are both appropriate and controlled.

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

The management of risk starts with the board of directors. At each meeting the board receives a report of the financial results and the financial position of the group, both current and projected. Written reports are provided on all businesses in a form similar to those reviewed by management at the executive committee.

The board has established audit, asset and liability management, executive, investment and remuneration committees whose activities are important parts of the overall control of risk.

Treasury Risk Management

Financial risks are inherent in any business. Systems and procedures are in place to identify and report on a timely basis the liquidity, foreign exchange, interest rate and major commodity risks arising from the activities of our existing and proposed businesses.

Treasury policies are established by the Asset and Liability Management Committee ('ALCO') and reported to the board.

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

The group treasury department, headed by the group treasurer, is responsible for implementing treasury policies, communicating ALCO decisions to operating units, monitoring adherence to them, and preparing reports of the actual situation to be presented to ALCO, the executive committee and the board.

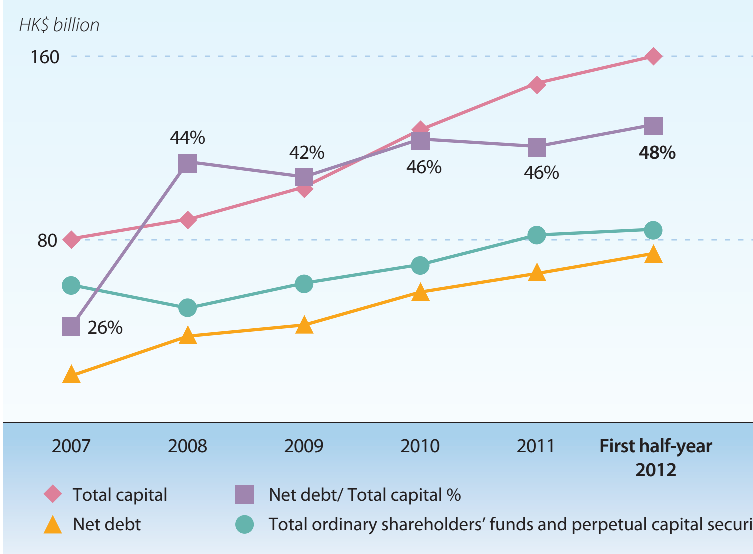
Listed subsidiaries CITIC Telecom International, Dah Chong Hong and Daye Special Steel manage their financial and treasury affairs themselves within the framework of the group's treasury policies.

Balance Sheet Management

CITIC Pacific's business is financed by a mixture of 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.

As at 30 June 2012 the net debt was HK$77 billion and the total ordinary shareholders' funds and perpetual capital securities were HK$83 billion. The net debt divided by total capital is a measure of our leverage. This ratio rose to 48% at the end of June 2012 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.

The debt of CITIC Pacific as at 30 June 2012 as compared with 31 December 2011 and 30 June 2011 is as follows:

In HK$ million	**30 June 2012**	31 December 2011	30 June 2011
Total debt	**112,730**	98,893	92,035
Cash and bank deposits	**35,607**	30,930	32,647
Net debt	**77,123**	67,963	59,388

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$9 billion from the end of 2011 to the end of June 2012. The net debt of each business is as follows:

In HK$ million	**30 June 2012**	31 December 2011
Special steel	**9,205**	9,501
Iron ore mining	**27,894**	27,994
Property – mainland China	**(7,287)**	(8,149)
Ships	**2,476**	2,329
Dah Chong Hong	**5,226**	2,930
Parent company	**40,672**	34,190
Others	**(1,063)**	(832)
Total	**77,123**	67,963

Total debt

As at 30 June 2012, total outstanding debt of CITIC Pacific and its subsidiaries amounted to HK$112,730 million, of which HK$13,255 million will mature by the end of 2012, against cash and deposits totalling HK$35,607 million.

Total debt increased by HK$13.8 billion during the first half of 2012. Facilities totalling HK$33 billion were established or renewed (HK$22.5 billion by CITIC Pacific Limited and HK$10.5 billion by consolidated entities). The new facilities included a US$1,100 million bond due in 2018 issued under a global medium-term note programme, a HK$7,100 million syndicated loan due in 2015 and RMB500 million notes due in 2017 under a PRC medium-term note programme.

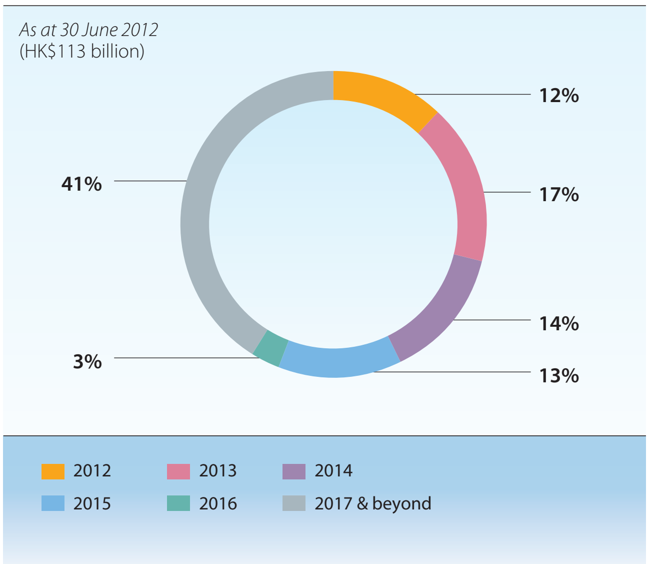
Risk Management

The maturity of the debt outstanding as at 30 June 2012 is as follows:

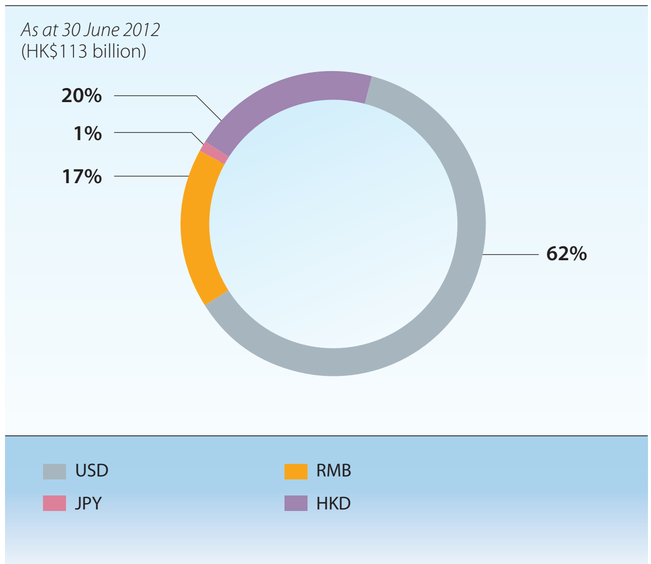
In HK$ million	Total outstanding debt	Maturing in these years					
		2012	2013	2014	2015	2016	2017 and beyond
CITIC Pacific Limited	**57,679**	4,651	10,540	10,350	10,648*	1,317	20,173
Subsidiaries	**55,051**	8,604	8,893	5,687	3,748	2,163	25,956
Total	**112,730**	13,255	19,433	16,037	14,396	3,480	46,129

* Including through a wholly-owned special purpose vehicle.

Total outstanding debt by maturity



Total outstanding debt by currency



Liquidity management

The objective of liquidity management is to ensure that CITIC Pacific always has enough money available to meet its liabilities. 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.

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 currency risks, which are discussed later.

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 June 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.

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

Available Sources of Finance

As at 30 June 2012, CITIC Pacific and its consolidated subsidiaries had cash and deposits of HK$35.6 billion, and available loan and trade facilities of HK$25.3 billion:

In HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage breakdown of unutilised facilities
Committed facilities				
Term loans	97,660	82,147	15,513	61%
Short-term loans	4,300	4,300	–	–
Commercial paper (RMB commercial paper)	976	976	–	–
Global bond (USD bond)	12,480	12,480	–	–
Domestic bond (RMB note)	610	610	–	–
Private placement (JPY & USD note & RMB bond)	3,034	3,034	–	–
Total committed facilities	119,060	103,547	15,513	61%
Uncommitted facilities				
Money market lines and short-term facilities	12,827	8,572	4,255	17%
Trade facilities	9,478	3,981^	5,497	22%
Total uncommitted facilities	22,305	12,553	9,752	39%
Total facilities	141,365	116,100	25,265	100%

^ Including trade facility loans of HK$611 million.

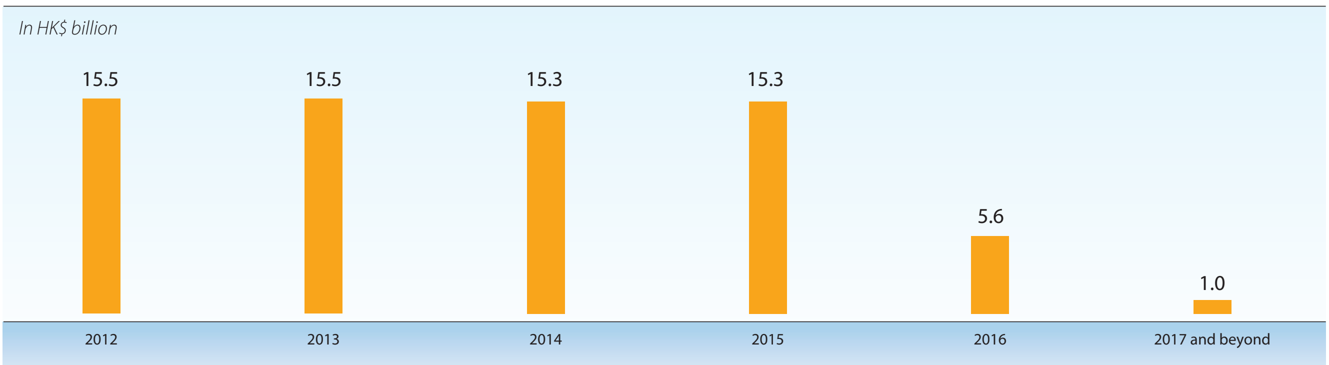
Risk Management

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	16,124	16,124	–	–
Short-term	976	976	–	–
Bank borrowings				
Mainland China	68,055	62,087	5,968	24%
Hong Kong	52,689	36,366	16,323	64%
Others	3,521	547	2,974	12%
Total facilities	141,365	116,100	25,265	100%

CITIC Pacific had available committed banking facilities of HK$15.5 billion that were undrawn as at 30 June 2012. Loans can be drawn under these committed facilities before the contractual expiry dates. The available committed facilities, less the amount expiring in each year, are shown in the graph below.

