Risk Management

Each day, every business faces numerous risks at many different levels, so primary responsibility for risk management of each employee at CITIC Pacific is in his day-to-day activities. One of the essential elements of corporate governance is to ensure that these risks are identified and appropriately controlled.

Many parts of this annual report refer directly or indirectly to various risks faced by our businesses, but in this section key financial risks are addressed. Other non-financial risks, such as business, operational and other external risks associated with CITIC Pacific's businesses, are also briefly discussed later in this section.

Overall risk management starts with the board of directors. The board has established asset and liability management, audit, executive, investment, nomination and remuneration committees whose activities play important roles in the overall control of various risks faced by CITIC Pacific. For details on how various risks are assessed and managed by these committees, please refer to the "Key control policies and measures" in the Corporate Governance section on page 100 of this annual report.

Financial Risk

Governance structure

The asset and liability management committee ("ALCO") was set up by the board to oversee and monitor the financial risk exposures of CITIC Pacific. At each meeting, the board receives reports of the financial results and the financial positions of CITIC Pacific, both current and projected. Written reports are provided to directors on all businesses identical to those reviewed by management at executive committee meetings. ALCO's major functions are asset and liability management ("ALM") and treasury risk management.

The group treasury department, headed by the group treasurer, is responsible for implementing the Treasury and Financial Risk Management Policy ("treasury policy", see Governance policy below), and communicating ALCO decisions to operating units, monitoring adherence and preparing relevant management reports to be presented to ALCO, the executive committee and the board.

All business units, whether they are subsidiaries, associates or joint ventures, are responsible for managing their financial risk positions within the confines of the overall risk framework and specific delegations defined by ALCO. They are responsible for identifying areas of risk and managing thereafter within their organisations and reporting those risks to ALCO on a timely basis.

Listed subsidiaries including Dah Chong Hong and Daye Special Steel manage their financial and treasury affairs within the framework of CITIC Pacific's treasury policy.

Governance policy

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

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

Financial Risk Management

Asset and liability management

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

Debt and leverage

Debt

As at 31 December 2013, total outstanding debt of CITIC Pacific Limited and its subsidiaries amounted to HK$121,144 million. Total debt increased by HK$4.2 billion in 2013. Facilities totalling HK$34.5 billion were established or renewed during the period (HK$18.9 billion by CITIC Pacific Limited and HK$15.6 billion by its subsidiaries). The new facilities included US$500 million notes due in 2020 and HK$500 million notes due in 2018 issued under a medium-term note programme, and RMB500 million notes due in 2016 under another medium-term note programme in mainland China. Net debt increased by HK$1.9 billion from the end of 2012 to the end of 2013.

Total debt and net debt of CITIC Pacific Limited and its subsidiaries are as follows:

In HK$ million	**31 December 2013**	31 December 2012
Total debt	**121,144**	116,994
Cash and bank deposits	**35,070**	32,821
Net debt	**86,074**	84,173

For risk management purposes, the analysis of debt is based on the principal amount of borrowings, rather than the carrying value adopted for reporting in the financial statements which includes unamortised expenses.

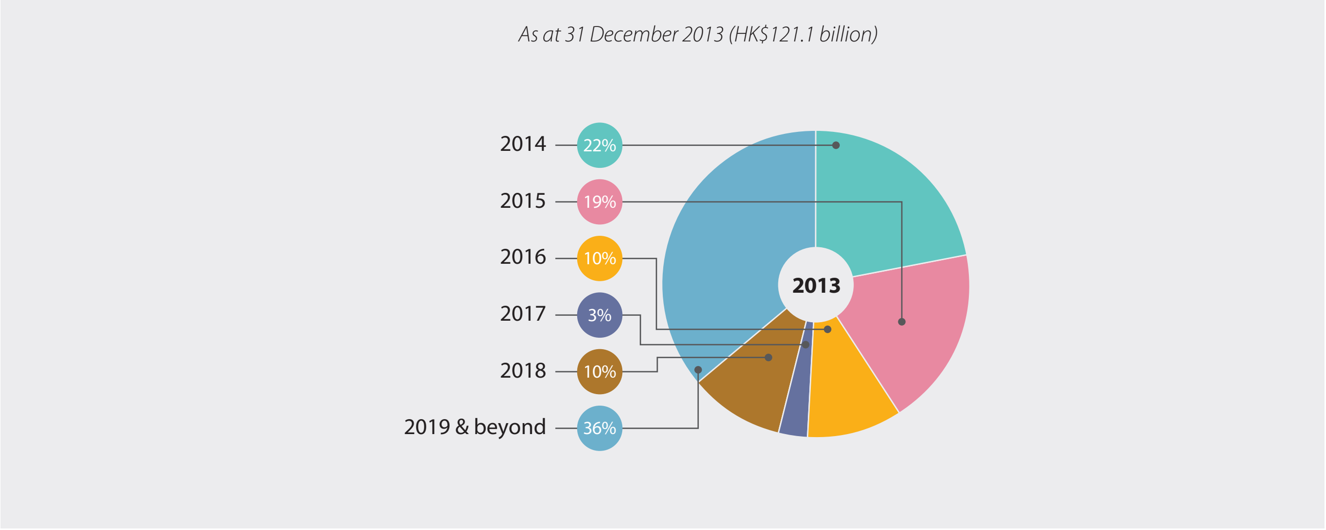
Debt raised in the name of legal entities within each business segment is:

