# Notes to the Financial Statements

## 1 Significant Accounting Policies

### a Basis of Preparation

The principal accounting policies applied in the preparation of these consolidated financial statements ('the Accounts') of CITIC Pacific Limited (the 'Company') and its subsidiary companies (together the 'Group') are set out below. These policies have been consistently applied to each of the years presented, other than the adoption of new or revised Hong Kong Financial Reporting Standards ('HKFRS') in 2010 as set out below. The Accounts have been prepared in accordance with HKFRS, and under the historical cost convention, except as disclosed in the accounting policies below in (h) and (w). The following revised standards, amendments or interpretations became effective in 2010 and are relevant to the Group.

| Standard No. | Title | Effect |
|---|---|---|
| HKFRS 3 (revised) | Business combinations | Note (i) |
| HKAS 27 (revised) | Consolidated and separate financial statements | Note (ii) |
| HK Int 5 | Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause | Insignificant |
| Improvements to HKFRS 2009 | | Note (iii) |

Adoption of the above revised standards, amendments or interpretations / change in accounting policies does not have a significant impact on these Accounts except as stated below.

(i) HKFRS 3 (revised) continues to apply the acquisition method for business combinations. The major changes from the existing standard include: the immediate expensing of all acquisition related costs, the inclusion in the cost of acquisition the fair value at acquisition date of any contingent purchase consideration, the re-measurement of previously held equity interest in the acquiree at fair value with any difference from the carrying value recognised in the profit and loss accounts in a business combination achieved at stages. There is a choice, on the basis of each acquisition, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

(ii) HKAS 27 (revised) provides that changes in a parent's ownership interest in a subsidiary company that do not result in a loss of control are accounted for as equity transactions and these transactions shall no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the subsidiary company is re-measured to fair value and the difference between the fair value and the carrying value is recognised in the profit and loss accounts.

(iii) HKAS 17 (amendments) is part of the 2009 improvement project. It specifies that a land lease may be classified as a finance lease when significant risks and rewards associated with the land are transferred to the lessee despite there being no transfer of the title at the end of the lease term. The amendments to HKAS 17 are required to be applied retrospectively on the basis of information existing at the inception of those leases. Comparative information has been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of certain leasehold land classified as operating leases to leasehold land classified as finance leases for the amount of HK$677 million as at 31 December 2010, HK$796 million as at 31 December 2009 and HK$837 million as at 1 January 2009 respectively. Other amendments in this 2009 improvement project are immaterial to the Group.

## 1 Significant Accounting Policies *continued*

### a Basis of Preparation *continued*

The following new standards, amendments and interpretations which have been issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') as of 31 December 2010 may impact the Group in future years but are not yet effective for the year ended 31 December 2010:

| Standard No. | Title | Applicable accounting period to the Group |
|---|---|---|
| HKAS 24 (Revised) | Related party disclosure (revised) | 2011 |
| HKFRS 9 | Financial instruments | 2013 |
| Amendments of HKAS 12 | Deferred tax: recovery of underlying assets | 2012 |
| Improvements to HKFRS 2010 | | 2011 |

The adoption of the above standards, amendments or interpretations in the years listed and the Group is in the process of assessing their impact on future accounting periods.

### b Basis of Consolidation

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

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

### c Goodwill

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

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

## 1 Significant Accounting Policies *continued*

### d Subsidiary Companies and Non-Controlling Interests

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

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

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

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

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

### e Jointly Controlled Entities

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

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

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

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

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

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

## 1 Significant Accounting Policies *continued*

### f Associated Companies

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

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

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

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

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

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

### g Property, Plant and Equipment

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

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

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

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

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

# 1 Significant Accounting Policies *continued*

## g Property, Plant and Equipment *continued*

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

Freehold land is not amortised.

| | |
|---|---|
| • Buildings | 2%-4% or the remaining lease period of the land where applicable |
| • Plant and machinery | 9%-20% |
| • Other property, plant and equipment, comprising telecommunications equipment, traffic equipment, cargo lighters, computer installations, motor vehicles, furniture, fixture and equipment | 10%-25% |

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

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

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

## h Investment Properties

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

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

## i Properties under Development

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

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

Properties under development for sale are carried at the lower of cost and the estimated net realisable value. Given the Group's diverse portfolio of property development projects, there is presently not a uniform operating cycle and hence properties under development for sale with the development expected to be completed within one year from the balance sheet date are classified under current assets. Such development properties are transferred to investment property when and only when there is a change in use as evidenced by the commencement of an operating lease to another party.

Properties under development for investment purposes are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss account.

## 1 Significant Accounting Policies *continued*

### j Capitalisation of Development Costs

Property development expenditure, including borrowing costs and professional fees, is capitalised as cost of development.

Borrowing costs incurred on assets under development that take a substantial period of time to get ready for their intended use or sale are capitalised into the carrying value of the assets under development.

The capitalisation rate applied to funds borrowed for the development of assets is based on the attributable cost of funds to the Group.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

### k Properties Held for Sale

Properties held for sale consisting of leasehold land and buildings are classified under current assets and stated at the lower of cost and net realisable value. Leasehold land is stated at cost less accumulated amortisation and any impairment. Building costs are stated at cost less any impairment.

### l Other Assets Held for Sale

Other assets held for sale are stated at their carrying amount which is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### m Leasehold Land

Leasehold land under operating lease and finance lease arrangements is stated at cost less accumulated amortisation and impairment. Leasehold land is amortised on a straight-line basis over the lease term.

### n Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and impairment loss, if any. They comprise goodwill, expenditure on mining rights and a vehicular tunnel concessions. The accounting policies for goodwill and exploration, evaluation and development expenditure of mining rights are outlined in accounting policies 1(c) and 1(o).

Amortisation of the vehicular tunnel concession is based on the actual traffic volume in the year compared to the projected traffic volume for the remainder of the concession period.

## 1 Significant Accounting Policies *continued*

### o Mining Exploration, Evaluation and Development Expenditure

Mining exploration, evaluation and development expenditures incurred are capitalised and carried forward in respect of each identifiable area of interest where the rights to mine are current and:

- it is expected that the expenditure will be recouped by future development and commercial exploitation or sale; or,
- at the balance sheet date, exploration and evaluation activities have reached a stage, which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations are continuing.

Development costs represent costs accumulated for an area of interest where the decision has been made to develop the mine. Development costs include such costs as plant hire, contractor site labour costs and resource assessment costs. Exploration and evaluation assets are transferred to development costs when this decision has been made. Development costs are tested for impairment in accordance with note 1(y).

Amortisation of costs carried forward is not charged until production commences. When production commences, capitalised expenditures on exploration, evaluation and development are amortised over the life of the area of interest to which they relate. Amortisation is recognised in the consolidated profit or loss on a unit of production method over the estimated useful lives of intangible assets from the date that they are available for use. Unamortised expenditure relating to that area of interest is written off in the period that abandonment is decided.

Provision for restoration costs is made at the time when the activities which give rise to the need for restoration occur, and would form part of the costs of property, plant and equipment. The need for a provision is assessed annually such that full provision is made by the end of the exploration life of each area.

The ultimate recoupment of costs carried forward for exploration, evaluation and development phases is dependent on the successful development and commercial exploitation of sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration phase and accordingly, production has not commenced.

Subsequent to the commencement of mining production, expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in consolidated profit or loss when incurred.

Mining exploration, evaluation and development expenditure is written down to its recoverable amount if it is lower than its carrying amount.

### p Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit and loss account.

## 1 Significant Accounting Policies *continued*

### q Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### r Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### s Provisions

Provisions are made when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not made for future operating losses.

In respect of the Group's iron ore mining operations:

#### i) Site restoration

In accordance with the iron ore mining group's environmental policy and applicable legal requirements, the Group has an obligation to conduct rehabilitation works in respect of disturbed areas comprising the waste rock dumps, open areas, open pits and abandonment bunds. A non-current provision has been made for the site restoration commitment with the corresponding property, plant and equipment increased by an equivalent amount.

#### ii) Mining rights

In accordance with the mining rights/lease agreements entered into by two subsidiary companies of the Company, 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. A non-current provision has been made for this commitment with the corresponding intangible assets increased by an equivalent amount.

### t Share Capital

Share capital issued by the Company is recorded at the proceeds received, net of direct issue costs.

## 1 Significant Accounting Policies *continued*

### u Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Geographically, management considers separate segments as mainland China, Hong Kong and overseas, which is further segregated into Australia and others. The performance of the operating segments is assessed on the profit attributable to the shareholders of the Company. Gain from leveraged foreign exchange contracts and net exchange gain are attributable to the corporate segment, as the cash position of the Group is managed centrally by the corporate treasury function.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### v Revenue Recognition

#### i) Sales of goods

Revenue arising from the sale of goods is generally recognised on the delivery of goods to customers. Revenue is after deduction of any trade discounts.

Revenue arising from the sale of motor vehicles is recognised when the registration document is issued or on delivery of the vehicle, whichever is earlier. This is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

#### ii) Rendering of services

Commission income is recognised when the goods concerned are sold to customers.

Revenue arising from the rendering of repairing services is recognised when the relevant work is completed.

Revenue from the provision of telecommunications services is recognised upon delivery of the service.

#### iii) Sales of properties under development and properties held for sale

Revenue from sales of properties under development is only recognised when the significant risks and rewards of ownership have been transferred to the buyer. The Group considers that the significant risks and rewards of ownership are transferred when the buildings contracted for sale are completed and the relevant permits essential for the delivery of the properties have been issued by the authorities.

Revenue from completed properties held for sale is recognised at the date when the sales agreement is signed.

#### iv) Toll income

Toll income is recognised as revenue when the service is provided.

#### v) Rental income

Rental income is recognised as revenue on a straight-line basis over the period of the relevant lease.

#### vi) Dividend income

Dividend income is recognised when the right to receive the dividend is established.

Dividends proposed or declared after their balance sheet date by companies in which the Group has an investment are not recognised as revenue at the balance sheet date but on the date when the right to receive the dividend is established.

## 1 Significant Accounting Policies *continued*

### w Financial Instruments

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) available-for-sale financial assets and, (iv) derivative financial instruments. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at every reporting date.

Purchases and sales of all categories financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except financial assets carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been legally transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

#### i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this sub-category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

#### ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, unless maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors, accounts receivable, deposits and prepayments in the balance sheet.

Loans and receivables and held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

#### iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are carried at fair value, or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the profit and loss account.

## 1 Significant Accounting Policies *continued*

### w Financial Instruments *continued*

#### iv) Derivative financial instruments

Derivatives are stated at fair value. The gain or loss on change in fair values is recognised in the profit and loss account unless the derivative qualifies for hedge accounting.

*Cash flow hedges*

Where a derivative qualifies for hedge accounting and is designated as a cash flow hedge, whether on the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and the ineffective part in the profit and loss account. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in hedging reserve will be recognised in the profit and loss account in the same period or periods during which the transaction it hedges is recognised in the profit and loss account. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

*Hedge of net investments in foreign operations*

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit and loss. The ineffective portion is recognised immediately in profit and loss.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 31. Movements on the hedging reserve in shareholders' equity are shown in Note 27. When the remaining maturity of the hedged item is more than 12 months, the full fair value of a hedging derivative is classified as a non-current asset or liability.

### x Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable and receivable under operating leases are accounted for on a straight line basis over the respective periods of the leases.

## 1 Significant Accounting Policies *continued*

### y Impairment of Assets

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication the carrying value of these assets may not be recoverable. If such assets are considered to be impaired, the impairment to be recognised in the profit and loss account is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (called cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### z Inventories

Inventories comprise mainly iron ore, scrap metal, steel, motor vehicles, spare parts, electrical appliances, food and other trading items. They are valued at the lower of cost and net realisable value. Cost represents the actual cost of purchase or production and is calculated on the first-in first-out, specific identification or weighted average basis as appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### aa Foreign Currencies

The consolidated and the Company's accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

Transactions in foreign currencies are translated into the functional currency at the rates ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as a qualifying cash flow hedge or net investment hedge.

Assets and liabilities of subsidiary companies, jointly controlled entities and associated companies, together with all other monetary assets and liabilities expressed in foreign currencies, are translated into Hong Kong dollars at the rates of exchange at the balance sheet date. Results in foreign currencies are translated at the average rates of exchange ruling during the year. All resulting exchange differences are recognised as a separate component of equity – exchange fluctuation reserve.

Exchange differences arising from the translation of the net investment in foreign entities, and of financial instruments which are designated as hedges of such investment, are taken directly to the exchange fluctuation reserve. On the disposal of these investments, such exchange differences are recognised in the consolidated profit and loss account as part of the profit or loss on disposal.

When a gain or loss on a non- monetary item is recognised directly in equity, any translation difference on that gain or loss is recognised directly in equity. When a gain or loss on a non- monetary item is recognised in the profit and loss account any translation difference on that gain or loss is recognised in the profit and loss account.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the rate of exchange ruling at the balance sheet date. Such differences are taken directly to the exchange fluctuation reserve.

# 1 Significant Accounting Policies *continued*

## bb Deferred Taxation

The balance sheet liability method is adopted whereby deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; or in respect of those temporary differences which arise either from goodwill not deductible for tax purposes, or relating to investments in subsidiary companies to the extent that the Group controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Provision for withholding tax that will arise on the remittance of retained earnings is only made where there is a current intention to remit such earnings.

Deferred tax assets are recognised to the extent that their future utilisation is probable. Deferred tax arising from revaluation of investment properties is recognised on the basis that the recovery of the carrying amount of the properties would be through use and calculated at the applicable profits tax rate.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## cc Employee Benefits

### i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### ii) Share-based payments

The Group operates a share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period with a corresponding increase in capital reserve. Fair values of share option awards, measured at the date of grant of the award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The fair value excludes the impact of any non-market services and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of the revision, if any, in the consolidated profit and loss account.

### iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## 2 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### i) Investment properties

The fair values of investment properties are determined annually by independent qualified valuers on an open market value at the balance sheet date on an existing use basis calculated on the net income allowing for reversionary potential.

### ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(y). For the purposes of impairment testing, goodwill acquired has been allocated to individual cash-generating units which are reviewed for impairment based on forecast operating performance and cash flows. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. Cash flow projections are prepared on the basis of reasonable assumptions reflective of prevailing and future market conditions, and are discounted appropriately.

### iii) Impairment of assets

The Group has made substantial investments in tangible and intangible assets. The Group considers impairment assessment as an area requiring extensive application of judgement and estimation. Assets that have an indefinite useful life are tested for impairment annually. Other assets are reviewed for impairment when there is an indication that the carrying value of these assets may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit and loss account.

*Mining operation*

The Group's mining operation is considered as a separate cash generating unit. Whenever events or circumstances indicate an impairment may have occurred, the Group tests whether assets attributable to the Group's mining operations have suffered any impairment. The recoverable amount of the mining operation is determined based on fair value less costs to sell which is based on cashflow projections that incorporate best estimates of selling prices, ore grades, exchange rates, production rates, future capital expenditure and production costs over the life of the mine. In line with normal practice in the mining industry, the cash flow projections are based on long term mine plans covering the expected life of the operation. Therefore, the projections cover periods well in excess of five years. Assumptions about selling prices, operating costs, exchange rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

## 2 Critical Accounting Estimates and Judgements *continued*

### iii) Impairment of assets *continued*

*Property, plant and equipment*

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on the best information available. The Group derives the required cash flow estimates from historical experience and internal business plans. To determine recoverable amount, the Group uses cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate.

*Properties under development*

The Group writes down properties under development to their recoverable amount based on the assessment of recoverability which takes into account cost to completion based on past experience and cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate. Write downs are recorded where events or changes in circumstances indicate that the balances may not be fully realised. The identification of write downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value of properties under development is adjusted to profit and loss account in the period in which such estimate is changed.

*Jointly controlled entities and associated companies*

The Group regularly reviews investments in jointly controlled entities and associates for impairment based on both quantitative and qualitative criteria. Such analysis typically includes various estimates and assumptions, the intent and ability to hold to maturity or until forecasted recovery, the financial health, cash flow projections and future prospects of the companies.

*Debtors, accounts receivables, deposits and prepayments*

Debtors, accounts receivables, deposits and prepayments are assessed and impairment provided based on regular review of the ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the impairment loss would affect the profit in future years.

## 2 Critical Accounting Estimates and Judgements *continued*

### iv) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful life of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

### v) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in Note 1(z). Management estimates the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's profit and net asset value.

### vi) Fair value of derivative financial instruments

The fair values of outstanding derivative transactions are based on independent valuations by Reval Inc., a derivative risk management and hedge accounting solutions firm, and are cross checked against fair values obtained from major financial institutions. Judgement is required in determining such valuations. Changes in the underlying assumptions could materially impact profit and loss or equity.

### vii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation that future taxable profit will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

## 3 Turnover and Revenue

The principal activities of CITIC Pacific Limited is holding its subsidiary companies, jointly controlled entities and associated companies (collectively the 'Investee Companies'), and raising finance. Revenue generating activities of the Group are conducted through the subsidiaries. The principal activities of the Investee Companies are set out in Note 42 to the financial statements.

