

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CITIC Pacific Limited, you should at once hand this circular to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CITIC PACIFIC

CITIC Pacific Limited
中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

(1) CONNECTED AND DISCLOSEABLE TRANSACTIONS

- (i) SALE OF DRAGONAIR SHARES**
- (ii) ACQUISITION OF CATHAY SHARES**

(2) DISCLOSEABLE TRANSACTION
SALE OF CATHAY SHARES

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

COMMERZBANK 

Commerzbank AG Hong Kong Branch

A notice convening an extraordinary general meeting of CITIC Pacific Limited to be held on 21 August 2006 at 4:00 p.m. at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong is set out on pages 46 to 47 of this circular. Whether or not you are able to attend the meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

30 June 2006

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	20
Letter from the Independent Financial Adviser	21
Appendix – General Information	35
Notice of Extraordinary General Meeting	46

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Air China”	Air China Limited, a company incorporated in the PRC and whose H shares are listed on the Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue
“Air China H Shares”	H shares of RMB1.00 each in the capital of Air China
“associate(s)” or “connected person(s)”	have the meanings ascribed to them respectively under the Listing Rules
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong
“Cathay”	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange
“Cathay Board”	the board of directors of Cathay
“Cathay Shares”	ordinary shares of HK\$0.20 each in the capital of Cathay
“Cathay Share Capital”	the issued share capital of Cathay from time to time
“CITIC Pacific” or “Company”	CITIC Pacific Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange
“CITIC Pacific Board” or “Board”	the board of CITIC Pacific Directors
“CITIC Pacific Directors” or “Directors”	the directors of CITIC Pacific
“CNAC Limited”	China National Aviation Company Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange

DEFINITIONS

“Completion”	completion of the offer for Dragonair Shares, sale and purchase of Cathay Shares and subscription of Air China H Shares as referred to in this circular under the headings “Description of the Transaction – Sale of Dragonair Shares and Issue of new Cathay Shares”, “Description of the Transaction – Sale of Cathay Shares” and “Description of the Transaction – Acquisition of Additional Air China H Shares” respectively
“Dragonair”	Hong Kong Dragon Airlines Limited, a company incorporated in Hong Kong
“Dragonair Minority Shareholders”	each holder of Dragonair Shares other than SPAC, CITIC Pacific, CNAC Limited or Cathay, or any person who holds Dragonair Shares on their behalf, holding in aggregate 13,552,750 Dragonair Shares
“Dragonair Shares”	ordinary shares of HK\$1.00 each in the capital of Dragonair
“EGM”	the extraordinary general meeting of CITIC Pacific to be held to seek approval of shareholders of CITIC Pacific referred to in this circular
“Exchange”	The Stock Exchange of Hong Kong Limited
“Executive”	the Executive Director of the Corporate Finance Division of the SFC
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board, consisting of Hamilton Ho Hau Hay, Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong, all being independent non-executive directors of the Company

DEFINITIONS

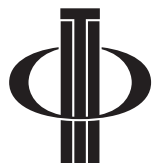
“Independent Financial Adviser” or “Commerzbank”	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and appointed as the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company in the connected transactions relating to the Transaction
“Joint Announcement”	the joint announcement issued by Air China, Cathay, CNAC Limited, CITIC Pacific and SPAC on 8 June 2006 regarding, <i>inter alia</i> , the Restructuring Agreement and the Transaction
“Last Trading Date”	2 June 2006, being the last trading date prior to the suspension of trading of Cathay, Air China, CNAC Limited, CITIC Pacific and SPAC on 5 June 2006
“Latest Practicable Date”	23 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	Model Code for Securities Transactions by Directors of Listed Companies, being Appendix 10 of the Listing Rules
“Operating Agreement”	the operating agreement dated 8 June 2006 between Air China and Cathay pursuant to which Air China and Cathay have agreed to co-operate in various operational areas
“Placing”	the sale by SPAC and CITIC Pacific of Cathay Shares on or before Completion as referred to in this circular under the heading “Description of the Transaction – Placing”
“PRC”	the People’s Republic of China
“Restructuring Agreement”	the restructuring agreement dated 8 June 2006 between SPAC, CITIC Pacific, CNAC Limited, Air China and Cathay in relation to the Transaction

DEFINITIONS

“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders Agreement”	the shareholders agreement dated 8 June 2006 between SPAC, CITIC Pacific, CNAC Limited and Air China regulating their relationship as shareholders of Cathay following implementation of the Transaction
“Share(s)”	share(s) of HK\$0.40 each in the share capital of the Company
“SPAC”	Swire Pacific Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Transaction”	the restructuring of the shareholdings in Dragonair and Cathay, in each case in accordance with the terms of the Restructuring Agreement, but does not include the Placing and the acquisition by Cathay of additional Air China H Shares

(For the purpose of illustration only, the exchange rates of RMB1 to HK\$0.96 and of US\$1 to HK\$7.8 are adopted.)

LETTER FROM THE BOARD



CITIC PACIFIC

CITIC Pacific Limited
中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

Directors:

Larry Yung Chi Kin (*Chairman*)
Henry Fan Hung Ling (*Managing Director*)
Peter Lee Chung Hing (*Deputy Managing Director*)
Norman Yuen Kee Tong (*Deputy Managing Director*)
Vernon Francis Moore (*Executive Director*)
Li Shilin (*Executive Director*)
Carl Yung Ming Jie (*Executive Director*)
Liu Jifu (*Executive Director*)
Leslie Chang Li Hsien (*Executive Director*)
Chau Chi Yin (*Executive Director*)
Milton Law Ming To (*Executive Director*)
Wang Ande (*Executive Director*)
Willie Chang*
Hamilton Ho Hau Hay**
Alexander Reid Hamilton**
Hansen Loh Chung Hon**
Norman Ho Hau Chong**
André Desmarais*
Peter Kruyt#

Registered Office:

32nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

* *Non-executive Director*

** *Independent non-executive Director*

Alternate Director to André Desmarais

30 June 2006

To the shareholders of the Company,

Dear Sir or Madam,

(1) CONNECTED AND DISCLOSEABLE TRANSACTIONS

(i) SALE OF DRAGONAIR SHARES

(ii) ACQUISITION OF CATHAY SHARES

(2) DISCLOSEABLE TRANSACTION

SALE OF CATHAY SHARES

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Joint Announcement dated 8 June 2006 regarding the Restructuring Agreement entered into by the Company with Air China, CNAC Limited, Cathay and SPAC on 8 June 2006 and the Transaction.

The purposes of this circular are:

- (a) to provide you with further information relating to the Restructuring Agreement and the Transaction and other information required by the Listing Rules;
- (b) to set out the letter of advice from the Independent Financial Adviser (i.e. Commerzbank) to the Independent Board Committee and the independent shareholders of the Company and the recommendation and opinion of the Independent Board Committee as advised by the Independent Financial Adviser in relation to the connected transactions relating to the Transaction; and
- (c) to give you notice of the EGM to consider and, if thought fit, to approve the Restructuring Agreement and the Transaction.

DESCRIPTION OF THE TRANSACTION

On 8 June 2006, Air China, Cathay, CNAC Limited, CITIC Pacific and SPAC entered into the Restructuring Agreement in relation to the restructuring of the parties' shareholdings in Cathay and Dragonair. If the Restructuring Agreement becomes unconditional, (1) Dragonair will become a wholly-owned subsidiary of Cathay, (2) Air China will become a substantial shareholder of Cathay and (3) Cathay will increase its shareholding in Air China.

The principal shareholdings in Cathay and Dragonair as at 8 June 2006 are as follows:

	Cathay	
	Number of shares	% of shares
SPAC	1,566,233,246	46.30%
CITIC Pacific	859,353,462	25.40%
Public	957,197,640	28.30%
Total	<u>3,382,784,348</u>	<u>100.00%</u>

LETTER FROM THE BOARD

	Dragonair	
	Number of shares	% of shares
SPAC	38,551,808	7.71%
Cathay	88,965,707	17.79%
CITIC Pacific	142,482,484	28.50%
CNAC Limited	216,447,251	43.29%
Dragonair Minority Shareholders	13,552,750	2.71%
	<u>500,000,000</u>	<u>100.00%</u>
Total	500,000,000	100.00%

Sale of Dragonair Shares and Issue of new Cathay Shares

Cathay has offered to acquire all the Dragonair Shares which it does not already own for a total consideration of HK\$8.22 billion (based on a valuation of Dragonair of HK\$10.00 billion or HK\$20.00 per Dragonair Share) to be satisfied by a combination of the issue of 548,045,724 new Cathay Shares at an issue price of HK\$13.50 per share and HK\$0.82 billion in cash.

Each of SPAC, CITIC Pacific and CNAC Limited has accepted the offer from Cathay to acquire their Dragonair Shares immediately following the entry into the Restructuring Agreement. Since then, all other shareholders in Dragonair to whom the offer was made have accepted the offer.

The valuation of Dragonair was determined following arm's length negotiation between the parties, based on the underlying value of Dragonair, as reflected in the market price of CNAC Limited, and having regard to the trading multiples of comparable airlines, in addition to considering the benefits to Cathay of full ownership of Dragonair and potential synergies arising from a combination of the businesses. The issue price of the new Cathay Shares was determined following arm's length negotiation between the parties, in particular with reference to the current and recent average trading price of Cathay Shares.

Sale of Cathay Shares

SPAC and CITIC Pacific have agreed to sell to Air China 40,128,292 and 359,170,636 Cathay Shares respectively. The consideration payable by Air China for such Cathay Shares is HK\$13.50 per share and was determined by the parties after arm's length negotiation, in particular with reference to the current and recent average trading price of Cathay Shares.

LETTER FROM THE BOARD

Placing

SPAC and CITIC Pacific have agreed to sell on or before Completion, such number of Cathay Shares as will result in the percentage of Cathay Shares held by them on Completion being 40% and 17.50% respectively and the percentage of Cathay Shares in public hands being not less than 25%.

Acquisition of Additional Air China H Shares

In December 2004, Cathay acquired a 10% interest in the share capital of Air China by subscribing for Air China H Shares when the Air China H Shares were listed on the Exchange. Cathay has agreed to subscribe in cash for an additional 1,179,151,364 Air China H Shares at an aggregate subscription price of HK\$4.07 billion, representing HK\$3.45 per Air China H Share. Immediately following (and assuming no further issue of shares by Air China before) completion of this subscription, Cathay will have a 20.00% interest in the enlarged issued share capital of Air China.