In HK$ million	**31 December 2013**	31 December 2012
Special steel	**13,346**	13,962
Iron ore	**27,737**	29,020
Vessels	**2,701**	2,886
Mainland China property	**776**	950
Dah Chong Hong	**7,435**	6,420
Corporate	**69,149**	63,731
Others	**–**	25
Total	**121,144**	116,994

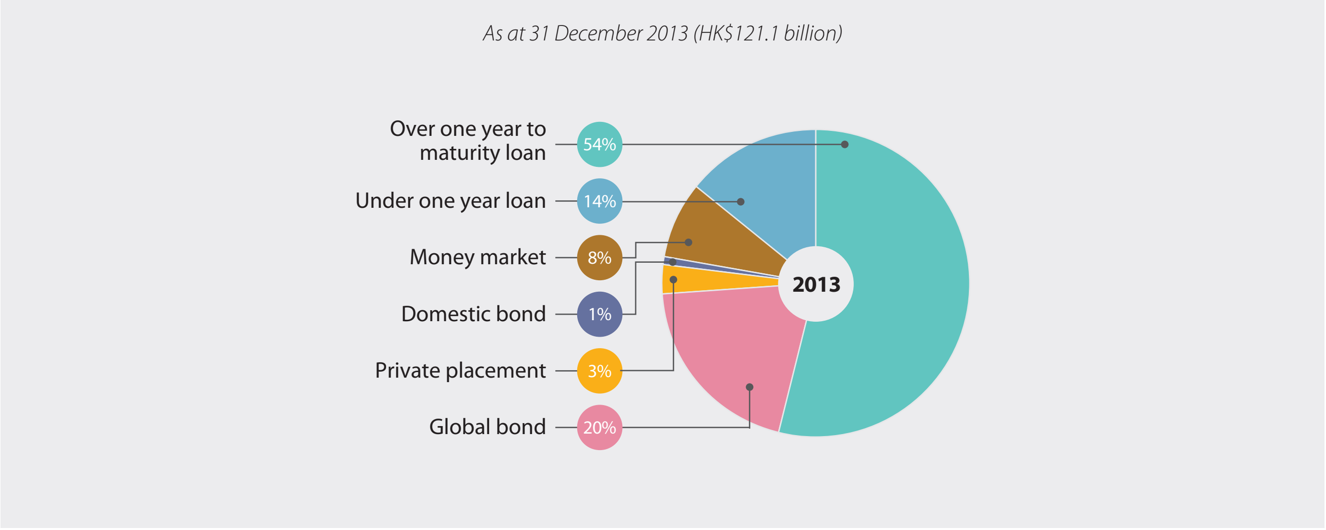
The maturity profile of the debt outstanding as at 31 December 2013 is as follows:

In HK$ million	**Total outstanding debt**	**Maturing in these years**					
		2014	2015	2016	2017	2018	2019 and beyond
Corporate	**69,149**	10,750	17,739	8,209	137	9,158	23,156
Subsidiaries	**51,995**	16,395	4,924	3,794	3,429	2,389	21,064
Total	**121,144**	27,145	22,663	12,003	3,566	11,547	44,220

Total outstanding debt by maturity



Total outstanding debt by type



CITIC Pacific's non-consolidated businesses are classified as joint ventures or associated companies. Under Hong Kong generally accepted accounting standards, they are not consolidated in CITIC Pacific's financial statements but recorded in the consolidated balance sheet as CITIC Pacific's share of their net assets. The debts arranged by the joint ventures and associated companies are without recourse to their shareholders. None of these debts are guaranteed by CITIC Pacific Limited or its subsidiaries. Certain of CITIC Pacific's associates such as Hong Kong Resort Company Ltd, which develops property projects in Discovery Bay, are 100% financed by their shareholders and do not have any external borrowings.