Revenue of the Group comprises the total invoiced value of goods supplied net of government taxes where applicable, charges to telecommunication services, fees from services rendered to customers, gross proceeds from sale of properties, gross property rental and godown and cold storage income, and toll income analysed as follows:

| | Group | |
|---|---|---|
| *in HK$ million* | **2010** | 2009 |
| Sale of goods | **60,977** | 40,033 |
| Telecommunications | **2,966** | 2,716 |
| Services rendered to customers | **1,795** | 1,234 |
| Properties sales | **3,290** | 911 |
| Rental income | **800** | 788 |
| Toll income | **740** | 691 |
| Others | **46** | 36 |
| | **70,614** | 46,409 |

The Group's customer base is diversified and there is no single customer with which transactions have exceeded 10% of the Group's revenue.

Further details regarding the Group's principal activities are disclosed in the following notes to these financial statements.

# 4 Other Income and Net Gains

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| *Other income* | | |
| Commission income, subsidy income, rebates and others | **531** | 383 |
| *Dividend income from other financial assets* | | |
| Listed shares | **53** | 3 |
| | **584** | 386 |
| *Gain from leveraged foreign exchange contracts (Note i)* | **–** | 283 |
| *Net exchange gain (Note ii)* | **335** | 707 |
| Net gain from disposal/deemed disposal of jointly controlled entities and associated companies | **2,117** | 1,078 |
| Net gain from sale of other financial assets, mainly listed investments | **1,228** | 86 |
| Net gain from disposal of property, plant and equipment | **131** | 92 |
| | **3,476** | 1,256 |
| | **4,395** | 2,632 |

Notes:

i) In 2008, the Group entered into multiple Australian dollar (AUD), Euro and Renminbi (RMB) leveraged foreign exchange contracts with the intention of minimising currency exposure of the Group's iron ore mining project. These contracts were not eligible for hedge accounting and gains and losses arising from changes in fair market value of these contracts were reflected in the profit and loss account.

All of the leveraged foreign exchange contracts were novated to the CITIC Group, terminated or restructured into plain vanilla forward contracts (that are eligible for hedge accounting), during the period from December 2008 to May 2009 with the exception of three RMB leveraged foreign exchange contracts. Two of the RMB contracts matured in January 2010 and the final contract matured in July 2010. The net gain of HK$283 million recognised for the year ended 31 December 2009 in relation to leveraged foreign exchange contracts comprised realised gains and losses on taking delivery of foreign currencies under these leveraged contracts, and unrealised gains on revaluation of the RMB leveraged foreign exchange contracts.

ii) The net exchange gain of HK$335 million (2009: gain of HK$707 million which mainly represents the net exchange gain on Australian dollars bank balances arising from deliveries under leveraged and plain vanilla contracts subsequent to their delivery date) above mainly represents the net exchange gain on revaluation of monetary items in foreign currencies.

## 5 Segment Information

### a Revenue and Profit Attributable to Shareholders of the Company

| | | Year ended 31 December 2010 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in HK$ million* | Revenue* | Profit/(loss) from consolidated activities | Share of results of jointly controlled entities | Share of results of associated companies | Finance income | Finance charges | Group total | Segment allocations† | Segment profit/(loss) | Taxation | Non-controlling interests | Profit/(loss) attributable to shareholders of the Company |
| Special steel | 30,478 | 2,646 | 386 | 29 | 192 | (355) | 2,898 | (7) | 2,891 | (522) | (267) | 2,102 |
| Iron ore mining | 27 | (470) | – | – | 1 | – | (469) | – | (469) | 123 | – | (346) |
| Property | | | | | | | | | | | | |
| Mainland China | 3,791 | 987 | – | – | 51 | (31) | 1,007 | 10 | 1,017 | (379) | (55) | 583 |
| Hong Kong | 258 | 207 | – | 108 | – | – | 315 | 85 | 400 | (23) | – | 377 |
| Energy | – | 966 | 1,043 | – | 11 | – | 2,020 | – | 2,020 | (61) | – | 1,959 |
| Tunnels | 775 | 523 | 193 | – | – | – | 716 | – | 716 | (86) | (128) | 502 |
| Dah Chong Hong | 32,211 | 1,885 | 50 | 21 | 15 | (115) | 1,856 | (89) | 1,767 | (355) | (637) | 775 |
| CITIC Telecom | 2,966 | 355 | – | 108 | 1 | – | 464 | 1 | 465 | (44) | (173) | 248 |
| Other investments | 108 | 2,092 | 328 | 69 | 2 | (2) | 2,489 | – | 2,489 | (502) | – | 1,987 |
| Change in fair value of investment properties | – | 1,294 | – | 295 | – | – | 1,589 | – | 1,589 | (255) | (14) | 1,320 |
| Corporate | | | | | | | | | | | | |
| General and administration expenses | – | (511) | – | – | – | – | (511) | – | (511) | (34) | – | (545) |
| Exchange gain | – | 111 | – | – | – | – | 111 | – | 111 | – | – | 111 |
| Net finance charges | – | – | – | – | 83 | (201) | (118) | – | (118) | (40) | – | (158) |
| Total | 70,614 | 10,085 | 2,000 | 630 | 356 | (704) | 12,367 | – | 12,367 | (2,178) | (1,274) | 8,915 |

* Companies making up each reportable segment are set out in note 42.

† Segment allocations arising from property leases between segments were carried out at arms' length rentals.

## 5 Segment Information *continued*

### a Revenue and Profit Attributable to Shareholders of the Company *continued*

| *in HK$ million* | Revenue* | Profit/(loss) from consolidated activities | Share of results of jointly controlled entities | Share of results of associated companies | Finance income | Finance charges | Group total | Segment allocations† | Segment profit/(loss) | Taxation | Non-controlling interests | Profit/(loss) attributable to shareholders of the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Year ended 31 December 2009 | | | | | | | | | | |
| Special steel | 19,079 | 1,591 | 371 | 29 | 151 | (162) | 1,980 | – | 1,980 | (317) | (248) | 1,415 |
| Iron ore mining | 27 | 484 | – | – | 1 | – | 485 | – | 485 | (109) | – | 376 |
| Property | | | | | | | | | | | | |
| Mainland China | 1,390 | 654 | – | – | 40 | (25) | 669 | 4 | 673 | (161) | 12 | 524 |
| Hong Kong | 257 | 189 | – | 141 | – | – | 330 | 86 | 416 | (19) | – | 397 |
| Energy | – | (65) | 1,018 | (16) | – | – | 937 | – | 937 | (51) | – | 886 |
| Tunnels | 724 | 488 | 148 | – | – | – | 636 | – | 636 | (80) | (119) | 437 |
| Dah Chong Hong | 22,131 | 1,090 | 73 | 28 | 12 | (112) | 1,091 | (90) | 1,001 | (252) | (347) | 402 |
| CITIC Telecom | 2,716 | 444 | – | (1) | 5 | – | 448 | – | 448 | (75) | (177) | 196 |
| Other investments‡ | 85 | 1,060 | 408 | 411 | 6 | – | 1,885 | – | 1,885 | 7 | – | 1,892 |
| Change in fair value of investment properties | – | 90 | – | 50 | – | – | 140 | – | 140 | (20) | – | 120 |
| Corporate | | | | | | | | | | | | |
| General and administration expenses | – | (562) | – | – | – | – | (562) | – | (562) | (20) | – | (582) |
| Gain from leveraged foreign exchange contracts | – | 283 | – | – | – | – | 283 | – | 283 | (88) | – | 195 |
| Exchange gain | – | 144 | – | – | – | – | 144 | – | 144 | – | – | 144 |
| Net finance charges | – | – | – | – | 98 | (638) | (540) | – | (540) | 88 | – | (452) |
| Total | 46,409 | 5,890 | 2,018 | 642 | 313 | (937) | 7,926 | – | 7,926 | (1,097) | (879) | 5,950 |

* Companies making up each reportable segment are set out in note 42.

† Segment allocations arising from property leases between segments were carried out at arms' length rentals.

‡ Other investments segment includes the aviation segment which comprised a profit of approximately HK$1 billion from the disposal of interests in Cathay Pacific Airways Ltd.

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

| *in HK$ million* | Group **2010** | 2009 |
|---|---|---|
| Mainland China | **54,102** | 34,467 |
| Hong Kong | **11,574** | 9,891 |
| Other countries | **4,938** | 2,051 |
| | **70,614** | 46,409 |

## 5 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† 2010 | Segment assets† 2009 | Investments in jointly controlled entities 2010 | Investments in jointly controlled entities 2009 | Investments in associated companies 2010 | Investments in associated companies 2009 | Total assets 2010 | Total assets 2009 | Segment liabilities† 2010 | Segment liabilities† 2009 | Total net assets 2010 | Total net assets 2009 | Additions of non-current assets* (other than financial instruments and deferred tax assets) 2010 | Additions of non-current assets* (other than financial instruments and deferred tax assets) 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *By principal activities* | | | | | | | | | | | | | | |
| Special steel | **45,243** | 34,271 | **2,923** | 4,291 | **185** | 148 | **48,351** | 38,710 | **(23,409)** | (18,146) | **24,942** | 20,564 | **7,032** | 6,296 |
| Iron ore mining | **53,397** | 36,026 | **–** | – | **–** | – | **53,397** | 36,026 | **(38,678)** | (25,977) | **14,719** | 10,049 | **19,434** | 10,310 |
| Property | | | | | | | | | | | | | | |
| Mainland China | **31,778** | 24,263 | **5,677** | 5,465 | **–** | – | **37,455** | 29,728 | **(9,897)** | (7,158) | **27,558** | 22,570 | **2,833** | 3,325 |
| Hong Kong | **6,910** | 6,389 | **–** | – | **5,305** | 4,704 | **12,215** | 11,093 | **(534)** | (473) | **11,681** | 10,620 | **285** | 20 |
| Energy | **1,181** | 301 | **6,659** | 6,567 | **–** | – | **7,840** | 6,868 | **(101)** | (52) | **7,739** | 6,816 | **–** | – |
| Tunnels | **972** | 980 | **991** | 948 | **–** | – | **1,963** | 1,928 | **(181)** | (194) | **1,782** | 1,734 | **4** | – |
| Dah Chong Hong | **14,158** | 11,072 | **356** | 258 | **203** | 130 | **14,717** | 11,460 | **(7,606)** | (5,704) | **7,111** | 5,756 | **888** | 524 |
| CITIC Telecom | **2,652** | 2,532 | **–** | – | **408** | – | **3,060** | 2,532 | **(1,131)** | (749) | **1,929** | 1,783 | **330** | 376 |
| Other investments | **534** | 4,040 | **5,075** | 4,568 | **15** | 629 | **5,624** | 9,237 | **(617)** | (113) | **5,007** | 9,124 | **300** | 15 |
| Corporate | **8,314** | 8,159 | **–** | – | **–** | – | **8,314** | 8,159 | **(36,647)** | (31,936) | **(28,333)** | (23,777) | **1** | – |
| Segment assets/ (liabilities) | **165,139** | 128,033 | **21,681** | 22,097 | **6,116** | 5,611 | **192,936** | 155,741 | **(118,801)** | (90,502) | **74,135** | 65,239 | **31,107** | 20,866 |

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 year end.
† Segment assets and segment liabilities are presented with intercompany balances eliminated.

An analysis of the Group's non-current assets (other than financial instruments and deferred tax assets) by geographical area is as follows:

| *in HK$ million* | Group 2010 | Group 2009 |
|---|---|---|
| Mainland China | **68,372** | 59,132 |
| Australia | **48,798** | 30,215 |
| Hong Kong | **17,863** | 18,934 |
| Other countries | **995** | 860 |
| | **136,028** | 109,141 |

## 6 Profit from Consolidated Activities

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| *The profit from consolidated activities is arrived at after crediting* | | |
| Rental income from | | |
| i) Investment properties | | |
| Gross income | **800** | 788 |
| Less: direct outgoings | **(52)** | (54) |
| | **748** | 734 |
| ii) Other operating leases | **170** | 155 |

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| *And after charging* | | |
| Cost of inventories | **48,087** | 33,566 |
| The following expenses which are included in cost of sales, distribution and selling expenses and other operating expenses | | |
| Staff costs | **3,128** | 2,668 |
| Depreciation of property, plant and equipment | **1,456** | 1,013 |
| Amortisation of leasehold land – operating lease | **34** | 40 |
| Amortisation of intangible assets | **140** | 124 |
| Other operating expenses | **4,472** | 3,523 |
| Auditor's remuneration | **52** | 55 |
| Contributions to staff retirement schemes | **105** | 102 |
| Impairment losses provision on (Note) | | |
| Other financial assets | **74** | 114 |
| Property, plant and equipment | **345** | 13 |
| Jointly controlled entities and associated companies | **–** | 339 |
| Trade and other receivable | **18** | 19 |
| Intangible assets | **32** | 2 |
| Operating lease rentals | | |
| Land and buildings | **331** | 289 |

Note

| *in HK$ million* | 2010 | 2009 |
|---|---|---|
| *Impairment losses by operating segment* | | |
| Special steel (Note a) | **–** | 253 |
| Iron ore mining | **125** | – |
| Property (Note b) | **145** | – |
| Energy | **–** | 75 |
| CITIC Telecom | **14** | – |
| Dah Chong Hong (Note c) | **111** | 30 |
| Other investments (Note d) | **74** | 129 |
| | **469** | 487 |

Notes:

a. An impairment provision of HK$249 million was made in 2009 with a view that the carrying value of a Special Steel business would not be fully recoverable by this amount.

b. An impairment provision for a property investment in the People's Republic of China ('PRC') was made in current year as its value in use based on its estimated cashflows discounted at a rate of 15% was below its carrying amount.

c. Impairment loss of Dah Chong Hong in 2010 mainly related to fixed assets.

d. Impairment provision was made on other investments as the market values of certain listed shares were below the purchase prices.

## 6 Profit from Consolidated Activities *continued*

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

| *in HK$ million* | Group<br>**2010** | <br>2009 |
|---|---|---|
| Within 1 year | **768** | 701 |
| After 1 year but within 5 years | **701** | 612 |
| After 5 years | **45** | 51 |
| | **1,514** | 1,364 |

## 7 Net Finance Charges

| *in HK$ million* | Group<br>**2010** | <br>2009 |
|---|---|---|
| *Finance charges* | | |
| Interest expense | | |
| Bank loans and overdrafts wholly repayable within five years | **1,274** | 1,240 |
| Bank loans not wholly repayable within five years | **1,518** | 947 |
| Other loans wholly repayable within five years | **278** | 268 |
| Other loans not wholly repayable within five years | **31** | 11 |
| | **3,101** | 2,466 |
| Amount capitalised | **(2,335)** | (1,816) |
| | **766** | 650 |
| Other finance charges | **107** | 62 |
| Other financial instruments | | |
| Net realised loss | **–** | 155 |
| Fair value loss/(gain) | **51** | (96) |
| Ineffectiveness on cash flow hedges | **(220)** | 166 |
| | **704** | 937 |
| *Finance income* | | |
| Interest income | **(356)** | (313) |
| | **348** | 624 |

The capitalisation rates applied to funds borrowed are between 2.8 % and 4.6% per annum (2009: 2.2% and 4.1% per annum).

## 8 Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year. Overseas taxation is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations. Details are as follows:

| *in HK$ million* | Group<br>**2010** | <br>2009 |
|---|---|---|
| a) *Current taxation* | | |
| Hong Kong profits tax | **268** | 226 |
| Overseas taxation* | **1,534** | 553 |
| *Deferred taxation (Note 32)* | | |
| Changes in fair value of investment properties | **255** | 19 |
| Origination and reversal of other temporary differences | | |
| arising from leveraged foreign exchange contracts of an Australian subsidiary company | **–** | 88 |
| others | **121** | 210 |
| Effect of tax rate changes | **–** | 1 |
| | **2,178** | 1,097 |
| b) Aggregate current and deferred tax relating to items (credited)/charged to reserves | | |
| Deferred tax relating to mining assets and others | **(26)** | 1,243 |

* Overseas taxation in year 2010 has included taxes provided in relation to a group reorganisation in the PRC.

Taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

| *in HK$ million* | Group<br>**2010** | <br>2009 |
|---|---|---|
| Profit before taxation | **12,367** | 7,926 |
| Less: share of results of | | |
| jointly controlled entities | **(2,000)** | (2,018) |
| associated companies | **(630)** | (642) |
| | **9,737** | 5,266 |
| Calculated at Hong Kong profits tax rate of 16.5% (2009:16.5%) | **1,607** | 868 |
| Effect of different taxation rates in other jurisdictions | **110** | 54 |
| Effect of non-taxable income and non-deductible expenses | **(237)** | (24) |
| Utilisation of tax losses previously unrecognised and net of tax losses not recognised | **(37)** | 14 |
| Over provision in prior years | **–** | (46) |
| Effect of tax rate changes | **–** | 1 |
| Withholding tax on interest income and undistributed profits of certain PRC operations | **269** | 158 |
| Others | **466** | 72 |
| Taxation | **2,178** | 1,097 |

## 9 Profit Attributable to Shareholders of the Company

The Group's profit attributable to shareholders of the Company is recorded in the financial statements of the Company to the extent of a profit of HK$4,228 million (2009: HK$2,247 million).