Available committed banking facilities (HK$15.5 billion as at 30 June 2012)



Pledged assets

As at 30 June 2012, CITIC Pacific and its consolidated subsidiaries had a total of HK$67.6 billion of assets pledged for various facilities. Iron ore mining assets of HK$60.7 billion were pledged under its financing documents. Contracts for building four ships (HK$1.7 billion in aggregate) and eight completed ships with carrying value of HK$3.5 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$1,682 million (31 December 2011: HK$1,724 million) were pledged to secure banking facilities, which mainly related to Dah Chong Hong's 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 of US$3.8 billion in debt facilities. Other guarantees include those provided for ship financing, a Japanese Yen bond and a debt facility for properties in mainland China.

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 financial covenants are generally as follows:

	Covenant limits	Actual 30 June 2012
Minimum Consolidated Net Worth		
Consolidated Net Worth	≥ HK$25 billion	HK$85 billion
Gearing		
Consolidated Borrowing/Consolidated Net Worth	≤ 1.5	1.3
Negative Pledge		
Pledged Assets/Consolidated Total Assets	≤ 30%	0.7%

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
30 June 2012	BB+ (Negative)	Ba1 (Negative)

The ratings reflect the agencies' expectation that the company will continue to enjoy strong support from the CITIC Group as a strategically important subsidiary.

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

Net debt and cash in jointly controlled entities and associated companies

CITIC Pacific's non-consolidated businesses are classified as jointly controlled entities and associated companies. Under Hong Kong generally accepted accounting standards, they are not consolidated in CITIC Pacific's financial statements but recorded in the balance sheet as CITIC Pacific's share of their net assets. The 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 or its subsidiaries. Certain of CITIC Pacific's associates such as Hong Kong Resort Company Ltd, which develops property projects in Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

Risk Management

The following table shows the net debt/cash position of jointly controlled entities and associated companies by business sector as at 30 June 2012:

In HK$ million	Total net debt/(cash)	Proportion of net debt/ (cash) attributable to CITIC Pacific
Special steel	128	28
Property		
Mainland China	(7,352)	(3,676)
Hong Kong and others	(191)	(87)
Energy	10,713	4,128
Tunnels	485	170
Dah Chong Hong	(94)	(52)
CITIC Telecom	(890)	(112)
Other investments	367	(53)
Total	**3,166**	**346**

Derivatives policy

Financial derivatives are used to assist in the management of interest rate and exchange rate risks. 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 financial instruments is currently restricted by ALCO to loans, bonds, deposits, interest rate swaps and plain vanilla foreign exchange contracts. The use of structured derivatives and instruments or contracts that contain embedded options would require presentation to and the specific approval of ALCO. None have been submitted for approval in the first half of 2012. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred.

Foreign exchange risk

The company's functional currency is Hong Kong dollar ("HKD"). CITIC Pacific has major operations in Hong Kong, mainland China and Australia whose functional currency is HKD, Renminbi ("RMB") and United States dollar ("USD"), and 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 and property 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 a cross currency swap to convert the foreign currency exposure from JPY financing into HKD.

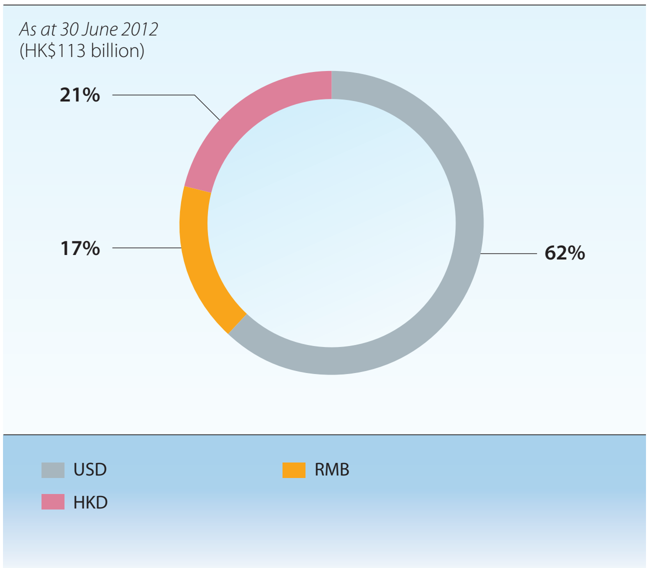
Translation exposures from the consolidation of subsidiaries whose functional currency is not HKD are not hedged using derivative instruments, as this is a non-cash exposure.

The denomination of CITIC Pacific's borrowings and cash and bank deposit balances by currency as at 30 June 2012 is summarised as follows:

	Denomination					
In HK$ million equivalent	HK$	US$	RMB	JPY	Other	**Total**
Total debt in original currency	22,996	68,901	19,558	882	393	**112,730**
Total debt after conversion	23,639	68,901	19,558	239	393	**112,730**
Cash and bank deposits	7,193	10,151	17,622	229	412	**35,607**
Net debt/(cash) after conversion	16,446	58,750	1,936	10	(19)	**77,123**

Risk Management

Outstanding debt after conversion



US Dollar (USD) – CITIC Pacific's investment in businesses whose functional currency is USD is mostly from the iron ore mining business, which had USD gross assets of HK$75 billion. The company uses its USD borrowings to hedge these USD assets. As at 30 June 2012, CITIC Pacific had HK$69 billion equivalent of US dollar debt.

Renminbi (RMB) – Businesses in mainland China had RMB gross assets of approximately HK$128 billion as at 30 June 2012, offset by debts and other liabilities of HK$46 billion. This gave the company an RMB net asset exposure of HK$82 billion (31 December 2011: RMB gross asset exposure of approximately HK$124 billion, offset by debt and other liabilities of HK$47 billion, with RMB net asset exposure of HK$77 billion). The Renminbi is currently not a freely convertible currency and 'registered capital', which usually accounts for at least one third of the total investment amount for projects in mainland China, 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 30 June 2012, the Australian mining operation had plain vanilla forward contracts with a notional amount of A$0.4 billion outstanding with maturities up to the first quarter of 2013, which qualify as accounting hedges. The average rate of these contracts is 0.82 USD to 1.00 AUD. In the second half of 2012 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.

Japanese Yen (JPY) – CITIC Pacific issued a JPY8.1 billion bond in 2005. From an economic perspective, this bond is hedged through a cross currency swap into Hong Kong dollar floating rate payments. This swap does not qualify as an accounting hedge, therefore changes in its value are reflected in the profit and loss account. In addition to the JPY bond, as at 30 June 2012 there were no other JPY exposures at the corporate level.

Euro (EUR) – EUR exposure amounted to EUR200 million as at 30 June 2012. Most of this exposure is related to contracts for finished goods purchases by Dah Chong Hong.

Interest rate risk

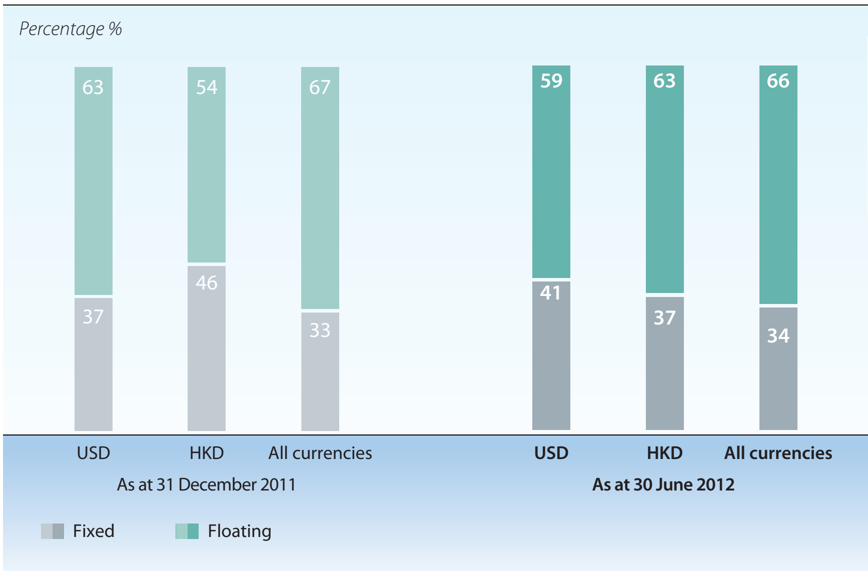
CITIC Pacific's interest rate risk arises primarily from borrowings. Borrowings with variable rates expose CITIC Pacific to cash flow interest rate risk. Borrowings with fixed rates economically expose CITIC Pacific to fair value interest rate risk. In the current low interest rate environment, CITIC 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 30 June 2012, CITIC Pacific's floating to fixed interest rate derivative contracts maturing over one year had a notional amount of HK$23 billion. After hedging through interest rate swaps and the issuance of fixed rate debt, 66% of the borrowings of CITIC Pacific were linked to floating interest rates. In addition, CITIC Pacific has entered into HK$3 billion of forward starting swaps to lock in fixed rates for periods up to 10 years.