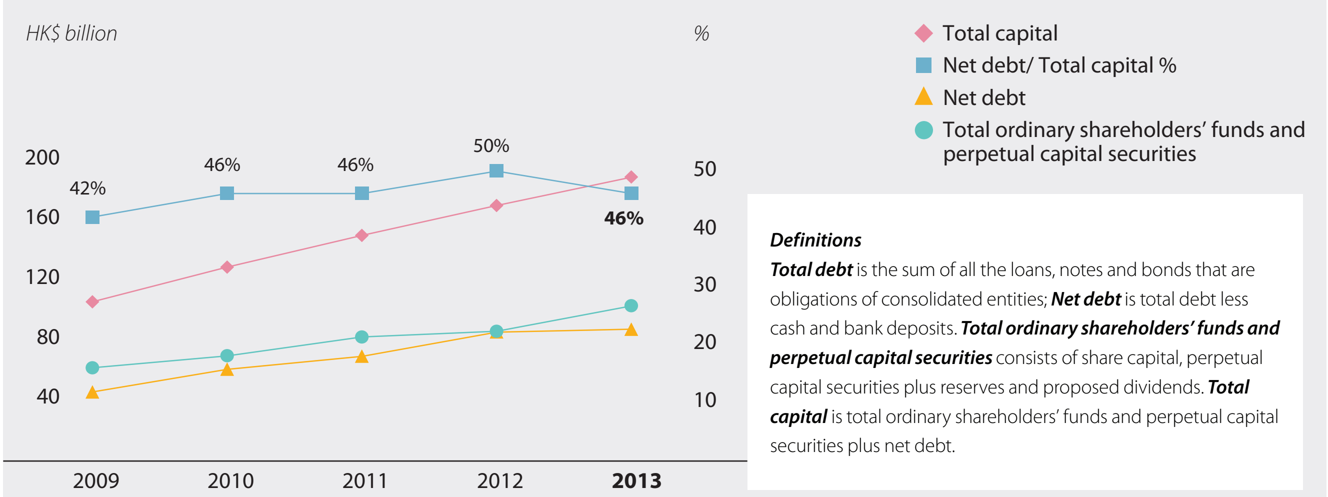
The following table shows the net debt/cash position of joint ventures and associated companies by business sector as at 31 December 2013:

In HK$ million	**Total net debt/ (cash)**	**Proportion of net debt/(cash) attributable to CITIC Pacific**
Special steel	137	40
Mainland China property	(5,727)	(2,863)
Hong Kong property	(678)	(335)
Energy	9,959	4,893
Tunnels	(305)	(107)
Dah Chong Hong	168	93
CITIC Telecom	6,861	2,842
Other investments	287	(135)
Total	**10,702**	**4,428**

Leverage

As at 31 December 2013, net debt was HK$86.1 billion, and total ordinary shareholders' funds and perpetual capital securities were HK$101.8 billion. Net debt divided by total capital is the measure of our balance sheet leverage. This ratio was 46% at the end of 2013. The drop from 50% in 2012 is mainly due to the increase in ordinary shareholders' funds and the issuance of US$1 billion of perpetual capital securities in 2013.

Leverage



Definitions

Total debt is the sum of all the loans, notes and bonds that are obligations of consolidated entities; ***Net debt*** is total debt less cash and bank deposits. ***Total ordinary shareholders' funds and perpetual capital securities*** consists of share capital, perpetual capital securities plus reserves and proposed dividends. ***Total capital*** is total ordinary shareholders' funds and perpetual capital securities plus net debt.

Liquidity risk management

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

CITIC Pacific's liquidity management procedures involve regularly projecting cash flows in major currencies and considering the level of liquid assets and new financings necessary to meet these cash flow requirements. Every month, cash flow projections for three years are reviewed and revised by business units and ALCO, and financing actions are taken accordingly.

How is the Australian mining development financed?

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

The mine's development is being financed by three amortising loan facilities with an outstanding sum of US$3.6 billion as at 31 December 2013 maturing between 2028 and 2030, and by shareholder loans and equity from CITIC Pacific. The loans are in USD because they will be repaid from the sales of iron ore, which is priced in USD. Sino Iron prepares its financial statements in USD, which is its ***functional currency***. Expenditure on equipment, civil works and operational costs may not be in USD – an example being staff salaries, which are mostly paid in AUD – resulting in foreign exchange risks, which are discussed later.

As at the end of 2013, CITIC Pacific maintained borrowing relationships with over 40 major financial institutions based in Hong Kong, mainland China, Taiwan and other countries. In addition, CITIC Pacific has established cooperative agreements with major banks in mainland China under which CITIC Pacific can apply for credit facilities for projects in mainland China. The banks' approval is required on a project-by-project basis.

CITIC Pacific actively seeks to diversify its funding sources so as not to be reliant on any one market. Our policy is to diversify the sources of funding as much as possible through the increasing use of the capital market to supplement bank borrowings and to maintain a mix of staggered maturities to minimise refinancing risk.

The following sub-sections reflect CITIC Pacific's ALM and liquidity positions in various aspects:

Available sources of finance

CITIC Pacific aims at maintaining the cash balance and undrawn committed banking facilities at a reasonable level to cover the debt repayments in the upcoming year as well as to support the on-going business development of CITIC Pacific. The cash and deposits balance together with the undrawn committed banking facilities as at 31 December 2013 was HK$48.1 billion.

In addition to the cash and deposits balance of HK$35.1 billion as at 31 December 2013, CITIC Pacific had available loan and trade facilities of HK$26.7 billion, of which HK$13 billion was undrawn committed banking facilities. Loans can be drawn under these committed facilities before the contractual expiry dates.