## 10 Dividends

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| 2009 Final dividend paid: HK$0.25 (2008: HK$Nil) per share | **912** | – |
| Interim | | |
| 2010 Interim dividend paid: HK$0.15 (2009: HK$0.15) per share | **547** | 547 |
| Final | | |
| 2010 Final dividend proposed: HK$0.30 (2009: HK$0.25) per share | **1,095** | 912 |
| | **1,642** | 1,459 |
| Dividend per share (HK$) | **0.45** | 0.40 |

## 11 Earnings per Share

The calculation of earnings per share is based on the consolidated profit attributable to shareholders of the Company of HK$8,915 million (2009: HK$5,950 million).

The basic earnings per share is based on the number of 3,648,688,160 shares in issue during the year (2009: 3,646,765,954 weighted average number of shares). Diluted earnings per share for the year ended 31 December 2010 is the same as the basic earnings per share as it is deemed that no potential additional ordinary shares would be issued at no consideration from the exercise of options because the exercise price was above the average market price of the Company's shares for the year ended 31 December 2010.

## 12 Directors' Emoluments

The remuneration of each director for the year ended 31 December 2010 is set out below:

| *in HK$ million*<br>Name of Director | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement benefits | **2010** Total | 2009 Total |
|---|---|---|---|---|---|---|
| Chang Zhenming# | 0.15 | 1.23 | 2.00 | – | **3.38** | 8.36 |
| Zhang Jijing# | 0.15 | 1.23 | 5.00 | – | **6.38** | 2.81 |
| Carl Yung Ming Jie# | 0.15 | 1.61 | 7.50 | 0.08 | **9.34** | 12.52 |
| Vernon Francis Moore# | 0.15 | 2.23 | 12.00 | 0.01 | **14.39** | 14.88 |
| Li Shilin# | 0.15 | 0.56 | – | – | **0.71** | 0.71 |
| Liu Jifu#* | 0.17 | 0.75 | 8.50 | 0.01 | **9.43** | 11.47 |
| Milton Law Ming To# | 0.15 | 1.88 | 11.00 | 0.08 | **13.11** | 12.16 |
| Wang Ande# | 0.15 | 2.09 | 9.00 | – | **11.24** | 12.37 |
| Kwok Man Leung#* | 0.45 | 1.87 | 11.00 | 0.08 | **13.40** | 14.59 |
| Willie Chang | 0.35 | – | – | – | **0.35** | 0.35 |
| Alexander Reid Hamilton | 0.35 | – | – | – | **0.35** | 0.35 |
| Hansen Loh Chung Hon | 0.30 | – | – | – | **0.30** | 0.30 |
| Norman Ho Hau Chong | 0.25 | – | – | – | **0.25** | 0.25 |
| André Desmarais | 0.20 | – | – | – | **0.20** | 0.20 |
| Ju Weimin | 0.20 | – | – | – | **0.20** | 0.15 |
| Yin Ke* | 0.32 | – | – | – | **0.32** | 0.02 |
| Peter Lee Chung Hing | 0.04 | 1.24 | – | 0.03 | **1.31** | 22.99 |
| Hamilton Ho Hau Hay | – | – | – | – | **–** | 0.20 |
| Larry Yung Chi Kin | – | – | – | – | **–** | 1.09 |
| Henry Fan Hung Ling | – | – | – | – | **–** | 1.30 |
| | 3.68 | 14.69 | 66.00 | 0.29 | **84.66** | 117.07 |

Mr Peter Lee Chung Hing and Mr Hamilton Ho Hau Hay resigned during the year.

The executive directors marked '#' above are considered as key management personnel of the Group.

* Included fee of HK$0.44 million and share based payment of HK$0.06 million paid to certain directors from listed subsidiary companies of the Group.

## 13 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2009: four) are directors whose emoluments are disclosed in note 12.

The aggregate emoluments in respect of the other two individuals (2009: one) are as follows:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Salaries and other emoluments | **4.10** | 8.31 |
| Discretionary bonuses | **18.97** | 11.85 |
| Retirement scheme contribution | **0.34** | 0.01 |
| Share based payment | **4.32** | 1.60 |
| | **27.73** | 21.77 |

The number of these individuals with emoluments within the following bands were:

| | **2010** | 2009 |
|---|---|---|
| HK$11,000,001 – HK$12,000,000 | **1** | – |
| HK$15,000,001 – HK$16,000,000 | **1** | – |
| HK$21,000,001 – HK$22,000,000 | **–** | 1 |

## 14 Retirement Benefits

Hong Kong employees are offered the option to enrol in one of the MPF Master Trust Schemes under the CITIC Group MPF Scheme – the Fidelity Retirement Master Trust, the Hang Seng Mandatory Provident Fund and the RCM Mandatory Provident Fund. All these master trust schemes are defined contribution schemes and are administered in accordance with the terms and provisions of the respective trust deeds and are subject to the Mandatory Provident Fund Schemes Ordinance.

Employees of the Group's subsidiaries in mainland China and other locations are required to participate in defined contribution retirement schemes administered and operated by the respective local authorities and contributions are made according to the local mandatory requirements.

# 15 Fixed Assets and Properties under Development

## a Group

| in HK$ million | Fixed assets – Property, plant and equipment – Leasehold land – finance leases and self-use properties (Note ii) | Plant and machinery (Note ii) | Construction in progress (Note i, ii & iii) | Others (Note iv) | Sub-total | Investment properties | Leasehold land – operating leases (Note v) | Properties under development (Note i, ii & v) | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Cost or valuation* | | | | | | | | | |
| At 31 December 2009, as previously reported | 7,768 | 13,824 | 21,738 | 3,384 | 46,714 | 11,164 | 2,803 | 9,236 | 69,917 |
| Effect of adoption of HKAS 17 (Amendment) | 1,089 | – | – | – | 1,089 | – | (1,089) | – | – |
| At 1 January 2010, as restated | 8,857 | 13,824 | 21,738 | 3,384 | 47,803 | 11,164 | 1,714 | 9,236 | 69,917 |
| Exchange adjustments | 279 | 545 | 295 | 76 | 1,195 | 324 | 70 | 451 | 2,040 |
| Additions (Note vii) | 170 | 354 | 23,696 | 541 | 24,761 | – | – | 2,935 | 27,696 |
| Disposals | (51) | (266) | (52) | (153) | (522) | – | (29) | (3) | (554) |
| Change in fair value of investment properties | – | – | – | – | – | 1,294 | – | – | 1,294 |
| Transfer upon completion | 2,515 | 4,603 | (7,082) | 217 | 253 | – | 14 | (267) | – |
| Transfer to investment properties/current assets | (282) | 4 | – | (35) | (313) | 797 | – | (2,280) | (1,796) |
| Reclassification | (90) | 145 | (81) | 26 | – | – | – | – | – |
| At 31 December 2010 | 11,398 | 19,209 | 38,514 | 4,056 | 73,177 | 13,579 | 1,769 | 10,072 | 98,597 |
| *Accumulated depreciation, amortisation and impairment* | | | | | | | | | |
| At 31 December 2009, as previously reported | 1,342 | 3,941 | 24 | 2,171 | 7,478 | – | 426 | 171 | 8,075 |
| Effect of adoption of HKAS 17 (Amendment) | 293 | – | – | – | 293 | – | (293) | – | – |
| At 1 January 2010, as restated | 1,635 | 3,941 | 24 | 2,171 | 7,771 | – | 133 | 171 | 8,075 |
| Exchange adjustments | 63 | 193 | 1 | 37 | 294 | – | 6 | 12 | 312 |
| Charge for the year (Note viii) | 290 | 796 | – | 370 | 1,456 | – | 34 | 8 | 1,498 |
| Depreciation capitalised to construction in progress | 16 | 143 | – | 88 | 247 | – | – | – | 247 |
| Written back on disposals | (21) | (38) | – | (106) | (165) | – | (2) | – | (167) |
| Impairment loss | 206 | – | 125 | 13 | 344 | – | 1 | – | 345 |
| Transfer to investment properties/current assets | (79) | – | – | (25) | (104) | – | – | – | (104) |
| Reclassification | – | 5 | – | (5) | – | – | – | – | – |
| At 31 December 2010 | 2,110 | 5,040 | 150 | 2,543 | 9,843 | – | 172 | 191 | 10,206 |
| *Net book value* | | | | | | | | | |
| At 31 December 2010 | 9,288 | 14,169 | 38,364 | 1,513 | 63,334 | 13,579 | 1,597 | 9,881 | 88,391 |
| *Represented by* | | | | | | | | | |
| Cost | 11,398 | 19,209 | 38,514 | 4,056 | 73,177 | – | 1,769 | 10,072 | 85,018 |
| Valuation | – | – | – | – | – | 13,579 | – | – | 13,579 |
| | 11,398 | 19,209 | 38,514 | 4,056 | 73,177 | 13,579 | 1,769 | 10,072 | 98,597 |

## 15 Fixed Assets and Properties under Development *continued*

### a Group *continued*

| | Fixed assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | | | | | |
| *in HK$ million* | Leasehold land – finance leases and self-use properties (Note ii) | Plant and machinery (Note ii) | Construction in progress (Note i, ii & iii) | Others (Note iv) | Sub-total | Investment properties | Leasehold land – operating leases (Note v) | Properties under development (Note i, ii & v) | Total |
| *Cost or valuation* | | | | | | | | | |
| At 31 December 2008, as previously reported | 5,558 | 9,515 | 11,259 | 3,182 | 29,514 | 11,230 | 2,686 | 8,791 | 52,221 |
| Effect of adoption of HKAS 17 (Amendment) | 1,114 | – | – | – | 1,114 | – | (1,114) | – | – |
| At 1 January 2009, as restated | 6,672 | 9,515 | 11,259 | 3,182 | 30,628 | 11,230 | 1,572 | 8,791 | 52,221 |
| Exchange adjustments | 33 | 38 | 19 | 35 | 125 | 14 | 6 | 31 | 176 |
| Additions (Note vii) | 73 | 73 | 16,541 | 361 | 17,048 | – | 73 | 3,134 | 20,255 |
| Acquisition of subsidiary companies | 9 | – | 198 | 24 | 231 | – | 6 | – | 237 |
| Disposals | (73) | (92) | (21) | (345) | (531) | (85) | (4) | (270) | (890) |
| Change in fair value of investment properties | – | – | – | – | – | 90 | – | – | 90 |
| Transfer to current assets | – | – | – | – | – | – | – | (2,172) | (2,172) |
| Transfer upon completion | 2,058 | 4,295 | (6,336) | 185 | 202 | – | (1) | (201) | – |
| Reclassification | 85 | (5) | 78 | (58) | 100 | (85) | 62 | (77) | – |
| At 31 December 2009 | 8,857 | 13,824 | 21,738 | 3,384 | 47,803 | 11,164 | 1,714 | 9,236 | 69,917 |
| *Accumulated depreciation, amortisation and impairment* | | | | | | | | | |
| At 31 December 2008, as previously reported | 1,174 | 3,233 | 23 | 2,056 | 6,486 | – | 366 | 161 | 7,013 |
| Effect of adoption of HKAS 17 (Amendment) | 277 | – | – | – | 277 | – | (277) | – | – |
| At 1 January 2009, as restated | 1,451 | 3,233 | 23 | 2,056 | 6,763 | – | 89 | 161 | 7,013 |
| Exchange adjustments | 5 | 13 | – | 11 | 29 | – | – | 1 | 30 |
| Charge for the year (Note viii) | 202 | 475 | 1 | 335 | 1,013 | – | 40 | 9 | 1,062 |
| Depreciation capitalised to construction in progress | 3 | 288 | – | 28 | 319 | – | 4 | – | 323 |
| Written back on disposals | (32) | (69) | – | (265) | (366) | – | – | – | (366) |
| Impairment loss | 6 | 2 | – | 5 | 13 | – | – | – | 13 |
| Reclassification | – | (1) | – | 1 | – | – | – | – | – |
| At 31 December 2009, as restated | 1,635 | 3,941 | 24 | 2,171 | 7,771 | – | 133 | 171 | 8,075 |
| *Net book value* | | | | | | | | | |
| At 31 December 2009, as restated | 7,222 | 9,883 | 21,714 | 1,213 | 40,032 | 11,164 | 1,581 | 9,065 | 61,842 |
| *Represented by* | | | | | | | | | |
| Cost | 8,857 | 13,824 | 21,738 | 3,384 | 47,803 | – | 1,714 | 9,236 | 58,753 |
| Valuation | – | – | – | – | – | 11,164 | – | – | 11,164 |
| | 8,857 | 13,824 | 21,738 | 3,384 | 47,803 | 11,164 | 1,714 | 9,236 | 69,917 |

## 15 Fixed Assets and Properties under Development *continued*

### a Group *continued*

Notes:

i) During the year, interest capitalised in properties under development and construction in progress amounts to HK$398 million (2009: HK$401 million) and HK$1,691 million (2009: HK$1,207 million) respectively.

ii) As at 31 December 2010, certain of the Group's property, plant and equipment and properties under development with an aggregate carrying value of HK$32,311 million (2009: HK$15,779 million) were pledged to secure loan and banking facilities granted to certain subsidiary companies.

iii) As at 31 December 2010, construction in progress comprised of the development of an iron ore mine in Western Australia amounted to HK$31,709 million (2009: HK$14,745 million), expansion of the Group's special steel mills amounted to HK$6,567 million (2009: HK$6,819 million) and others of HK$238 million (2009: HK$174 million).

iv) Other property, plant and equipment comprise traffic equipment, cargo lighters, computer installations, telecommunications equipment, motor vehicles and furniture, fixtures and equipment.

v) As at 31 December 2009 and 2010, certain of the Group's properties under development are in the process of applying for certificates of land use rights in the PRC.

vi) Commitments of the Group in respect of additions to fixed assets and properties under development:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Authorised but not contracted for<br>property, plant and equipment, properties under development<br>and leasehold land classified as operating leases | **2,353** | 3,040 |
| Contracted but not provided for<br>property, plant and equipment, properties under development<br>and leasehold land classified as operating leases | **12,039** | 18,311 |

| | | Group | |
|---|---|---|---|
| | *in HK$ million* | **2010** | 2009 |
| vii) | *a) Additions to fixed assets and properties under development by operating segment* | | |
| | Special steel | **6,736** | 8,032 |
| | Iron ore mining | **17,166** | 8,531 |
| | Property | **2,975** | 3,160 |
| | Tunnels | **4** | 14 |
| | Dah Chong Hong | **654** | 404 |
| | CITIC Telecom | **159** | 112 |
| | Other investments | **2** | 2 |
| | | **27,696** | 20,255 |
| | *b) Additions to fixed assets and properties under development by geographical area* | | |
| | Mainland China | **10,119** | 11,190 |
| | Hong Kong | **384** | 534 |
| | Overseas | **17,193** | 8,531 |
| | | **27,696** | 20,255 |
| viii) | *Depreciation and amortisation charge for the year by segment* | | |
| | Special steel | **1,037** | 644 |
| | Iron ore mining | **1** | – |
| | Property | **84** | 64 |
| | Tunnels | **6** | 6 |
| | Dah Chong Hong | **258** | 235 |
| | CITIC Telecom | **107** | 106 |
| | Other investments | **5** | 7 |
| | | **1,498** | 1,062 |

## 15 Fixed Assets and Properties under Development *continued*

### b Company

| *in HK$ million* | Motor vehicles, equipment, furniture and fixtures 2010 | 2009 |
|---|---|---|
| *Cost* | | |
| At 1 January | **105** | 109 |
| Additions | **1** | 2 |
| Disposals | **(2)** | (6) |
| At 31 December | **104** | 105 |
| *Accumulated depreciation* | | |
| At 1 January | **95** | 93 |
| Charge for the year | **4** | 5 |
| Written back on disposals | **(2)** | (3) |
| At 31 December | **97** | 95 |
| *Net book value, at cost* | | |
| At 31 December | **7** | 10 |

### c The tenure of the properties of the Group is as follows:

| | Leasehold land – finance leases and self-use properties | | | Investment properties | | Properties under development* | | Leasehold land operating leases | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in HK$ million* | **2010** | As restated 31 December 2009 | As restated 1 January 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | As restated 31 December 2009 | As restated 1 January 2009 | **2010** | 2009 |
| *Leasehold properties held In Hong Kong* | | | | | | | | | | | | |
| Leases of over 50 years | **23** | 23 | 23 | **865** | 849 | **–** | – | **–** | – | – | **888** | 872 |
| Leases of between 10 to 50 years | **1,876** | 2,096 | 2,160 | **4,634** | 3,879 | **24** | 24 | **–** | 62 | – | **6,534** | 6,061 |
| Leases of less than 10 years | **12** | 12 | 16 | **–** | – | **–** | – | **–** | – | – | **12** | 12 |
| *In mainland China* | | | | | | | | | | | | |
| Leases of over 50 years | **476** | 247 | 141 | **1,766** | 1,545 | **3,302** | 3,337 | **–** | 23 | – | **5,544** | 5,152 |
| Leases of between 10 to 50 years | **8,652** | 6,146 | 4,043 | **5,873** | 4,470 | **6,746** | 5,875 | **1,759** | 1,599 | 1,563 | **23,030** | 18,090 |
| Leases of less than 10 years | **91** | 76 | 26 | **–** | – | **–** | – | **–** | – | – | **91** | 76 |
| *Properties held overseas* | | | | | | | | | | | | |
| Freehold | **228** | 221 | 219 | **441** | 421 | **–** | – | **–** | – | – | **669** | 642 |
| Leases of between 10 to 50 years | **40** | 36 | 44 | **–** | – | **–** | – | **10** | 9 | 9 | **50** | 45 |
| Leases of less than 10 years | **–** | – | – | **–** | – | **–** | – | **–** | 21 | – | **–** | 21 |
| | **11,398** | 8,857 | 6,672 | **13,579** | 11,164 | **10,072** | 9,236 | **1,769** | 1,714 | 1,572 | **36,818** | 30,971 |

* The total amount includes properties under development for sale classified as non-current assets of HK$7,936 million (2009: HK$7,577 million) and the remaining balance represents properties under development for own use.