Fixed and floating interest rates

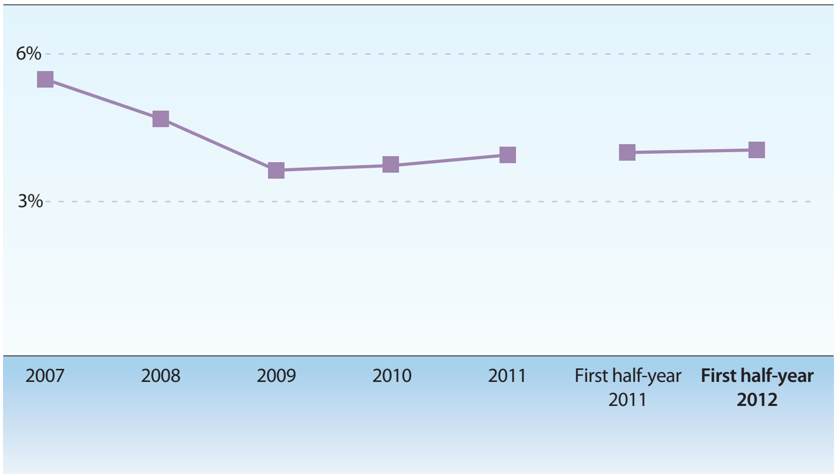


"*Fixed*" means that the interest rate will not change for at least one year (from 1 July 2012 to 30 June 2013) and excludes fixed rate debt maturing in that year.

CITIC Pacific's overall weighted all-in cost of borrowing (including capitalised interest, fees and hedging costs) for the first half of 2012 was approximately 4.1% compared with 4.0% for the same period last year.

Risk Management

Average borrowing costs



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

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 commissioning of the first production line for the Australian mining operations being delayed, 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 and a half 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 30 June 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 investment grade A– (S&P) or A3 (Moody's) and above unless special authorisation has been received from ALCO. For unrated mainland Chinese institutions, special authorisation is required from ALCO. A maximum deposit limit is set that does not exceed the amount borrowed from those institutions, unless special authorisation has been received from ALCO. Deposits are safe, liquid, interest-bearing and consistent with treasury and business purpose needs. Management monitors market developments, reviews the list of approved counterparties and closely monitors their credit quality, and revises deposit limits on an on-going basis.

The group 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.

Capital Commitments and Contingent Liabilities

CITIC Pacific's contingent liabilities as at 30 June 2012 had not significantly changed from the position as at 31 December 2011.

As at 30 June 2012, the contracted capital commitments of CITIC Pacific Limited and its subsidiary companies were approximately HK$6.9 billion.

On 13 April 2012, CITIC Pacific announced that it had exercised the First Option under the China Project Option Agreement with the right to extract a further 1 billion tonnes of magnetite ore for a consideration of US$200 million, adjusted for inflation between 1 March 2006 and the date of completion of the Acquisition less the costs incurred for the drilling program under the further drilling obligations.

Please refer to the announcement of CITIC Pacific dated 13 April 2012 for details.

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.

Risk Management

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.

Human Resources

As of the end of June 2012, CITIC Pacific employed 34,365 employees at its headquarters in Hong Kong and principal subsidiaries worldwide. A total of 28,420 employees (82.7%) were based in mainland China; 4,712 (13.7%) in Hong Kong; 756 (2.2%) in Australia; and the remaining 477 employees (1.4%) in other countries such as Singapore, Japan, Taiwan, Canada and the United States of America.

CITIC Pacific offers competitive remuneration packages as well as comprehensive learning and development opportunities to attract, motivate and retain talented employees. In recognition of its continuous efforts and commitment towards people development, CITIC Pacific was honoured as a Manpower Developer under the ERB Manpower Developer Award Scheme organised by the Employees Retraining Board.

In the first half of 2012, CITIC Pacific continued its focus on people development to ensure its employees are equipped with the required knowledge and skills to support its business objectives. In addition to regular internal and external training programmes and sharing sessions for increasing professional knowledge, technical skills and management competencies, CITIC Pacific has launched a new learning initiative at its headquarters. This initiative, CITIC Pacific Lunch & Learn, provides a relaxed environment for teaching non-business and leisure subjects and promoting employee wellness and work-life balance.

Subsequent to the successful completion of the first CITIC Pacific Leadership Development Programme (CPLDP), CITIC Pacific held its second CPLDP in partnership with the Hong Kong University of Science and Technology in May. The programme maintained its positive momentum for grooming senior managers through customised leadership development programmes.

Corporate Social Responsibility

CITIC Pacific and its subsidiaries continued their contributions to local communities through participation in charitable activities such as donations and volunteer works for the elderly and disadvantaged. In the first half of the year, employees from the headquarters became involved in a volunteer service day organised by the Neighbourhood Advice-Action Council. Activities included delivering rice dumplings and showing care to senior citizens living alone in Shamshuipo during the Tuen Ng Festival, and taking part in fund-raising events such as the Mother’s Day – Oxfam Rice Sale and Community Chest Skip Lunch Day.

Consolidated Profit and Loss Account

for the six months ended 30 June 2012 – unaudited

In HK$ million	Note	2012	2011
Revenue	2	**49,919**	45,940
Cost of sales		**(43,785)**	(38,772)
Gross profit		**6,134**	7,168
Other income and net gains	3	**2,728**	683
Distribution and selling expenses		**(1,540)**	(1,295)
Other operating expenses		**(2,259)**	(2,340)
Change in fair value of investment properties		**901**	1,338
Profit from consolidated activities	2	**5,964**	5,554
Share of results of			
Jointly controlled entities	2	**1,079**	2,436
Associated companies	2	**379**	472
Profit before net finance charges and taxation		**7,422**	8,462
Finance charges		**(645)**	(318)
Finance income		**401**	253
Net finance charges	5	**(244)**	(65)
Profit before taxation		**7,178**	8,397
Taxation	6	**(950)**	(1,422)
Profit for the period		**6,228**	6,975
Profit attributable to:			
Ordinary shareholders of the Company	2	**5,482**	6,012
Holders of perpetual capital securities		**230**	99
Non-controlling interests		**516**	864
		6,228	6,975
Dividends			
Proposed dividend	8	**(547)**	(547)
Earnings per share for profit attributable to ordinary shareholders of the Company during the period (HK$)			
Basic	9	**1.50**	1.65
Diluted	9	**1.50**	1.65

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012 – unaudited

In HK$ million	**2012**	2011
Profit for the period	**6,228**	6,975
Other comprehensive income, net of tax		
Cash flow hedging reserves movement from interest rate swap and foreign exchange contracts	**(815)**	(560)
Fair value changes from other financial assets	**(32)**	(3)
Share of other comprehensive income of associated companies and jointly controlled entities	**(23)**	45
Exchange translation differences	**(767)**	1,003
Surplus on revaluation of properties transferred from self-use properties to investment properties	**64**	–
Transfer to profit and loss account on impairment of other financial assets	**7**	–
Reserves released on disposal of an interest in jointly controlled entity	**(413)**	–
Reserve released upon liquidation of a jointly controlled entity and subsidiary companies	**–**	(28)
Total comprehensive income for the period	**4,249**	7,432
Total comprehensive income for the period attributable to		
Ordinary shareholders of the Company	**3,563**	6,399
Holders of perpetual capital securities	**230**	99
Non-controlling interests	**456**	934
	4,249	7,432

Consolidated Balance Sheet

as at 30 June 2012 – unaudited

In HK$ million	Note	**30 June 2012**	31 December 2011
Non-current assets			
Property, plant and equipment		**94,546**	85,132
Investment properties		**15,818**	15,270
Properties under development		**6,698**	6,628
Leasehold land – operating lease		**2,415**	2,277
Jointly controlled entities		**20,583**	21,278
Associated companies		**7,383**	7,222
Other financial assets		**312**	345
Intangible assets		**17,752**	16,202
Deferred tax assets		**1,962**	1,647
Derivative financial instruments	17	**172**	928
Non-current deposits and prepayment	10	**2,853**	4,031
		170,494	160,960
Current assets			
Properties under development		**3,108**	3,189
Properties held for sale		**1,828**	1,493
Other assets held for sale	11	**778**	2,388
Inventories		**15,727**	14,125
Derivative financial instruments	17	**705**	401
Debtors, accounts receivable, deposits and prepayments	12	**18,074**	16,253
Cash and bank deposits		**35,607**	30,930
		75,827	68,779
Current liabilities			
Bank loans, other loans and overdrafts			
secured	14	**1,759**	1,329
unsecured	14	**27,297**	26,328
Creditors, accounts payable, deposits and accruals	13	**29,319**	29,820
Derivative financial instruments	17	**145**	159
Provisions	18	**2,081**	–
Provision for taxation		**1,170**	1,514
		61,771	59,150
Net current assets		**14,056**	9,629
Total assets less current liabilities		**184,550**	170,589
Non-current liabilities			
Long term borrowings	14	**83,380**	71,050
Deferred tax liabilities		**3,385**	3,373
Derivative financial instruments	17	**5,029**	4,747
Provisions, deferred income and other payables	19	**2,135**	3,406
		93,929	82,576
Net assets		**90,621**	88,013

In HK$ million	Note	**30 June 2012**	31 December 2011
Equity			
Share capital		**1,460**	1,460
Perpetual capital securities	7	**5,951**	5,951
Reserves		**75,476**	72,452
Proposed dividend	8	**547**	1,095
Total ordinary shareholders' funds and perpetual capital securities		**83,434**	80,958
Non-controlling interests in equity		**7,187**	7,055
Total equity		**90,621**	88,013