CITIC Pacific understands that Air China is required under the Listing Rules to maintain 24.20% of its issued share capital in public hands and that completion of Cathay's subscription would result in approximately 21.51% of Air China's enlarged issued share capital to be in public hands. In the Joint Announcement, it was indicated that Air China was seeking a waiver from this requirement in order to accommodate the subscription by Cathay for Air China H Shares.

It is understood that the Exchange has declined to grant such waiver, and that Air China is considering issuing A shares or further Air China H Shares (before completion of Cathay's subscription) with a view to Cathay's subscription not causing Air China to be in breach of the requirement that it maintains 24.20% of its issued share capital in public hands. CITIC Pacific understands that if this does not happen, Cathay and Air China may agree that Cathay, instead of subscribing in cash for 1,179,151,364 Air China H Shares, will subscribe (in the same amount of cash) for securities issued by Air China which are convertible into 1,179,151,364 Air China H Shares once such conversion would not cause Air China to be in breach of the requirement to maintain 24.20% of its issued share capital in public hands.

LETTER FROM THE BOARD

Immediately following completion (on the basis that Cathay has acquired all the Dragonair Shares held by the Dragonair Minority Shareholders), Cathay will own all the shares in Dragonair and the shareholdings in Cathay are expected to be as follows:

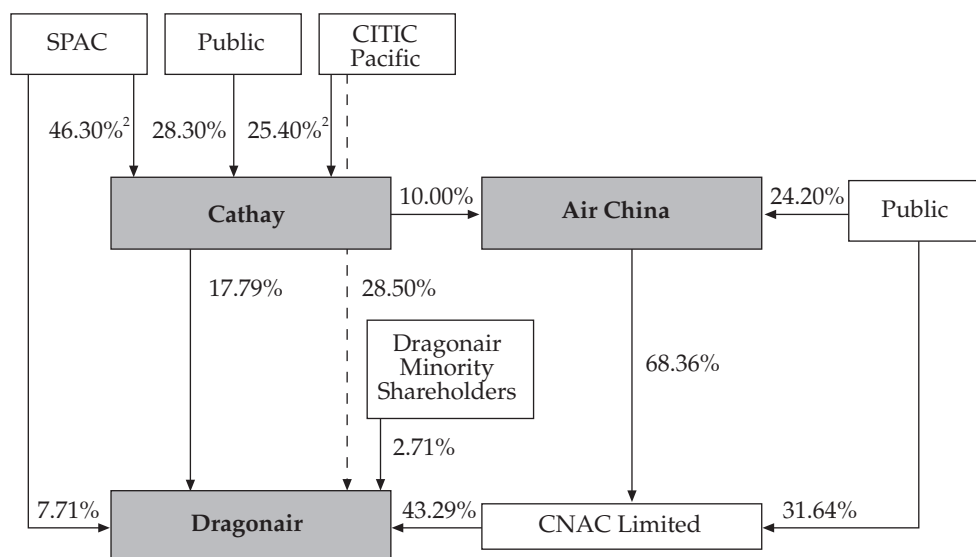
	Cathay	
	Number of shares	% of shares
SPAC	1,572,332,028	40.00%
CITIC Pacific	687,895,263	17.50%
CNAC Limited	288,596,335	7.34%
Air China	399,298,928	10.16%
Public	982,707,518	25.00%
	3,930,830,072	100.00%
Total		

Special Dividend

Under the Restructuring Agreement, SPAC and CITIC Pacific have agreed to recommend to the Cathay Board that as soon as practicable following Completion and in any event, no later than 60 days following Completion, Cathay will pay a special interim dividend of HK\$0.32 per Cathay Share.

The shareholdings in Dragonair, Cathay and Air China (1) immediately prior to Completion and (2) immediately following Completion are expected to be as follows:

Shareholding structures of Cathay, Dragonair and Air China immediately prior to Completion¹

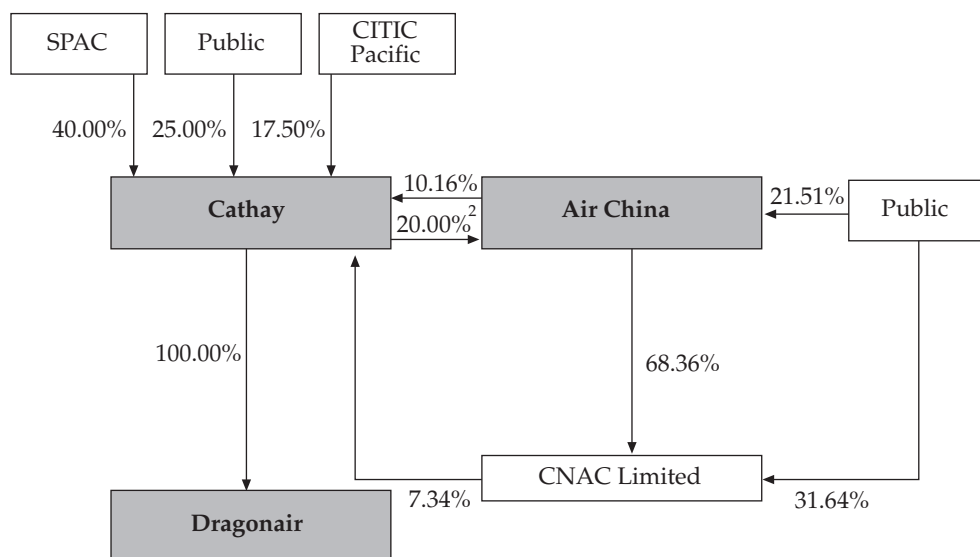


¹ Assuming Cathay ceasing to be a shareholder of CNAC Limited by way of disposal as indicated in the Joint Announcement.

² Assuming the sales by SPAC and CITIC Pacific of Cathay Shares referred to under "Description of the Transaction – Placing" above have not taken place.

LETTER FROM THE BOARD

Shareholding structures of Cathay, Dragonair and Air China immediately following Completion¹



¹ Assuming Cathay ceasing to be a shareholder of CNAC Limited by way of disposal as indicated in the Joint Announcement.

² Subject to adjustments/amendments as contemplated under “Description of the Transaction – Acquisition of Additional Air China H Shares” above.

SHAREHOLDERS AGREEMENT

SPAC, CNAC Limited, CITIC Pacific and Air China have entered into a shareholders agreement for the purpose of regulating their relationship with each other as shareholders of Cathay and certain aspects of the affairs of, and their shareholdings in, Cathay, following completion of the Transaction.

Under the Shareholders Agreement, the parties have agreed:

- (i) that the Cathay Board will, subject to adjustment in certain circumstances, consist of four non-executive directors nominated by SPAC, two non-executive directors nominated by each of CITIC Pacific and Air China, five executive directors nominated by SPAC and four independent non-executive directors;
- (ii) to support, including by exercise (to the extent permitted by law and the rules of the Exchange) of their respective voting rights as shareholders of Cathay, the continuation and periodic renewal of the existing management arrangements for Cathay and its subsidiaries, including the services agreement between John Swire & Sons (H.K.) Limited and Cathay, and their extension to Dragonair and its subsidiaries substantially on their current terms; and
- (iii) to support the implementation of the Operating Agreement and by exercise (to the extent permitted by law and the rules of the Exchange) of their respective voting rights as shareholders of Cathay, its continuation and any periodic renewal of it.

LETTER FROM THE BOARD

In addition, the parties have agreed to the following in relation to their shareholdings in Cathay:

- (i) SPAC has agreed that the beneficial interest of SPAC and its group in the Cathay Share Capital will not exceed 44.90% (49.90% if (i) CITIC Pacific and its group or (ii) Air China and its group increase their respective combined aggregate beneficial interest in the Cathay Share Capital to above 22.45%), except with the prior written consent of the other parties.
- (ii) each of (i) CITIC Pacific and (ii) Air China and CNAC Limited have agreed that the combined aggregate beneficial interest of respectively CITIC Pacific and its group and Air China and its group in the Cathay Share Capital will not exceed 29.99%, except with the prior written consent of the other parties; and
- (iii) CITIC Pacific, Air China and CNAC Limited have agreed that, except with the prior written consent of SPAC, their combined beneficial interest in the Cathay Share Capital (including those of their groups) will not exceed 40% or the percentage beneficial interest of SPAC and its group in the Cathay Share Capital (whichever is the lower).

(The undertakings by CITIC Pacific, Air China and CNAC Limited described in paragraphs (ii) and (iii) above will cease to apply if SPAC (and/or its group companies) disposes of Cathay Shares and as a result SPAC (together with its group) is beneficially interested in less than 30% of the Cathay Share Capital and Air China (together with its group) or CITIC Pacific (together with its group) is beneficially interested (whether or not as a result of such disposal by SPAC and/or its group companies)) in more Cathay Shares than SPAC (together with its group). The undertaking by CITIC Pacific, Air China and CNAC Limited described in paragraph (iii) above will also cease to apply if SPAC (together with its group) is beneficially interested in 44.50% or more of the Cathay Share Capital. The undertakings by SPAC, CITIC Pacific, Air China and CNAC Limited described above will cease to apply in favour of any shareholder which is a party to the Shareholders Agreement whose beneficial interest in the Cathay Share Capital (including that of its group) is less than 15%.)

The parties to the Shareholders Agreement have also agreed that so long as a shareholder of Cathay is beneficially interested (together with its group) (directly or indirectly) in 15% or more of the Cathay Share Capital, it will not make a takeover offer for Cathay or accept a takeover offer from a third party, unless that offer has been recommended by the Cathay Board.

Operating Agreement

Air China and Cathay have also jointly announced on 8 June 2006 that they have entered into the Operating Agreement.