## 15 Fixed Assets and Properties under Development *continued*

### d Property Valuation

Investment properties were revalued at 31 December 2010 by the following independent, professionally qualified valuers.

| Properties located in | Valuers |
|---|---|
| Hong Kong and Shanghai | Knight Frank Petty Limited |
| Japan | Kikuchi Certified Real Estate Appraiser Office |

**e** Fixed assets and properties held for sale under current assets of the Group let under operating leases to generate rental income are as follows:

| *in HK$ million* | Investment properties | Leasehold land – finance leases and self-use properties | Other fixed assets | Fixed assets total | Properties held for sale |
|---|---|---|---|---|---|
| Cost or valuation | **13,579** | **182** | **266** | **14,027** | **310** |
| Accumulated depreciation/ impairment | **–** | **(14)** | **(136)** | **(150)** | **(70)** |
| Net book value at 31 December 2010 | **13,579** | **168** | **130** | **13,877** | **240** |
| Depreciation charges/amortisation charges for the year | **–** | **4** | **33** | **37** | **3** |
| Cost or valuation | 11,164 | 182 | 217 | 11,563 | 310 |
| Accumulated depreciation/impairment | – | (10) | (130) | (140) | (67) |
| Net book value at 31 December 2009 | 11,164 | 172 | 87 | 11,423 | 243 |
| Depreciation charges/amortisation charges for the year | – | – | 33 | 33 | 3 |

## 16 Subsidiary Companies

| | Company | |
|---|---|---|
| *in HK$ million* | **2010** | 2009 |
| *Non-current* | | |
| Unlisted shares, at cost less impairment losses | **1,822** | 1,363 |
| Amounts due from subsidiary companies (Note) | **66,579** | 59,880 |
| | **68,401** | 61,243 |
| *Current* | | |
| Amounts due from subsidiary companies (Note)* | **3,960** | 1,467 |
| Amounts due to subsidiary companies (Note)* | **(9,647)** | (9,288) |
| | **(5,687)** | (7,821) |

Particulars of the principal subsidiary companies are shown in Note 42.

Note: Amounts due from subsidiary companies and amounts due to subsidiary companies are interest bearing at market rates except for amounts due from subsidiary companies of approximately HK$44,095 million (2009: HK$40,166 million) and amounts due to subsidiary companies of approximately HK$6,159 million (2009: HK$5,796 million), which are non-interest bearing. The non-current amounts due from subsidiary companies are not repayable within 12 months from the balance sheet date, and the current amounts due from/to subsidiary companies have no fixed repayment terms. The amounts were not in default or impaired except for a provision for impairment loss of HK$281 million which was made in 2010 (2009: HK$879 million).

* These amounts approximate fair value.

## 17 Jointly Controlled Entities

| in HK$ million | Group 2010 | 2009 |
|---|---|---|
| Share of net assets | **15,902** | 15,909 |
| Goodwill and intangible assets | | |
| At 1 January | **2,184** | 2,219 |
| Disposal | **(213)** | (28) |
| Amortisation | **(36)** | (13) |
| Exchange differences | **83** | 6 |
| At 31 December | **2,018** | 2,184 |
| | **17,920** | 18,093 |
| Loans due from jointly controlled entities (Note b) | **3,762** | 4,005 |
| Loans due to jointly controlled entities (Note b) | **(1)** | (1) |
| | **21,681** | 22,097 |

| in HK$ million | Company 2010 | 2009 |
|---|---|---|
| Unlisted shares, at cost | **4,244** | 4,244 |
| Loans due from jointly controlled entities | **877** | 858 |
| | **5,121** | 5,102 |

Note:

a. Jointly controlled entities include the Western Harbour Tunnel Company Limited ('WHTCL') whose year end is 31 July which is not coterminous with the Group's year end. The results of certain jointly controlled entities (including WHTCL) have been equity accounted for based on their unaudited financial statements for the years ended 31 December 2009 and 2010.

b. Loans due from jointly controlled entities and loans due to jointly controlled entities are interest bearing at market rates except for loans to jointly controlled entities of approximately HK$1,488 million (2009: HK$1,567 million), which are non-interest bearing. These loans are not repayable within 12 months from the balance sheet date and were not in default or impaired, and the carrying amounts approximate their fair value.

## 17 Jointly Controlled Entities *continued*

c. The following amounts represent the Group's share of the assets and liabilities, and revenue and results of jointly controlled entities and are included in the consolidated balance sheet and the consolidated profit and loss account using the equity method and after adjusting for goodwill and amortisation:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| *Assets* | | |
| Non-current assets | **21,025** | 22,809 |
| Current assets | **20,313** | 19,916 |
| | **41,338** | 42,725 |
| *Liabilities* | | |
| Non-current liabilities | **(11,523)** | (12,104) |
| Current liabilities | **(13,761)** | (14,434) |
| | **(25,284)** | (26,538) |
| Net assets | **16,054** | 16,187 |
| Revenue | **19,861** | 18,394 |
| Expenses | **(17,386)** | (15,908) |
| | **2,475** | 2,486 |
| Taxation | **(413)** | (407) |
| Profit for the year | **2,062** | 2,079 |
| Share of jointly controlled entities' capital commitments (Note i) | | |
| authorised but not contracted for | **386** | 22 |
| contracted but not provided for | **1,520** | 1,191 |

Note:

i) The Group has fully contributed its attributable portion of capital and loans to the respective jointly controlled entities.

ii) There are no material contingent liabilities for 2009 and 2010 to be shared by the Group.

d. Particulars of the principal jointly controlled entities are shown in Note 42.

## 18 Associated Companies

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Share of net assets | **3,927** | 3,433 |
| Goodwill | | |
| At 1 January | **65** | 1,439 |
| Disposal | **–** | (1,374) |
| At 31 December | **65** | 65 |
| Loans due from associated companies (Note b) | **2,132** | 2,122 |
| Loans due to associated companies (Note b) | **(8)** | (9) |
| | **6,116** | 5,611 |
| *Investment at cost* | | |
| Unlisted shares | **2,822** | 2,673 |
| | **2,822** | 2,673 |

| *in HK$ million* | Company 2010 | 2009 |
|---|---|---|
| *Investment at cost* | | |
| Unlisted shares | **53** | 303 |
| Loans due from associated companies | **1,973** | 2,250 |
| Loans due to associated companies | **(8)** | (9) |
| | **2,018** | 2,544 |

Dividend income from associated companies during the year is as follows:

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Unlisted associated companies | **544** | 268 |
| | **544** | 268 |

Note:

a. Associated companies include the Hong Kong Resort Company Limited ('HKR') whose year end is 31 March which is not coterminous with the Group's year end. The results of certain associated companies including HKR have been equity accounted for based on their unaudited financial statements for the years ended 31 December 2009 and 2010.

b. Loans due from associated companies and loans due to associated companies are interest bearing at market rates except for loans due to associated companies of approximately HK$8 million (2009: HK$9 million), which are non-interest bearing. These loans are not repayable within 12 months from the balance sheet date and were not in default or impaired except for a provision for impairment loss of HK$24 million made in 2007 for the loans due from an associated company. The carrying amounts of the loans approximate their fair value.

c. Particulars of the principal associated companies are shown in Note 42.

## 18 Associated Companies *continued*

Summarised financial information of the associated companies on a gross basis:

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Assets | **19,783** | 19,616 |
| Liabilities | **13,580** | 14,000 |
| Revenue | **5,476** | 7,843 |
| Profit | **1,892** | 1,753 |
| Capital commitments | | |
| authorised but not contracted for | **190** | 99 |
| contracted but not provided for | **651** | 1,002 |
| Contingent liabilities | **114** | 199 |

## 19 Other Financial Assets

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| *Available for sale financial assets* | | |
| *Listed investments, at fair value* | | |
| Shares listed in Hong Kong | **377** | 2,174 |
| | **377** | 2,174 |
| *Others* | | |
| *Unlisted investments* | | |
| Shares, at cost | **13** | 11 |
| Investment fund, at fair value | **58** | 13 |
| | **448** | 2,198 |

Other financial assets are denominated in the following currencies:

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Hong Kong dollars | **390** | 2,185 |
| Other currencies | **58** | 13 |
| | **448** | 2,198 |

## 20 Intangible Assets

| in HK$ million | Goodwill | Other intangible assets | | | Total |
|---|---|---|---|---|---|
| | | Mining assets | Vehicular tunnel | Others | |
| *Cost* | | | | | |
| At 1 January 2010 | **1,249** | **8,611** | **2,000** | **329** | **12,189** |
| Exchange adjustment | **9** | **16** | **–** | **15** | **40** |
| Additions | **–** | **2,193** | **–** | **17** | **2,210** |
| At 31 December 2010 | **1,258** | **10,820** | **2,000** | **361** | **14,439** |
| *Accumulated amortisation and impairment losses* | | | | | |
| At 1 January 2010 | **25** | **21** | **1,204** | **26** | **1,276** |
| Exchange adjustments | **–** | **–** | **–** | **2** | **2** |
| Charge for the year | **–** | **–** | **116** | **24** | **140** |
| Impairment loss | **29** | **–** | **–** | **3** | **32** |
| At 31 December 2010 | **54** | **21** | **1,320** | **55** | **1,450** |
| *Net book value* | | | | | |
| At 31 December 2010 | **1,204** | **10,799*** | **680** | **306** | **12,989** |
| *Cost* | | | | | |
| At 1 January 2009 | 966 | 6,898 | 2,000 | 265 | 10,129 |
| Exchange adjustment | 2 | 10 | – | – | 12 |
| Additions | 191 | 1,703 | – | 26 | 1,920 |
| Acquisition of subsidiaries | 90 | – | – | 38 | 128 |
| At 31 December 2009 | 1,249 | 8,611 | 2,000 | 329 | 12,189 |
| *Accumulated amortisation and impairment losses* | | | | | |
| At 1 January 2009 | 25 | 21 | 1,098 | 6 | 1,150 |
| Charge for the year | – | – | 106 | 18 | 124 |
| Impairment loss | – | – | – | 2 | 2 |
| At 31 December 2009 | 25 | 21 | 1,204 | 26 | 1,276 |
| *Net book value* | | | | | |
| At 31 December 2009 | 1,224 | 8,590* | 796 | 303 | 10,913 |

* Including mining rights provision of HK$1,511 million (2009: HK$706 million). For details see note 33.

The amortisation charge for the year is included in 'other operating expenses' in the consolidated profit and loss account.

As at 31 December 2010, the remaining amortisation period of the vehicle tunnel is 6 years, whilst the mining assets are currently under construction and will be amortised on a unit of production basis on completion of construction and when the mine is in production. The Group estimates that it will mine a total of 2 billion tonnes of iron ore over a period of approximately 25 years.

## 20 Intangible Assets *continued*

Analysed by:

| *in HK$ million* | **2010** Goodwill | **2010** Other intangible assets: Mining assets | **2010** Other intangible assets: Vehicular tunnel (Note a) | **2010** Other intangible assets: Others | 2009 Goodwill | 2009 Other intangible assets: Mining assets | 2009 Other intangible assets: Vehicular tunnel | 2009 Other intangible assets: Others |
|---|---|---|---|---|---|---|---|---|
| Special steel | **237** | – | – | – | 231 | – | – | – |
| Iron ore mining | **23** | **10,799** | – | – | 25 | 8,590 | – | – |
| Property | | | | | | | | |
| Mainland China | **323** | – | – | – | 323 | – | – | – |
| Tunnels | **7** | – | **680** | – | 7 | – | 796 | – |
| CITIC Telecom | **354** | – | – | **36** | 351 | – | – | 40 |
| Dah Chong Hong | **260** | – | – | **270** | 287 | – | – | 263 |
| | **1,204** | **10,799** | **680** | **306** | 1,224 | 8,590 | 796 | 303 |

Note:

a. The vehicular tunnel rights represent a franchise to operate the Eastern Harbour Crossing for the period ending 7 August 2016. At the end of the franchise period, the assets of the franchise will be vested in the franchisor, the Hong Kong government, for no compensation other than for certain plant, machinery and equipment as specified under the terms of the franchise.

## 21 Non-Current Deposits and Prepayment

| *in HK$ million* | Group **2010** | Group 2009 |
|---|---|---|
| *Non-current deposits represent deposit payments for* | | |
| Construction of cargo ships | **3,956** | 3,847 |
| Land acquisitions | – | 156 |
| Acquisition and construction of other property, plant and equipment mainly in relation to the Group's steel plant new phases and the Australian iron ore mining project | **2,276** | 2,477 |
| Acquisition of a subsidiary company | **66** | – |
| Prepayment for rental of certain telecommunication facilities | **105** | – |
| | **6,403** | 6,480 |

## 22 Other Assets Held for Sale

As at 31 December 2010, certain properties located in PRC and Hong Kong were classified as other assets held for sale.

As at 31 December 2009, an interest in an associated company, North United Power Corporation was classified as an asset held for sale because a sale contract had been entered into with a state-owned enterprise in PRC. The disposal was completed in 2010.

## 23 Inventories

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Raw materials | **4,677** | 2,540 |
| Work-in-progress | **1,388** | 892 |
| Finished goods | **4,722** | 3,265 |
| Others | **404** | 286 |
| | **11,191** | 6,983 |

An amount of HK$46 million (2009: HK$35 million) for write-down and HK$35 million (2009: HK$387 million) for reversal of write-down of inventories to net realisable value have been included in cost of sales in the profit and loss account.

## 24 Debtors, Accounts Receivable, Deposits and Prepayments

| | Group | | Company | |
|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 |
| *Trade debtors and bills receivable aged* | | | | |
| Within 1 year | **5,002** | 5,322 | **–** | – |
| Over 1 year | **178** | 134 | **–** | – |
| | **5,180** | 5,456 | **–** | – |
| Accounts receivable, deposits and prepayments | **8,890** | 5,626 | **188** | 129 |
| | **14,070** | 11,082 | **188** | 129 |

Note:

i) Trade debtors are net of provision and the ageing is classified based on invoice date.

ii) Each business unit has its own defined credit policy.

iii) The carrying amounts of debtors, accounts receivable, deposits and prepayments approximate their fair value.

iv) Accounts receivable, deposits and prepayments include amounts due from jointly controlled entities of HK$227 million (2009: HK$183 million), which are unsecured, interest free and recoverable on demand, and amounts due from associated companies of HK$95 million (2009: HK$27 million) which are unsecured, interest free and recoverable on demand.

As of 31 December 2010, trade receivables of HK$182 million (2009: HK$104 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 receivables based on invoice date is as follows:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Less than 3 months | **153** | 84 |
| 3 to 6 months | **22** | 17 |
| Over 6 months | **7** | 3 |
| | **182** | 104 |

## 24 Debtors, Accounts Receivable, Deposits and Prepayments *continued*

Movements on the provision for impairment of trade receivables are as follows:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| At 1 January | **127** | 141 |
| Exchange adjustments | **4** | – |
| Provision for impairment loss during the year | **18** | 19 |
| Receivables written off during the year | **(17)** | (14) |
| Provision written back during the year | **(9)** | (29) |
| Through acquisition of a subsidiary company | **–** | 10 |
| At 31 December | **123** | 127 |

The creation and release of provision for impairment losses has been included in other operating expenses in the consolidated profit and loss account. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

As of 31 December 2010, trade receivables of HK$100 million (2009: HK$85 million) were individually determined to be impaired. The individually impaired 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$35 million (2009: HK$38 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.