Consolidated Cash Flow Statement

for the six months ended 30 June 2012 – unaudited

In HK$ million	**2012**	2011
Cash flows from operating activities		
Profit before taxation	**7,178**	8,397
Share of results of jointly controlled entities and associated companies	**(1,458)**	(2,908)
Net finance charges	**244**	65
Net exchange loss/(gain)	**141**	(133)
Income from other financial assets	**(4)**	(7)
Depreciation and amortisation	**1,423**	1,027
Impairment losses	**44**	45
Provision for gas contract	**2**	313
Share-based payment	**9**	3
Gain on disposal of investment properties	**–**	(296)
Gain on disposal of property, plant and equipment	**(6)**	–
Change in fair value of investment properties	**(901)**	(1,338)
Net gain on remeasurement of an investment property classified as asset held for sale	**(78)**	–
Net gain from disposal of jointly controlled entities and associated companies	**(2,473)**	(3)
Operating profit before working capital changes	**4,121**	5,165
Increase in inventories	**(1,638)**	(2,523)
Decrease in properties held for sale	**618**	1,378
Increase in debtors, accounts receivable, deposits and prepayments	**(778)**	(821)
Increase in creditors, accounts payable, deposits and accruals	**150**	2,663
Effect of foreign exchange rate changes	**(54)**	86
Cash generated from operating activities	**2,419**	5,948
Income taxes paid	**(1,176)**	(925)
Cash generated from operating activities after income taxes paid	**1,243**	5,023
Interest received	**341**	204
Interest paid	**(2,291)**	(1,824)
Realised exchange (loss)/gain	**(11)**	122
Other finance charges and financial instruments	**(168)**	(38)
Net cash (used in)/from consolidated activities before increase of properties under development	**(886)**	3,487
Increase in properties under development	**(882)**	(1,027)
Net cash (used in)/generated from consolidated activities	**(1,768)**	2,460

In HK$ million	**2012**	2011
Cash flows from investing activities		
Purchase of		
Subsidiary companies (net of cash and cash equivalents acquired)	**(4)**	65
Property under development for own use	**(134)**	(308)
Property, plant and equipment	**(8,368)**	(6,408)
Leasehold land – operating leases	**(192)**	–
Intangible assets	**(1,152)**	(1,224)
Proceeds of		
Disposal of property, plant and equipment and investment properties	**85**	610
Deposit received on disposal of investment properties	**41**	–
Disposal of interests in jointly controlled entity	**4,289**	850
Sale of other financial assets	**5**	–
Increase in bank deposits maturing after more than 3 months	**(500)**	–
Decrease in pledged deposits with banks	**1,044**	18
Net payments for non-current deposits	**(684)**	(415)
Deposit received from sale of business interest	**–**	60
Deposit paid for acquisition of subsidiary	**(54)**	–
Investment in jointly controlled entities and associated companies	**(232)**	(29)
(Advance to)/repayment in loans to jointly controlled entities and associated companies	**(104)**	83
Dividend received from jointly controlled entities and associated companies	**729**	181
Income received from other financial assets	**–**	7
Net cash used in investing activities	**(5,231)**	(6,510)
Cash flows from financing activities		
Issue of shares pursuant to the share option plan	**–**	16
New borrowings	**38,805**	26,074
Repayment of loans	**(24,770)**	(18,418)
Distribution made to holders of perpetual capital securities	**(230)**	–
Decrease in non-controlling interests	**(307)**	(409)
Dividends paid to shareholders of the Company	**(1,095)**	(1,095)
Proceeds of issue perpetual capital securities, net of transaction costs	**–**	5,782
Net cash from financing activities	**12,403**	11,950
Net increase in cash and cash equivalents	**5,404**	7,900
Cash and cash equivalents at 1 January	**27,964**	24,237
Effect of foreign exchange rate changes	**(199)**	194
Cash and cash equivalents at 30 June	**33,169**	32,331
Analysis of the balances of cash and cash equivalents		
Cash and bank deposits	**35,607**	32,647
Bank deposits with maturities over 3 months	**(1,869)**	–
Bank overdrafts and pledged deposits	**(569)**	(316)
	33,169	32,331

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012 – unaudited

In HK$ million	Share capital	Perpetual capital securities	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities						
Balance at 1 January 2012	1,460	5,951	44,068	29,479	80,958	7,055	88,013
Profit for the period	–	230	–	5,482	5,712	516	6,228
Other comprehensive income, net of tax, for the period							
Share of other comprehensive income of associated companies and jointly controlled entities	–	–	13	(35)	(22)	(1)	(23)
Fair value changes of other financial assets	–	–	(32)	–	(32)	–	(32)
Exchange translation differences	–	–	(708)	–	(708)	(59)	(767)
Transfer to profit and loss account on impairment of other financial assets	–	–	7	–	7	–	7
Surplus on revaluation of properties transferred from self-use properties to investment properties	–	–	64	–	64	–	64
Cash flow hedging reserves movement from interest rate swap and foreign currency contracts	–	–	(815)	–	(815)	–	(815)
Reserves released on disposal of an interest in jointly controlled entity	–	–	(234)	(179)	(413)	–	(413)
Total comprehensive income for the period	–	230	(1,705)	5,268	3,793	456	4,249
Transactions with owners							
Capital injected by non-controlling interest	–	–	–	–	–	25	25
Dividends paid to non-controlling interests	–	–	–	–	–	(348)	(348)
Dilution of interest in subsidiaries	–	–	2	–	2	(2)	–
Distribution to non-controlling interests	–	–	–	–	–	(2)	(2)
Dividends paid to shareholders of the Company	–	–	–	(1,095)	(1,095)	–	(1,095)
Distribution to holders of perpetual capital securities	–	(230)	–	–	(230)	–	(230)
Share-based payment	–	–	6	–	6	3	9
Reserve released upon lapse of share options of a subsidiary company	–	–	(6)	6	–	–	–
Transfer from profits to general and other reserves	–	–	4	(4)	–	–	–
	–	(230)	6	(1,093)	(1,317)	(324)	(1,641)
Balance at 30 June 2012	1,460	5,951	42,369	33,654	83,434	7,187	90,621

In HK$ million	Share capital	Perpetual capital securities	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities						
Balance at 1 January 2011	1,459	–	44,492	22,395	68,346	5,872	74,218
Profit for the period	–	99	–	6,012	6,111	864	6,975
Other comprehensive income, net of tax, for the period							
Share of other comprehensive income of associated companies and jointly controlled entities	–	–	84	(39)	45	–	45
Fair value changes of other financial assets	–	–	(3)	–	(3)	–	(3)
Exchange translation differences	–	–	933	–	933	70	1,003
Cash flow hedging reserves movement from interest rate swap and foreign currency contracts	–	–	(560)	–	(560)	–	(560)
Reserve released on liquidation of a jointly controlled entity	–	–	(28)	–	(28)	–	(28)
Total comprehensive income for the period	–	99	426	5,973	6,498	934	7,432
Transactions with owners							
Acquisition of subsidiaries	–	–	–	–	–	145	145
Dividends paid to non-controlling interests	–	–	–	–	–	(406)	(406)
Acquisition of interests from non-controlling interests	–	–	(8)	–	(8)	(64)	(72)
Distribution to non-controlling interests	–	–	–	–	–	(67)	(67)
Capital contributed from non-controlling interest	–	–	–	–	–	28	28
Dividend paid to shareholders of the Company	–	–	–	(1,095)	(1,095)	–	(1,095)
Share-based payment	–	–	–	–	–	1	1
Transfer from profits to general and other reserves	–	–	2	(2)	–	–	–
Issuance of shares pursuant to the share option plan	1	–	15	–	16	–	16
Issuance of perpetual capital securities	–	5,850	–	–	5,850	–	5,850
Dilution/partial disposal of interest in subsidiaries	–	–	8	–	8	(3)	5
Transaction costs related to issuance of perpetual capital securities	–	–	–	(68)	(68)	–	(68)
	1	5,850	17	(1,165)	4,703	(366)	4,337
Balance at 30 June 2011	1,460	5,949	44,935	27,203	79,547	6,440	85,987

Notes to the Financial Statements

1. Significant accounting policies

These condensed unaudited consolidated interim accounts ("the Accounts") are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Listing Rules of the Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2011.

2. Segment information

(a) Revenue and Profit Attributable to Ordinary Shareholders of the Company and Holders of Perpetual Capital Securities

	Six months ended 30 June 2012										
In HK$ million	Revenue	Profit/(loss) from consolidated activities	Share of results of jointly controlled entities	Share of results of associated companies	Net finance income/ (charges)	Group total	Segment allocations*	Segment profit/(loss)	Taxation	Non-controlling interests	Profit/(loss) attributable to ordinary shareholders of the Company
Special steel	22,254	819	133	25	(252)	725	(3)	722	(101)	(97)	524
Iron ore mining	75	(99)	–	–	(50)	(149)	–	(149)	39	–	(110)
Property											
Mainland China	1,641	633	193	–	49	875	5	880	(347)	16	549
Hong Kong	118	102	–	52	–	154	50	204	(14)	–	190
Energy	8	(50)	563	–	12	525	–	525	(25)	–	500
Tunnels	398	274	111	–	2	387	–	387	(45)	(69)	273
Dah Chong Hong	23,636	978	6	4	(97)	891	(51)	840	(242)	(252)	346
CITIC Telecom	1,744	199	1	90	(1)	289	(1)	288	(34)	(100)	154
Other investments	45	2,476	72	10	–	2,558	–	2,558	14	–	2,572
Change in fair value of investment properties	–	901	–	198	–	1,099	–	1,099	(176)	(14)	909
Corporate											
General and administration expenses	–	(214)	–	–	–	(214)	–	(214)	(8)	–	(222)
Exchange loss	–	(55)	–	–	–	(55)	–	(55)	–	–	(55)
Net finance income	–	–	–	–	93	93	–	93	(11)	–	82
Totals	49,919	5,964	1,079	379	(244)	7,178	–	7,178	(950)	(516)	5,712
							Profit attributable to:				
							Holders of perpetual capital securities				(230)
											5,482

* Segment allocations arising from property leases between segments are based on arms' length rentals.