LETTER FROM THE BOARD

CONDITIONS

Completion of the Transaction, (and the coming into effect of the Shareholders Agreement), is conditional upon satisfaction of the following conditions:–

- (A) entering into the Shareholders Agreement and implementation of the Transaction not giving rise to an obligation on any of SPAC, CITIC Pacific, Air China or CNAC Limited to make a mandatory offer to acquire all the Cathay Shares under the Takeovers Code; in this connection the Executive has confirmed that, as SPAC and CITIC Pacific are concert parties in relation to the voting rights of Cathay and together hold more than 50% of the Cathay Shares, no such obligation will arise;
- (B) Air China having obtained all necessary approvals of relevant regulatory bodies in the PRC and any other regulatory approvals;
- (C) the Listing Committee of the Exchange having granted listing of and permission to deal in:
 - (i) the new Cathay Shares to be issued to SPAC, CITIC Pacific, CNAC Limited and the Dragonair Minority Shareholders described above; and
 - (ii) the new Air China H Shares to be issued to Cathay described above;
- (D) the independent shareholders of CITIC Pacific in general meeting having passed resolutions approving the sale by CITIC Pacific of its Dragonair Shares to Cathay and the acquisition of the new Cathay Shares to be issued by Cathay to CITIC Pacific as consideration for the Dragonair Shares sold by CITIC Pacific to Cathay, in each case as a connected transaction;
- (E) the independent shareholders of CNAC Limited in general meeting having passed resolutions to approve the sale of CNAC Limited's Dragonair Shares to Cathay as a very substantial disposal and the acquisition of Cathay Shares by CNAC Limited as a very substantial acquisition;
- (F) the independent shareholders of Cathay in general meeting having passed resolution(s) to approve the acquisition of Dragonair Shares by Cathay from SPAC and CITIC Pacific and the allotment and issue of new Cathay Shares by Cathay to SPAC and CITIC Pacific, in each case as a connected transaction and the shareholders of Cathay in general meeting having passed resolution(s) to approve the increase of the authorized share capital of Cathay and the allotment and issue of new Cathay Shares to SPAC and CITIC Pacific pursuant to Rule 13.36(1)(a) of the Listing Rules;

LETTER FROM THE BOARD

- (G) the independent shareholders of Air China in general meeting having passed resolutions approving the sale of Dragonair Shares by CNAC Limited to Cathay, the acquisition of Cathay Shares by CNAC Limited, the acquisition by Air China of Cathay Shares from CITIC Pacific and the issue of Air China H Shares to Cathay, in each case as a connected transaction, the shareholders of Air China in general meeting having passed a resolution approving the acquisition of Cathay Shares by CNAC Limited, the acquisition by Air China of Cathay Shares from CITIC Pacific and SPAC as a major transaction (when aggregated) and the shareholders of Air China in general meeting having passed a special resolution and the shareholders of Air China in separate class meetings having passed special resolutions, in each case approving the issue of additional Air China H Shares to Cathay in accordance with Air China's articles of association and applicable Listing Rules;
- (H) Cathay being satisfied that it is entitled under Section 168 of the Companies Ordinance to acquire compulsorily all the Dragonair Shares held by each person who does not accept its offer for all the Dragonair Shares; in this connection, acceptances of the offer have been received from all shareholders in Dragonair to whom the offer was made;
- (I) Cathay being satisfied as to its due diligence investigations of Dragonair and Air China; and
- (J) Air China being satisfied as to its due diligence investigations of Cathay.

Completion of the Transaction is expected to take place on the fifth Business Day following satisfaction of these conditions.

REASONS FOR THE TRANSACTION

In recent years the Chinese aviation industry has experienced rapid growth and development: the creation of three Chinese airline groups, the continuing opening up of the market to international airlines and the increasing internationalisation of the Chinese airlines' route networks. In the context of these market developments, the shareholding structure of Dragonair has proved to be not efficient with the result that Dragonair is unable to take full advantage of potential economies of scale and the management of its business is not optimised. The rationalisation of the shareholding structure of Dragonair will benefit all the companies that are current shareholders of Dragonair and Dragonair itself. In addition, with further investments in each other, Air China and Cathay will continue to work together in exploring ways to improve their service offering, network and connectivity and developing the Chinese aviation industry.

The international network of Cathay and the principally Hong Kong – Mainland China network of Dragonair are highly complementary and together will improve Cathay's network reach, connectivity to China and between China and the rest of the world. In addition the cooperation with Air China will further the development of Beijing Capital International Airport and Hong Kong International Airport as gateways to and hubs for Mainland China and thus the Transaction together with the acquisition of additional Air China H Shares will be to the benefit of the Hong Kong and Greater China aviation industry.

LETTER FROM THE BOARD

The Transaction provides CITIC Pacific an attractive exit price for its shares in Dragonair. CITIC Pacific will sell shares in Cathay at above the prevailing market price at the date of the Restructuring Agreement and will retain a 17.50% stake in Cathay to share in the benefits of the combination of Cathay and Dragonair and operational cooperation with Air China as outlined above. CITIC Pacific intends to hold the shares of Cathay as a long term investment. The CITIC Pacific Directors estimate that, with reference to the projected carrying value of the investment in Cathay and Dragonair but subject to the exact completion date, an estimated profit of approximately HK\$2 billion will arise from the Transaction. The Directors expect that the sale of Dragonair Shares and acquisition of Cathay Shares would not have adverse effect on the assets and liabilities of CITIC Pacific.

The Transaction allows CITIC Pacific to realise cash of approximately HK\$5 billion (excluding the special dividend intended to be distributed following Completion), to be used for pursuing development of the core businesses which CITIC Pacific actively manages to leverage off its expertise.

OTHER RELEVANT INFORMATION IN RELATION TO THE TRANSACTION

Sale of Dragonair Shares to Cathay

The number of Dragonair Shares to be acquired by Cathay from each of SPAC, CITIC Pacific, CNAC Limited and the Dragonair Minority Shareholders, the number of new Cathay Shares to be issued to them as consideration and the amount of cash consideration to be paid to them are as follows:

	Number of Dragonair Shares to be acquired	Total Consideration (HK\$)	Number of new Cathay Shares to be issued (at HK\$13.50 per share)	Number of new Cathay Shares to be issued as a percentage of issued share capital of Cathay immediately prior to Completion	Number of new Cathay Shares to be issued as a percentage of enlarged issued share capital of Cathay following Completion	Cash Consideration (HK\$)
SPAC	38,551,808	771,036,160	51,402,411	1.52%	1.31%	77,103,611.50
CITIC Pacific	142,482,484	2,849,649,680	189,976,645	5.62%	4.83%	284,964,972.50
CNAC Limited	216,447,251	4,328,945,020	288,596,335	8.53%	7.34%	432,894,497.50
Dragonair Minority Shareholders	13,552,750	271,055,000	18,070,333	0.53%	0.46%	27,105,504.50
Total	411,034,293	8,220,685,860	548,045,724	16.20%	13.94%	822,068,586

LETTER FROM THE BOARD

Acquisition of Cathay Shares by Air China

The number of Cathay Shares to be acquired by Air China from SPAC and CITIC Pacific as described above under “Description of the Transaction”, is as follows:

	Number of Cathay Shares to be acquired by Air China	Number of Cathay Shares to be acquired as a percentage of issued share capital of Cathay immediately prior to Completion	Number of Cathay Shares to be acquired as a percentage of enlarged issued share capital of Cathay following Completion	Consideration (HK\$)
SPAC	40,128,292	1.19%	1.02%	541,731,942
CITIC Pacific	<u>359,170,636</u>	<u>10.62%</u>	<u>9.14%</u>	<u>4,848,803,586</u>
Total	<u><u>399,298,928</u></u>	<u><u>11.80%</u></u>	<u><u>10.16%</u></u>	<u><u>5,390,535,528</u></u>

New Cathay Shares

The issue price of the new Cathay Shares to be issued under the Transaction of HK\$13.50 per share was determined by the parties after arm’s length negotiation, in particular with reference to the current and recent average trading price of Cathay Shares. Such issue price represents a 4.2% premium to the closing price of the Cathay Shares of HK\$12.95 on the Last Trading Date prior to suspension of trading of Cathay Shares on 5 June 2006.

The new Cathay Shares will rank pari passu in all respects with all other Cathay Shares in issue on the date of allotment and issue of such shares.

The total number of new Cathay Shares to be issued as consideration for Dragonair Shares under the Transaction is 548,045,724, which represents approximately 16.20% of the existing Cathay Share Capital and approximately 13.94% of the Cathay Share Capital as enlarged by the issue of those shares (on the basis that new Cathay Shares will be issued to all Dragonair Minority Shareholders).

LETTER FROM THE BOARD

FINANCIAL INFORMATION ON DRAGONAIR AND CATHAY

Based on the audited consolidated financial statements of Dragonair for the year ended 31st December 2005, Dragonair had a net book asset value of HK\$3,155 million. Based on the audited consolidated financial statements of Dragonair for the years ended 31st December 2004 and 2005, the net profits of Dragonair before taxation and extraordinary items for those years were HK\$765 million and HK\$316 million respectively, and the net profits of Dragonair after taxation and extraordinary items for those years were HK\$637 million and HK\$300 million respectively.

Based on the audited consolidated financial statements of Cathay for the year ended 31st December 2005, Cathay had a net book asset value (excluding minority interests) of HK\$34,968 million. Based on the audited consolidated financial statements of Cathay for the years ended 31st December 2004 and 2005, the net profits of Cathay before taxation and extraordinary items for those years were HK\$4,962 million and HK\$3,968 million respectively, and the net profits of Cathay after taxation and extraordinary items for those years were HK\$4,417 million and HK\$3,298 million respectively.

INFORMATION ON THE PRINCIPAL BUSINESSES OF CITIC PACIFIC, CATHAY, DRAGONAIR, SPAC, CNAC LIMITED AND AIR CHINA

The principal business activity of CITIC Pacific is investment holding.

The principal business activities of Cathay and its subsidiary and associated companies are the operation of scheduled passenger and cargo airline services.

The principal business activities of Dragonair is the operation of scheduled passenger airline services, principally to and from Hong Kong.

The principal business activity of SPAC is investment holding.

The principal business activity of CNAC Limited is investment holding, including of shares in Dragonair as well as the other businesses mentioned below. Following the disposal of Dragonair, the remaining core businesses of CNAC Limited will include air transportation services (Air Macau), airline catering services (Beijing Air Catering Co. Ltd., Southwest Air Catering Co. Ltd., and LSG Lufthansa Service Hong Kong Ltd.), airport ground handling services (Jardine Airport Service Ltd. and Menzies Macau Airport Services Ltd.) and logistics services (Tradeport Hong Kong Ltd.).