## 25 Creditors, Accounts Payable, Deposits and Accruals

| | Group | | Company | |
|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 |
| *Trade creditors and bills payable aged* | | | | |
| Within 1 year | **9,744** | 6,983 | **–** | – |
| Over 1 year | **456** | 482 | **–** | – |
| | **10,200** | 7,465 | **–** | – |
| Accounts payable, deposits and accruals | **16,711** | 12,527 | **291** | 143 |
| | **26,911** | 19,992 | **291** | 143 |

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

## 26 Share Capital

| | Number of shares of HK$0.40 each | HK$million |
|---|---|---|
| *Authorised* | | |
| At 31 December 2009 and 2010 | 6,000,000,000 | 2,400 |
| *Issued and fully paid* | | |
| At 1 January 2009 | 3,646,274,160 | 1,458 |
| Issue of shares pursuant to the Plan | 2,414,000 | 1 |
| At 31 December 2009 | 3,648,688,160 | 1,459 |
| At 1 January 2010 | 3,648,688,160 | 1,459 |
| At 31 December 2010 | 3,648,688,160 | 1,459 |

**Share Option Plan:**

Under the CITIC Pacific Share Incentive Plan 2000 ('the Plan') adopted on 31 May 2000, which expired on 30 May 2010, the Board could invite any director, executive or employee of the Company or any of its subsidiary companies to subscribe for options over the Company's shares on payment of HK$1 per acceptance. The exercise price determined by the Board will be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. The maximum number of shares over which options may be granted under the Plan shall not exceed 10% of (i) the issued share capital of the Company from time to time or (ii) the issued share capital of the Company as at the date of adopting the Plan, whichever is the lower.

Since the adoption of the Plan and up to its expiry on 30 May 2010, the Company has granted six lots of share options:

| | | | | | Outstanding balance | |
|---|---|---|---|---|---|---|
| Grant date | Number of options granted | Percentage of the issued share capital | Exercise price HK$ | Closing price before grant date HK$ | At 31 December 2010 | At 31 December 2009 |
| 28 May 2002 | 11,550,000 | 0.32% | 18.20 | 18.10 | – | – |
| 1 November 2004 | 12,780,000 | 0.35% | 19.90 | 19.90 | – | – |
| 20 June 2006 | 15,930,000 | 0.44% | 22.10 | 22.50 | 5,596,000 | 6,346,000 |
| 16 October 2007 | 18,500,000 | 0.51% | 47.32 | 47.65 | 12,100,000 | 13,250,000 |
| 19 November 2009 | 13,890,000 | 0.38% | 22.00 | 21.40 | 12,800,000 | 13,890,000 |
| 14 January 2010 | 880,000 | 0.02% | 20.59 | 19.98 | 880,000 | – |

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

The share options at the exercise price of HK$18.20 per share and HK$19.90 per share expired at the close of business on 27 May 2007 and 31 October 2009 respectively.

Other than the Plan, certain of the Company's subsidiary companies have issued equity-settled share-based payments to certain of their employees. The aggregate amount of the share-based payments recognised by these companies is not material to the Group.

## 26 Share Capital *continued*

**a** Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Average exercise price in HK$ per share | Options | Average exercise price in HK$ per share | Options |
| At 1 January | | **33,486,000** | | 29,760,000 |
| Granted | **20.59** | **880,000** | 22.00 | 13,890,000 |
| Exercised | **–** | **–** | 19.95 | (2,414,000) |
| Lapsed | **31.76** | **(2,990,000)** | 33.09 | (7,750,000) |
| At 31 December | | **31,376,000** | | 33,486,000 |
| Weighted average remaining contractual life | | **2.47 years** | | 3.41 years |

Details of share options exercised during the year:

| Exercise price HK$ | Number of shares 2010 | 2009 |
|---|---|---|
| 19.90 | – | 2,364,000 |
| 22.10 | – | 50,000 |
| | – | 2,414,000 |

There was no share option exercised in 2010. The related weighted average share price at the time of exercise in 2009 was HK$20.63 per share.

### b Fair Value of Share Options and Assumptions

The fair value of an option on one CITIC Pacific share granted in the year ended 31 December 2010 measured as at the grant date of 14 January 2010 was HK$4.96 based on the following data and assumptions using the Binomial Lattice Model ('Model'):

- The share price at the grant date is HK$20.10
- The exercise price is HK$20.59
- The option's contractual life is 5 years
- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 2.74 years
- Expected volatility of CITIC Pacific's share price at 50% per annum (based on historical movements of share prices and the trend of the volatility rate in recent years)
- Expected annual dividend yield of 4% (based on historical dividend payments)
- Rate of eligible grantees leaving service assumed at 7% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 150% of the exercise price
- Risk-free interest rate of 0.87% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at grant date)

The result of the valuation can be materially affected by changes in these assumptions. An option's actual value may, therefore differ from the estimated fair value of the options due to the Model and assumptions adopted.

All the options forfeited before expiry of the Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Plan.

The total expense recognised in the Company's profit and loss account for the year ended 31 December 2010 in respect of the grant of the aforesaid 880,000 options was HK$4,364,800 (2009: HK$74,033,700).

## 27 Reserves

### a Group

| *in HK$ million* | Share premium | Capital redemption reserve | Capital reserve | Goodwill | Investment revaluation reserve | Exchange fluctuation reserve | Hedging reserve | General and other reserves | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 36,515 | 29 | 1,022 | (1,738) | 563 | 5,125 | 913 | 1,147 | 15,224 | 58,800 |
| Share of reserves of associated companies and jointly controlled entities | – | – | 19 | – | (10) | 107 | 3 | 9 | (72) | 56 |
| Exchange translation differences | – | – | – | – | – | 2,216 | – | – | – | 2,216 |
| Partial disposal of an associated company to non-controlling interests | – | – | – | – | – | – | – | (253) | – | (253) |
| Reserves released on disposal of a jointly controlled entity | – | – | – | – | – | (298) | – | – | – | (298) |
| Reserves released on disposal of associated companies and non-current assets held for sale | – | – | (28) | 83 | – | (393) | – | – | (83) | (421) |
| Reserves released upon liquidation of a subsidiary company | – | – | – | – | – | 5 | – | – | – | 5 |
| Surplus on revaluation of properties transferred from self-use properties to investment properties | – | – | – | – | – | – | – | 116 | – | 116 |
| Cash flow hedges | | | | | | | | | | |
| Fair value gain in the year | – | – | – | – | – | – | 292 | – | – | 292 |
| Transfer to construction in progress | – | – | – | – | – | – | (1,116) | – | – | (1,116) |
| Transfer to net finance charges | – | – | – | – | – | – | 285 | – | – | 285 |
| Tax effect | – | – | – | – | – | – | 26 | – | – | 26 |
| | – | – | – | – | – | – | (513) | – | – | (513) |
| Fair value gain on other financial assets | – | – | – | – | 835 | – | – | – | – | 835 |
| Fair value released on disposal of other financial assets | – | – | – | – | (1,232) | – | – | – | – | (1,232) |
| Dilution of interest in a subsidiary company | – | – | – | – | – | – | – | 38 | – | 38 |
| Acquisition of interests from non-controlling interests | – | – | – | – | – | – | – | 1 | – | 1 |
| Transfer from profits to general and other reserves | – | – | – | – | – | – | – | 283 | (283) | – |
| Profit attributable to shareholders of the Company | – | – | – | – | – | – | – | – | 8,915 | 8,915 |
| Dividends (Note 10) | – | – | – | – | – | – | – | – | (1,459) | (1,459) |
| Share-based payment | – | – | 17 | – | – | – | – | – | – | 17 |
| At 31 December 2010 | 36,515 | 29 | 1,030 | (1,655) | 156 | 6,762 | 403 | 1,341 | 22,242 | 66,823 |
| *Representing* | | | | | | | | | | |
| At 31 December 2010 after proposed final dividend | | | | | | | | | | 65,728 |
| 2010 Final dividend proposed | | | | | | | | | | 1,095 |
| | | | | | | | | | | 66,823 |
| *Retained by* | | | | | | | | | | |
| Company and subsidiary companies | 36,515 | 29 | 918 | (1,655) | 144 | 6,547 | 409 | 1,315 | 16,461 | 60,683 |
| Jointly controlled entities | – | – | 112 | – | 12 | 211 | (6) | 26 | 4,616 | 4,971 |
| Associated companies | – | – | – | – | – | 4 | – | – | 1,165 | 1,169 |
| | 36,515 | 29 | 1,030 | (1,655) | 156 | 6,762 | 403 | 1,341 | 22,242 | 66,823 |

## 27 Reserves *continued*

### a Group *continued*

| *in HK$ million* | Share premium | Capital redemption reserve | Capital reserve | Goodwill | Investment revaluation reserve | Exchange fluctuation reserve | Hedging reserve | General and other reserves | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 36,467 | 29 | 958 | (1,738) | 238 | 4,781 | (3,478) | 986 | 9,987 | 48,230 |
| Share of reserves of associated companies and jointly controlled entities | – | – | 18 | – | 8 | (16) | 40 | 1 | (6) | 45 |
| Exchange translation differences | – | – | – | – | – | 235 | – | – | – | 235 |
| Reserves released on deemed disposal of jointly controlled entities | – | – | (19) | – | – | (8) | – | – | – | (27) |
| Reserves released on disposal of associated companies | – | – | (10) | – | (112) | 133 | 39 | – | – | 50 |
| Cash flow hedges | | | | | | | | | | |
| Fair value gain in the year | – | – | – | – | – | – | 5,676 | – | – | 5,676 |
| Transfer to construction in progress | – | – | – | – | – | – | (501) | – | – | (501) |
| Transfer to net finance charges | – | – | – | – | – | – | 380 | – | – | 380 |
| Tax effect | – | – | – | – | – | – | (1,243) | – | – | (1,243) |
| | – | – | – | – | – | – | 4,312 | – | – | 4,312 |
| Fair value gain on other financial assets | – | – | – | – | 509 | – | – | – | – | 509 |
| Fair value released on disposal of other financial assets | – | – | – | – | (80) | – | – | – | – | (80) |
| Transfer from profits to general and other reserves | – | – | – | – | – | – | – | 160 | (160) | – |
| Issue of shares pursuant to the Plan | 48 | – | – | – | – | – | – | – | – | 48 |
| Profit attributable to shareholders of the Company | – | – | – | – | – | – | – | – | 5,950 | 5,950 |
| Dividends (Note 10) | – | – | – | – | – | – | – | – | (547) | (547) |
| Share-based payment | – | – | 75 | – | – | – | – | – | – | 75 |
| At 31 December 2009 | 36,515 | 29 | 1,022 | (1,738) | 563 | 5,125 | 913 | 1,147 | 15,224 | 58,800 |
| *Representing* | | | | | | | | | | |
| At 31 December 2009 after proposed final dividend | | | | | | | | | | 57,888 |
| 2009 Final dividend proposed | | | | | | | | | | 912 |
| | | | | | | | | | | 58,800 |
| *Retained by* | | | | | | | | | | |
| Company and subsidiary companies | 36,515 | 29 | 898 | (1,738) | 541 | 4,634 | 923 | 1,130 | 9,836 | 52,768 |
| Jointly controlled entities | – | – | 93 | – | 22 | 108 | (10) | 17 | 4,088 | 4,318 |
| Associated companies | – | – | 3 | – | – | – | – | – | 1,300 | 1,303 |
| Non-current assets held for sale | – | – | 28 | – | – | 383 | – | – | – | 411 |
| | 36,515 | 29 | 1,022 | (1,738) | 563 | 5,125 | 913 | 1,147 | 15,224 | 58,800 |

## 27 Reserves *continued*

### b Company

| *in HK$ million* | Share premium | Capital redemption reserve | Capital reserve | Hedging reserve | Retained profits | Total |
|---|---|---|---|---|---|---|
| At 1 January 2010 | **36,515** | **29** | **878** | **(886)** | **5,109** | **41,645** |
| Share–based payment | – | – | **5** | – | – | **5** |
| Cash flow hedges | | | | | | |
| Fair value loss in the year | – | – | – | **(924)** | – | **(924)** |
| Transfer to net finance charges | – | – | – | **472** | – | **472** |
| | – | – | – | **(452)** | – | **(452)** |
| Profit attributable to shareholders of the Company (Note 9) | – | – | – | – | **4,228** | **4,228** |
| Dividends (Note 10) | – | – | – | – | **(1,459)** | **(1,459)** |
| At 31 December 2010 | **36,515** | **29** | **883** | **(1,338)** | **7,878** | **43,967** |
| *Representing* | | | | | | |
| At 31 December 2010 after proposed final dividend | | | | | | 42,872 |
| 2010 Final dividend proposed | | | | | | 1,095 |
| | | | | | | 43,967 |
| At 1 January 2009 | 36,467 | 29 | 804 | (2,297) | 3,409 | 38,412 |
| Share–based payment | – | – | 74 | – | – | 74 |
| Issue of shares pursuant to the Plan | 48 | – | – | – | – | 48 |
| Cash flow hedges | | | | | | |
| Fair value gain in the year | – | – | – | 1,046 | – | 1,046 |
| Transfer to net finance charges | – | – | – | 365 | – | 365 |
| | – | – | – | 1,411 | – | 1,411 |
| Profit attributable to shareholders of the Company (Note 9) | – | – | – | – | 2,247 | 2,247 |
| Dividends (Note 10) | – | – | – | – | (547) | (547) |
| At 31 December 2009 | 36,515 | 29 | 878 | (886) | 5,109 | 41,645 |

## 27 Reserves *continued*

### c Nature and Purpose of Reserves

#### i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

#### ii) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees.

#### iii) Goodwill

The Goodwill reserve is as a result of goodwill arising on acquisitions prior to year 2001 which under the then prevailing Accounting Standards was reflected in reserves rather than as a separate asset.

#### iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

#### v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.

#### vi) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow.

#### vii) General and other reserves

General and other reserves comprise reserves of the mainland China subsidiaries appropriated according to the articles of association of the relevant subsidiaries and the mainland China rules and regulations used for specific purposes before distribution of dividend, and reserves arising from assets revaluation and transactions with non-controlling interests.

#### viii) Distributable reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$5,800 million (2009: HK$4,223 million).

## 28 Borrowings

### a

| *in HK$ million* | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| *Short term borrowings* | | | | |
| *Bank loans* | | | | |
| unsecured | **4,193** | 2,652 | **–** | – |
| secured | **278** | 49 | **–** | – |
| | **4,471** | 2,701 | **–** | – |
| *Other loans* | | | | |
| unsecured | **–** | – | **–** | – |
| secured | **166** | 56 | **–** | – |
| | **166** | 56 | **–** | – |
| Current portion of long term borrowings | **10,590** | 1,600 | **1,949** | 700 |
| Total short term borrowing | **15,227** | 4,357 | **1,949** | 700 |
| *Long term borrowings* | | | | |
| *Bank loans* | | | | |
| unsecured | **60,830** | 46,819 | **29,507** | 26,534 |
| secured | **12,935** | 12,059 | **–** | – |
| | **73,765** | 58,878 | **29,507** | 26,534 |
| *Other loans* | | | | |
| unsecured | **5,281** | 4,040 | **1,165** | – |
| Less: current portion of long term borrowings | **(10,590)** | (1,600) | **(1,949)** | (700) |
| Total long term borrowings | **68,456** | 61,318 | **28,723** | 25,834 |
| Total borrowings | **83,683** | 65,675 | **30,672** | 26,534 |
| *Analysed into* | | | | |
| unsecured | **70,304** | 53,511 | **30,672** | 26,534 |
| secured | **13,379** | 12,164 | **–** | – |
| | **83,683** | 65,675 | **30,672** | 26,534 |

Note:

i) On 1 June 2001, CITIC Pacific Finance (2001) Limited, a wholly owned subsidiary of the Company, issued and sold a total of US$450 million principal amount of 7.625% guaranteed notes due 2011 ('Guaranteed Notes') to investors pursuant to purchase agreements dated 24 May 2001 and 1 June 2001. All of the Guaranteed Notes remained outstanding at 31 December 2010.

ii) On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of the Company, issued and sold JPY8.1 billion in aggregate principal amount of guaranteed floating rate notes due 2035 ('JPY Notes') to investors for general corporate purposes pursuant to the subscription agreement dated 26 October 2005. Each noteholder will have the right at such noteholder's option to require the issuer to redeem all of such noteholder's JPY Notes on 28 October 2015 at 81.29% of the principal amount of such JPY Notes. All of the JPY Notes remained outstanding at 31 December 2010.

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

iv) 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.

v) As at 31 December 2010, certain of the Group's inventories, deposits, accounts receivable, properties under development and self-use properties with an aggregate carrying value of HK$1.3 billion (2009: HK$0.9 billion) were pledged to secure loans and banking facilities granted to certain subsidiary companies of the Group. In addition, assets of HK$41.6 billion (2009: HK$23.5 billion) of the iron ore mining project were pledged under project finance arrangement. This amount included cash and bank balances of HK$0.3 billion (2009: HK$1.1 billion). Shipbuilding contracts of HK$5.0 billion (2009: HK$5.1 billion) for the 12 ships being built to transport iron ore were also pledged as security for the ships financing. The aggregate values of assets pledged for various facilities amounted to approximately HK$47.9 billion (2009: HK$29.5 billion).

vi) Bank loans of the Group and the Company not wholly repayable within five years amounted to HK$38.2 billion (2009: HK$27.5 billion) and HK$6.6 billion (2009: HK$6.6 billion) respectively. Other loans of the Group and the Company not wholly repayable within five years amounted to HK$1.2 billion (2009: HK$0.5 billion) and HK$1.2 billion (2009: HK$Nil) respectively.