The following table summarises CITIC Pacific's cash and deposit balances by location and currency:

In HK$ million	Total	US$	HK$	RMB	AUD	SGD	Others
Mainland China	21,579	1,121	103	20,334^	-	-	21
Hong Kong	12,678	8,476	4,169	25	-	-	8
Australia	500	402	-	1	59	-	38
Singapore	205	184	-	4	-	13	4
Others	108	23	-	1	-	-	84
Total	**35,070**	**10,206**	**4,272**	**20,365**	**59**	**13**	**155**

^ Includes in cash and bank deposits, there is a bank deposit of RMB625 million (equivalent to HK$795 million) received in an escrow account from CITIC Bank for construction of a property located in Shanghai to be delivered to them on completion.

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

In HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage breakdown of unutilised facilities
Committed facilities				
Loans for more than one year to maturity	75,497	64,865	10,632	40%
Loans with maturity below one year	19,368	16,968	2,400	9%
	94,865	81,833	13,032	49%
Uncommitted facilities				
Money market lines and short-term facilities	17,567	9,771	7,796	29%
Trade facilities	8,840	2,935	5,905	22%
	26,407	12,706	13,701	51%
Total	**121,272**	**94,539**	**26,733**	**100%**

The following table summarises the outstanding bank facilities of CITIC Pacific by location of lenders:

In HK$ million	Total financial facilities	Amount utilised	Available unutilised facilities	Percentage breakdown of unutilised facilities
Bank borrowings				
Mainland China	65,955	58,517	7,438	28%
Hong Kong	50,021	35,330	14,691	55%
Others	5,296	692	4,604	17%
Total facilities	121,272	94,539	26,733	100%

Guarantees

Subsidiaries and affiliates secure debt facilities to fund their investments, to the extent possible, without recourse to CITIC Pacific Limited. The major exception is the iron ore mining project. For this project, CITIC Pacific Limited provides guarantees for the performance obligations under construction or procurement contracts, interest rate hedging transactions, foreign exchange hedging transactions and a total outstanding of US$3.6 billion in debt facilities. Other guarantees mainly include those provided for ship financing, a Japanese Yen bond and trade facilities for two subsidiaries.

Pledged assets

As at 31 December 2013, CITIC Pacific had a total of HK$76.4 billion of assets pledged for various facilities. Iron ore assets of HK$70.4 billion were pledged under its financing documents. Twelve ships with carrying value of HK$5.2 billion for transporting iron ore from the mine to steel plants in mainland China were pledged as security for the ships' financing. In addition, assets of HK$0.8 billion were pledged to secure banking facilities, which mainly related to Dah Chong Hong's mainland China and overseas business.

Financial covenants

Over the years, CITIC Pacific Limited has developed a standard loan document, including covenants to facilitate the management of its loan portfolio and debt compliance. CITIC Pacific Limited monitors these covenants on a regular basis and has been in compliance with them and any others applicable to a particular facility. The standard financial covenants are generally as follows:

	Covenant limit	Actual 31 December 2013
Minimum Consolidated Net Worth		
Consolidated Net Worth	≥ HK$25 billion	HK$102.4 billion
Gearing		
Consolidated Borrowing/Consolidated Net Worth	≤ 1.5	1.2
Negative Pledge		
Pledged Assets/Consolidated Total Assets	≤ 30%	0.3%

For the purpose of the above covenant limits, as defined in the relevant borrowing agreements:

"Consolidated Net Worth" means the aggregate of shareholders' funds, goodwill from acquisitions and developments having been written off against reserves or the profit and loss account, convertible debt and subordinated debt (including perpetual debt).

"Consolidated Borrowing" means the aggregate of all consolidated indebtedness for borrowed money (includes indebtedness arising under acceptances and bills of exchange other than in respect of goods or services acquired in the ordinary course of business) and all contingent obligations in respect of indebtedness for borrowed money other than the aforesaid consolidated indebtedness for borrowed money.

"Negative Pledge" allows certain exceptions, including but not limited to any security over any asset acquired or developed, which security is created to finance or refinance the acquisition or development of such asset.

Credit ratings

	S&P	Moody's
31 December 2013	BB (Negative)	Ba2 (Negative)

Standard & Poor's changed CITIC Pacific's rating from BB+ to BB with negative outlook in August 2013. In November 2013, Moody's followed suit referencing the slower than expected progress of the Sino Iron Project.

Despite the above, the current ratings still reflect the agencies' expectation that CITIC Pacific will continue to enjoy strong support from the CITIC Group as a strategically important subsidiary.

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

Capital commitments and contingent liabilities

Details of CITIC Pacific's capital commitments as at 31 December 2013 are listed under Note 36 to the financial statements.

Details of CITIC Pacific's contingent liabilities as at 31 December 2013 are listed under Note 39 to the financial statements.