The principal business activity of Air China is the operation of passenger and air cargo services and airline-related services.

LETTER FROM THE BOARD

REGULATORY AND LISTING RULES IMPLICATIONS

Shareholder Approval

As at the Latest Practicable Date, SPAC beneficially holds 46.30% of the shares in Cathay. Accordingly, Cathay is an associate of SPAC. SPAC is a substantial shareholder of a subsidiary of CITIC Pacific. Cathay is therefore a connected person of CITIC Pacific as an associate of a substantial shareholder of a subsidiary of CITIC Pacific (SPAC). As such, the sale by CITIC Pacific of Dragonair Shares to Cathay constitutes a connected transaction for CITIC Pacific for the purposes of the Listing Rules. As the sale falls outside the de minimis thresholds in Rule 14A.31(2) and 14A.32 of the Listing Rules, it is subject to the approval of the independent shareholders of CITIC Pacific.

As mentioned above, Cathay is a connected person of CITIC Pacific. Accordingly, the acquisition of new Cathay Shares by CITIC Pacific as consideration for the Dragonair Shares constitutes a connected transaction for CITIC Pacific for the purposes of the Listing Rules. As such acquisition falls outside the de minimis thresholds in Rule 14A.31(2) and 14A.32 of the Listing Rules, it is subject to the approval of the independent shareholders of CITIC Pacific.

The Independent Board Committee has been constituted to advise the independent shareholders of the Company in respect of the resolution(s) to approve the Restructuring Agreement and the Transaction. Commerzbank has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the independent shareholders of the Company on the connected transactions in the Restructuring Agreement and the Transaction.

CITIC Pacific will convene the EGM to consider and, if thought fit, to approve the Restructuring Agreement and the Transaction.

Other regulatory matters

As the revenue and consideration ratios set out in Rule 14.07 of the Listing Rules in respect of the sale by CITIC Pacific of Dragonair Shares to Cathay are more than 5% but less than 25%, such sale constitutes a discloseable transaction for CITIC Pacific for the purposes of the Listing Rules.

Based on the acquisition by CITIC Pacific of new Cathay Shares representing 4.83% of Cathay's enlarged issued share capital upon completion of the Transaction (on the basis that new Cathay Shares will be issued to all Dragonair Minority Shareholders whether because they accept Cathay's offer or through compulsory acquisition), the assets, revenue and consideration ratios set out in Rule 14.07 of the Listing Rules in respect of the acquisition by CITIC Pacific of new Cathay Shares are above 5% but less than 25%. Accordingly, such acquisition constitutes a discloseable transaction for CITIC Pacific for the purposes of the Listing Rules.

LETTER FROM THE BOARD

Based on 359,170,636 Cathay Shares to be sold by CITIC Pacific to Air China, each of the percentage ratios set out in Rule 14.07 of the Listing Rules is more than 5% but less than 25%. As such, the sale by CITIC Pacific of Cathay Shares to Air China constitutes a discloseable transaction for CITIC Pacific for the purposes of the Listing Rules.

Miscellaneous

All references in this circular to number of Cathay Shares and percentage holding in Cathay Shares following 8 June 2006 assume there will be no further issue of Cathay Shares pursuant to the exercise of share options granted under Cathay's share option scheme adopted on 10 March 1999 following 8 June 2006. All references in this circular to number of shares in Air China and percentage holding in shares in Air China following 8 June 2006 assume there will be no issue of A shares by Air China.

EGM

There is set out on pages 46 to 47 a notice convening the EGM to be held on 21 August 2006 at 4:00 p.m. at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong, at which a resolution will be proposed to the independent shareholders of the Company to approve the Restructuring Agreement and the Transaction. The voting at the EGM will be taken by poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

POLL PROCEDURE

Pursuant to the articles of association of CITIC Pacific, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:-

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

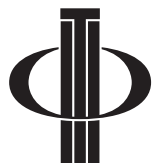
RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 20 of this circular which contains its recommendation to the independent shareholders of the Company concerning the Restructuring Agreement and the Transaction; and (ii) the letter from Commerzbank set out on pages 21 to 34 of this circular which contains their advice to the Independent Board Committee and the independent shareholders of the Company in relation to the Restructuring Agreement and the Transaction and the principal factors and reasons considered by them in formulating their advice.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular and the notice of the EGM set out in this circular.

By order of the Board
CITIC Pacific Limited
Larry Yung Chi Kin
Chairman



CITIC PACIFIC

CITIC Pacific Limited
中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

30 June 2006

To the Independent Shareholders

Dear Sir or Madam,

RESTRUCTURING AGREEMENT AND THE TRANSACTION

We refer to the circular dated 30 June 2006 of the Company (the "Circular") of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Restructuring Agreement and the Transaction and to advise the independent shareholders of the Company whether, in our opinion, such terms are fair and reasonable and in the interests of the Company and the shareholders as a whole. Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent shareholders of the Company in respect of the terms of the Restructuring Agreement and the Transaction.

We wish to draw your attention to the letter from the Board set out on pages 5 to 19 of the Circular which contains, inter alia, information on the Restructuring Agreement and the Transaction, and the letter of advice from Commerzbank set out on pages 21 to 34 of the Circular which contains its advice in respect of the terms of the Restructuring Agreement and the Transaction.

Having taken into account the advice of Commerzbank, we consider that the terms of the Restructuring Agreement and the Transaction are fair and reasonable and are in the interests of the Company and the shareholders as a whole. Accordingly, we recommend the independent shareholders of the Company to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
Independent Board Committee
Hamilton Ho Hau Hay
Alexander Reid Hamilton
Hansen Loh Chung Hon
Norman Ho Hau Chong
Independent Non-Executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from Commerzbank setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Transaction for inclusion in this Circular.

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COMMERZBANK 

(Public Limited Company Incorporated in the Federal Republic of Germany)

HONG KONG BRANCH

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HONG KONG

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30 June 2006

To the Independent Board Committee and the Independent Shareholders

Dear Sirs

CONNECTED AND DISCLOSEABLE TRANSACTIONS **(i) SALE OF DRAGONAIR SHARES** **(ii) ACQUISITION OF CATHAY SHARES**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the sale by CITIC Pacific of the Dragonair Shares to Cathay and the acquisition of new Cathay Shares, the definitions of which, amongst other things, are set out in the circular dated 30 June 2006 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular will have the same meanings when used in this letter unless the context requires otherwise.

On 8 June 2006, Air China, Cathay, CNAC Limited, CITIC Pacific and SPAC (collectively referred to as the “**Parties**”) had entered into a conditional agreement in relation to (i) the restructuring of the Parties’ shareholdings in Cathay and Dragonair and (ii) the acquisition by Cathay of additional shares in Air China. If the agreement becomes unconditional, (i) Dragonair will become a wholly-owned subsidiary of Cathay, (ii) Air China will become a substantial shareholder of Cathay and (iii) Cathay will increase its shareholding in Air China.

Cathay has offered to acquire all the Dragonair Shares which it does not already own for a total consideration of approximately HK\$8,220 million (based on a valuation of Dragonair of HK\$10,000 million or HK\$20.00 per Dragonair Share) to be satisfied by a combination of the issue of 548,045,724 new Cathay Shares at an issue price of HK\$13.50 per Cathay Share and approximately HK\$822 million in cash and each of SPAC, CNAC Limited and CITIC Pacific has agreed to accept the offer from Cathay to acquire their Dragonair Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the date of the Joint Announcement, SPAC beneficially holds 46.30% of the shares in Cathay. Accordingly, Cathay is an associate of SPAC. SPAC is a substantial shareholder of a subsidiary of CITIC Pacific. Cathay is therefore a connected person of CITIC Pacific as an associate of a substantial shareholder of a subsidiary of CITIC Pacific. As such, the sale by CITIC Pacific of the Dragonair Shares to Cathay constitutes a connected transaction for CITIC Pacific for the purposes of the Listing Rules.

The applicable percentage ratios computed pursuant to Rule 14.07 of the Listing Rules for the (i) sale by CITIC Pacific of the Dragonair Shares to Cathay (the “**Disposal**”); and (ii) acquisition of new Cathay Shares by CITIC Pacific as consideration for the Dragonair Shares (the “**Acquisition**”) exceed 5% but less than 25%, accordingly, the Disposal and the Acquisition constitute connected and discloseable transactions for CITIC Pacific and are subject to the reporting, announcement and Independent Shareholders’ approval requirements of Chapter 14A of the Listing Rules and the disclosure requirements of Chapter 14 of the Listing Rules.

Our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders is to give our opinion as to whether the terms of the Restructuring Agreement, the Disposal and the Acquisition are (i) on normal commercial terms; (ii) fair and reasonable; and (iii) in the interests of CITIC Pacific and its shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts supplied to us by CITIC Pacific. We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors that having made all due enquiries and careful decisions, and to the best of their knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information and statements and representations made or referred to in the Circular, which have been provided to us by CITIC Pacific, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

In rendering our opinion, we have researched, analyzed and relied on information from independent third party sources. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

We consider that we have (i) taken reasonable steps as required under Listing Rules 13.80 in obtaining all necessary information from CITIC Pacific; and (ii) reviewed sufficient information to enable us to reach an informed view regarding the Restructuring Agreement, the Disposal and the Acquisition and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by CITIC Pacific; nor have we conducted any independent in-depth investigation into the business and affairs of CITIC Pacific and its respective associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Restructuring Agreement, the Disposal and the Acquisition, and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Reasons for and benefits of the Disposal and the Acquisition

1.1 *Business and strategy of CITIC Pacific*

CITIC Pacific is a conglomerate principally engaged in investment in special steel manufacturing, property development and investment, civil infrastructure, power generation, aviation, marketing and distribution, communications in Hong Kong and the PRC.

We have discussed with the Directors and understand that the Group will continue to focus more on investments in which it plays an active management role and to divest some of its passive investments. The Group's corporate strategy will continue to focus on investment opportunities in the PRC where, in the opinion of the Directors, will have a long-term growth potential.