## 28 Borrowings *continued*

**b** The maturity of the Group's and the Company's long term borrowings is as follows:

| *in HK$ million* | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| *Bank loans are repayable* | | | | |
| in the first year | **7,080** | 1,599 | **1,949** | 700 |
| in the second year | **12,175** | 11,114 | **7,544** | 5,984 |
| in the third to fifth years inclusive | **22,315** | 20,862 | **13,394** | 13,230 |
| after the fifth year | **32,195** | 25,303 | **6,620** | 6,620 |
| | **73,765** | 58,878 | **29,507** | 26,534 |
| *Other loans are repayable* | | | | |
| in the first year | **3,510** | 1 | **–** | – |
| in the second year | **–** | 3,510 | **–** | – |
| in the third to fifth years inclusive | **606** | – | **–** | – |
| after the fifth year | **1,165** | 529 | **1,165** | – |
| | **5,281** | 4,040 | **1,165** | – |
| | **79,046** | 62,918 | **30,672** | 26,534 |

**c** The exposure of the Group's and the Company's total borrowings to interest-rate changes is as follows:

| *in HK$ million* | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Total borrowings | **83,683** | 65,675 | **30,672** | 26,534 |
| Borrowing at fixed rates for more than one year (from balance sheet date) | **(1,248)** | (3,815) | **(1,248)** | (78) |
| Interest rate swaps converting floating to fixed | **(26,891)** | (21,096) | **(18,866)** | (14,166) |
| Borrowings subject to interest-rate changes | **55,544** | 40,764 | **10,558** | 12,290 |

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

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Total borrowings | **3.8%** | 3.7% | **3.7%** | 3.3% |

**d** The fair value of borrowings is HK$82,526 million (2009: HK$64,371 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 unrecognised gain of HK$1,157 million (2009: HK$1,304 million). This unrecognised 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.

## 28 Borrowings *continued*

**e** The carrying amounts of the total borrowings are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 |
| Hong Kong dollar | **16,323** | 11,405 | **15,198** | 10,547 |
| US dollar | **50,611** | 40,834 | **15,474** | 15,987 |
| Renminbi | **15,817** | 12,805 | **–** | – |
| Other currencies | **932** | 631 | **–** | – |
| | **83,683** | 65,675 | **30,672** | 26,534 |

The Group has the following undrawn borrowing facilities:

| | Group | | Company | |
|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 |
| Floating rate | | | | |
| expiring within one year | **2,506** | 2,058 | **1,073** | 823 |
| expiring beyond one year | **18,444** | 14,570 | **16,330** | 12,545 |
| | **20,950** | 16,628 | **17,403** | 13,368 |

## 29 Financial Risk Management and Fair Values

### 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.

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

#### a Exposure to Interest Rate Fluctuations

The Group aims to maintain a suitable mixture of fixed rate and floating rate borrowings in order to stabilise interest costs over time despite rate movements. The Group uses interest rate swaps and other instruments to modify the interest rate characteristics of its borrowings. As at 31 December 2010, HK$28.1 billion (2009: HK$24.9 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, no forward starting swaps was outstanding as of 31 December 2010 (2009: HK$1.9 billion).

At 31 December 2010, if interest rates had been 0.6% higher/lower, with all other variables held constant, the hypothetical impact is summarised as follows:-

| | Group | | | |
|---|---|---|---|---|
| | 0.6% higher | | 0.6% 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 | **(233)** | **–** | **233** | **–** |
| Cash and bank deposits | **147** | **–** | **(147)** | **–** |
| Derivatives | **12** | **1,045** | **(8)** | **(1,088)** |

| | Company | | | |
|---|---|---|---|---|
| | 0.6% higher | | 0.6% 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 | **(64)** | **–** | **64** | **–** |
| Cash and bank deposits | **47** | **–** | **(47)** | **–** |
| Derivatives | **51** | **611** | **(56)** | **(622 )** |

At 31 December 2009, if interest rates had been 1% higher/lower, with all other variables held constant, the hypothetical impact is summarised as follows:-

| | Group | | | |
|---|---|---|---|---|
| | 1% higher | | 1% 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 | (260) | – | 260 | – |
| Cash and bank deposits | 213 | – | (213) | – |
| Derivatives | 132 | 1,568 | (148) | (1,765) |

## 29 Financial Risk Management and Fair Values *continued*

## Financial Risk Factors *continued*

### a Exposure to Interest Rate Fluctuations *continued*

| | Company | | | |
|---|---|---|---|---|
| | 1% higher | | 1% 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 | (124) | – | 124 | – |
| Cash and bank deposits | 78 | – | (78) | – |
| Derivatives | 95 | 871 | (107) | (976) |

As described in note 4(i), the Group holds AUD/USD plain vanilla forward contracts with an aggregate notional amount of AUD1.4 billion outstanding at 31 December 2010. 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 31 December 2010, a 1% increase/(decrease) in the differential between Australian and US interest rates could give rise to a hypothetical impact of approximately HK$115 million (2009: HK$212 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. As the Group's investment in mainland China expands, CITIC Pacific has an increasing exposure to the Renminbi.

The future revenues from the Group's Australian iron ore mining project is denominated in USD and this is its functional currency for accounting purposes. A substantial portion of its development and operating expenditure are denominated in Australian Dollars.

As of 31 December 2010 the plain vanilla forward contracts had a notional amount of AUD 1,363 million (2009: AUD 1,993 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/HKD foreign exchange forward contracts, cross currency swaps and USD net investment hedges are employed to hedge 55% 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.

## 29 Financial Risk Management and Fair Values *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.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| *in HK$ million* | Hypothetical increase in foreign exchange rates | Effect on profit/(loss) | Effect on equity increase/(decrease) | Hypothetical decrease in foreign exchange rates | Effect on profit/(loss) | Effect on equity increase/(decrease) |
| 2010 | | | | | | |
| USD | **1%** | **(167)** | **–** | **1%** | **167** | **–** |
| RMB | **4%** | **140** | **149** | **4%** | **(140)** | **(149)** |
| AUD* | **10%** | **39** | **599** | **10%** | **(39)** | **(599)** |
| YEN | **7%** | **34** | **–** | **7%** | **(28)** | **–** |
| Pound Sterling | **2%** | **(12)** | **–** | **2%** | **12** | **–** |
| EURO | **3%** | **2** | **–** | **3%** | **(2)** | **–** |

| | Company | | | | | |
|---|---|---|---|---|---|---|
| *in HK$ million* | Hypothetical increase in foreign exchange rates | Effect on profit/(loss) | Effect on equity increase/(decrease) | Hypothetical decrease in foreign exchange rates | Effect on profit/(loss) | Effect on equity increase/(decrease) |
| 2010 | | | | | | |
| USD | **1%** | **(146)** | **–** | **1%** | **146** | **–** |
| RMB | **4%** | **163** | **–** | **4%** | **(163)** | **–** |
| AUD* | **10%** | **–** | **–** | **10%** | **–** | **–** |
| YEN | **7%** | **–** | **–** | **7%** | **–** | **–** |
| EURO | **3%** | **–** | **–** | **3%** | **–** | **–** |

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

#### b Exposure to Foreign Currency Fluctuations *continued*

| *in HK$ million* | Group<br>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) |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| USD | 1% | (108) | (1) | 1% | 107 | 2 |
| RMB | 5% | 218 | – | 5% | (213) | – |
| AUD* | 5% | (55) | 698 | 5% | 55 | (698) |
| YEN | 10% | 25 | – | 10% | (22) | – |
| SEK | 2% | – | – | 2% | – | – |
| EURO | 5% | – | – | 5% | – | – |

| *in HK$ million* | Company<br>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) |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| USD | 1% | (78) | (1) | 1% | 77 | 2 |
| RMB | 5% | 75 | – | 5% | (70) | – |
| AUD* | 5% | – | – | 5% | – | – |
| YEN | 10% | – | – | 10% | – | – |
| SEK | 2% | – | – | 2% | – | – |
| EURO | 5% | – | – | 5% | – | – |

* During the year ended 31 December 2009, the Group completed restructuring of all its leveraged AUD contracts to plain vanilla forward contracts which qualify as and are accounted for as hedges. Therefore, changes in such contracts due to movements in AUD/USD spot rates only impact equity in the sensitivity table above. However, there may be residual changes in fair value of these derivatives largely reflecting movements in the differential between Australian and US interest rates that are recorded in the profit and loss account.

#### c Price Risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. At 31 December 2010, 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$19 million (2009: HK$109 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.

## 29 Financial Risk Management and Fair Values *continued*

## Financial Risk Factors *continued*

### d Credit Exposure

The Group's credit risk is primarily related to deposits placed with banks and the continued ability of the banks to deliver on foreign exchange and derivatives. Operating businesses have trade and accounts receivables.

The Group's cash and deposits with banks are placed with major financial institutions. Counterparty limits are closely monitored for all financial institutions with whom the Group is doing business. 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.

The maximum exposure to credit risk at the reporting date is the carrying value of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. None of the financial assets that are fully performing has been renegotiated in the current period.

### e Liquidity Risk

Liquidity risk is managed by maintaining substantial undrawn committed credit facilities, money market lines and cash deposits so as to avoid over reliance on any one source of funds. Refinancing is allocated such that there is a reasonable amount coming due in any one period. In addition, the Company has established co-operative agreements with major PRC banks.

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

The Group seeks to secure financing from a diversified set of counterparties on the most competitive terms in the market. At the end of 2010 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.

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

#### e Liquidity Risk *continued*

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to their maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, based on floating interest rate or exchange rates (where applicable) prevailing at the balance sheet date.

| | Group | | | |
|---|---|---|---|---|
| *in HK$ million* | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| At 31 December 2010 | | | | |
| Bank borrowings | **(17,682)** | **(14,185)** | **(28,437)** | **(48,479)** |
| Derivative financial instruments | **(957)** | **(813)** | **(854)** | **17** |
| Trade creditors and accounts payable | **(26,851)** | **(58)** | **–** | **(2)** |
| At 31 December 2009 | | | | |
| Bank borrowings | (6,154) | (16,319) | (27,942) | (35,198) |
| Derivative financial instruments | (953) | (583) | (450) | 484 |
| Trade creditors and accounts payable | (19,744) | (235) | (5) | (8) |

| | Company | | | |
|---|---|---|---|---|
| *in HK$ million* | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| At 31 December 2010 | | | | |
| Bank borrowings | **(2,745)** | **(8,219)** | **(14,464)** | **(9,886)** |
| Derivative financial instruments | **(603)** | **(508)** | **(409)** | **26** |
| Trade creditors and accounts payable | **(291)** | **–** | **–** | **–** |
| Amounts due to subsidiary companies | **(9,647)** | **–** | **–** | **–** |
| Financial guarantee* | **(5,585)** | **(10,397)** | **(18,904)** | **(869)** |
| At 31 December 2009 | | | | |
| Bank borrowings | (1,369) | (6,568) | (14,156) | (8,412) |
| Derivative financial instruments | (645) | (351) | (239) | 248 |
| Trade creditors and accounts payable | (130) | – | (5) | (8) |
| Amounts due to subsidiary companies | (9,288) | – | – | – |
| Financial guarantee* | – | (5,764) | (18,893) | (1,101) |

* These amounts are financial guarantees from the Company to its subsidiaries representing the hypothetical payment should the guarantees be crystalised, however based on the operating results, the Company does not expect them to be crystalised.

## 29 Financial Risk Management and Fair Values *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* | Group<br>Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| At 31 December 2010 | | | | |
| Forward foreign exchange contracts – cash flow hedges | | | | |
| outflow | **(4,015)** | **(3,961)** | **(720)** | – |
| inflow | **5,000** | **4,931** | **889** | – |
| Forward foreign exchange contracts – not qualified for hedge accounting | | | | |
| outflow | **(2,529)** | **(6)** | **(44)** | **(801)** |
| inflow | **2,517** | **3** | **15** | **1,136** |

| *in HK$ million* | Company<br>Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| At 31 December 2010 | | | | |
| Forward foreign exchange contracts – cash flow hedges | | | | |
| outflow | – | – | – | – |
| inflow | – | – | – | – |
| Forward foreign exchange contracts – not qualified for hedge accounting | | | | |
| outflow | **(1,106)** | – | – | – |
| inflow | **1,109** | – | – | – |

The majority of foreign exchange forward contracts that are not qualified for hedge accounting as at 31 December 2010 consist of USD/ HKD forward exchange contracts and cross currency swap contracts and gains and losses in the fair market value of these contracts are reflected in the profit and loss account.

| *in HK$ million* | Group<br>Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| At 31 December 2009 | | | | |
| Forward foreign exchange contracts – cash flow hedges | | | | |
| outflow | (4,355) | (4,332) | (5,042) | – |
| inflow | 4,042 | 4,015 | 4,681 | – |
| Forward foreign exchange contracts – not qualified for hedge accounting | | | | |
| outflow | (5,335) | (1,122) | (53) | (837) |
| inflow | 5,380 | 1,125 | 17 | 1,052 |

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

#### e Liquidity Risk *continued*

| *in HK$ million* | Company Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| At 31 December 2009 | | | | |
| Forward foreign exchange contracts – cash flow hedges | | | | |
| outflow | – | – | – | – |
| inflow | – | – | – | – |
| Forward foreign exchange contracts – not qualified for hedge accounting | | | | |
| outflow | (4,210) | (1,113) | – | – |
| inflow | 4,276 | 1,122 | – | – |

#### f Fair Value Estimation

i) The fair values 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. 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 28(d). The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

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.

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

**f Fair Value Estimation** *continued*

iv) Financial instruments are 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

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| *in HK$ million* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| 2010 | | | | | | | | |
| *Assets* | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Listed | **377** | – | – | **377** | – | – | – | – |
| Unlisted | – | – | **58** | **58** | – | – | – | – |
| Derivative financial instruments | | | | | | | | |
| Interest rate swaps | – | **279** | – | **279** | – | **44** | – | **44** |
| Forward exchange contracts | – | **1,648** | – | **1,648** | – | **830** | – | **830** |
| *Liabilities* | | | | | | | | |
| Derivative financial instruments | | | | | | | | |
| Interest rate swaps | – | **2,583** | – | **2,583** | – | **1,487** | – | **1,487** |
| Forward exchange contracts | – | **15** | – | **15** | – | **826** | – | **826** |

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| *in HK$ million* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| 2009 | | | | | | | | |
| *Assets* | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Listed | 2,174 | – | – | 2,174 | – | – | – | – |
| Unlisted | – | – | 13 | 13 | – | – | – | – |
| Derivative financial instruments | | | | | | | | |
| Interest rate swaps | – | 40 | 178 | 218 | – | 40 | – | 40 |
| Forward exchange contracts | – | 622 | – | 622 | – | 364 | – | 364 |
| *Liabilities* | | | | | | | | |
| Derivative financial instruments | | | | | | | | |
| Interest rate swaps | – | 1,621 | – | 1,621 | – | 1,041 | – | 1,041 |
| Forward exchange contracts | – | 273 | – | 273 | – | 437 | – | 437 |

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

## 29 Financial Risk Management and Fair Values *continued*

### Financial Risk Factors *continued*

#### f Fair Value Estimation *continued*

iv) Financial instruments are carried at fair value *continued*

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

| | Group | |
|---|---|---|
| *in HK$ million* | Unlisted available-for-sale equity securities | Interest rate swap of derivative financial instruments |
| At 1 January 2009 | – | 154 |
| Purchase | 13 | – |
| Net gains or losses recognised in profit and loss account during the period | – | 24 |
| At 31 December 2009 | 13 | 178 |
| Total gains or losses for the year included in profit or loss for assets held at 31 December 2009 | – | 24 |

| | Group | |
|---|---|---|
| *in HK$ million* | Unlisted available-for-sale equity securities | Interest rate swap of derivative financial instruments |
| At 1 January 2010 | **13** | **178** |
| Purchase | **19** | **–** |
| Settlements | **(14)** | **–** |
| Net gains or losses recognised in other comprehensive income during the year | **31** | **–** |
| Net gains or losses recognised in profit and loss account during the period | **9** | **1** |
| Transfer out of Level 3* | **–** | **(179)** |
| At 31 December 2010 | **58** | **–** |
| Total gains or losses for the year included in profit or loss for assets held at the balance sheet date | **9** | **1** |
| Total gains or losses recognised in other comprehensive income during the year | **31** | **–** |

* A Japanese Yen cross currency swap was transferred out of level 3 to level 2, this was due to the change in valuation methodology, which incorporated new market observable data on the correlation of Japanese Yen to USD, that had recently become available.

## 29 Financial Risk Management and Fair Values *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 and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

| *in HK$ million* | 2010 Carrying amount | 2010 Fair value | 2009 Carrying amount | 2009 Fair value |
|---|---|---|---|---|
| **The Group** | | | | |
| Bank loans | **78,402** | **77,183** | 61,636 | 60,189 |
| Global bonds (USD Bond) | **3,510** | **3,575** | 3,510 | 3,687 |
| Private placement (USD & JPY Notes) | **1,771** | **1,768** | 529 | 495 |
| **The Company** | | | | |
| Bank loans | **29,507** | **28,378** | 26,534 | 25,230 |
| Private placement (USD Note) | **1,165** | **1,141** | – | – |

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 by Reval using 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.

ix) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2010 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt.