2. Segment information (Continued)

(a) Revenue and Profit Attributable to Ordinary Shareholders of the Company and Holders of Perpetual Capital Securities (Continued)

	Six months ended 30 June 2011										
In HK$ million	Revenue	Profit/(loss) from consolidated activities	Share of results of jointly controlled entities	Share of results of associated companies	Net finance income/ (charges)	Group total	Segment allocations*	Segment profit/(loss)	Taxation	Non-controlling interests	Profit/(loss) attributable to ordinary shareholders of the Company
Special steel	21,448	1,737	261	15	(139)	1,874	(3)	1,871	(314)	(159)	1,398
Iron ore mining	28	(319)	–	–	–	(319)	–	(319)	(51)	–	(370)
Property											
Mainland China	2,580	1,045	1,122	–	34	2,201	5	2,206	(340)	(159)	1,707
Hong Kong	129	420	–	42	–	462	43	505	(14)	–	491
Energy	10	42	821	–	6	869	–	869	(45)	–	824
Tunnels	388	268	85	–	–	353	–	353	(44)	(65)	244
Dah Chong Hong	19,814	1,012	10	–	(70)	952	(45)	907	(292)	(287)	328
CITIC Telecom	1,492	190	–	94	–	284	–	284	(33)	(99)	152
Other investments	51	4	137	10	–	151	–	151	(3)	–	148
Change in fair value of investment properties	–	1,338	–	311	–	1,649	–	1,649	(226)	(95)	1,328
Corporate											
General and administration expenses	–	(237)	–	–	–	(237)	–	(237)	(8)	–	(245)
Exchange gain	–	54	–	–	–	54	–	54	–	–	54
Net finance income	–	–	–	–	104	104	–	104	(52)	–	52
Totals	45,940	5,554	2,436	472	(65)	8,397	–	8,397	(1,422)	(864)	6,111
Profit attributable to:											
Holders of perpetual capital securities											(99)
											6,012

* Segment allocations arising from property leases between segments are based on arms' length rentals.

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

	Six months ended 30 June	
In HK$ million	**2012**	2011
By geographical area		
Mainland China	**39,101**	36,077
Hong Kong	**6,407**	6,051
Other countries	**4,411**	3,812
	49,919	45,940

Notes to the Financial Statements

2. Segment information (Continued)

(b) Assets and liabilities

An analysis of the Group's segment assets and liabilities by operating segment is as follows:

In HK$ million	Segment assets#		Investments in jointly controlled entities		Investments in associated companies		Total assets		Segment liabilities#		Total net assets		Additions of non-current assets* (other than financial instruments and deferred tax assets) Six months ended	
	30 June 2012	31 Dec 2011	30 June 2012	31 Dec 2011	30 June 2012	31 Dec 2011	30 June 2012	31 Dec 2011	30 June 2012	31 Dec 2011	30 June 2012	31 Dec 2011	30 June 2012	30 June 2011
By principal activities														
Special steel	54,564	53,175	2,720	2,872	248	226	57,532	56,273	(27,603)	(27,295)	29,929	28,978	2,083	3,280
Iron ore mining	76,449	66,997	–	–	–	–	76,449	66,997	(43,329)	(42,059)	33,120	24,938	9,427	6,337
Property														
Mainland China	32,453	33,304	7,176	7,048	–	–	39,629	40,352	(8,409)	(9,616)	31,220	30,736	403	811
Hong Kong	8,309	7,685	–	–	6,527	6,319	14,836	14,004	(316)	(283)	14,520	13,721	10	130
Energy	3,271	2,011	6,038	6,899	–	–	9,309	8,910	(337)	(352)	8,972	8,558	–	6
Tunnels	959	956	1,130	1,021	–	–	2,089	1,977	(169)	(153)	1,920	1,824	–	–
Dah Chong Hong	21,466	20,355	243	239	239	228	21,948	20,822	(13,148)	(12,347)	8,800	8,475	397	556
CITIC Telecom	2,979	2,884	44	43	339	427	3,362	3,354	(1,068)	(1,153)	2,294	2,201	105	66
Other investments	381	2,687	3,232	3,156	30	22	3,643	5,865	(269)	(571)	3,374	5,294	–	11
Corporate	17,524	11,185	–	–	–	–	17,524	11,185	(61,052)	(47,897)	(43,528)	(36,712)	5	6
Segment assets/(liabilities)	218,355	201,239	20,583	21,278	7,383	7,222	246,321	229,739	(155,700)	(141,726)	90,621	88,013	12,430	11,203

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.

* Non-current assets are amounts expected to be recovered more than twelve months after the period end.

\# Segment assets and segment liabilities are presented with intercompany balances eliminated.

3. Other income and net gains

In HK$ million	Six months ended 30 June 2012	2011
Other income		
Commission income, subsidy income, rebates and others	**308**	238
Dividend income from other financial assets		
Listed shares	**4**	7
	312	245
Net gains		
Net exchange (loss)/gain	**(141)**	133
Net gain from liquidation/disposal of jointly controlled entities	**2,473**	3
Net gain from disposal of investment properties	**–**	296
Others	**84**	6
	2,416	438
	2,728	683

4. Profit from consolidated activities

In HK$ million	Six months ended 30 June 2012	2011
The profit from consolidated activities is arrived at after charging		
Cost of inventories/properties sold	**40,827**	34,381
Depreciation and amortisation	**1,423**	1,027
Impairment losses on other financial assets	**7**	–
Impairment losses on trade and other receivables	**15**	17
Impairment losses on property, plant and equipment	**22**	28

5. Net finance charges

In HK$ million	Six months ended 30 June 2012	2011
Finance charges		
Interest expense	**2,370**	1,866
Amount capitalised	**(1,732)**	(1,473)
	638	393
Other finance charges	**69**	69
Other financial instruments		
Fair value (gain)/loss	**(8)**	35
Ineffectiveness on cash flow hedges	**(54)**	(179)
	645	318
Finance income		
Interest income	**(401)**	(253)
	244	65

Notes to the Financial Statements

6. Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (Six months ended 30 June 2011: 16.5%) on the estimated assessable profit for the period. Tax outside Hong Kong is calculated on the estimated assessable profit for the period 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:

	Six months ended 30 June	
In HK$ million	**2012**	2011
Current taxation		
Hong Kong profits tax	**145**	137
Tax outside Hong Kong	**710**	799
Deferred taxation		
Changes in fair value of investment properties	**176**	226
Origination and reversal of other temporary differences	**(81)**	260
	950	1,422

7. 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 30 June 2012 and 31 December 2011 included the accrued distribution payments.

8. Dividends

	Six months ended 30 June	
In HK$ million	**2012**	2011
2011 Final dividend paid: HK$0.30 (2010: HK$0.30) per share	**1,095**	1,095
2012 Interim dividend proposed: HK$0.15 (2011: HK$0.15) per share	**547**	547

9. Earnings per share

The calculation of earnings per share is based on the consolidated profit attributable to shareholders of HK$5,482 million (six months ended 30 June 2011: HK$6,012 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, which the effect 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 period (six months ended 30 June 2011: 3,649,018,272 shares in issue). 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 period ended 30 June 2012.

10. Non-current deposits and prepayments

Non-current deposits represent deposits made for construction of property, plant and equipment mainly in relation to the new phases of the Group's steel plants and the Australian iron ore mining project, and cargo ships. Prepayments were made for rental of certain telecommunication facilities.

11. Other assets held for sale

As at 30 June 2012, interests in a jointly controlled entity and certain properties located in the People's Republic of China ("PRC") and Hong Kong were classified as other assets held for sale.

As at 31 December 2011, interests in a jointly controlled entity and certain properties located in PRC were classified as other assets held for sale.

12. Debtors, accounts receivable, deposits and prepayments

In HK$ million	**30 June 2012**	31 December 2011
Trade debtors and bills receivable aged		
Within 1 year	**7,802**	7,375
Over 1 year	**69**	48
	7,871	7,423
Accounts receivable, deposits and prepayments	**10,203**	8,830
	18,074	16,253

Note:

(i) Trade debtors are net of provisions 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 values.

(iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK$379 million (31 December 2011: HK$185 million), dividend receivable from jointly controlled entities of HK$2,459 million (31 December 2011: HK$1,738 million), and amounts due from associated companies of HK$181 million (31 December 2011: HK$138 million), which are unsecured, interest free and recoverable on demand.

As of 30 June 2012, trade debtors of HK$368 million (31 December 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	**30 June 2012**	31 December 2011
Less than 3 months	**269**	274
3 to 6 months	**73**	35
Over 6 months	**26**	23
	368	332

Notes to the Financial Statements

12. Debtors, accounts receivable, deposits and prepayments (Continued)

Movements in the provision for impairment of trade debtors are as follows:

In HK$ million	**Six months ended 30 June 2012**	Year ended 31 December 2011
At beginning of period/year	**128**	123
Exchange adjustments	**(1)**	3
Provision for impairment loss during the period/year	**3**	22
Receivables written off during the period/year	**(1)**	(6)
Provision written back during the period/year	**(3)**	(14)
At the end of period/year	**126**	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 30 June 2012, trade debtors of HK$146 million (31 December 2011: HK$187 million) were individually determined to be partially 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$46 million (31 December 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.

13. Creditors, accounts payable, deposits and accruals

In HK$ million	**30 June 2012**	31 December 2011
Trade creditors and bills payable aged		
Within 1 year	**12,861**	13,173
Over 1 year	**418**	204
	13,279	13,377
Accounts payable, deposits and accruals	**16,040**	16,443
	29,319	29,820

Note: The carrying amounts of creditors, accounts payable, deposits and accruals approximate their fair values.

14. Borrowings

(a)

In HK$ million	**30 June 2012**	31 December 2011
Short term borrowings		
Bank loans		
unsecured	**12,216**	7,815
secured	**872**	757
	13,088	8,572
Other loans		
unsecured	**976**	–
secured	**395**	189
Current portion of long term borrowings	**14,597**	18,896
Total short term borrowing	**29,056**	27,657
Long term borrowings		
Bank loans		
unsecured	**68,966**	69,900
secured	**12,996**	13,124
	81,962	83,024
Other loans		
unsecured	**16,015**	6,922
Less: current portion of long term borrowings	**(14,597)**	(18,896)
Total long term borrowings	**83,380**	71,050
Total borrowings	**112,436**	98,707
Analysed into		
unsecured	**98,173**	84,637
secured	**14,263**	14,070
	112,436	98,707

Notes to the Financial Statements

14. 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 30 June 2012.