Treasury risk management

Treasury risk management essentially covers the following financial risks inherent in CITIC Pacific's businesses:

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

Financial derivatives may be used to assist in the management of the above risks. It is CITIC Pacific's policy not to enter into derivative transactions for speculative purposes. The use of derivative instruments is currently restricted by ALCO to interest rate swaps, cross currency swaps and plain vanilla forward foreign exchange contracts. The use of structured derivatives and instruments or contracts that contain embedded options would require presentation to and the specific approval of ALCO. None were submitted for approval in 2013. From a risk management perspective, simple, cost-efficient and HKAS 39 hedge effective instruments are preferred. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged both in economic terms and under accounting rules.

CITIC Pacific has engaged Reval Inc. ("Reval"), a derivative risk management and hedge accounting solutions firm, to provide a system supported by consulting services to better monitor its derivatives portfolio and ensure compliance with the latest accounting standards. The valuations of the derivatives portfolio as at 31 December 2013 are in compliance with HKFRS 13, which is effective since 1 January 2013. The system provided by Reval has been upgraded to generate the valuations that were used in the compilation of this report. In addition, in December 2013 the group treasury department started to adopt the Treasury & Risk Management System called "Integrity", offered by SunGard Data Systems Inc. ("SunGard") to facilitate its operations and risk management of all treasury related activities. SunGard is one of the world's leading software and technology services companies in this field.

Foreign exchange risk

CITIC Pacific has major operations in Hong Kong, mainland China and Australia whose functional currencies are Hong Kong dollar ("HKD"), Renminbi ("RMB") and United States dollar ("USD"). Entities within CITIC Pacific are exposed to foreign exchange risk from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency. CITIC Pacific is subject to the risk of loss or profit due to changes in USD, RMB and Australian dollar ("AUD") exchange rates. There are also exposures to the Japanese Yen ("JPY") (from operations and assets related to DCH), Euro ("EUR") (from equipment and product purchases) and other currencies. In 2013, Mercer Investment (HK) Limited ("Mercer"), an external consultancy firm, was appointed to conduct an FX diagnostic review exercise for CITIC Pacific Limited and its major subsidiaries. Whilst Mercer highlighted a few areas for improvement in terms of system, reporting and policy, it was noted in the report that major foreign exchange risks (e.g. AUD exposure in our Australian mining operation) for CITIC Pacific as a whole have been properly identified and managed.

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

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

We strive to reduce currency exposures by matching assets with borrowings in the same currency to the extent possible. Our policy is to hedge transactions where value or time to execution will give rise to material currency exposure, provided that the cost of the hedging instrument is not prohibitively expensive in comparison to the underlying exposure. CITIC Pacific uses forward contracts and cross currency swaps to manage its foreign exchange risk. Hedging is only considered for firm commitments and highly probable forecast transactions.

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

US Dollar (USD) – Being CITIC Pacific's main investment in businesses with functional currency denominated in USD, the iron ore business had USD gross assets of HK$85.3 billion as at 31 December 2013. Correspondingly, CITIC Pacific had HK$83.5 billion equivalent of US dollar debt, of which HK$46 billion equivalent was designated as a net investment hedge to minimise foreign currency exposure in the profit and loss account in the event of movements in the HKD/USD exchange rate.

Renminbi (RMB) – Businesses in mainland China had RMB gross assets of approximately HK$136 billion as at 31 December 2013, offset by debts and other liabilities of HK$47 billion. This gave CITIC Pacific an RMB net asset exposure of HK$89 billion as at 31 December 2013. Renminbi is currently not a freely convertible currency, and "registered capital", which usually accounts for at least one third of the total investment amount for projects in mainland China, may be required to be paid in foreign currency by foreign investors such as CITIC Pacific. This RMB investment risk is accepted by CITIC Pacific as a natural consequence of its strategy of investing in business related to the development of China.

Australian Dollar (AUD) – Our Australian mining operation's functional currency is USD as the future revenues from its iron ore business are denominated in USD. However, a substantial portion of its developmental and operating expenditures are denominated in AUD. To manage the AUD exposure of the business, the Australian mining operation has adopted a policy to stabilise the effective exchange rate over time by entering into plain vanilla forward contracts to hedge part of its forecast future AUD expenditures up to one year ahead. As at 31 December 2013, the Australian mining operation had plain vanilla forward contracts with a notional amount of A$239 million outstanding with maturities up to November 2014.

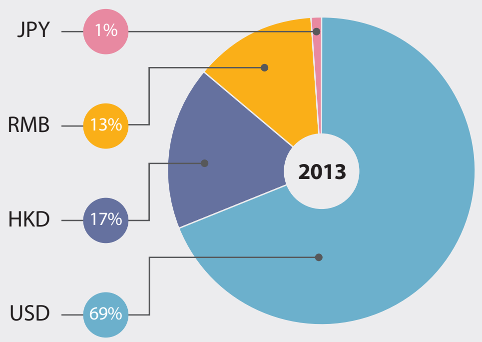
Japanese Yen (JPY) – CITIC Pacific issued a JPY8.1 billion bond in 2005. From an economic perspective, this JPY exposure is hedged through a cross currency swap into Hong Kong dollar floating rate payments. This swap does not qualify as an accounting hedge under the specific rules in HKAS 39, therefore changes in its fair value are reflected in the profit and loss account. The JPY bond is the only significant JPY exposure as at 31 December 2013.