## 30 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 the equity attributable to shareholders of the Company, as shown in the consolidated balance sheet, plus net debt.

The leverage ratios at 31 December 2010 and 2009 were as follows:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Total borrowings | **83,683** | 65,675 |
| Less: Cash and bank deposits | **24,558** | 21,553 |
| Net debt | **59,125** | 44,122 |
| Equity attributable to the shareholders of the Company | **68,282** | 60,259 |
| Total capital | **127,407** | 104,381 |
| Leverage ratio | **46%** | 42% |

CITIC Pacific has developed a set of standard loan covenants to facilitate the management of its loan portfolio and debt compliance and cover most of CITIC Pacific's loan portfolio. The financial covenants that are effective at 31 December 2010, are generally limited to three categories, namely, a minimum net worth undertaking where the Group has to maintain a net worth of greater or equal to HK$25 billion, a maximum ratio of total borrowings to net worth where the consolidated borrowings of the Group cannot exceed 1.5 times consolidated net worth and a limit of pledged assets to 30% or below as a ratio of the Group's consolidated total assets. CITIC Pacific monitors these ratios on a regular basis and was in compliance with these loan covenants as at 31 December 2010.

## 31 Derivative Financial Instruments

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| *in HK$ million* | Assets | Liabilities | Assets | Liabilities |
| Qualified for hedge accounting – cash flow hedges | | | | |
| Interest–rate instruments | **33** | **2,379** | – | 1,470 |
| Forward foreign exchange instruments | **1,635** | **–** | 585 | 148 |
| | **1,668** | **2,379** | 585 | 1,618 |
| Not qualified for hedge accounting | | | | |
| Interest–rate instruments | **246** | **204** | 218 | 151 |
| Forward foreign exchange instruments | **13** | **15** | 37 | 125 |
| | **259** | **219** | 255 | 276 |
| | **1,927** | **2,598** | 840 | 1,894 |
| Less: current portion | | | | |
| Interest–rate instruments | **60** | **40** | 58 | 40 |
| Forward foreign exchange instruments | **13** | **15** | 34 | 127 |
| | **73** | **55** | 92 | 167 |
| | **1,854** | **2,543** | 748 | 1,727 |

## 31 Derivative Financial Instruments *continued*

| | Company | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| *in HK$ million* | Assets | Liabilities | Assets | Liabilities |
| Qualified for hedge accounting cash flow hedges | | | | |
| Interest–rate instruments | **33** | **1,286** | – | 890 |
| Forward foreign exchange instruments | **826** | **826** | 329 | 329 |
| | **859** | **2,112** | 329 | 1,219 |
| Not qualified for hedge accounting | | | | |
| Interest–rate instruments | **11** | **201** | 40 | 151 |
| Forward foreign exchange instruments | **4** | **–** | 35 | 108 |
| | **15** | **201** | 75 | 259 |
| | **874** | **2,313** | 404 | 1,478 |
| Less: current portion | | | | |
| Interest–rate instruments | **11** | **37** | 28 | 40 |
| Forward foreign exchange instruments | **4** | **–** | 34 | 110 |
| | **15** | **37** | 62 | 150 |
| | **859** | **2,276** | 342 | 1,328 |

### i) Forward foreign exchange instruments

The notional amount of the outstanding forward foreign exchange instruments at 31 December 2010 was HK$10,409 million (2009: HK$19,527 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 28 months are recognised in the hedging reserve in equity as of 31 December 2010 and will be recognised in the profit and loss account in the period or periods during which the underlying hedged transactions affect the profit and loss account.

### ii) Interest rate instruments

The notional amount of outstanding interest rate swap contracts at 31 December 2010 was HK$32,351 million (2009: HK$28,426 million). In addition, the Group had cross currency interest rate swap contracts with an aggregate notional amount of HK$1,195 million (2009: HK$1,195 million). At 31 December 2010, the fixed interest rates under interest rate swaps varied from 0.84% to 7.23% per annum (2009: 3% to 7.23% per annum). The effective portion of gains and losses on interest rate swap contracts qualifying for hedge accounting as of 31 December 2010 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).

## 32 Deferred Taxation

### a Group

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation is realised or settled. The components of deferred tax assets and (liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Depreciation allowances in excess of related depreciation | | Losses | | Revaluation of investment properties and valuation of other properties | | Mining assets and others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Deferred tax arising from At 1 January | **(519)** | (526) | **1,975** | 935 | **(1,174)** | (1,153) | **(1,619)** | 1,001 | **(1,337)** | 257 |
| Exchange adjustment | **(5)** | – | **7** | 6 | **(22)** | (2) | **–** | (6) | **(20)** | (2) |
| Credited/(charged) to reserve | **–** | – | **–** | – | **–** | – | **26** | (1,243) | **26** | (1,243) |
| Effect of tax rate change | **–** | – | **–** | – | **–** | – | **–** | (1) | **–** | (1) |
| (Charged)/credited to consolidated profit and loss account | **15** | 13 | **318** | 1,035* | **(255)** | (19) | **(454)** | (1,346)* | **(376)** | (317) |
| Others | **1** | (6) | **–** | (1) | **–** | – | **1** | (24) | 2 | (31) |
| At 31 December | **(508)** | (519) | **2,300** | 1,975 | **(1,451)** | (1,174) | **(2,046)** | (1,619) | **(1,705)** | (1,337) |

* In 2009, the tax losses were mainly due to realisation of losses upon restructuring of certain leveraged foreign exchange contracts giving rise to a reclassification of a deferred tax asset from 'mining assets and others' to 'losses'.

| | Group | |
|---|---|---|
| *in HK$ million* | **2010** | 2009 |
| Net deferred tax assets recognised on the consolidated balance sheet | **714** | 554 |
| Net deferred tax liabilities recognised on the consolidated balance sheet | **(2,419)** | (1,891) |
| | **(1,705)** | (1,337) |

### b Deferred Tax Assets Unrecognised

The Group has not recognised deferred tax assets in respect of the following items:

| | Group | |
|---|---|---|
| *in HK$ million* | **2010** | 2009 |
| Deductible temporary differences | **27** | 35 |
| Tax losses | **3,712** | 3,360 |
| Taxable temporary differences | **(561)** | (204) |
| | **3,178** | 3,191 |

| | Company | |
|---|---|---|
| *in HK$ million* | **2010** | 2009 |
| Deductible temporary differences | **22** | 21 |
| Tax losses | **678** | 594 |
| | **700** | 615 |

Note:
Tax losses in certain tax jurisdictions of HK$701 million (2009: HK$493 million) will expire within the next five years. The remaining amounts do not expire under current tax legislation.

## 32 Deferred Taxation *continued*

### c Deferred Tax Liabilities not Recognised

At 31 December 2010, temporary differences relating to the undistributed profits of subsidiary companies amounted to HK$2,193 million (2009: HK$1,387 million). Deferred tax liabilities of HK$245 million (2009: HK$185 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiary companies and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## 33 Provisions and Deferred Income

| *in HK$ million* | Site restoration | Mining rights | Gas contract | Deferred income | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2010 | **101** | **706** | **–** | **–** | **807** |
| Provisions made during the year | **237** | **805** | **302** | **103** | **1,447** |
| Balance at 31 December 2010 | **338** | **1,511** | **302** | **103** | **2,254** |
| Balance at 1 January 2009 | 54 | 680 | – | – | 734 |
| Provisions made during the year | 47 | 26 | – | – | 73 |
| Balance at 31 December 2009 | 101 | 706 | – | – | 807 |

*Site restoration*

A provision of HK$237 million (2009: HK$47 million) was made during the year ended 31 December 2010 in respect of a subsidiary's obligation to rectify environmental damage with a corresponding increase in property, plant and equipment. Amortisation of this asset will occur from the production date, using a units of production method.

*Mining rights*

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. A provision has been made for this commitment with a corresponding increase in intangible mining assets. Amortisation of this asset will occur from the production date, using the units of production method.

*Gas contract*

In accordance with the Group's contracted gas purchases, the Group is obligated to pay and/or take delivery of set levels of gas commencing on October 2011. Such gas contracts have liquidated damages clauses requiring damages be paid should the set levels of gas purchased not be adhered to. Due to the potential mismatch of the gas delivery under contracts and the production schedule, utilisation of such gas levels is projected to be at a lower rate at certain points in time and therefore a provision for the estimated damages payable has been accrued based on a combination of liquidated damages and losses from the on-sale of surplus gas.

*Deferred income*

The amount represents deferred revenue arising from an advance receivable from a customer for certain telecommunication service.

## 34 Capital Commitments

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Authorised but not contracted for (Note a) | **2,399** | 3,040 |
| Contracted but not provided for (Note b) | **13,848** | 20,064 |

| *in HK$ million* | Company 2010 | 2009 |
|---|---|---|
| Contracted but not provided for | **–** | – |

Note a

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Authorised but not contracted for | | |
| Analysis by operating segment | | |
| Special Steel | **815** | 2,772 |
| Dah Chong Hong | **291** | 258 |
| CITIC Telecom | **46** | 10 |
| Property – Mainland China | **1,247** | – |
| | **2,399** | 3,040 |

Note b

| *in HK$ million* | Group 2010 | 2009 |
|---|---|---|
| Contracted but not yet paid nor accrued | | |
| Analysis by operating segment | | |
| Special steel | **3,843** | 4,193 |
| Iron ore mining | **5,107** | 12,561 |
| Property | | |
| Mainland China | **4,455** | 3,022 |
| Hong Kong | **11** | 8 |
| Dah Chong Hong | **129** | 190 |
| CITIC Telecom | **260** | 29 |
| Other investments | **43** | 61 |
| | **13,848** | 20,064 |

## 35 Operating Lease Commitments

The future aggregate minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| *in HK$ million* | **2010** | 2009 | **2010** | 2009 |
| *Properties commitments* | | | | |
| Within 1 year | **280** | 295 | **20** | 61 |
| After 1 year but within 5 years | **536** | 486 | **–** | 20 |
| After 5 years | **450** | 307 | **–** | – |
| | **1,266** | 1,088 | **20** | 81 |
| *Other commitments* | | | | |
| Within 1 year | **75** | 69 | **–** | – |
| After 1 year but within 5 years | **218** | 216 | **–** | – |
| After 5 years | **421** | 365 | **–** | – |
| | **714** | 650 | **–** | – |
| | **1,980** | 1,738 | **20** | 81 |

## 36 Business Combinations, Acquisitions and Disposals

### Purchase of Subsidiary Companies

**Year ended 31 December 2009**

In 2009 the Group acquired a 100% equity interest in Loreto Maritime Pte. Ltd., a company which is currently constructing transshipment barges and will undertake the transshipment of iron ore to ocean going vessels on completion of the construction.

In 2009 a listed subsidiary group of the Company CITIC Telecom acquired the remaining 51% equity interest in CM Tel (USA) LLC (renamed as ComNet (USA) LLC in July 2009) and a 100% equity interest in Macquarie Telecom Pte. Ltd (renamed as ComNet Communications (Singapore) Pte. Ltd.

The aggregate fair value of the net assets acquired in 2009 as at the dates of acquisition was HK$175 million. Since acquisition these businesses contributed aggregate revenues of HK$403 million and aggregate net profit of HK$7 million. The aggregate revenue and net profit of the acquired companies computed as though the acquisitions had been at the beginning of the year are HK$615 million and HK$5 million respectively.

In 2009 the Group also acquired the then remaining approximately 20% non-controlling interests in various subsidiary companies engaging in steel manufacturing in Jiangyin. Accordingly those companies became wholly owned subsidiaries of the Group.

## 36 Business Combinations, Acquisitions and Disposals *continued*

### Purchase of Subsidiary Companies *continued*

Acquiree's carrying amount before combination for purchases of subsidiary companies during 2009 is as below:

| *in HK$ million* | 2009 |
|---|---|
| *Net assets acquired* | |
| Property, plant and equipment | 231 |
| Leasehold land | 6 |
| Intangible assets | 38 |
| Interest in associated company | – |
| Inventories | 36 |
| Debtors, accounts receivable, deposits and prepayments | 82 |
| Cash and bank deposits | 19 |
| Deferred tax assets | – |
| Assets | 412 |
| Bank loans and other loans | (108) |
| Creditors, accounts payable, deposits and accruals | (116) |
| Provision for taxation | – |
| Deferred tax liabilities | – |
| Liabilities | (224) |
| | 188 |
| Fair value adjustments | 20 |
| Fair value of net assets acquired | 208 |
| Share of net assets immediately prior to purchase | (37) |
| Gain on acquisitions | – |
| Non–controlling interests | – |
| Goodwill | 90 |
| | 261 |
| *Satisfied by* | |
| Cash | 257 |
| Consideration payable | 4 |
| | 261 |

## 37 Contingent Liabilities

| *in HK$ million* | Company 2010 | 2009 |
|---|---|---|
| The Company provided guarantees in respect of bank facilities as follows: | | |
| Subsidiary companies | **36,882** | 29,450 |
| Jointly controlled entity | **–** | 27 |
| Associated company | **35** | – |
| Other performance guarantees and potential penalties | | |
| Subsidiary companies (Note i) | **4,582** | 4,831 |
| | **41,499** | 34,308 |

Note:

i) The Company has provided guarantees to its subsidiary companies to support their performance or obligations under construction or procurement contracts.

ii) In the normal course of the Group's business, there are a number of claims now outstanding by or against the Group. While the outcome of such claims cannot be readily predicted, management believes that they will be resolved without material adverse financial effect on the consolidated financial position or liquidity of the Group.

iii) The Group is subject to ever stricter environmental laws and regulations concerning its operations and products. These laws may require the Group to take remedial action and rehabilitation works to reduce the effects on the environment of previous actions by the Group. The ultimate requirement for remedial action and rehabilitation works and its cost are inherently difficult to predict but the estimated cost of undisputed environmental obligations has been provided for in these accounts. Whilst the amount of future costs could be significant and material to the Group's results in the period they are recognised, it is not possible to estimate the amounts involved, although management does not expect these costs to have a material adverse financial effect on the consolidated financial position or liquidity of the Group.

iv) Following CITIC Pacific's announcement of a foreign exchange related loss, on 22 October 2008, the Hong Kong Securities and Futures Commission ('SFC') announced that it had commenced a formal investigation into the affairs of CITIC Pacific. On 3 April 2009, the Commercial Crime Bureau of the Hong Kong Police Force began an investigation of suspected offences relating to the same matter.

On 18 November 2009, the Acting Secretary for the Financial Services and the Treasury said that the SFC's investigation has been completed while the Police's investigation is still ongoing.

In the absence of the findings of these investigations being made available to CITIC Pacific and due to the inherent difficulties involved in attempting to predict the outcome of such investigations and in assessing the possible findings, the directors do not have sufficient information to reasonably estimate the fair value of contingent liabilities (if any) relating to such investigations, the timing of the ultimate resolution of those matters or what the eventual outcome may be. However, based on information currently available, the directors are not aware of any matters arising from the above investigations that might have a material adverse financial impact on the consolidated financial position or liquidity of the Group.

## 38 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 they are subject to common control.

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

CITIC Pacific Limited is controlled by CITIC Group which owns 57.6% of the Company's shares. CITIC Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as 'state-owned enterprises'). Therefore, transactions with state-owned enterprises are regarded as related party transactions.

For the purpose of related party disclosure, the Group has identified to the extent practicable whether its customers and suppliers are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structures and the ownership structures change over time as a result of transfers and privatisation programs. The Group has certain transactions with other state-owned enterprises including but are not limited to sales and purchases of goods and services, payments for utilities, acquisition of property interests, depositing and borrowing money and entering into derivative financial instruments. In the ordinary course of the Group's businesses, transactions occur with state-owned enterprises.

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

i) As at 31 December 2010, there were derivative liabilities of HK$1,840 million (2009: HK$913 million) in relation to outstanding financial instrument transactions with state-owned banks. They are included in the balances disclosed in note 31.

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

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Bank balances and deposits | **16,799** | 14,159 |
| Bank loans | **64,134** | 45,093 |

## 38 Material Related Party Transactions *continued*

### a Transactions with State-Owned Enterprises (Other than Companies within the CITIC Group) *continued*

#### iii) Transactions with China Metallurgical Group

On 24 January 2007, Sino Iron Pty Ltd., a wholly owned subsidiary of the Company, ('Sino Iron') entered into a general construction contract ('the Contract') with China Metallurgical Group Corp., a state-owned enterprise ('MCC'). Pursuant to the Contract, MCC is responsible for the procurement of mining equipment, design, construction and installation of the primary crushing plant, concentrator, pellet plant, material handling system, camp and other auxiliary infrastructure facilities ('the Works to be conducted by MCC') at an amount not exceeding US$1,106 million (approximately HK$8,630 million). The price for the Works to be conducted by MCC is capped and no increase to the contract sum can be made unless otherwise agreed by both parties. On 20 August 2007, Sino Iron entered into supplemental agreements with MCC in relation to, amongst other things, the adjustment to the scope of the works to be conducted by MCC to extend to the second 1 billion tonnes of iron ore to be extracted and the revision of the contract sum to US$1,750 million (approximately HK$13,650 million). On 11 May 2010, Sino Iron and MCC entered into a supplemental contract to increase the contract sum by US$835 million to US$2,585 million due to the changes in the cost structure of the industry.