(ii) On 16 August 2010, the Company issued and sold a total of US$150 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 30 June 2012.

(iii) 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 30 June 2012.

(iv) 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 2011") to investors under the US$2 billion medium term note programme established on 6 April 2011 pursuant to the subscription agreement dated 8 April 2011. All of the USD Bond 2011 remained outstanding at 30 June 2012.

(v) 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 US$2 billion medium term note programme established on 6 April 2011 pursuant to the subscription agreement dated 27 July 2011. All of the RMB Bond remained outstanding at 30 June 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 2012") to investors under the US$2 billion medium term note programme established on 6 April 2011 pursuant to the subscription agreements dated 12 March 2012 and 17 April 2012 respectively. All of the USD Bond 2012 remained outstanding at 30 June 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") to investors. All of the RMB Notes remained outstanding at 30 June 2012.

(viii) 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.

(ix) As at 30 June 2012, certain of the Group's inventories, deposits, accounts receivable and self-use properties with an aggregate carrying value of HK$1.7 billion (31 December 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$60.7 billion (31 December 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$0.8 billion (31 December 2011: HK$1.3 billion). Shipbuilding contracts of HK$1.7 billion (31 December 2011: HK$3.4 billion) for the 4 ships (31 December 2011: 8 ships) being built and 8 completed ships (31 December 2011: 4 ships) with carrying value of HK$3.5 billion (31 December 2011: HK$1.8 billion) 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$67.6 billion (31 December 2011: HK$59.9 billion).

(x) Bank loans of the Group not wholly repayable within five years amounted to HK$39.3 billion (31 December 2011: HK$39.9 billion). Other loans of the Group not wholly repayable within five years amounted to HK$13.7 billion (31 December 2011: HK$5.1 billion).

14. Borrowings (Continued)

(b) The maturity of the long term borrowings is as follows:

In HK$ million	**30 June 2012**	31 December 2011
Bank loans are repayable		
in the first year	**14,597**	18,896
in the second year	**9,415**	11,268
in the third to fifth years inclusive	**27,636**	21,170
after the fifth year	**30,314**	31,690
	81,962	83,024
Other loans are repayable		
in the third to fifth years inclusive	**1,846**	1,871
after the fifth year	**14,169**	5,051
	16,015	6,922
	97,977	89,946

(c) The exposure of the Group's total borrowings to interest-rate changes is as follows:

In HK$ million	**30 June 2012**	31 December 2011
Total borrowings	**112,436**	98,707
Borrowing at fixed rates for more than one year (from balance sheet date)	**(15,568)**	(6,382)
Interest rate swaps converting floating to fixed	**(27,640)**	(27,790)
Borrowings subject to interest-rate changes	**69,228**	64,535

The effective interest rate per annum on the Group's borrowings after considering the impact of interest rate swaps (converting floating to fixed rates of interest) was as follows:

	30 June 2012	31 December 2011
Total borrowings	**4.1%**	4.0%

Notes to the Financial Statements

14. Borrowings (Continued)

(d) The fair value of borrowings is HK$109,356 million (31 December 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$3,080 million (31 December 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:

In HK$ million	**30 June 2012**	31 December 2011
Hong Kong dollar	**22,930**	20,696
US dollar	**68,689**	58,012
Renminbi	**19,557**	18,873
Other currencies	**1,260**	1,126
	112,436	98,707

The Group has the following undrawn borrowing facilities:

In HK$ million	**30 June 2012**	31 December 2011
Floating rate		
expiring within one year	**4,309**	4,382
expiring beyond one year	**15,458**	14,295
	19,767	18,677

15. Financial risk management

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 30 June 2012, HK$43.2 billion (31 December 2011: HK$34.2 billion) of the Group's total borrowings were effectively paying fixed rate and the remaining were effectively paying a floating rate of interest. In addition, HK$3 billion forward starting swaps was outstanding that had not become effective as of 30 June 2012 (31 December 2011: HK$2 billion).

At 30 June 2012, if interest rates had been 0.5% higher/lower, with all other variables held constant, the hypothetical impact is summarised as follows:–

	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 (Note)	**(101)**	**–**	**90**	**–**
Cash and bank deposits	**170**	**–**	**(170)**	**–**
Derivatives	**27**	**874**	**(26)**	**(880)**

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:–

	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)

Note: The hypothetical impact of bank borrowings has considered the financial impact of capitalisation of interest

Notes to the Financial Statements

15. Financial risk management (Continued)

Financial risk factors (Continued)

(a) Exposure to interest rate fluctuations (Continued)

The Group holds AUD/USD plain vanilla forward contracts with an aggregate notional amount of AUD0.4 billion outstanding at 30 June 2012 (31 December 2011: AUD0.7 billion). 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 the profit and loss. At 30 June 2012, a 1% increase/(decrease) in the differential between Australian and US interest rates could give rise to a hypothetical impact of approximately HK$13 million (31 December 2011: HK$37 million) (decrease)/increase on profit.

(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 into 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 30 June 2012 the plain vanilla forward contracts had a notional amount of AUD418 million (31 December 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. USD net investment hedges are employed to hedge 41% (31 December 2011: 58%) of the currency exposure arising from other USD loans and a JPY/HKD cross currency swap was employed to minimise currency exposure for JPY Notes.

15. Financial risk management (Continued)

Financial risk factors (Continued)

(b) Exposure to foreign currency fluctuations (Continued)

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.

	30 June 2012					
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)**
USD	**1%**	**(317)**	**–**	**1%**	**317**	**–**
RMB	**2%**	**182**	**–**	**2%**	**(182)**	**–**
AUD	**15%**	**22**	**498**	**15%**	**(22)**	**(498)**
YEN	**10%**	**5**	**–**	**10%**	**(1)**	**–**
Pound Sterling	**10%**	**(164)**	**–**	**10%**	**164**	**–**
EURO	**10%**	**3**	**–**	**10%**	**(3)**	**–**

	31 December 2011					
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)
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)	–

Notes to the Financial Statements

15. Financial risk management (Continued)

Financial risk factors (Continued)

(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 30 June 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$11 million (31 December 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.

(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.

15. Financial risk management (Continued)

Financial risk factors (Continued)

(e) Liquidity risk (Continued)

The Group seeks to secure financing from a diversified set of counterparties on the most competitive terms in the market. At 30 June 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 2012 and 2013, 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.

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.

In HK$ million	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 30 June 2012				
Bank and other borrowings	**(32,925)**	**(12,221)**	**(36,458)**	**(54,757)**
Derivative financial instruments	**(885)**	**(813)**	**(1,960)**	**(1,874)**
Trade creditors, accounts and other payable	**(29,295)**	**(1,119)**	**(5)**	**(13)**
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	(29,347)	(1,184)	(46)	–

Notes to the Financial Statements

15. Financial risk management (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.

In HK$ million	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 30 June 2012				
Forward foreign exchange contracts – cash flow hedges				
outflow	**(2,673)**	**–**	**–**	**–**
inflow	**3,299**	**–**	**–**	**–**
Forward foreign exchange contracts – not qualified for hedge accounting				
outflow	**(1,685)**	**(4)**	**(25)**	**(667)**
inflow	**1,671**	**3**	**10**	**1,085**

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

The foreign exchange contracts that are not qualified for hedge accounting as at 30 June 2012 consist of cross currency swap contracts and forward exchange contracts for hedging JPY Notes as well as trade flows in foreign currencies. The gains and losses in the fair market value of these contracts are reflected in the profit and loss account.

15. Financial risk management (Continued)

Financial risk factors (Continued)

(f) Fair value estimation

(i) The fair value of outstanding derivative transactions is generated from software provided by Reval Inc. ('Reval'), a derivative risk management and hedge accounting solutions firm and are cross checked against price quotations obtained from major financial institutions. 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 fair value of borrowings is disclosed in note 14(d). The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments, except for the global and domestic bonds which are based on quoted market prices at the balance sheet date without any deduction for transaction cost.

(ii) The carrying values less impairment provisions of trade and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(iii) Certain financial instruments that fail to demonstrate, either at inception or throughout the life of the hedge, that the hedge is highly effective, do not meet hedging requirements and are evaluated at fair values at period ends with movements thereon dealt with in the profit and loss account.

(iv) 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

15. Financial risk management (Continued)

Financial risk factors (Continued)

(f) Fair value estimation (Continued)

(iv) *Financial instruments carried at fair value* (Continued)

In HK$ million	**30 June 2012** Level 1	Level 2	Level 3	Total	31 December 2011 Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets								
Listed	**220**	**–**	**–**	**220**	252	–	–	252
Unlisted	**–**	**–**	**78**	**78**	–	–	80	80
Derivative financial instruments								
Interest rate swaps	**–**	**246**	**–**	**246**	–	279	–	279
Forward exchange contracts	**–**	**631**	**–**	**631**	–	1,050	–	1,050
Liabilities								
Derivative financial instruments								
Interest rate swaps	**–**	**5,161**	**–**	**5,161**	–	4,842	–	4,842
Forward exchange contracts	**–**	**13**	**–**	**13**	–	64	–	64

During the period there were no significant transfers between instruments in Level 1 and Level 2.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

In HK$ million	**Unlisted available-for-sale equity securities**
At 1 January 2012	80
Net unrealised gains or losses in other comprehensive income during the period	(1)
Net realised gains or losses in profit and loss account during the period	(1)
At 30 June 2012	78
Total gains or losses recognised in other comprehensive income during the period	(1)
Total gains or losses recognised in profit and loss account during the period	(1)
At 1 January 2011	58
Purchases	11
Net unrealised gains or losses in other comprehensive income during the period	23
At 30 June 2011	92
Total gains or losses recognised in other comprehensive income during the period	23

15. Financial risk management (Continued)

Financial risk factors (Continued)

(f) Fair value estimation (Continued)

(v) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2012 and 31 December 2011. Details are as follows:

In HK$ million	30 June 2012 Carrying amount	30 June 2012 Fair value	31 December 2011 Carrying amount	31 December 2011 Fair value
Bank loans	**95,446**	**92,089**	91,785	90,257
Global bonds (USD Notes/Bond)	**12,392**	**12,512**	3,885	3,669
Domestic bond (RMB Notes)	**610**	**610**	–	–
Commercial paper	**976**	**976**	–	–
Private placement (USD Notes, JPY Notes & RMB Bond)	**3,012**	**3,169**	3,037	3,175

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(vi) Securities

Fair value for the 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/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

(vii) Derivatives

Forward exchange contracts are valued using the software provided by Reval, which uses a discounted cashflow model with independently sourced market data. Forward rates are used to convert future cashflows back to the functional currency. These cashflows are then discounted back to the valuation date to arrive at the fair market value.