The denomination of CITIC Pacific Limited and its subsidiaries' total debt and cash and bank deposit balances by currency as at 31 December 2013 is summarised as follows:

		Denomination				
In HK$ million equivalent	**Total**	**HK$**	**US$**	**RMB**	**JPY**	**Other**
Total debt in original currency	**121,144**	20,745	83,464	15,679	640	616
Total debt after conversion	**121,144**	21,231	83,706	15,679	154	374
Cash and bank deposits	**(35,070)**	(4,272)	(10,206)	(20,365)	(47)	(180)
Net debt/(cash) after conversion	**86,074**	16,959	73,500	(4,686)	107	194

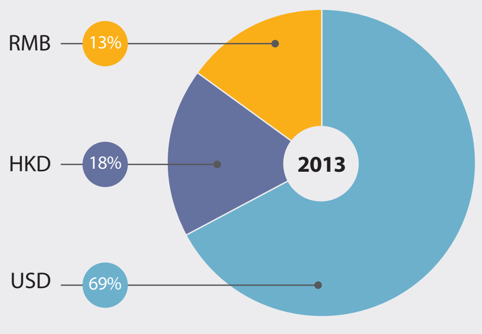
Total outstanding debt by currency

As at 31 December 2013 (HK$121.1 billion)



Outstanding debt after conversion

As at 31 December 2013 (HK$121.1 billion)



Interest rate risk

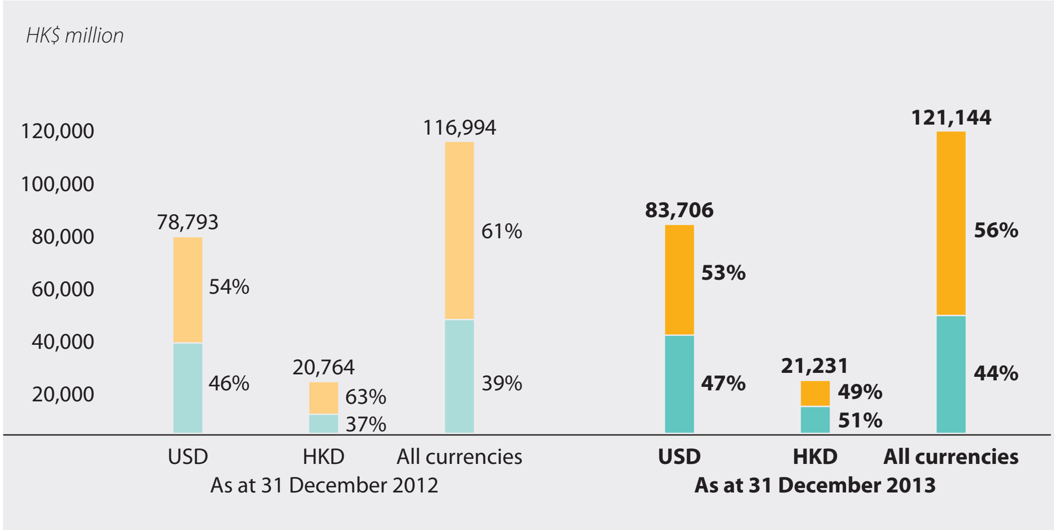
CITIC Pacific's interest rate risk arises primarily from debt. Borrowings at variable rates expose CITIC Pacific to cash flow interest rate risk, whilst borrowings at fixed rates economically expose CITIC Pacific to fair value interest rate risk. In the current low interest rate environment, CITIC Pacific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

This risk is managed by considering the whole portfolio of interest bearing assets and liabilities. The net desired position is then managed by borrowing fixed rate or through the use of interest rate swaps, which have the economic effect of converting floating rate borrowings into fixed rate borrowings.

The appropriate ratio of fixed/floating interest rate risk for CITIC Pacific is reviewed periodically. The level of fixed rate debt is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and cash flow cycles of CITIC Pacific's business and investments.

As at 31 December 2013, CITIC Pacific's floating to fixed interest rate derivative contracts had a notional amount of HK$24.9 billion. After hedging through interest rate swaps and the issuance of fixed rate debt, 56% of the borrowings of CITIC Pacific were linked to floating interest rates. In addition, CITIC Pacific has entered into HK$1.2 billion of forward starting swaps to lock in fixed rates for 3 years.