Sino Iron and MCC also agreed that the remaining works (other than works to be conducted by MCC) shall be contracted out to third parties directly by Sino Iron and such works shall be managed by MCC. Sino Iron agreed to pay 1% of the relevant contract price (excluding any fee for training, interest, transportation, insurance and tax expenses) to MCC as management fees for the MCC managed works.

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| Balances with MCC<br>Trade, other receivables and prepayment | **5,895** | 2,574 |
| Trade payable and other payable to MCC | **(1,395)** | (629) |
| Deposit received from MCC for the acquisition of 20% interest in Sino Iron | **(2,130)** | (2,130) |
| Transaction with MCC<br>Incurred costs on General Construction Contract | **4,783** | 2,060 |

On 20 August 2007, a wholly owned subsidiary of the Company, and MCC entered into an agreement for MCC to purchase 20% of Sino Iron for a consideration equivalent to 20% of all the funds provided to Sino Iron by CITIC Pacific for the development of the iron ore project up to the date of completion, plus interest. As at 31 December 2010, the Group received a deposit of HK$2,130 million (31 December 2009: HK$2,130 million) from MCC for the sale of 20% interest in Sino Iron which had not been completed as at 31 December 2010.

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

iv) During the year, the Group disposed its 65% interest in Shijiazhuang Iron & Steel Co., Ltd., a jointly controlled entity to a state-owned enterprise, for a consideration of approximately HK$1.8 billion. The required consents and approvals for the share transfer were obtained and the outstanding consideration of HK$1.4 billion will be receivable from PRC party.

## 38 Material Related Party Transactions *continued*

### b Transactions with Other Related Parties

The Group also had the following significant transactions and balances with other related parties:

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| *Transactions with jointly controlled entities* | | |
| (i) Recurring transactions | | |
| Interest income | **171** | 58 |
| Dividend income | **1,143** | 21 |
| Sales | **306** | 49 |
| Service income | **2** | 46 |
| | **1,622** | 174 |
| Purchases | **1,336** | 803 |
| Service charges | **51** | 98 |
| | **1,387** | 901 |
| *Transactions with associated companies* | | |
| (i) Recurring transactions | | |
| Interest income | **7** | 23 |
| Dividend income | **537** | 268 |
| Sales | **518** | 235 |
| Service income | **18** | 76 |
| | **1,080** | 602 |
| Purchases | **–** | 9 |
| Rental charge | **85** | 85 |
| Service charge | **6** | 23 |
| | **91** | 117 |

### c Transactions with CITIC Group

| *in HK$ million* | **2010** | 2009 |
|---|---|---|
| *Balances with fellow subsidiary companies within CITIC Group, ultimate holding company of the Company* | | |
| (i) Bank balances | **305** | 58 |
| (ii) Bank loans | **474** | 454 |
| (iii) Trade and other payables | **106** | 59 |

On 2 September 2010, a subsidiary company of the Group proposed to acquire from CITIC Group (i) a 8.23% equity interest in China Enterprise Communications Ltd. ('CEC'), a then 53.32% owned subsidiary of CITIC Group, (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 transaction was not yet completed as at 31 December 2010.

## 38 Material Related Party Transactions *continued*

### d Transactions with Non-controlling Interest

Disposal of Companhia de Telecomunicacoes de Macau, S.A.R.L. ('CTM') to CITIC Telecom Holdings Limited ('CITIC Telecom')

On 5 May 2010, the Company disposed of a 20% equity interest in CTM to CITIC Telecom, a then 52.57% owned subsidiary, at a consideration of HK$1.4 billion, which was satisfied by HK$467 million in cash and HK$933 million by issue of 406 million shares of CITIC Telecom. The transaction resulted in a gain of HK$433 million on partial disposal of CTM attributable to shareholders of the Company which represents the excess of consideration paid by the non-controlling interests over the carrying value of CTM they acquired. The increase in equity interest in CITIC Telecom is regarded as a transaction with non-controlling interests which results a decrease in general and other reserves of HK$253 million. The Company's shareholding in CITIC Telecom has increased to 60.65% as a result of the transaction.

## 39 Ultimate Holding Company

The Directors regard CITIC Group, a state-owned enterprise established under the laws of the PRC, as being the ultimate holding company of the Company.

## 40 Comparative Figures

Certain comparative figures for 2009 have been adjusted to conform with the current accounting standards described in note 1a(iii) to the Accounts. In accordance with accounting standard, HKAS1 – Presentation of Financial Statements, an additional balance sheet and the relevant notes as at the beginning of the comparative year are also presented.

## 41 Approval of financial statements

The financial statements were approved by the Board of Directors on 3 March 2011.

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies

The following are the principal subsidiary companies, jointly controlled entities and associated companies which in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of all companies would in the opinion of the directors result in particulars of excessive length.

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| **Special Steel** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| Daye Special Steel Co., Ltd. | People's Republic of China Sino-foreign joint stock limited company* | 58.13 | – | 58.13 | 449,408,480 | RMB1 | Steel making |
| Hubei Xin Yegang Steel Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Steel making |
| Jiangsu CP Xingcheng Special Steel Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Steel making |
| Jiangyin CP Xingcheng By-products Recycling Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Processing and recycling of metal slag and sale of its related recycled products |
| Jiangyin CP Xingcheng Industry Gas Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Production and sale of oxygen, liquefied oxygen, nitrogen and argon |
| Jiangyin Xingcheng Metalwork Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Developing and production of alloy and metal hardware |
| Jiangyin Xingcheng Special Steel Works Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Steel making |
| Jiangyin Xingcheng Steel Products Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Steel making |
| Jiangyin Xingcheng Storage and Transportation Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Loading and unloading business |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| Tongling Xin Yaxing Coking & Chemical Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 92.485 | – | 92.485 | N/A | N/A | Production and sale of coal gas, coke and chemical related products |
| Wuxi Xingcheng Steel Products Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Production and sale of ferrous metal materials |
| 中信泰富特鋼經貿有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Wholesale, retail and import/export of steel products, relevant materials and technology |
| 江陰泰富興澄特種材料有限公司 | People's Republic of China Sino-foreign equity joint venture* | 100 | – | 100 | N/A | N/A | Production and sale of hot iron and the related products |
| 江陰澄東爐料有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | General sales of scrip steel, alloys and coke |
| 湖北中特新化能科技有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Production and sale of coal gas, coke and chemical related products |
| 湖北新冶鋼特種鋼管有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Production of seamless steel tube |
| 銅陵新亞星港務有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Port construction, operation and related service |
| *Jointly controlled entities#* | | | | | | | |
| 中信泰富工程技術(上海)有限公司 | People's Republic of China Sino-foreign equity joint venture* | 70 | – | 70 | N/A | N/A | Engineering service for metallurgy and mining |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| | | | Interest in equity shares held by | | Particulars of issued shares† | | |
|---|---|---|---|---|---|---|---|
| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Company % | Subsidiary % | No. of shares | Par value | Principal activities |
| **Iron Ore Mining** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| Korean Steel Pty Ltd | Australia | 100 | – | 100 | 10,000 | N/A | Mining extraction and processing of magnetite |
| Loreto Maritime Pte. Ltd. | Singapore | 100 | – | 100 | 3 | N/A | Build and own transshipment vessels and related facilities and equipment for iron ore product |
| MetaGas Pty Ltd | Australia | 100 | – | 100 | 5,000,010 | N/A | Gas procurement and trading |
| Pacific Resources Trading Pte. Ltd. | Singapore | 100 | – | 100 | 1 | N/A | General trading and related business |
| Pastoral Management Pty Ltd | Australia | 100 | – | 100 | 5,000,010 | N/A | Pastoral lease management |
| Sino Iron Pty Ltd | Australia | 100 | – | 100 | 11,526 | N/A | Mining extraction and processing of magnetite |
| **Property** | | | | | | | |
| ***People's Republic of China*** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| CITIC Pacific (Yangzhou) Properties Co., Ltd. | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| Shanghai Super Property Co., Ltd. | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property investment and management |
| 上海中信泰富廣場有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property investment and management |
| 上海老西門新苑置業有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 100 | – | 100 | N/A | N/A | Property development |
| 上海珠街閣房地產開發有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | 84.52 | 15.48 | N/A | N/A | Property development |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| 上海利通置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 100 | 96.2 | 3.8 | N/A | N/A | Property development |
| 中信泰富(上海)物業管理有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property management |
| 江陰興澄置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 70 | – | 70 | N/A | N/A | Property development |
| 無錫太湖景發展有限公司 | People's Republic of China Sino-foreign equity joint venture* | 70 | – | 70 | N/A | N/A | Sports related services |
| 無錫太湖苑置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 70 | – | 70 | N/A | N/A | Property investment and development |
| 中信泰富萬寧發展有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 中信泰富萬寧（聯合)開發有限公司 | People's Republic of China Limited liability company* | 80 | – | 80 | N/A | N/A | Property development |
| 萬寧中意發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧中榮發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧中宏發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧仁和發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧仁信發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧百納發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧金信發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| 萬寧金誠發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 萬寧創遠發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 中信泰富萬寧瑞安發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 中信泰富萬寧天富發展有限公司 | People's Republic of China Sino-foreign co-operative joint venture* | 99.9^ | – | 99.9 | N/A | N/A | Property development |
| 寧波信富置業有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 上海嘉頤房地產開發有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 上海嘉逸房地產開發有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 上海嘉諧房地產開發有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 上海旭升置業有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 紀亮(上海)房地產開發有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| 尊創(上海)賓館有限公司 | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Property development |
| *Jointly controlled entities#* | | | | | | | |
| 上海瑞明置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 50 | 50 | – | – | – | Property development |
| 上海瑞博置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 50 | 50 | – | – | – | Property development |
| 中船置業有限公司 | People's Republic of China Sino-foreign equity joint venture* | 50 | 50 | – | – | – | Property development |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| ***Hong Kong*** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| Borgia Limited | Hong Kong | 100 | – | 100 | 2 | HK$10 | Property investment |
| Broadway Centre Property Management Company Limited | Hong Kong | 100 | – | 100 | 2 | HK$1 | Property management |
| Famous Land Limited | Hong Kong | 100 | – | 100 | 2 | HK$1 | Property investment |
| Glenridge Company Limited | Hong Kong | 100 | – | 100 | 2 | HK$10 | Property investment |
| Hang Luen Chong Investment Company, Limited | Hong Kong | 100 | – | 100 | 80,000 | HK$100 | Property investment |
| Hang Luen Chong Property Management Company, Limited | Hong Kong | 100 | – | 100 | 2 | HK$1 | Property management |
| Hang Wah Chong Investment Company Limited | Hong Kong | 100 | – | 100 | 50,000 | HK$100 | Property investment |
| Lindenford Limited | Hong Kong | 100 | – | 100 | 2 | HK$10 | Property investment |
| Neostar Investment Limited | Hong Kong | 100 | – | 100 | 2 | HK$1 | Property investment |
| Pacific Grace Limited | Hong Kong | 100 | – | 100 | 2 | HK$1 | Property investment |
| Tendo Limited | Hong Kong | 100 | – | 100 | 2 | HK$10 | Property investment |
| *Associated companies* | | | | | | | |
| CITIC Tower Property Management Company Limited | Hong Kong | 40 | – | 40 | – | – | Property management |
| Goldon Investment Limited | Hong Kong | 40 | – | 40 | – | – | Property investment |
| Hong Kong Resort Company Limited ‡ | Hong Kong | 50 | – | 50 | – | – | Property development |
| Konorus Investment Limited | Hong Kong | 15 | – | 15 | – | – | Property development |
| Shinta Limited ‡ | Hong Kong | 20 | – | 20 | – | – | Property investment |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| **Energy Generation** | | | | | | | |
| *Jointly controlled entities#* | | | | | | | |
| Huaibei Go-On Power Company Ltd. | People's Republic of China Sino-foreign equity joint venture* | 12.5 | – | 12.5 | – | – | Building, possession and operation of power plant and sale of electricity |
| Inner Mongolia Electric Power (Holdings) Company Limited | People's Republic of China Sino-foreign equity joint venture* | 35 | – | 35 | – | – | Coal-fired power station operation and management |
| Jiangsu Ligang Electric Power Company Limited | People's Republic of China Sino-foreign equity joint venture* | 56.31 | – | 56.31 | – | – | Electric power plant construction and operation |
| Jiangyin Ligang Electric Power Generation Company Limited | People's Republic of China Foreign investment stock company* | 54.31 | – | 54.31 | 1,170,000,000 | RMB1 | Electric power plant construction and operation |
| Sunburst Energy Development Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 65 | – | 65 | – | – | Investment holding |
| Widewin Investments Limited ‡ | British Virgin Islands | 37.5 | – | 37.5 | – | – | Investment holding |
| Zhengzhou Xinli Electric Power Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 50 | – | 50 | – | – | Electric power plant construction and operation |

# 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| **Civil Infrastructure** | | | | | | | |
| ***Tunnels*** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| New Hong Kong Tunnel Company Limited | Hong Kong | 70.8 | – | 70.8 | 75,000,000 | HK$10 | Tunnel operation |
| *Jointly controlled entities#* | | | | | | | |
| Hong Kong Transport, Logistics and Management Company Limited | Hong Kong | 35 | – | 35 | – | – | Management, operation and maintenance of the Cross-Harbour Tunnel |
| Western Harbour Tunnel Company Limited ‡ | Hong Kong | 35 | – | 35 | – | – | Franchise to construct and operate the Western Harbour Crossing |
| ***Environmental*** | | | | | | | |
| *Jointly controlled entities#* | | | | | | | |
| Changzhou CGE Water Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 24.01 | – | 24.01 | – | – | Production and supply of tap water |
| Ecoserve Limited | Hong Kong | 50 | – | 50 | – | – | Design, construction and operation of refuse transfer station |
| Veolia Water (Kunming) Investment Limited | Hong Kong | 25 | – | 25 | – | – | Investment holding |
| *Associated companies* | | | | | | | |
| Green Valley Landfill, Limited | Hong Kong | 30 | – | 30 | – | – | Landfill construction and operation |
| South China Transfer Limited | Hong Kong | 30 | – | 30 | – | – | Design, construction and operation of transfer station |
| **CITIC Telecom International Holdings Limited** (Formerly known as CITIC 1616 Holdings Limited) (Listed in Hong Kong) § | Hong Kong | 60.61 | – | 60.61 | 2,385,201,870 | HK$0.10 | Investment holding |
| **Dah Chong Hong Holdings Limited** (Listed in Hong Kong) § | Hong Kong | 56.15 | – | 56.15 | 1,814,508,000 | HK$0.15 | Investment holding |

## 42 Principal Subsidiary Companies, Jointly Controlled Entities and Associated Companies *continued*

| Name | Place of incorporation/ principal place of operation kind of legal entity* | Attributable to the Group % | Interest in equity shares held by Company % | Interest in equity shares held by Subsidiary % | Particulars of issued shares† No. of shares | Particulars of issued shares† Par value | Principal activities |
|---|---|---|---|---|---|---|---|
| **Other Investments** | | | | | | | |
| *Subsidiary companies* | | | | | | | |
| CITIC Pacific China Holdings Limited | People's Republic of China Wholly foreign-owned enterprise* | 100 | – | 100 | N/A | N/A | Investment holding |
| CITIC Pacific Communications Limited | Bermuda | 100 | – | 100 | 100,000 | HK$1 | Investment holding |
| CITIC Pacific Finance (2001) Limited | British Virgin Islands | 100 | 100 | – | 1,000 | US$1 | Financing |
| CITIC Pacific Finance (2005) Limited | British Virgin Islands | 100 | 100 | – | 1 | US$1 | Financing |
| Dah Chong Hong (Engineering) Limited | Hong Kong | 100 | – | 100 | 1,551,000 | HK$100 | Engineering services |
| *Jointly controlled entities*# | | | | | | | |
| CITIC Capital Holdings Limited | Hong Kong | 27.5 | – | 27.5 | – | – | Investment holding |
| CITIC Guoan Co., Ltd. | People's Republic of China Sino-foreign equity joint venture* | 50 | – | 50 | – | – | Investment holding |
| 上海國睿生命科技有限公司 | People's Republic of China Sino-foreign equity joint venture* | 24.94 | 24.94 | – | – | – | Research and development of tissue engineering products |
| 山東新巨龍能源有限責任公司 | People's Republic of China Sino-foreign equity joint venture* | 30 | – | 30 | N/A | N/A | Coal ores construction and sales |
| *Associated company* | | | | | | | |
| Cheer First Limited‡ | Hong Kong | 40 | – | 40 | – | – | Financing |

Note:

† Represents ordinary shares, unless otherwise stated.

‡ Affiliates which have been given financial assistance by the company or its subsidiaries at 31 December 2010.

§ Subsidiaries separately listed on the main board of the Hong Kong Stock Exchange and including their respective group companies.

# In accordance with the Joint Venture agreement, none of the participating parties has unilateral control over the economic activity.

^ Under the terms of the co-operative joint venture contract, the Company is entitled to 80% of the distributable profit of the joint venture.