1.2 *Background of the Disposal*

As set out in the Joint Announcement, the Parties entered into a conditional agreement in relation to the restructuring of their shareholdings in Cathay and Dragonair. Cathay has offered to acquire all of the Dragonair Shares which it does not already own for a total consideration of approximately HK\$8,220 million, to be satisfied by a combination of the issue of 548,045,724 new Cathay Shares at an issue price of HK\$13.50 per Cathay Share and approximately HK\$822 million in cash. Such total consideration of the Dragonair Shares was determined following arm's length negotiation between the Parties, based on the underlying value of Dragonair, as reflected in the market price of CNAC Limited, and having regard to the trading multiples of comparable airlines, in addition to considering the benefits to Cathay of full ownership of Dragonair and potential synergies arising from a combination of the businesses. The issue price of the new Cathay Shares was determined following arm's length negotiation between the Parties, in particular with reference to the current and recent average trading price of the Cathay Shares. Each of SPAC, CITIC Pacific and CNAC Limited has agreed to accept the offer from Cathay to acquire their Dragonair Shares.

Following the Completion, Cathay will own all Dragonair Shares. The Directors considered that the total consideration for the Dragonair Shares is (i) on normal commercial terms, (ii) fair and reasonable and (iii) in the interests of CITIC Pacific and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3 *Reasons of the Disposal*

We have discussed with the Directors and understand that despite the PRC's aviation industry has experienced rapid growth and development, the Directors are of the view that the existing shareholding structure of Dragonair has proved to be not efficient with the result that Dragonair is unable to take full advantage of potential economies of scale and the management of its business is not optimized. The Directors are of the view that the transaction provides: (i) CITIC Pacific an attractive exit price for the Dragonair Shares; (ii) CITIC Pacific to dispose the Cathay Shares at above the prevailing market price at the date of the Joint Announcement; and (iii) upon Completion, CITIC Pacific will continue to retain a 17.50% stake in Cathay (in which Dragonair will become a wholly-owned subsidiary of Cathay) to share in the benefits of the combination of Cathay and Dragonair and operational cooperation with Air China. CITIC Pacific intends to hold the Cathay Shares as a long-term investment.

The Directors estimate that, with reference to the projected carrying value of the investment in Cathay and Dragonair but subject to the exact Completion date, an estimated profit of approximately HK\$2 billion will arise from the Transaction. The Transaction allows CITIC Pacific to realize cash of approximately HK\$5,000 million (excluding the special dividend intended to be distributed following Completion), which is intended to be used for pursuing development of the core businesses which CITIC Pacific actively manages to leverage off its expertise. We have discussed with the Directors and understand that there is no concrete plan as to the utilization of the cash proceeds. However, the Group will continue to focus on investment opportunities in the PRC where, in the opinion of the Directors, will have a long-term growth potential.

2. **The aggregate consideration**

Cathay has offered, in aggregate, to acquire all of the Dragonair Shares which it does not already own for a total consideration of HK\$8,220 million (based on a valuation of Dragonair of HK\$10,000 million or HK\$20 per Dragonair Share) to be satisfied by a combination of the issue of 548,045,724 new Cathay Shares at an issue price of HK\$13.50 per Cathay Share and approximately HK\$822 million in cash. In which, CITIC Pacific will receive 189,976,645 new Cathay Shares (equivalent to approximately HK\$2,565 million), representing an approximately 5.62% of the issued share capital of Cathay immediately prior Completion and approximately HK\$285 million in cash.

SPAC and CITIC Pacific have agreed to sell on Completion, to Air China 40,128,292 and 359,170,636 Cathay Shares at HK\$13.50 per Cathay Share respectively. CITIC Pacific will receive approximately HK\$4,849 million in cash from Air China. Moreover, SPAC and CITIC Pacific have agreed to sell on or before Completion, such number of Cathay Shares as will result in the percentage of Cathay Shares held by them on Completion being 40% and 17.50% respectively and the percentage of Cathay Shares in public hands being not less than 25%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, pursuant to the Restructuring Agreement, SPAC and CITIC Pacific have agreed to recommend to the Cathay Board that as soon as practicable following Completion and in any event, no later than 60 days following Completion, Cathay will pay a special interim dividend of HK\$0.32 per Cathay Share (the “**Special Dividend**”).

As of the date of the Joint Announcement, the principal shareholding in Dragonair is as follows:

	Shareholdings in Dragonair	
	Number of Dragonair Shares	% of Dragonair Shares
SPAC	38,551,808	7.71%
Cathay	88,965,707	17.79%
CITIC Pacific	142,482,484	28.50%
CNAC Limited	216,447,251	43.29%
Dragonair Minority Shareholders	13,552,750	2.71%
Total	500,000,000	100.00%

2.1 *Consideration to be received by CITIC Pacific*

Pursuant to the Restructuring Agreement, the Transaction allows CITIC Pacific to realize cash of approximately HK\$5,134 million (excluding the Special Dividend):

- (i) approximately HK\$4,849 million in cash for disposing to Air China 359,170,636 Cathay Shares, representing approximately 10.62% of the issued share capital of Cathay prior to Completion at HK\$13.50 per Cathay Share; and
- (ii) the cash consideration of approximately HK\$285 million from the sale of 142,482,484 Dragonair Shares to Cathay.

In addition, under the Restructuring Agreement, SPAC and CITIC Pacific have agreed to recommend to the Cathay Board that as soon as practicable following Completion and in any event, no later than 60 days following Completion, Cathay will pay a Special Dividend of HK\$0.32 per Cathay Share. If it materializes, CITIC Pacific will receive a potential Special Dividend of approximately HK\$220 million accordingly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.2 *Basis of the consideration*

Pursuant to the Joint Announcement, we note that Dragonair was valued at HK\$10,000 million. The valuation of the Dragonair Shares was determined following arm's length negotiation among the Parties with reference to the (i) underlying value of Dragonair; (ii) market price of CNAC Limited (the closing price was HK\$1.97 as at the Last Trading Date); (iii) trading multiples of comparable airlines; (iv) consideration of the benefits to Cathay of full ownership of Dragonair; and (v) the potential synergies arising from a combination of the businesses.

We have discussed with the Directors and understand that no valuation report was prepared on Dragonair. As set out in the Joint Announcement, the current valuation of Dragonair at HK\$10,000 million was determined following arm's length negotiation between the Parties. In considering whether the valuation of Dragonair is fair and reasonable, we have performed the analysis based on the trading multiples commonly used in transactions, in particular, the price-to-earnings (the "P/E") ratio and the price-to-book (the "P/B") ratio.

We have identified the following five listed companies ("**Comparable Companies**"), which are (i) the only aviation companies listed on the stock exchange of Hong Kong, and (ii) whose principal businesses are similar to Cathay and Dragonair.

Comparable Companies	Bloomberg Code	P/B Ratio*	P/E Ratio*
China Eastern Airlines Corporation Limited	670	0.93	N. A.
China Southern Airlines Company Limited	1055	0.87	N. A.
CNAC Limited	1110	2.09	28.97
Air China	753	1.52	12.81
Cathay	293	1.25	13.25
Average		1.33	18.35
The Disposal		3.17	33.33

* *As at the date of 2 June 2006 (Last trading day before suspension)*

Source: Bloomberg

Note: The P/E and P/B ratios were calculated based on the historical net profit and the net asset value of the respective companies for the year ended 31 December 2005.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Price-to-earnings

We have calculated the P/E ratio of the Disposal based on the audited consolidated financial statements of Dragonair for the year ended 31 December 2005. We note that the net profit after taxation and extraordinary item of Dragonair for the year ended 31 December 2005 was HK\$300 million. Accordingly, the implied P/E ratio of the Disposal was approximately 33.3 times.

Based on the closing price as at 2 June 2006, being the last trading day prior to the Joint Announcement (the “**Last Trading Date**”), the P/E ratios of the Comparable Companies ranged from approximately 12.81 times to approximately 28.97 times, with an average of 18.35 times. The implied P/E ratio of the Disposal of approximately 33.3 times far exceeds the highest and the average P/E ratios of the Comparable Companies.

(ii) Price-to-book

We have calculated the P/B ratio of the Disposal based on the audited consolidated financial statements of Dragonair for the year ended 31 December 2005. We note that Dragonair had a net book value of HK\$3,155 million as at 31 December 2005, and, accordingly, the implied P/B ratio of the Disposal was approximately 3.17 times.

Based on the closing price as at the Last Trading Date, the P/B ratios of the Comparable Companies ranged from approximately 0.87 times to approximately 2.09 times, with an average of 1.33 times. The implied P/B ratio of the Disposal of approximately 3.17 times far exceeds the highest and the average P/B ratios of the Comparable Companies.

We are of the view that the P/E and P/B ratios are normally used valuation benchmarks which represent the value of a company. Given (i) the lack of similar size publicly announced comparable transactions in the market, and (ii) the Parties’ consideration of trading multiples on comparable airlines in arriving at the valuation of Dragonair, we are of the view that the use of P/E and P/B ratios as parameters in arriving at our opinion on the Disposal is reasonable.

Given that the P/E and P/B ratios of the Disposal far exceed those of the Comparable Companies, we are of the view that the consideration of the Disposal is fair and reasonable, and is in the interests of CITIC Pacific and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.3 *The Issue Price of the Cathay Shares*

As part of the consideration for disposing the Dragonair Shares, CITIC Pacific will receive 189,976,645 new Cathay Shares at HK\$13.50 per Cathay Share (the “**Issue Price**”) (equivalent to approximately HK\$2,565 million), representing an approximately 5.62% of the issued share capital of Cathay immediately prior Completion. Upon Completion, CITIC Pacific will continue to retain 17.5% equity interest in Cathay. Irrespective of other strategic considerations as set out in section 1.3 above, since the issuance of the Cathay Shares at the Issue Price forms part of the consideration of the Disposal, it would be indifferent if CITIC Pacific is to receive 189,976,645 new Cathay Shares or the equivalent amount of cash.

The Directors confirm that the Issue Price was determined following arm’s length negotiation between the Parties, in particular with reference to the current and recent average trading price of the Cathay Shares.

In assessing the fairness and reasonableness of the Issue Price, we have examined the respective closing prices of the Cathay Shares during the past six months up to the Last Trading Date.