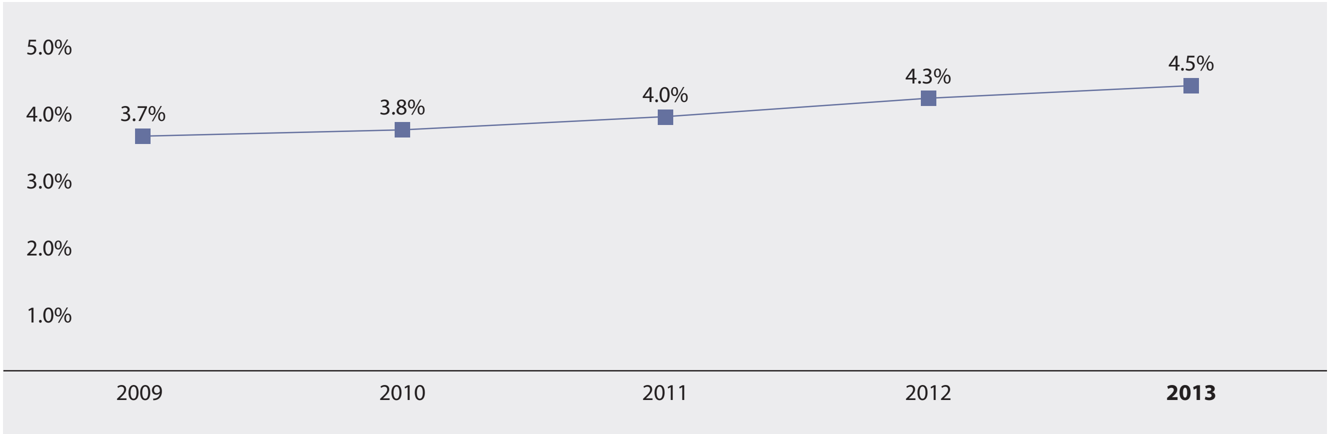
Fixed and floating interest rates



"Fixed" means that the interest rate will not change for at least one year from 1 January 2014.

CITIC Pacific's overall weighted all-in cost of borrowing (including interest paid or accrued, fees and hedging costs or profits from interest rate swaps contracts) for 2013 was approximately 4.5% compared with 4.3% for 2012.

Average borrowing costs



Counterparty risk

CITIC Pacific keeps a large amount of cash deposits at financial institutions. To mitigate the risk of non-recovery of cash deposits or financial instrument gains, CITIC Pacific deals mostly with international financial institutions with a credit rating of A- (S&P) or A3 (Moody's). Special authorisations are given by ALCO for mainland Chinese institutions, many of which do not have international credit ratings. In the great majority of cases, a maximum deposit limit is set that does not exceed the amount borrowed from the same institution.

Deposits are safe, liquid, interest-bearing and consistent with treasury and business purpose needs. Management monitors market developments, reviews the list of approved counterparties and closely monitors their credit quality, and revises deposit limits on an on-going basis.

The group treasury department is responsible for allocating and monitoring the limits with the list of approved financial institutions. Management does not expect any losses from non-performance by our financial counterparties.

Commodity risk

CITIC Pacific purchases and produces commodities across its various businesses; it has exposure to commodity price risks such as gas, coal and iron ore.

CITIC Pacific has entered into long-term supply contracts for certain inputs, such as gas for the Australian mining operations and coal for its power generation business to manage some of its raw material exposure. CITIC Pacific's businesses such as the manufacture of iron ore for its special steel operations, the ownership of ships to manage freight costs and production of coal to its power generation business are also exposed to commodity price risks as a result of on-going changing demand in these markets. Whilst CITIC Pacific views that naturally offsetting are being achieved to a certain extent across its different business sectors, continual risk management review is being performed to ensure commodity risks are well understood within its business strategies.

Due to the delay in the commissioning of the production lines for the Australian mining operations, the projected delivery of natural gas under certain gas supply contracts for the mining operations has, in aggregate, exceeded the current needs of the project. To manage these contracts and to minimise any adverse financial implications, the iron ore operation has entered into commercial agreements to dispose and/or swap and/or bank a portion of the excess gas to other parties. CITIC Pacific will continue to evaluate and implement appropriate strategies to manage its gas portfolio in view of its requirements and market development.

CITIC Pacific has considered the use of financial instruments to hedge its commodity exposures. However many commodities cannot be hedged effectively because there is no effective forward market for the product or there is insufficient liquidity in those markets. As at 31 December 2013, CITIC Pacific did not have any exposure to commodity derivatives.

Business, Operational, Other External Risks and Uncertainties

Apart from the financial risk reported in the earlier section, CITIC Pacific's businesses are all subject to other business, operational, external risks and uncertainties. The executive committee of CITIC Pacific, other management committees as well as risk management functions at the business/subsidiary level are responsible for ongoing monitoring and management of these risks, of which certain key risks are reported below.

Economic risks

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

In addition to their effects on our customers, changes to the global or local economies or regulations may adversely affect our relationship banks, joint venture partners, suppliers of goods (including principals with whom we have agency relationships), raw materials or power, and others on which our business depends.