Interest rate swap agreements are valued using a discounted cashflow model mainly based on independently sourced market data. Future cashflows for floating rate indices are implied from market curves. All future cashflows are then discounted back to the valuation date to arrive at the fair market value.

(viii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments, except for the global and domestic bonds which are based on quoted market prices at the balance sheet date without any deduction for transaction cost.

(ix) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 30 June 2012 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt.

Notes to the Financial Statements

16. 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 30 June 2012 and at 31 December 2011 were as follows:

In HK$ million	**30 June 2012**	31 December 2011
Total borrowings	**112,436**	98,707
Less: Cash and bank deposits	**35,607**	30,930
Net debt	**76,829**	67,777
Total ordinary shareholders' funds and perpetual capital securities	**83,434**	80,958
Total capital	**160,263**	148,735
Leverage ratio	**48%**	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 30 June 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 30 June 2012.

17. Derivative financial instruments

In HK$ million	30 June 2012 Assets	30 June 2012 Liabilities	31 December 2011 Assets	31 December 2011 Liabilities
Qualified for hedge accounting – cash flow hedge				
Interest-rate instruments	**–**	**4,875**	–	4,566
Forward foreign exchange instruments	**628**	**–**	1,047	–
	628	**4,875**	1,047	4,566
Not qualified for hedge accounting				
Interest-rate instruments	**246**	**286**	279	276
Forward foreign exchange instruments	**3**	**13**	3	64
	249	**299**	282	340
	877	**5,174**	1,329	4,906
Less: current portion				
Interest-rate instruments	**74**	**132**	73	95
Forward foreign exchange instruments	**631**	**13**	328	64
	705	**145**	401	159
Non-current portion	**172**	**5,029**	928	4,747

(i) Forward foreign exchange instruments

The notional amount of the outstanding forward foreign exchange instruments at 30 June 2012 was HK$4,342 million (31 December 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 10 months are recognised in the hedging reserve in equity as of 30 June 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 30 June 2012 was HK$30,640 million (31 December 2011: HK$29,790 million). In addition, the Group had cross currency interest rate swap contracts with an aggregate notional amount of HK$400 million (31 December 2011: HK$400 million). At 30 June 2012, the fixed interest rates under interest rate swaps varied from 0.6% to 5.24% per annum (31 December 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 30 June 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

18. Provisions

Provisions mainly consist of mining rights liability. In accordance with the mining right/lease agreements entered into by two subsidiary companies of the Group, the Group is committed to pay a defined royalty if either of the two subsidiary companies' production is less than 6 million tonnes by March 2013. The mining rights liability was grouped under non-current liabilities as at 31 December 2011.

19. Provisions, deferred income and other payables

As at 30 June 2012, the amount consists of provisions for site restoration and gas contract, deferred income and other payables. Other payables represent vendor retention fund payable to China Metallurgical Group Corp. ("MCC") of HK$1,115 million. As at 31 December 2011, the vendor retention fund payable to MCC of HK$757 million has been reclassified from current liabilities to non-current liabilities to conform with current period's presentation.

20. 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.

20. Material related party transactions (Continued)

(a) Transactions with state-owned enterprises (other than companies within the CITIC Group Corporation) (Continued)

The more significant transactions with state-owned enterprises are as follows:

(i) As at 30 June 2012, there were derivative liabilities of HK$4,162 million (31 December 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 17.

(ii) Balances (other than derivatives) with state-owned banks

In HK$ million	**30 June 2012**	31 December 2011
Bank balances and deposits	**20,748**	18,945
Bank loans	**69,654**	73,319

(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 MCC, a state-owned enterprise. 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 the 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.

Notes to the Financial Statements

20. 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 (Continued)

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	**30 June 2012**	31 December 2011
Balances with MCC		
Trade, other receivables and prepayment	**5,120**	7,484
Trade payable and other payable to MCC	**(2,778)**	(1,813)
Deposit received from MCC for the acquisition of 20% interest in Sino Iron	**(2,130)**	(2,130)
Transaction with MCC for the period/year ended		
Incurred costs on the Contract	**5,104**	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 30 June 2012, the Group received a deposit of HK$2,130 million (31 December 2011: HK$2,130 million) from MCC for the sale of 20% interest in Sino Iron which had not been completed as at 30 June 2012.

The Group holds 2.13% of MCC's shares acquired at MCC's initial public offering.

20. Material related party transactions (Continued)

(b) Transactions with CITIC Group Corporation

In HK$ million	**30 June 2012**	31 December 2011
Balances with fellow subsidiary companies within CITIC Group Corporation		
(i) Bank balances	**1,006**	632
(ii) Bank loans	**491**	553
(iii) Trade and other payable	**179**	260
(iv) Trade, other receivable and prepayment	**153**	65
Transactions with fellow subsidiary and associated companies within CITIC Group Corporation for the period/year ended		
(i) Service fee paid	**105**	139

On 2 September 2010, a subsidiary company of CITIC Telecom International Holdings Limited 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, but the remaining transaction was not yet completed as at 30 June 2012.

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. The consideration for the disposal is RMB3,511 million (equivalent to approximately HK$4,309 million). The transaction was completed in June 2012.

Report on Review of Interim Financial Information

To the Board of Directors of CITIC Pacific Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed interim financial information ("interim financial information") set out on pages 34 to 67, which comprises the consolidated balance sheet of CITIC Pacific Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 August 2012

Statutory Disclosure

Dividend and Closure of Register

The directors have declared an interim dividend of HK$0.15 per share (2011: HK$0.15 per share) for the year ending 31 December 2012, payable on Monday, 24 September 2012 to shareholders whose names appear on CITIC Pacific's register of members on Friday, 14 September 2012. The register of members of CITIC Pacific will be closed from Tuesday, 11 September 2012 to Friday, 14 September 2012, both days inclusive, during which period no share transfer will be effected. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with CITIC Pacific's Share Registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 10 September 2012.

Share Option Plan

Share Option Plan Adopted by CITIC Pacific

CITIC Pacific Share Incentive Plan 2000

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, CITIC Pacific has granted six lots of share options:–

Date of grant	Number of share options	Exercise price 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

The share options at the exercise price of HK$18.20 per share, HK$19.90 per share and HK$22.10 per share expired at the close of business on 27 May 2007, 31 October 2009 and 19 June 2011 respectively. The remaining share options granted and accepted under the Plan 2000 can be exercised in whole or in part within 5 years from the date of grant.

Statutory Disclosure

During the six months ended 30 June 2012, none of the share options granted under the Plan 2000 were exercised, lapsed and cancelled. Particulars of the share options granted under the Plan 2000 and a summary of their movements during the six months ended 30 June 2012 are as follows:–

A. CITIC Pacific directors

			Number of share options			
Name of director	Date of grant	Exercise price HK$	Balance as at 01.01.12	Exercised/ lapsed/ cancelled during the six months ended 30.06.12	Balance as at 30.06.12	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	
					1,100,000	0.030
Zhang Jijing	19.11.09	22.00	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	
					1,300,000	0.036
Vernon Francis Moore	16.10.07	47.32	600,000	–	600,000	
	19.11.09	22.00	500,000	–	500,000	
					1,100,000	0.030
Liu Jifu	16.10.07	47.32	700,000	–	700,000	
	19.11.09	22.00	500,000	–	500,000	
					1,200,000	0.033
Milton Law Ming To	16.10.07	47.32	800,000	–	800,000	
	19.11.09	22.00	500,000	–	500,000	
					1,300,000	0.036
Kwok Man Leung	16.10.07	47.32	600,000	–	600,000	
	19.11.09	22.00	500,000	–	500,000	
					1,100,000	0.030

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

		Number of share options		
Date of grant	Exercise price HK$	Balance as at 01.01.12	Exercised/ lapsed/cancelled during the six months ended 30.06.12	Balance as at 30.06.12
16.10.07	47.32	3,350,000	–	3,350,000
19.11.09	22.00	6,290,000	–	6,290,000
14.01.10	20.59	880,000	–	880,000

C. Others

			Number of share options		
Date of grant	Exercise price HK$	Balance as at 01.01.12	Exercised/ lapsed/cancelled during the six months ended 30.06.12	Balance as at 30.06.12
16.10.07	47.32	4,450,000 (Note)	–	4,450,000
19.11.09	22.00	2,760,000 (Note)	–	2,760,000

Note:
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, 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 or officer, consultant or representative of any member of CITIC Pacific Group who shall make payment of HK$1 to CITIC Pacific on acceptance. 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 daily quotations sheet of The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") 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. The total number of CITIC Pacific's shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of CITIC Pacific's shares in issue as at the date of adopting the Plan 2011. As at 30 June 2012, the total 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 period ended 30 June 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. Since the adoption of the CITIC Telecom Share Option Plan, CITIC Telecom has granted the following share options:

On 23 May 2007, options to subscribe for a total of 18,720,000 shares ('the First Lot') in CITIC Telecom were granted under the CITIC Telecom Share Option Plan and all were accepted. The exercise price was HK$3.26 per share, being the closing price of CITIC Telecom's shares on the date of grant of the First Lot. All options granted and accepted were fully vested on 23 May 2007 and were exercisable in whole or in part until 22 May 2012. Such options had expired at the close of business on 22 May 2012.