	Average daily closing price of the Cathay Shares <i>HK\$</i>	Premium/ (Discount) based on the Issue Price <i>%</i>
Last Trading Date	12.95	4.25
10 trading days up to and including the Last Trading Date	12.93	4.45
30 trading days up to and including the Last Trading Date	13.40	0.76
90 trading days up to and including the Last Trading Date	13.79	(2.10)
180 trading days up to and including the Last Trading Date	13.60	(0.72)

Source: Bloomberg

The Issue Price represents:

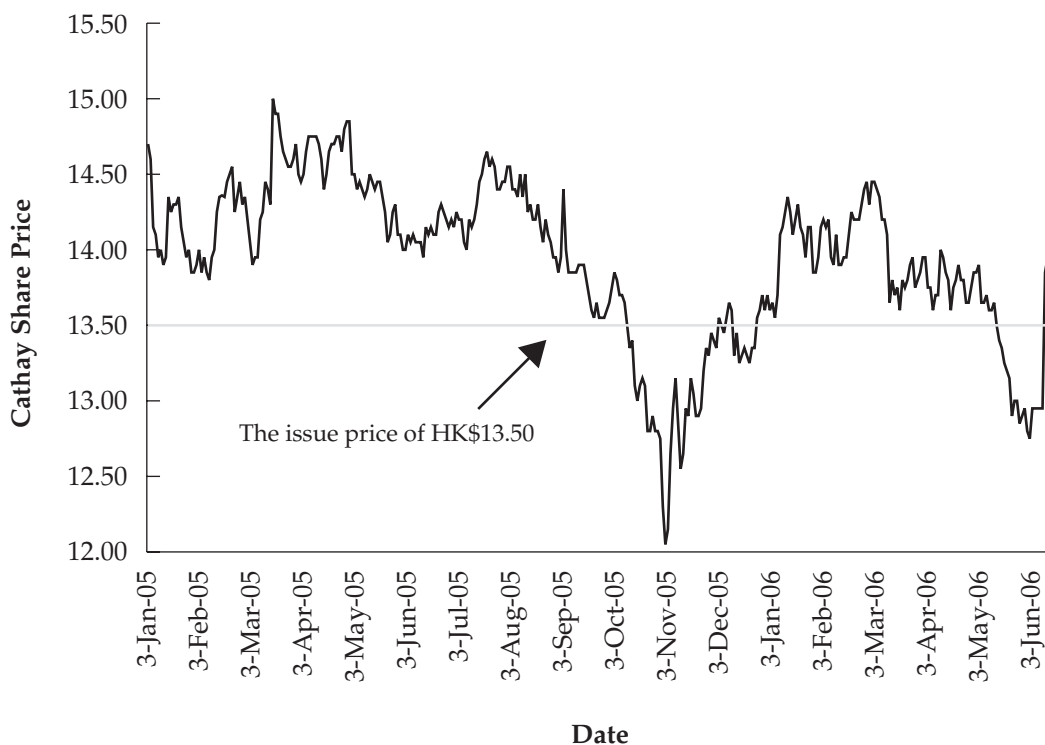
- a premium of approximately 4.25% to the last closing price of the Cathay Shares of HK\$12.95, being the Last Trading Date prior to the suspension in the trading of the Cathay Shares;
- a premium of approximately 4.45% to the 10-day average closing price of the Cathay Shares prior to the suspension in trading of the Cathay Shares of HK\$12.93;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- a premium of approximately 0.76% to the 30-day average closing price of the Cathay Shares prior to the suspension in trading of the Cathay Shares of HK\$13.40;
- a discount of approximately 2.10% to the 90-day average closing price of the Cathay Shares prior to the suspension in trading of the Cathay Shares of HK\$13.79; and
- a discount of approximately 0.72% to the 180-day average closing price of the Cathay Shares prior to the suspension in trading of the Cathay Shares of HK\$13.60.

We have also reviewed the share price performance of the Cathay Shares from 1 January 2005 up to and including the Last Trading Date (the “**Comparison Period**”). The closing price of the Cathay Shares during the Comparison Period ranged from HK\$12.05 to HK\$15.00, with an average closing price of HK\$13.94 as shown in the chart below.

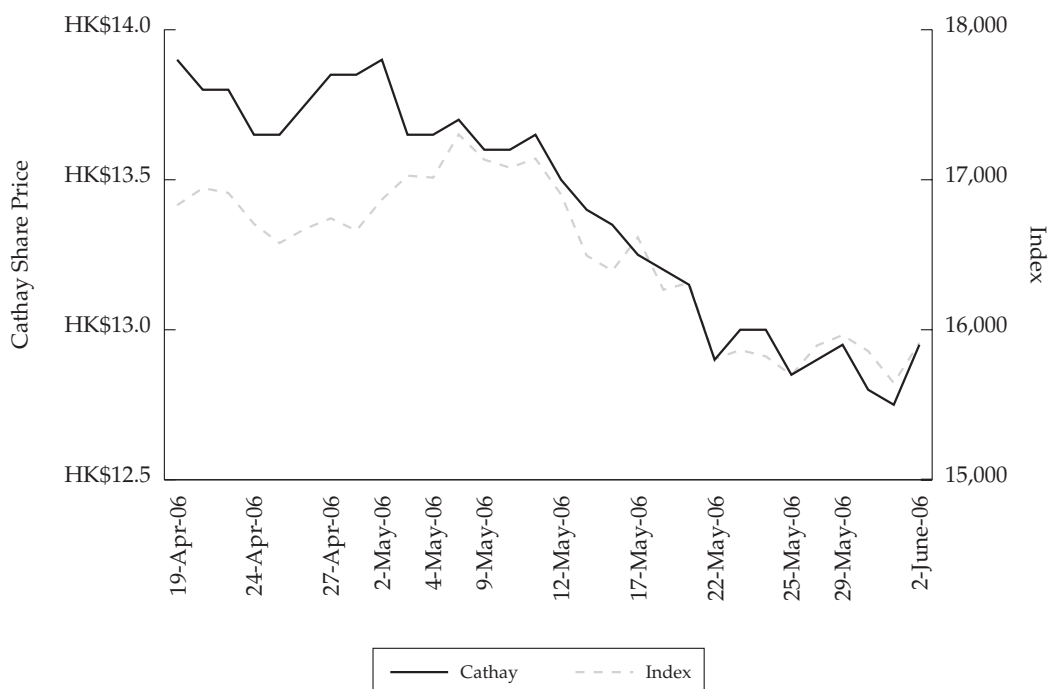
Cathay Share Price Performance



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Issue Price represents a small premium to the closing price of (i) the Last Trading Date; (ii) the average of the closing price of the 10 trading days up to and including the Last Trading Date; and (iii) the average of the closing price of the 30 trading days up to and including the Last Trading Date of the Cathay Shares. We note that Cathay is one of the Hang Seng Index (the “**Index**”) constituent stocks, and the volatility of its share price is closely related to the Index. As set out in the chart below, when the Index experienced a drop during the period between 30 trading days prior to the Last Trading Date and the Last Trading Date, the share price of Cathay has fallen by a similar magnitude.

Cathay Share Price Vs Index



If we take a longer time horizon, we note that there is a discount of approximately 3.14% to the average closing price of the Cathay Shares during the Comparison Period.

Since CITIC Pacific has always been a long-term shareholder of Cathay, we are of the view that comparing the Issue Price to the average closing price of a longer time period is appropriate. Given that the Issue Price of HK\$13.50 per Cathay Share represents the mean of the 30-day average closing price of HK\$13.40 per Cathay Share and the 180-day average closing price of HK\$13.60 per Cathay Share, the Issue Price represents both the short term and long term share price performance of the Cathay Shares in the open market. As such, we are of the view that the Issue Price is fair and reasonable and is in the interests of CITIC Pacific and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Post-Completion

3.1 Shareholding structure in Cathay:

Following the Completion, CITIC Pacific will continue to hold a considerable stake in Cathay.

	Principal Shareholding in Cathay pre-Completion	
	Number of Cathay Shares	% of Cathay Shares
SPAC	1,566,233,246	46.30%
CITIC Pacific	859,353,462	25.40%
Public	957,197,640	28.30%
	3,382,784,348	100.00%

	Principal Shareholding in Cathay post-Completion	
	Number of Cathay Shares	% of Cathay Shares
SPAC	1,572,332,028	40.00%
CITIC Pacific	687,895,263	17.50%
CNAC Limited	288,596,335	7.34%
Air China	399,298,928	10.16%
Public	982,707,518	25.00%
	3,930,830,072	100.00%

3.2 Shareholders Agreement

Pursuant to the Shareholders Agreement, CITIC Pacific, Air China, CNAC Limited and SPAC have agreed, inter alia, on the following:

- (i) that the Cathay Board will, subject to adjustment in certain circumstances, consist of four non-executive directors nominated by SPAC, two non-executive directors nominated by each of CITIC Pacific and Air China, five executive directors nominated by SPAC and four independent non-executive directors;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) SPAC has agreed that the beneficial interest of SPAC and its group in the Cathay Share Capital will not exceed 44.90% (or 49.90% if (i) CITIC Pacific and its group or (ii) Air China and its group increase their respective combined aggregate beneficial interest in the Cathay Share Capital to above 22.45%), except with the prior written consent of the other parties;
- (iii) each of (i) CITIC Pacific and (ii) Air China and CNAC Limited have agreed that the combined aggregate beneficial interest of respectively CITIC Pacific and its group and Air China and its group in the Cathay Share Capital will not exceed 29.99%, except with the prior written consent of the other parties;
- (iv) CITIC Pacific, Air China and CNAC Limited have agreed that, except with the prior written consent of SPAC, their combined beneficial interest in the Cathay Share Capital (including those of their groups) will not exceed 40% or the percentage beneficial interest of SPAC and its group in the Cathay Share Capital (whichever is the lower); and
- (v) so long as a shareholder is beneficially interested (together with its group) (directly or indirectly) in 15% or more of the Cathay Share Capital, it will not make a takeover offer for Cathay or accept a takeover offer from a third party, unless that offer has been recommended by the Cathay Board.

Having considered the above as a whole, given that (i) the disposal of non-core assets fits into the corporate strategy of the Group; (ii) the Disposal resulted in a cash realization of approximately HK\$5,134 million (excluding Special Dividend) and estimated profit of approximately HK\$2 billion (subject to the exact Completion date) for the year ending 31 December 2006 (assuming Completion occurred before the financial year ended 31 December 2006); (iii) the continued benefit of the upside potential of the Hong Kong and the PRC aviation industry by retaining a 17.5% shareholding in Cathay; (iv) given the valuation of the Disposal far exceeds all valuation benchmarks of the Comparable Companies; and (v) the Issue Price is fair and reasonable, we are of the view that the Restructuring Agreement, the Disposal and the Acquisition are fair and reasonable and are in the interests of CITIC Pacific and its shareholders as a whole.