Competitive markets

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

Regulation

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

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

Capital expenditure

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

Natural disasters or events, terrorism and disease

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

CITIC Pacific continues to strive for excellence in strengthening its risk management framework to fully cover the major risk types faced by its businesses. Taking our Australian mining operation as an example, a risk management function has been set up under the Sino Iron financial director to oversee the business's operational risk under a well defined risk standard and framework. Regular risk assessment workshops are conducted with different operation departments (e.g. mining, power, desalination plant) to identify any key risks in their respective areas. These are then analysed and escalated to management for proper attention as appropriate. A continual risk control improvement plan on these key risk items is actively being followed up to ensure they are appropriately managed. Alongside this established operational risk management process, insurance risk reviews are also conducted regularly within each business to make sure that existing insurance policies reflect and match the respective business risk profile.

Ten Year Statistics

At year end *(HK$million)*	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Ordinary shareholders' funds[#]	37,116	39,243	46,709	59,675	49,768	60,391	68,346	75,007	78,725	**87,925**
per share *(HK$)*	16.93	17.90	21.27	26.98	13.65	16.55	18.73	20.55	21.57	**24.09**
Debt										
Debt	14,580	21,218	18,293	28,654	57,234	65,675	83,683	98,707	116,629	**120,730**
Bank deposits	2,417	2,579	3,679	8,045	18,296	21,553	24,558	30,930	32,821	**35,070**
Net debt/total capital	25%	32%	24%	26%	44%	42%	46%	46%	50%	**46%**
Interest cover*	15x	11x	20x	50x	(13)x	17x	21x	16x	9x	**6x**
Capital employed	51,696	60,461	65,002	88,329	107,002	126,066	152,029	179,665	201,307	**222,493**
Property, plant and equipment	6,066	8,871	9,491	12,154	23,865	40,032	63,334	85,132	100,445	**109,480**
Investment properties	8,115	8,645	9,604	10,895	11,230	11,164	13,579	15,270	16,359	**14,932**
Properties under development	1,672	1,849	2,712	4,288	9,848	11,237	12,161	9,817	9,856	**11,660**
Leasehold land	1,596	1,618	1,712	1,641	1,483	1,581	1,597	2,277	2,524	**2,633**
Joint ventures	7,852	10,413	14,922	17,446	21,140	22,097	21,681	21,278	20,443	**22,647**
Associated companies	21,439	23,239	16,459	17,812	14,924	5,797	6,345	7,222	7,499	**7,668**
Other financial assets	1,121	929	2,819	7,502	1,063	2,198	448	345	351	**294**
Intangible assets	1,736	1,746	3,536	4,557	8,934	10,868	12,944	16,202	17,253	**18,802**
Stockmarket capitalisation	48,444	47,038	58,952	96,338	30,556	76,258	73,704	51,092	42,188	**43,282**
Number of shareholders	11,554	11,262	10,433	8,571	8,712	8,565	8,490	8,379	8,380	**8,291**
Staff	15,915	19,174	23,822	24,319	28,654	30,329	29,886	33,295	34,781	**36,512**

For the year *(HK$million)*	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Net profit/(loss) after tax										
Net profit/(loss) after tax	3,551	3,934	8,384	10,797	(12,734)	5,967	8,893	9,233	6,954	**7,588**
per share *(HK$)*	1.62	1.79	3.77	4.91	(5.70)	1.63	2.44	2.53	1.91	**2.08**
Attributable profit/(loss) by major business										
Special Steel	438	808	1,333	2,242	1,617	1,415	2,102	1,994	211	**1,762**
Iron Ore	–	–	–	–	(123)	376	(346)	(423)	(781)	**(1,619)**
Property										
Mainland China	125	154	308	197	523	524	583	2,324	911	**1,045**
Hong Kong and others	434	952	1,727	534	490	397	377	708	734	**483**
Energy	439	368	268	494	(1,090)[^]	886	1,959	1,588	1,136	**1,822**
Roads and tunnels	276	362	411	412	443	437	502	518	561	**611**
Dah Chong Hong	284	233	297	417	320	402	775	617	536	**492**
CITIC Telecom	120	122	191	157	181	196	248	299	299	**2,498**
Other investments	1,671	992	3,520	1,469	483	1,892	1,987	168	2,699	**318**
Net gain from listing of subsidiary companies	–	–	–	4,552[†]	–	–	–	–	–	**–**
Fair value change of investment properties	198	700	1,189	1,171	(80)	137	1,298	1,891	1,547	**1,652**
EBITDA	5,666	6,412	11,882	15,160	(9,950)	10,765	15,744	18,398	15,059	**18,104**
Dividend per share *(HK$)*										
Regular	1.10	1.10	1.10	1.20	0.30	0.40	0.45	0.45	0.45	**0.35**
Special	–	–	0.60	0.20	–	–	–	–	–	**–**
Cover	1.5x	1.6x	3.4x	4.1x	(19.0)x	4.1x	5.4x	5.6x	4.2x	**5.9x**

Note:

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

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

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

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

\# Ordinary shareholders' funds not including perpetual capital securities.

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

^ The figures included HK$449 million impairment loss.

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