On 17 September 2009, options to subscribe for a total of 35,825,000 shares ('the Second Lot') in CITIC Telecom were granted under the CITIC Telecom Share Option Plan and all were accepted except for options for 115,000 CITIC Telecom's shares. The exercise price is HK$2.10 per share, being the closing price of CITIC Telecom's shares on the date of grant of the Second Lot. The first 50% of the Second Lot granted and accepted is exercisable in whole or in part from 17 September 2010 to 16 September 2015 and the remaining 50% of the Second Lot granted and accepted is exercisable in whole or in part from 17 September 2011 to 16 September 2016.

Statutory Disclosure

On 19 August 2011, options to subscribe for a total of 48,455,000 shares ('the Third Lot') in CITIC Telecom were granted under the CITIC Telecom Share Option Plan and all were accepted except for options for 200,000 CITIC Telecom's shares. The exercise price is HK$1.54 per share, being the closing price of CITIC Telecom's shares immediately preceding the date of grant of the Third Lot. The first 50% of the Third Lot granted and accepted is exercisable in whole or in part from 19 August 2012 to 18 August 2017 and the remaining 50% of the Third Lot granted and accepted is exercisable in whole or in part from 19 August 2013 to 18 August 2018.

As at 1 January 2012, options for 92,444,000 CITIC Telecom's shares were outstanding under the CITIC Telecom Share Option Plan. The grantees were certain directors or employees of CITIC Telecom working under continuous contracts (as defined in the Employment Ordinance). None of these options were granted to the directors, chief executives or substantial shareholders of CITIC Pacific. During the six months ended 30 June 2012, options for 14,745,000 CITIC Telecom's shares have lapsed and no options were exercised or cancelled. As at 30 June 2012, options for 77,699,000 CITIC Telecom's shares under the CITIC Telecom Share Option Plan were exercisable.

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. Before the listing of DCH Holdings, DCH Holdings has granted 18,000,000 options under the Pre-IPO Scheme at the exercise price of HK$5.88 per share. No further options can be, or have been, offered or granted under the Pre-IPO Scheme after DCH Holdings' listing on 17 October 2007. All 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. The grantees were certain directors or employees of DCH Holdings working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of CITIC Pacific.

As at 1 January 2012, options for 3,455,000 DCH Holdings' shares were outstanding under the Pre-IPO Scheme. During the six months ended 30 June 2012, options for 2,560,000 DCH Holdings' shares were exercised and none of these options were cancelled or lapsed. As at 30 June 2012, options for 895,000 DCH Holdings' shares under the Pre-IPO Scheme were exercisable.

Post-IPO Share Option Scheme

DCH Holdings adopted the Post-IPO Share Option Scheme ('Post-IPO Scheme') on 28 September 2007. Since the adoption of the Post-IPO Scheme, DCH Holdings has granted the following share options:

On 7 July 2010, options to subscribe for a total of 23,400,000 shares in DCH Holdings, at the exercise price of HK$4.766 per share, were granted under the Post-IPO Scheme and all were accepted. The closing price of DCH Holdings' shares immediately before the grant on 7 July 2010 was HK$4.69 per share. All options granted and accepted were fully vested on the date of grant and are then exercisable in whole or in part within 5 years from the date of grant.

On 8 June 2012, options to subscribe for a total of 24,450,000 shares in DCH Holdings, at the exercise price of HK$7.40 per share, were granted under the Post-IPO Scheme and 24,250,000 options were accepted and 200,000 options were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 5 July 2012). The closing price of DCH Holdings' shares immediately before the grant on 8 June 2012 was HK$7.49 per share. The share options granted is subject to a vesting scale. 25% of the 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 grantees were certain directors or employees of DCH Holdings working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of CITIC Pacific.

As at 1 January 2012, options for 13,430,000 DCH Holdings' shares were outstanding under the Post-IPO Scheme. During the six months ended 30 June 2012, options for 2,140,000 DCH Holdings' shares were exercised, options for 20,750,000 DCH Holding's shares were granted and accepted, and none of these options were cancelled and lapsed. As at 30 June 2012, options for 32,040,000 DCH Holdings' shares under the Post-IPO Scheme were exercisable.

The average fair value of the share options granted under the Post-IPO Scheme during the period ended 30 June 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 per annum	50%
– Option life	5 years
– Expected dividend per annum	4.0%
– Average risk-free interest rate per annum (based on Hong Kong Exchange Fund Notes)	0.36%
– 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 per annum	6.0%

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 period ended 30 June 2012 in respect of the grant of the aforesaid 24,250,000 share options for the shares of DCH Holdings is approximately HK$1.6 million.

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.

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 30 June 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			
Carl Yung Ming Jie	300,000		0.008
Vernon Francis Moore	4,200,000	(Note 1)	0.115
Liu Jifu	840,000		0.023
Milton Law Ming To	167,000		0.005
André Desmarais	8,145,000	(Note 2)	0.223
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
Kwok Man Leung	150,000		0.006

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

Statutory Disclosure

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 six months ended 30.06.12	Exercised/ lapsed/ cancelled during the six months ended 30.06.12	Balance as at 30.06.12	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 30 June 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Substantial Shareholders

As at 30 June 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 Hong Kong (Holdings) Limited ("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
Larry Yung Chi Kin	281,928,000	7.725
Earnplex Corporation	218,747,000	5.994

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

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;

Statutory Disclosure

(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.

Mr Larry Yung Chi Kin is a substantial shareholder of CITIC Pacific and directly holds 100% interest in Earnplex Corporation. Accordingly, the interests of Mr Larry Yung Chi Kin in CITIC Pacific duplicate the interests held by Earnplex Corporation.

Share Capital

CITIC Pacific has not redeemed any of its shares during the six months ended 30 June 2012. Neither CITIC Pacific nor any of its subsidiary companies has purchased or sold any of CITIC Pacific's shares during the six months ended 30 June 2012.

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 30 June 2012**
Fixed Assets	15,397
Jointly Controlled Entities	7
Other Financial Assets	92
Intangible Assets	1,460
Other Non Current Assets	1,562
Net Current Assets	2,844
Total Assets Less Current Liabilities	21,362
Long Term Borrowings	(5,762)
Deferred Tax Liabilities	(342)
Loan from Shareholders	(5,511)
	9,747

Corporate Governance

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. Details of our corporate governance practices can be found in CITIC Pacific's Annual Report 2011 and on CITIC Pacific's website www.citicpacific.com. In order to ensure a high standard of corporate governance, the board has set up the following committees:

- Established the 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 is chaired by the managing director, and its membership includes the group finance director, three other executive directors, leaders of major businesses in the group and leaders of key head office functions.

- Established the investment committee to consider the strategy and planning of CITIC Pacific and to review investment proposals. The committee is chaired by the chairman of the board; the other members are the managing director, group finance director and two other executive directors.

- Established the asset and liability management committee ("ALCO") to review the financial position and financial risk management of CITIC Pacific. ALCO monitors and sets limits on exposure in relation to asset and liability structure, counterparties, currencies, interest rates, commitments and contingent liabilities. It also reviews and approves financing plans, approves the use of new financial products and establishes hedging policies. Chaired by the group finance director, the committee comprises two executive directors, the group treasurer, group financial controller, and the executives with responsibility for treasury, treasury risk management and financial control.

- Established the audit committee to assist the board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting obligations. The committee oversees the relationship with the external auditors, reviews and monitors the effectiveness of the internal audit function and reviews CITIC Pacific's policies and practices on corporate governance. The committee comprises three non-executive directors, two of whom are independent non-executive directors having the relevant professional qualifications and expertise in accounting matters.

- Established the remuneration committee 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 committee comprises three independent non-executive directors.

- Established the nomination committee to determine the policy for the nomination of directors and to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. The committee is chaired by the chairman of the board; the other two members are independent non-executive directors.

- Established the special committee to deal with matters relating to the investigations of CITIC Pacific by the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force. The committee comprises the managing director, a non-executive director and an independent non-executive director.

Statutory Disclosure

Save as disclosed below, CITIC Pacific has applied the principles and complied with all 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 30 June 2012 as set out in Appendix 14 to the Listing Rules. In respect of code provision A.6.7 of the CG Code, Mr Carl Yung Ming Jie (an executive director), 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 Hamilton and Mr André Desmarais were away from Hong Kong due to other engagements. Mr Peter Kruyt, the alternate director of Mr André Desmarais, attended the AGM.

The audit committee of the board reviewed the Half-Year Report with management and CITIC Pacific's internal and external auditors and recommended its adoption by the board.

The interim financial information is prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting*. It has been reviewed by CITIC Pacific's independent auditor PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

CITIC Pacific has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in Appendix 10 to the Listing Rules. All directors complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

Update on Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

Executive Director

Mr Zhang Jijing ceased to act as a non-executive director of CITIC Securities Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) with effect from 20 June 2012 and the head of the strategy and planning department of CITIC Limited with effect from 10 August 2012.

Non-executive Director

Mr Ju Weimin has been appointed as the chairman and a non-executive director of CITIC Resources Holdings Limited (a company listed on the Hong Kong Stock Exchange) with effect from 1 March 2012. Mr Ju has resigned as the chairman of CITIC Trust Co. Ltd in April 2011.

Independent Non-executive Director

Mr Francis Siu Wai Keung has been appointed as an independent non-executive director of China Communications Services Corporation Limited (a company listed on the Hong Kong Stock Exchange) with effect from 28 June 2012.

Mr Gregory Lynn Curl has been appointed as director of Post Holdings, Inc. (a company listed on the New York Stock Exchange) with effect from 3 February 2012.

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 2 to the accounts on page 42

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:	11 September 2012 to 14 September 2012
Interim Dividend payment:	24 September 2012

The Half-Year Report is printed in English and Chinese and is available on our website at www.citicpacific.com under the 'Investors' section.

Shareholders may choose to receive the Half-Year 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 the Half-Year Report 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.

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Stock code 00267

E-BOOK