4. Financial impact of the Disposal

4.1 Earnings and net asset value (the "NAV")

As set out in the Circular, CITIC Pacific will realize approximately HK\$5,134 million in cash (excluding Special Dividend). The Board estimates that, with reference to the projected carrying value of the investment in Cathay and Dragonair but subject to the exact Completion date, an estimated profit of HK\$2 billion will arise from the Transaction.

Given that CITIC Pacific will (i) recognize a gain on Disposal in the financial year ending 31 December 2006, and (ii) upon the Completion of the Disposal, the Group's NAV will increase for the amount of the gain on Disposal accordingly, we are of the view that the gain on Disposal to be recognized in the financial year 2006 and the increase of NAV is in the interests of the Group and its shareholders as a whole.

4.2 Gearing

Based on the audited financial statement of the Group as at 31 December 2005, we note that the Group had total cash and bank deposits balance of approximately HK\$2,579 million (the "**Cash Balance**"). Upon Completion of the Disposal, the Cash Balance of the Group will increase by the amount of approximately HK\$5,354 million, being part of the consideration of the Disposal (and a potential Special Dividend of approximately HK\$220 million). As such, the net debt position of approximately HK\$21,218 million as extracted from the audited financial statements of the Group as at 31 December 2005, being total debt minus the Cash Balance, will decrease by the same amount (i.e. HK\$5,354 million).

4.3 Working Capital

Based on the audited financial statements of the Group as at 31 December 2005, the current assets and current liabilities of the Group were approximately HK\$12,752 million and approximately HK\$9,233 million respectively. The current ratio, being the current assets divided by current liabilities of the Group as at 31 December 2005, was approximately 1.38 times. Following the Completion of the Disposal, the current assets of the Group will increase to approximately HK\$17,752 million, while the current liabilities of the Group will remain the same at approximately HK\$9,233 million, as extracted from the audited financial statements of the Group as at 31 December 2005. As such, following the Completion of the Disposal, the Group's current ratio will increase as compared with the Group's current ratio before the Disposal.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above as a whole, given that following the Completion of the Disposal, (i) the Group will recognize a gain on disposal for the financial year ending 31 December 2006; (ii) the Group's NAV will increase; (iii) the net debt position will decrease and the Group's net debt to equity ratio, being the total net debt divided by total equity, will decrease accordingly; and (iv) the Group's current ratio will increase, we are of the view that the financial impact of the Disposal to the Group is positive and is in the interests of CITIC Pacific and its shareholders as a whole.

OVERALL RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the Restructuring Agreement, the Disposal and the Acquisition are (i) on normal commercial terms; (ii) fair and reasonable; and (iii) in the interests of CITIC Pacific and its shareholders as a whole.

Yours faithfully,

For and on behalf of

Commerzbank AG Hong Kong Branch

Harald W. A. Vogt

General Manager

Helen Ho

*Head of Corporate Finance –
M&A Advisory*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive in securities

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which he was taken or deemed to have under such provisions of the SFO) or the Model Code set out in the Listing Rules:

(i) Shares in the Company:

Name of Director	Number of Shares				Percentage of issued share capital (%)
	Personal interests	Corporate interests	Family interests	Trusts and similar interests	
Larry Yung Chi Kin		400,381,000			18.261
Henry Fan Hung Ling		3,000,000 ¹		45,000,000 ²	2.189
Peter Lee Chung Hing	500,000				0.023
Norman Yuen Kee Tong	33,000				0.002
Vernon Francis Moore				3,200,000	0.146
Liu Jifu	40,000				0.002
Leslie Chang Li Hsien	30,000				0.001
Chau Chi Yin	236,000				0.011
Milton Law Ming To	3,000				0.0001
Wang Ande	50,000				0.002
Hansen Loh Chung Hon	1,050,000	500,000 ³	500,000 ³		0.071
André Desmarais		105,230,000 ⁴	75,000		4.803
Peter Kruyt	34,100				0.002
<i>(alternate Director to Mr. André Desmarais)</i>					

Notes:

1. Out of the 3,000,000 Shares of corporate interests, 1,200,000 Shares are to be allotted and issued to the relevant Director pursuant to share options exercised shortly prior to the Latest Practicable Date.
2. Out of the 45,000,000 Shares of trusts and similar interests, 400,000 Shares are to be allotted and issued to the relevant Director pursuant to share options exercised shortly prior to the Latest Practicable Date.
3. The corporate interests and the family interests of the relevant Director duplicate each other as the 500,000 Shares are held through a company in which the relevant Director and his family are interested.
4. Out of 105,230,000 Shares, 5,000,000 Shares are held by a corporation controlled by the relevant Director and 100,230,000 Shares are held indirectly by a corporation of which the relevant Director is the President and Co-Chief Executive Officer.

(ii) Share options in the Company

Directors	Date of Grant	Number of share options granted	Options cancelled/ exercised	Number of share options outstanding	Percentage of issued share capital (%)
Larry Yung Chi Kin	28 May 2002	2,000,000	Nil	106,000,000	4.835
	1 Nov 2004	2,000,000			
	5 Dec 2005	100,000,000			
	20 Jun 2006	2,000,000			
Henry Fan Hung Ling	20 Jun 2006	1,600,000	1,600,000	Nil	N/A
Peter Lee Chung Hing	28 May 2002	1,000,000	Nil	3,200,000	0.146
	1 Nov 2004	1,000,000			
	20 Jun 2006	1,200,000			
Norman Yuen Kee Tong	28 May 2002	500,000	Nil	1,500,000	0.068
	1 Nov 2004	500,000			
	20 Jun 2006	500,000			
Vernon Francis Moore	28 May 2002	1,000,000	Nil	2,700,000	0.123
	1 Nov 2004	1,000,000			
	20 Jun 2006	700,000			
Li Shilin	28 May 2002	300,000	Nil	300,000	0.014
Carl Yung Ming Jie	28 May 2002	300,000	Nil	1,400,000	0.064
	1 Nov 2004	500,000			
	20 Jun 2006	600,000			
Liu Jifu	28 May 2002	300,000	Nil	1,500,000	0.068
	1 Nov 2004	500,000			
	20 Jun 2006	700,000			
Leslie Chang Li Hsien	28 May 2002	300,000	Nil	1,600,000	0.073
	1 Nov 2004	500,000			
	20 Jun 2006	800,000			

Directors	Date of Grant	Number of share options granted	Options lapsed/ cancelled/ exercised	Number of share options outstanding	Percentage of issued share capital (%)
Chau Chi Yin	28 May 2002	300,000	Nil	1,600,000	0.073
	1 Nov 2004	500,000			
	20 Jun 2006	800,000			
Milton Law Ming To	28 May 2002	300,000	50,000	1,550,000	0.071
	1 Nov 2004	500,000			
	20 Jun 2006	800,000			
Wang Ande	1 Nov 2004	250,000	50,000	700,000	0.032
	20 Jun 2006	500,000			

Note: These 100,000,000 share options were granted by CITIC Hong Kong (Holdings) Limited ("CITIC HK"), a substantial shareholder of the Company (within the meaning of the Listing Rules).

(iii) *Shares in the associated corporation:*

Name of Director	Personal interests	Number of ordinary shares in Cathay			Percentage to the issued share capital (%)
		Corporate interests	Family interests	Trusts and similar interests	
Hansen Loh Chung Hon	450,000				0.013

(iv) *Share options in an associated corporation, CITIC Capital Holdings Limited:*

Directors	Date of Grant	Number of share options granted	Options lapsed/ cancelled/ exercised	Number of share options outstanding	Percentage of issued share capital (%)
Peter Lee Chung Hing	2 March 2005	15,000	Nil	25,000	0.089
	4 April 2006	10,000			
Vernon Francis Moore	2 March 2005	15,000	Nil	25,000	0.089
	4 April 2006	10,000			
Leslie Chang Li Hsien	2 March 2005	15,000	Nil	25,000	0.089
	4 April 2006	10,000			

The above options were granted by CITIC Capital Holdings Limited.

None of the Directors has had any direct or indirect interest in any assets which have since 31 December 2005 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

There is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

(b) Substantial shareholders of the Company

As at the Latest Practicable Date, save as disclosed herein, so far as was known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company or their respective associates) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(i) Interest in the Shares

Name	Number of Shares of the Company	Percentage to the issued share capital (%)
CITIC Group	635,919,285	29.004
CITIC HK	635,919,285	29.004
Heedon Corporation	496,386,285	22.640
Honpville Corporation	310,988,221	14.184

CITIC HK is a substantial shareholder of the Company (within the meaning of the Listing Rules) indirectly through the following wholly owned subsidiary companies:

Name of subsidiary companies of CITIC HK	Number of Shares of the Company	Percentage to the issued share capital (%)
Affluence Limited	46,089,000	2.102
Winton Corp.	30,718,000	1.401
Westminster Investment Inc.	101,960,000	4.650
Jetway Corp.	20,462,000	0.933
Cordia Corporation	32,258,064	1.471
Honpville Corporation	310,988,221	14.184
Hainsworth Limited	83,444,000	3.806
Southpoint Enterprises Inc.	10,000,000	0.456
Raymondford Company Limited	2,823,000	0.129

Each of Affluence Limited, Winton Corp., Westminster Investment Inc., Jetway Corp., Cordia Corporation, Honpville Corporation, Hainsworth Limited, Southpoint Enterprises Inc. and Raymondford Company Limited holds the Shares beneficially. Accordingly, Honpville Corporation is a substantial shareholder of the Company (within the meaning of the Listing Rules).

CITIC Group is the direct holding company of CITIC HK. CITIC HK is the direct holding company of Heedon Corporation, Hainsworth Limited, Affluence Limited and Barnsley Investments Limited. Heedon Corporation is the direct holding company of Winton Corp., Westminster Investment Inc., Jetway Corp., Kotron Company Ltd. and Honpville Corporation and Kotron Company Ltd. is the direct holding company of Cordia Corporation. Affluence Limited is the direct holding company of Man Yick Corporation which is the direct holding company of Raymondford Company Limited. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc. Accordingly, the interests of CITIC Group in the Company duplicate the interests of CITIC HK in the Company. The interests of CITIC HK in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Heedon Corporation in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Affluence Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above. The interests of Man Yick Corporation in the Company duplicate the interests in the Company of its direct subsidiary company as described above. The interests of Barnsley Investments Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above and the interests of Kotron Company Ltd. in the Company duplicate the interests in the Company of its direct subsidiary company as described above.

(ii) *Short position in the Shares*

Name	Number of Shares of the Company	Percentage to the issued share capital (%)
CITIC Group	100,000,000	4.561
CITIC HK	100,000,000	4.561

These are in respect of options granted by CITIC HK, a substantial shareholder of the Company (within the meaning of the Listing Rules), to Mr. Larry Yung Chi Kin.

As at the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company

under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Larry Yung Chi Kin	CITIC Group	Director
	CITIC HK	Director
	Heedon Corporation	Director
	Honpville Corporation	Director
	Earnplex Corporation	Director & Shareholder
	Bloomfield Enterprises Corp.	Director & Shareholder
	Rockhampton Investments Limited	Director & Shareholder
Henry Fan Hung Ling	CITIC HK	Director
Vernon Francis Moore	CITIC HK	Director
	Heedon Corporation	Director
	Honpville Corporation	Director
Li Shilin	CITIC Group	Director
Carl Yung Ming Jie	Earnplex Corporation	Director
Liu Jifu	CITIC HK	Director
Leslie Chang Li Hsien	Honpville Corporation	Director

(c) Substantial shareholding in other members of the Group

As at the Latest Practicable Date, save as disclosed herein, so far as was known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company or their respective associates or a member of the Group) was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Percentage of issued share capital
Adwood Company Limited	Silverstone Assets Limited	30%
Astron Enterprises Holdings Corp.	Oridon Enterprises Corp.	15%
New Hong Kong Tunnel Company Limited	Kumagai International Limited	13.875%
Sims Trading (Macau) Company Limited	Mr. Ma Iao Hang	10%
	Mr. Ma Chi Seng	10%
	Mr. Ka Lon Ho	10%

Name of subsidiary	Name of shareholder	Percentage of issued share capital
Maxiwin Assets Holdings Ltd.	Koling Enterprises Corp.	18.18%
Modus Enterprises Holdings Inc.	Koling Enterprises Corp.	26.67%
Dah Chong Hong – Dragonair Airport GSE Service Limited	Hong Kong Dragon Airlines Limited	30%
Triangle – Isuzu Motors Limited	Isuzu Motors Limited	40%
DAS Nordisk Limited	Hydro Asia Pacific Pte. Ltd.	30%
DAS Aviation Support Limited	Hong Kong Dragon Airlines Limited	30%
Bright Billion Limited	Jungle Investment Limited	10%
Alixon Co. Ltd.	RFC Management Limited	10%
Prosperity Motors Limited	Xin Kang Heng Holdings Limited	40%
Fishman Technology Limited	Mr. Wu Xisang	15%
Firestone Technology Holdings Limited	Mr. Wu Xisang	15%
Easyband Broadband Holdings Limited	Mr. Wu Xisang	15%
Dah Chong Hong Motor Service Centre (Macau) Limited	Xin Kang Heng Holdings Limited	40%
Dong Chong Motors (China) Limited	Tokyo Boeki Ltd.	32.25%
Hang Shun Fat Company, Limited	Honorway Investments Limited Wideland Investors Limited Mr. Leung Kau Kui, deceased	11.8% 11.8% 11.8%
Wah Luen Fung Company, Limited	Marvel Sweet Management Ltd. Wideland Investors Limited	15% 15%
Asia Pacific Internet Exchange Limited	HKIX Hong Kong Ltd.	25%
Ko Lok Investment Company, Limited	Marvel Sweet Management Ltd.	40%
Goldenburg Properties Limited	Gorich Traders Limited	30%
Dah Chong Hong (Macao) Engineering Limited	Mr. Ma Iao Hang Mr. Liu Chak Wan	20% 20%

Name of subsidiary	Name of shareholder	Percentage of issued share capital
Dah Chong Hong Macau Total Supply Chain Management Company Limited	CBA Investments Company Limited Cheong Wah Hong Corporation – Enterprises and Investments Limited	35% 10%
Dah Chong Hong Macau Food Supply Company Limited	CBA Investments Company Limited Cheong Wah Hong Corporation – Enterprises and Investments Limited	35% 10%
Dah Chong Hong Macau Logistics Warehouse Company Limited	CBA Investments Company Limited Cheong Wah Hong Corporation – Enterprises and Investments Limited	35% 10%
DCH Supply Chain Management Company Limited	Excel Epoch International Limited	20%
Mainstream Holdings Limited	IBP Caribbean Inc.	45%
Regal Heights Limited	Perdue Farms Incorporated	40%
Winway Investments Holdings Corp.	Rising Sun Investments Holdings Ltd.	38%
Join Resources Limited	Swire Properties Limited	16.67%
Name of subsidiary being a joint venture company established in the PRC without the concept of general meetings (#)	Name of shareholder	Percentage of registered capital
Guangdong Jing Yun Distribution Co., Ltd.	Guangdong Huada Distribution Company	10%
無錫太湖景發展有限公司 (Wuxi Taihu Jing Development Co., Ltd.)	無錫市國聯發展(集團)有限公司 (Wuxi Guo Lian Development Group Co., Ltd.)	30%
無錫太湖苑置業有限公司 (Wuxi Taihu Yuan Property Co., Ltd.)	無錫市國聯發展(集團)有限公司 (Wuxi Guo Lian Development Group Co., Ltd.)	30%
無錫太湖美生態環保有限公司 (Wuxi Taihu Mei Environmental Co., Ltd.)	無錫市國聯發展(集團)有限公司 (Wuxi Guo Lian Development Group Co., Ltd.)	30%
Jiangsu CP Xingcheng Special Steel Co., Ltd.	Jiangyin Steel Mill Bright Trinity Enterprises Ltd.	10.6% 11.62%

Name of subsidiary being a joint venture company established in the PRC without the concept of general meetings (#)	Name of shareholder	Percentage of registered capital
Jiangyin Xingcheng Steel Products Co., Ltd.	Jiangyin Steel Mill	11.7%
Jiangyin Xingcheng Storage and Transportation Co., Ltd.	Jiangyin Steel Mill	11.7%
Wuxi Xingcheng Steel Products Co., Ltd.	Jiangyin Steel Mill	11.7%
Kunming Dah Chong Motor Service Co., Ltd.	雲南客車廠 (Yunnan Coach Factory)	30%
Guangdong Dah Chong Foodstuffs Co., Ltd.	Guangdong International Trade Travel Service Ltd.	30%
Qingdao Adachi Paints and Chemical Materials Co., Ltd.	New Asia Pacific Group Co. Ltd.	25%
Shanghai DCH Jiangnanfeng Co., Ltd.	Shanghai Agriculture Investment Holding Co., Ltd. Shanghai Pudong Huilun Enterprise Holding Co., Ltd.	12.67% 10.56%
Shenzhen Zhongliangdachang Foodstuffs Co., Ltd.	COFCO (Shenzhen) Co., Ltd.	30%
Dalian CP Digital Technology Co., Ltd.	大連儀表集團有限公司 (Dalian Instrument Group Co., Ltd.)	19.5%
上海中信泰富廣場有限公司 (Shanghai CITIC Square Co., Ltd.)	上海靜安城商貿有限公司 (Shanghai Jingan City Trading Co., Ltd.)	10%
中信泰富萬寧(聯合)開發有限公司 (CITIC Pacific Wanning United Development Company Limited)	萬寧市土地開發整理儲備中心 (Wanning Municipality Land Reserve Bureau)	20%
江陰興澄置業有限公司 (Jiangyin Xingcheng Properties Co., Ltd.)	中聯投資有限公司 (Sino Explorer Investments Limited)	30%

Although the information relating to these joint venture companies have been set out under this section, such joint venture companies established in the PRC under the relevant laws thereof have a different capital structure from, and do not have the same concept of shareholders general meetings as, subsidiaries of the Company established in other jurisdictions.

3. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited accounts of the Company were made up.

4. EXPERT

- (a) The qualifications of the Independent Financial Adviser who has given advice contained in this circular are set out as follows:

Name	Qualification
Commerzbank	(acting through its Hong Kong branch) a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorised financial institution under the SFO to carry out type 1 (dealing in securities), 4 (advising on securities), and 6 (advising on corporate finance) regulated activities as set out in Schedule 5 of the SFO

- (b) Commerzbank has confirmed that it has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Commerzbank has confirmed that it does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Company were made up.
- (d) Commerzbank has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report (as the case may be) and references to its name in the form and context in which it appears.
- (e) The letter from Commerzbank is given as of the date of this circular for incorporation herein.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

6. SERVICE CONTRACTS

There is no existing or proposed service contracts between any of the Directors and the Company or any of its subsidiaries, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. COMPETING INTEREST

In so far as the Directors are aware, none of the Directors or their respective associates have any interest in a business which competes or is likely to compete with the business of the Group.

8. GENERAL

- (a) The secretary of the Company is Ms. Alice Tso Mun Wai, ACIS, MA and the qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Leslie Chang Li Hsien, HKICPA, AICPA, NYSSCPA.
- (b) The registered office of the Company is at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.
- (c) The share registrars of the Company is Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on any weekday (Saturdays and Sundays excepted) during business hours at the registered office of the Company at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong from the date of this circular up to and including 21 August 2006:

- (a) the Restructuring Agreement;
- (b) the Shareholders Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular; and
- (d) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CITIC PACIFIC

CITIC Pacific Limited 中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 267)

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of CITIC Pacific Limited will be held at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong on 21 August 2006 at 4:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the entering into of the Restructuring Agreement by the Company (a copy of which agreement has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and the Transaction are hereby approved (terms defined in the circular to shareholders of the Company dated 30 June 2006 having the same meanings when used in this resolution); and
- (b) any one Director of the Company, or any two Directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements, to effect such amendments to, and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Restructuring Agreement and/or the Transaction.”

By order of the Board
Alice Tso Mun Wai
Company Secretary

Hong Kong, 30 June 2006

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

32nd Floor, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

Notes:

- (i) Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (ii) To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the registered office of the Company not less than forty-eight hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote.