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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, 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 transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or 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: 00267)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

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



**KBC Bank N.V. Hong Kong Branch**

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A letter from the Board is set out on pages 4 to 12 of this circular. A letter of advice from the Independent Financial Adviser (as defined herein) to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 15 to 29 of this circular. A letter of the Independent Board Committee is set out on pages 13 to 14 of this circular.

4 June 2010

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## DEFINITIONS

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

“associate”	has the meaning ascribed to it by the Listing Rules;
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Consideration”	RMB1,900 million (equivalent to HK\$2,166 million);
“connected persons”	has the meaning ascribed to it by the Listing Rules;
“Directors” or “Board”	the directors of CITIC Pacific;
“Disposal”	the disposal to the Purchaser of the Sale Interest, the ancillary rights to the Sale Interest and the dividends declared and other profit distribution attributable to the Sale Interest which have not yet been paid pursuant to the Framework Agreement;
“Framework Agreement”	the framework agreement dated 19 March 2010 between CITIC Pacific and the Purchaser in relation to the Disposal;
“Group”	CITIC Pacific and its subsidiaries or, where the context so requires, any of them;
“Hebei SASAC”	中國河北省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Government of Hebei Province, PRC);
“Hebei Zhongkang”	河北中康仁達資產評估有限責任公司 (Hebei Zhongkang Renda Assets Appraisal Co., Ltd), a valuer in the PRC appointed for the purposes of valuing Shijiazhuang Steel as a whole;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HPSA”	河北省國有資產控股運營有限公司 (Hebei Province State-owned Assets Hold & Operation Co., Ltd.);

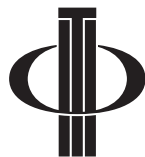
## DEFINITIONS

“Independent Board Committee”	an independent committee of the Board advising the Independent Shareholders in respect of the Framework Agreement, the Management Agreement and other transactions contemplated thereunder comprising Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong, all being independent non-executive Directors;
“Independent Financial Adviser”	KBC Bank N.V., acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and a registered institution registered for Type 6 (advising on corporate finance) regulated activity under SFO, and is appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement, the Management Agreement and the transactions set out in this circular;
“Independent Shareholders”	Shareholders who do not have a material interest in the transaction contemplated under the Framework Agreement, the Management Agreement and other transactions contemplated under this circular;
“Latest Practicable Date”	28 May 2010;
“Loan”	the loan lent by a wholly owned subsidiary of CITIC Pacific to Zhongfu Investment and which, together with interest outstanding as at the Latest Practicable Date, has a carrying value of approximately HK\$390 million in CITIC Pacific’s accounts as at 31 December 2009;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Management Agreement”	a management entrustment agreement between CITIC Pacific and the Purchaser dated 19 March 2010;
“Megaston”	Megaston Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CITIC Pacific;
“PRC”	the People’s Republic of China;
“Purchaser”	河北鋼鐵集團有限公司 (Hebei Iron & Steel Group Co. Ltd.), a state owned enterprise established in PRC;
“RMB”	Renminbi, the lawful currency of the PRC;

## DEFINITIONS

“Sale Interest”	the 80% of the equity interest in Shijiazhuang Steel held by Megaston, Suzhou Trust and Zhongfu Investment in aggregate, together with all the ancillary rights, declared but unpaid dividends and other rights to undistributed profit attributable to the Sale Interest;
“S&P Agreement”	the sale and purchase agreement(s) for the transfer of the Sale Interest;
“Shareholders”	shareholders of CITIC Pacific;
“Shijiazhuang Steel”	石家莊鋼鐵有限責任公司 (Shijiazhuang Iron & Steel Co., Ltd.), a sino-foreign equity joint venture established in the PRC, whose shareholders as at the Latest Practical Date are HPSA, Megaston, Suzhou Trust and Zhongfu Investment holding 20%, 50%, 15% and 15% of the equity interest respectively;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning given to it by the Listing Rules;
“subsidiary(ies)”	has the meaning given to it by the Listing Rules;
“Suzhou Trust”	蘇州信託有限公司, a company established in the PRC with limited liability holding the 15% equity interest in Shijiazhuang Steel on trust for CITIC Pacific;
“Vale”	Vale S.A., formerly Companhia Vale do Rio Doce (CVRD), a mining multinational corporation;
“Zhongfu Investment”	河北眾富投資有限責任公司 (Hebei Zhongfu Investment Limited), a company established in the PRC with limited liability; and
“%”	per cent.

*For illustration purposes in this circular, the conversion rate of RMB1.00 = HK\$1.14 and the conversion rate of US\$ 1.00 = HK\$ 7.8 were adopted. This does not, however, mean that such currencies were or could be converted at the aforesaid exchange rates.*



CITIC PACIFIC

**CITIC Pacific Limited**  
**中信泰富有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 00267)**

*Directors:*

Chang Zhenming (*Chairman*)  
Zhang Jijing (*Managing Director*)  
Carl Yung Ming Jie (*Deputy Managing Director*)  
Vernon Francis Moore (*Group Finance Director*)  
Li Shilin (*Executive Director*)  
Liu Jifu (*Executive Director*)  
Milton Law Ming To (*Executive Director*)  
Wang Ande (*Executive Director*)  
Kwok Man Leung (*Executive Director*)  
Willie Chang\*  
Alexander Reid Hamilton\*\*  
Hansen Loh Chung Hon\*\*  
Norman Ho Hau Chong\*\*  
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Hong Kong

\* *Non-executive Director*

\*\* *Independent Non-executive Director*

# *Alternate Director to André Desmarais*

4 June 2010

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**INTRODUCTION**

CITIC Pacific announced on 21 March 2010 the Framework Agreement, the Management Agreement and other transactions had been entered into. The purpose of this circular is to provide you with, among other things, further information on the Framework Agreement, the Management Agreement, other transactions contemplated

## LETTER FROM THE BOARD

pursuant thereto and the advice of the Independent Financial Adviser and the Independent Board Committee.

### THE FRAMEWORK AGREEMENT

#### Date

19 March 2010

#### Parties

- (1) CITIC Pacific (for and on behalf of Megaston, Suzhou Trust and Zhongfu Investment), as vendor of the Sale Interest; and
- (2) the Purchaser, as purchaser of the Sale Interest.

#### The Sale Interest

CITIC Pacific owns an aggregate of 65% of the equity interest of Shijiazhuang Steel of which 50% is held by its wholly-owned subsidiary Megaston; and 15% is held on trust for CITIC Pacific by Suzhou Trust.

Zhongfu Investment, a shareholder holding a 15% equity interest in Shijiazhuang Steel, is a company owned by certain management members and employees of Shijiazhuang Steel with each of such management members and employees holding less than a 30% equity interest in Zhongfu Investment.

As part of the Disposal, the Purchaser will also acquire the 15% equity interest in Shijiazhuang Steel held by Zhongfu Investment and accordingly the total Sale Interest is an 80% equity interest of Shijiazhuang Steel.

CITIC Pacific has been authorised by Megaston, Suzhou Trust and Zhongfu Investment to enter into the Framework Agreement to dispose of the Sale Interest to the Purchaser. The ancillary rights to the Sale Interest, declared but unpaid dividends and other rights to undistributed profit attributable to the Sale Interest will also be disposed to the Purchaser.

#### Consideration for the Sale Interest

The Consideration for the Sale Interest is RMB1,900 million (equivalent to HK\$2,166 million). Pursuant to the Framework Agreement, the parties have entered into the S&P Agreement on 10 May 2010 which will become effective upon approval by the relevant PRC regulatory authorities.

50% of the Consideration is payable by the Purchaser within 10 business days after the S&P Agreement becomes effective. The remaining 50% of the Consideration is payable by the Purchaser within 10 business days after the transfer of the Sale Interest is completed.

## LETTER FROM THE BOARD

The portion of the Consideration payable to Megaston is payable in cash in US dollars. The portions of the Consideration payable to Suzhou Trust and Zhongfu Investment respectively are payable in cash in RMB.

The portion of the Consideration receivable by CITIC Pacific for its 65% interest (including the ancillary rights, declared but unpaid dividends and other rights to undistributed profit receivable from Shijiazhuang Steel) is RMB1,577,245,000 (equivalent to HK\$1,798,059,300).

The Consideration is arrived at after arm's length negotiations between the parties on normal commercial terms taking into account the possible impact of the relocation of the steel mill and with reference to the valuation report prepared by Hebei Zhongkang valuing all of Shijiazhuang Steel (excluding the declared but unpaid dividends receivable from Shijiazhuang Steel), as at 31 December 2009, at RMB2,153,755,200 (equivalent to approximately HK\$2,455,280,928).

With respect to the valuation report in relation to Shijiazhuang Steel, CITIC Pacific applied to the Stock Exchange on 30 April 2010 for a waiver from the strict compliance with Rule 14A.59(6) of the Listing Rules for inclusion of the full valuation reports in the circular on the bases, among others, that the valuation report, related appendices and attachments, prepared only in Chinese for the purposes of obtaining the relevant PRC regulatory approvals for the transactions contemplated by the Framework Agreement, contain more than 120 pages and it would be unduly burdensome and not cost effective to the Shareholders to translate the entirety of such valuation report for the purposes of inclusion in this circular. The Stock Exchange considered the waiver application and granted a waiver from strict compliance with Rule 14A.59(6) of the Listing Rules to CITIC Pacific on 17 May 2010 provided that extracts of the valuation reports in respect of Shijiazhuang Steel relating to the conclusions of the valuation report and the professional qualifications of Hebei Zhongkang will be included in this circular and that the full valuation report in Chinese will be made available for public inspection for 14 days.

Extracts from the full valuation report, which contain, among other things, key information such as a description of the valuation undertaken by the independent valuer, Hebei Zhongkang, the valuation methods and key assumptions adopted by Hebei Zhongkang, summaries of the valuation results and professional qualification of Hebei Zhongkang are set out in Appendix I to this circular. The Directors also confirm that, notwithstanding that only a summary of the conclusions of the valuation report are provided in this circular, the Shareholders are provided with sufficient information on the valuation report which was commissioned in respect of valuing Shijiazhuang Steel.

Before the completion of the Disposal, Shijiazhuang Steel is a subsidiary of CITIC Pacific under the Listing Rules (but accounted for as a jointly controlled entity). After the Disposal, CITIC Pacific will cease to hold any interest in Shijiazhuang Steel.

## LETTER FROM THE BOARD

### Conditions Precedent

Completion of the Disposal is conditional upon:

- there being no judgement or order from courts or government authorities restricting, forbidding or cancelling the Disposal, and the Disposal not being restricted by any articles of association, resolutions, agreements or documents;
- the obtaining by CITIC Pacific of approvals from regulatory or government authorities in relation to the entry into and performance of the S&P Agreement (including but not limited to approvals required under the Listing Rules);
- the obtaining by CITIC Pacific of the necessary authorisations to enter into and perform the Framework Agreement;
- the obtaining by the Purchaser of approval from Hebei SASAC to enter into and perform the S&P Agreement;
- the obtaining by Shijiazhuang Steel of (i) approval from its board of directors in respect of the Disposal and (ii) confirmation from HPSA that it gives up its right of first refusal in respect of the Sale Interest; and
- the obtaining of approval from the Ministry of Commerce in respect of the Disposal.

### Completion

Upon fulfilment of the conditions precedent described above, application would be made to renew the business licence and the date of completion of the Disposal shall be the date of issuance of the new business licence of Shijiazhuang Steel.

### Sale of five wholly-owned subsidiaries in Cangzhou

Under the Framework Agreement, CITIC Pacific will also sell to the Purchaser at cost five wholly-owned subsidiaries which were incorporated for the purpose of acquiring some reclaimed land in Cangzhou, Huanghua (滄州黃驛), PRC. The consideration is cash amounting to US\$6.75 million (equivalent to HK\$52.65 million) represents capital injected by CITIC Pacific into these wholly-owned subsidiaries. Transfer agreements to transfer these wholly-owned subsidiaries will also be entered into by the parties. 50% of the consideration will be paid within 10 business days after the relevant transfer agreement has become effective with the remaining 50% to be paid on completion of the transfer of interest.

## LETTER FROM THE BOARD

### Other Terms

In addition, under the Framework Agreement, CITIC Pacific agrees to supply to Shijiazhuang Steel after completion of the Disposal, 450,000 tons of imported iron ore to be supplied by Vale (including 300,000 tons which was contracted between Shijiazhuang Steel and Vale through Chengda International Limited) to CITIC Pacific and Shijiazhuang Steel in accordance with the relevant contracts with Vale. The delivery arrangements will be further agreed between the parties.

### Additional Information in relation to the Disposal

Zhongfu Investment is a company held by certain management members and employees of Shijiazhuang Steel with each of such management members and employees holding less than 30% interest in Zhongfu Investment. Previously, a wholly-owned subsidiary of CITIC Pacific lent Zhongfu Investment a sum of approximately RMB338,145,000 (equivalent to approximately HK\$385,485,000) to finance Zhongfu Investment's acquisition of its 15% equity interests in Shijiazhuang Steel. In addition, Zhongfu Investment also invested an amount of RMB3,000,000 (equivalent to approximately HK\$3.42 million) in Shijiazhuang Steel from its own financial resources. The Loan is still outstanding as at the Latest Practicable Date and (together with interest) has a carrying value of approximately HK\$390 million in CITIC Pacific's accounts as at 31 December 2009. Consequently, the total investment made by Zhongfu Investment was RMB341,145,000 (approximately HK\$388,905,000), comprising the aforesaid RMB338,145,000 borrowed from a subsidiary of CITIC Pacific and RMB3,000,000 from its own financial resources.

The portion of the Consideration due to Zhongfu Investment in the amount of RMB322,755,000 (equivalent to approximately HK\$367,941,000) comprises RMB321,051,000 for the 15% equity interest in Shijiazhuang Steel and RMB1,704,000 which represents Zhongfu's portion of the declared but unpaid dividends in Shijiazhuang Steel. The portion of the Consideration due to Zhongfu Investment in the amount of RMB322,755,000 (equivalent to approximately HK\$367,941,000) will be apportioned as follows: (i) RMB4,326,000 (equivalent to approximately HK\$4,932,000) will be paid to Zhongfu Investment as an agreed sum for its investment in Shijiazhuang Steel; and (ii) the remainder of RMB318,429,000 (equivalent to approximately HK\$363,009,000) will be paid to CITIC Pacific in full satisfaction of the Loan, including interest. Assuming the payment in respect of the Loan and interest took place on 31 December 2009, it is less than the amount of approximately HK\$390 million in CITIC Pacific's accounts as at 31 December 2009 payable to CITIC Pacific and the balance of approximately HK\$28 million will be written off.

Based on the above and assuming that the completion of the Disposal took place on 31 December 2009, an estimated unaudited accounting loss of approximately HK\$249 million would be expected to arise from the Disposal and the write-off of the Loan. An impairment provision of HK\$249 million has been made in the financial statements of CITIC Pacific for the year ended 31 December 2009.

## LETTER FROM THE BOARD

### MANAGEMENT AGREEMENT

To ensure a smooth transition in relation to management of the steel mill for the Disposal, CITIC Pacific and the Purchaser also entered into the Management Agreement on 19 March 2010 pursuant to which the day-to-day operations and management of Shijiazhuang Steel (other than financial matters) will be entrusted to the Purchaser from the date of the Management Agreement until the completion of the transfer of the Sale Interest pursuant to the S&P Agreement or the termination of the Framework Agreement, as the case may be. The profit and loss for the sale interest generated in Shijiazhuang Steel, provided the Framework Agreement does not lapse during the term of the Management Agreement, will be attributable to the Purchaser. The Management Agreement shall become effective upon signing but will lapse if the Framework Agreement lapses.

### INFORMATION ON SHIJIAZHUANG STEEL

Shijiazhuang Steel was re-incorporated on 22 May 1997 in Shijiazhuang, Hebei Province, PRC. At present, it is a sino-foreign equity joint venture whose shareholders are HPSA, Megaston, Suzhou Trust and Zhongfu Investment holding 20%, 50%, 15% and 15% of the equity interest respectively and is principally engaged in the production and sale of special steel and related products.

Based on the audited financial statements of Shijiazhuang Steel prepared under the general accepted accounting principles of the PRC: (i) the net profit before taxation and extraordinary items attributable to shareholders of Shijiazhuang Steel for the year ended 31 December 2009 was approximately RMB228 million (equivalent to approximately HK\$260 million) and the net loss before taxation and extraordinary items attributable to shareholders of Shijiazhuang Steel for the year ended 31 December 2008 was approximately RMB171 million (equivalent to approximately HK\$195 million); and (ii) the net profit after taxation and extraordinary items attributable to shareholders of Shijiazhuang Steel for the year ended 31 December 2009 was approximately RMB205 million (equivalent to approximately HK\$234 million) and the net loss after taxation and extraordinary items attributable to shareholders of Shijiazhuang Steel for the year ended 31 December 2008 was approximately RMB149 million (equivalent to approximately HK\$170 million). As at 31 December 2009, the audited net asset (after excluding minority interest) of Shijiazhuang Steel (in accordance with the generally accepted accounting principles of the PRC) was approximately RMB2,225 million (equivalent to approximately HK\$2,537 million).

### REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT AND MANAGEMENT AGREEMENT

Shijiazhuang Steel owns a steel mill which is located in the city centre of Shijiazhuang, PRC. For city planning and environmental reasons, the mill is required by local government to be relocated outside the city centre of Shijiazhuang. The Directors believe that the task of relocating the mill will be better handled by the Purchaser, which is a major state-owned enterprise with Hebei SASAC as its ultimate beneficiary, rather than CITIC Pacific. In addition, it is estimated that the anticipated costs of relocation and assets

## LETTER FROM THE BOARD

which will need to be written off due to relocation should be significantly higher than the estimated loss incurred by CITIC Pacific under the Disposal (which includes the loss arising from writing off the Loan).

### INFORMATION ON CITIC PACIFIC AND THE PURCHASER

CITIC Pacific's operational focus is on China, both the mainland and Hong Kong. Its major businesses are special steel manufacturing, iron ore mining and property development in mainland China. Other businesses include energy and civil infrastructure. It also holds controlling interests in Dah Chong Hong Holdings Limited and CITIC 1616 Holdings Limited.

The Purchaser is principally engaged in the production and sale of steel products, and is one of the largest steel producers in China. The Purchaser is ultimately beneficially owned by Hebei SASAC.

### LISTING RULES IMPLICATIONS

HPSA is a substantial shareholder of Shijiazhuang Steel, a subsidiary of CITIC Pacific under the Listing Rules (but accounted for as a jointly controlled entity). As the Purchaser and HPSA are both under the ultimate control of Hebei SASAC, the Purchaser is a connected person of CITIC Pacific under the Listing Rules. The entering into of the Framework Agreement, the Management Agreement and other transactions contemplated in this circular therefore constitute a connected transaction for CITIC Pacific under Chapter 14A of the Listing Rules. As the relevant percentage ratio in respect of the Framework Agreement, the Management Agreement and other transactions contemplated in this circular exceeds 5%, the Framework Agreement, the Management Agreement and other transactions contemplated in this circular constitute a discloseable transaction for CITIC Pacific under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

According to Rule 14A.43 of the Listing Rules, where independent shareholders' approval of a connected transaction is required, under certain conditions the Stock Exchange may accept that approval of the independent shareholders be given by a resolution in writing, instead of one passed at a shareholders' meeting. Those conditions are that: (a) no shareholder of CITIC Pacific is required to abstain from voting if CITIC Pacific were to convene a general meeting for the approval of the connected transaction; and (b) the written independent shareholders' approval has been obtained from a shareholder or closely allied group of shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting to approve the connected transaction.

CITIC Group, the ultimate beneficial owner of a closely allied group of Shareholders (namely Honpville Corporation (holding 310,988,221 Shares), Winton Corp. (holding 30,718,000 Shares), Westminster Investment Inc. (holding 101,960,000 Shares), Jetway Corp. (holding 122,336,918 Shares), Cordia Corporation (holding 32,258,064 Shares), Raymondford Company Limited (holding 2,823,000 Shares), Affluence Limited (holding

## LETTER FROM THE BOARD

43,266,000 Shares), Southpoint Enterprises Inc. (holding 10,000,000 Shares), Hainsworth Limited (holding 93,136,000 Shares), Full Chance Investments Limited (holding 450,416,694 Shares), Newease Investments Limited (holding 450,416,694 Shares), and Skyprofit Holdings Limited (holding 450,416,694 Shares)) which, in aggregate, are interested in 2,098,736,285 Shares representing approximately 57.52% of the issued share capital of CITIC Pacific as at the Latest Practicable Date, has signed a written shareholder's approval in accordance with Rule 14A.43 of the Listing Rules approving the Framework Agreement, the Management Agreement and other transactions contemplated under this circular.

Since, to the best knowledge of the Directors, none of the Shareholders is required to abstain from voting on the Framework Agreement, the Management Agreement and the transactions contemplated in this circular, written approvals of the above Shareholders have been obtained for the purpose of approving the same in lieu of an approval from the Independent Shareholders at a shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules.

An application has been made to the Stock Exchange for, and the Stock Exchange has granted to CITIC Pacific, a waiver from strict compliance with the requirement to hold a shareholders' meeting to approve the Framework Agreement, the Management Agreement and other transactions contemplated under this circular on the basis of a written independent shareholders' approval given in accordance with Rule 14A.43 of the Listing Rules.

Any connected person with a material interest in the transactions, and any shareholder with a material interest in the transactions and its associates, will not vote. Each of the Purchaser and Zhongfu Investment has confirmed that it has no interest in any share of CITIC Pacific giving the right to attend and vote at general meetings of CITIC Pacific and to the best knowledge of the Directors, CITIC Group is not required to abstain from voting on the Framework Agreement, the Management Agreement and other transactions contemplated under this circular. To the best knowledge of the Directors, no other Shareholder is required to abstain from voting on the Framework Agreement, the Management Agreement and other transactions contemplated under this circular either.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Framework Agreement, the Management Agreement and other transactions contemplated under this circular. CITIC Pacific has retained KBC Bank N.V. Hong Kong Branch as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

### RECOMMENDATION

Having noted and considered the reasons stated under the section headed "Reasons for and Benefits of the Framework Agreement and Management Agreement", the Directors (including the independent non-executive Directors whose views have been set out in this circular after taken into consideration the advice of the Independent Financial Adviser) consider that the terms of the Framework Agreement, the Management Agreement and other transactions contemplated under this circular are on normal

## LETTER FROM THE BOARD

commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of CITIC Pacific and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to support, and if a physical shareholders' meeting were to be held, to vote in favour of the relevant resolution(s) to approve, the Framework Agreement and the Management Agreement.

### ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from KBC Bank N.V. Hong Kong Branch to the Independent Board Committee and the Independent Shareholders, the summary of the valuation report and the general information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**CITIC Pacific Limited**  
**Chang Zhenming**  
*Chairman*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in relation to the entering into of the Framework Agreement and Management Agreement and other transactions contemplated in the Circular.*



CITIC PACIFIC

### **CITIC Pacific Limited** **中信泰富有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 00267)**

4 June 2010

*To the Independent Shareholders*

Dear Sir or Madam,

#### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to the circular issued by CITIC Pacific to the Shareholders dated 4 June 2010 (the "Circular") of which this letter forms part. Terms defined in this circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise you on the terms of the Framework Agreement, the Management Agreement and other transactions contemplated in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve these agreements and other transactions contemplated in the Circular. KBC Bank N.V. Hong Kong Branch has been appointed as the independent financial adviser to advise you and us in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out on page 15 to 29 of the Circular.

#### **RECOMMENDATION**

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Framework Agreement and the Management Agreement.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account principal factors and reasons considered by and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider the terms of the Framework Agreement, the Management Agreement and the other transactions contemplated in the Circular to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and to be in the interests of CITIC Pacific and the Shareholders as a whole. We therefore recommend the Independent Shareholders to support, and if a physical shareholders' meeting were to be held, to vote in favour of, the relevant resolution(s) to approve the Framework Agreement and the Management Agreement.

Yours faithfully,  
For and on behalf of  
Independent Board Committee of  
**CITIC Pacific Limited**  
**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 full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from KBC Bank N.V. Hong Kong Branch in respect of the entering into of the Framework Agreement and the Management Agreement and other transactions contemplated in this circular prepared for the purpose of inclusion in this circular.*



39/F, Central Plaza  
18 Harbour Road  
Hong Kong

4 June 2010

The Independent Board Committee and the Independent Shareholders

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

Dear Sirs,

### DISCLOSEABLE AND CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Disposal, details of which are set out in the section headed “Letter from the Board” of the circular dated 4 June 2010 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 19 March 2010, the Purchaser and CITIC Pacific (for itself and on behalf of Megaston and Suzhou Trust and Zhongfu Investment) entered into the Framework Agreement, pursuant to which the Purchaser conditionally agreed to purchase the Sale Interest, representing 80% equity interest (together with all the ancillary rights, declared but unpaid dividends and other rights to undistributed profit) in Shijiazhuang Steel at the Consideration of RMB1,900 million (equivalent to approximately HK\$2,166 million). Pursuant to an agreement between CITIC Pacific and Zhongfu Investment, the Consideration will be split between CITIC Pacific and Zhongfu Investment, of which RMB1,577,245,000 (the “CITIC Consideration”) will be paid to CITIC Pacific and RMB322,755,000 (the “Management Consideration”) will be paid to Zhongfu Investment as the consideration for the disposal of each of their 65% and 15% equity interest (together with all the ancillary rights, declared but unpaid dividends and other rights to undistributed profit) in Shijiazhuang Steel. By virtue of (i) Shijiazhuang Steel being a non-wholly owned subsidiary of CITIC Pacific; and (ii) the Purchaser and HPSA, a substantial shareholder of Shijiazhuang Steel (a subsidiary of CITIC Pacific under the

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Listing Rules), being both under the ultimate control of Hebei SASAC, the Purchaser is a connected person of CITIC Pacific under Chapter 14A of the Listing Rules, and the transactions contemplated under the Framework Agreement and the Management Agreement constitute connected transactions for CITIC Pacific under Chapter 14A of the Listing Rules. As the relevant percentage ratio (as defined in the Listing Rules) in respect of the Framework Agreement and the Management Agreement exceeds 5% but lower than 25%, the transactions contemplated under the Framework Agreement and the Management Agreement also constitute discloseable transactions for CITIC Pacific under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Messrs. Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong, has been established to advise the Independent Shareholders in respect of the Disposal. We, KBC N.V. Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Disposal as to (i) whether the transactions contemplated under the Framework Agreement and the Management Agreement are conducted in the ordinary and usual course of business of CITIC Pacific and on normal commercial terms; (ii) whether the terms of the Framework Agreement and the Management Agreement are fair and reasonable in so far as the Independent Shareholders are concerned; and (iii) whether the entering into of the Framework Agreement and the Management Agreement is in the interests of CITIC Pacific and the Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts supplied to us by CITIC Pacific. We have reviewed, among other things, (i) the Circular; (ii) the Framework Agreement and the Management Agreement; (iii) the annual reports covering the three years ended 31 December 2009 (collectively, the "Financial Reports"); (iv) the valuation report (the "Valuation Report") prepared by Hebei Zhongkang (the "Valuer"); and (v) the analysis (the "Relocation Analysis") prepared by the Metallurgical Industrial Planning and Research Institute (冶金工業規劃研究院) (the "Metallurgical Research Institute") in the PRC on the financial impact of the potential relocation (the "Relocation") of Shijiazhuang Steel. 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 and the management of CITIC Pacific that having made all reasonable enquiries and careful decisions, and to the best of their information, 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. In addition, we have also assumed that all information, 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.

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We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Disposal 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.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Disposal 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. Background of CITIC Pacific

CITIC Pacific, a conglomerate, and together with its subsidiaries, invest in and operate a number of businesses, including (i) special steel manufacturing; (ii) iron ore mining; (iii) property development in the PRC; and (iv) other businesses including energy and civil infrastructure. CITIC Pacific is also the controlling shareholder of each of Dah Chong Hong Holdings Limited and CITIC 1616 Holdings Limited, the shares of both of which are listed on the Stock Exchange.

Special steel generally refers to steel that has added or extra benefits, such as heat resistance, anti corrosion and anti fatigue and is categorised into bar steel, plate, strip steel, tube steel and wire steel. As stated in the Financial Reports, the Group is the largest special steel manufacturer in the PRC in terms of both production capacity and production volume and its three key production plants are located in Jiangyin City, Jiangsu Province (“Jiangyin Xingcheng Special Steel”), Huangshi City, Hubei Province (including its 58%-owned Daye Special Steel Company Ltd.) (“Xin Yegang Special Steel”) and Shijiazhuang City, Hebei Province (i.e. Shijiazhuang Steel), respectively.

#### Key Special Steel Products of the Group in the PRC

	Market Share			Sales ('000 tonnes)		
	2007	2008	2009	2007	2008	2009
Gear steel	40%	44%	45%	831	863	893
Alloy spring steel	35%	40%	36%	463	447	487
Bearing steel	35%	40%	42%	789	769	948
Other alloy steel	27%	26%	23%	1,835	1,741	1,589
Carbon structure steel	19%	19%	22%	1,471	1,265	1,221
Seamless steel tubes	<i>Not available</i>	7%	6%	436	380	315

*Source: The Financial Reports*

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The Group's special steel products mainly comprises gear steel, alloy spring steel, bearing steel, other alloy steel, carbon structure steel and seamless steel tubes, which are mainly sold to manufacturers of auto components and machinery/industrial manufacturing. After the Disposal and the construction and installation of additional production lines in Jiangyin Xingcheng Special Steel and Xin Yegang Steel in the pipeline and under planning, the Group's aggregate annual production capacity is expected to reach approximately 9 million tonnes.

### **Major Customers of the Special Steel Products of the Group by Industries (in terms of Sales Volume)**

<b>Industries</b>	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	'000	%	'000	%	'000	%
	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>
Auto components	2,599	40%	2,662	42%	2,799	44%
Machinery/Industrial manufacturing	1,319	20%	1,397	22%	1,401	22%
Metal works	1,076	17%	828	13%	721	11%
Power generation	384	6%	415	7%	464	7%
Oil and petrochemical	350	5%	381	6%	343	5%
Railway	140	2%	156	2%	177	3%
Shipbuilding	94	1%	100	2%	138	2%
Others	555	9%	390	6%	389	6%
	<b>6,517</b>	<b>100%</b>	<b>6,329</b>	<b>100%</b>	<b>6,432</b>	<b>100%</b>

*Source: The Financial Reports*

As disclosed in the summary of the financial results of the Group for the four years ended 31 December 2009 below, the Group's special steel business has grown to become its largest business segment in terms of both revenue and profit contribution. However, due to the significant decline in both demand and selling prices of its special steel products resulting from the substantial slowing down of global economic activities since the financial turmoil in late 2008, the selling prices, sales and production volume of its special steel products were adversely hit in the first half of 2009. Although the Group has experienced signs of rebound in the selling prices, sales and production volume of its special steel products, the Group's average selling prices of special steel products for the year ended 31 December 2009 were in general 30% lower than the previous year, whilst export sales accounted for only approximately 6% of the Group's total sales of special steel products as compared to approximately 16% in the previous year. As a result, revenue and profit contribution from the Group's special steel business for the year ended 31 December 2009 have decreased by approximately 16% and 12% from the previous year, respectively.

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	For the year ended 31 December							
	2006		2007*		2008*		2009	
	(HK\$ ' Million)	%	(HK\$' Million)	%	(HK\$' Million)	%	(HK\$' Million)	%
<b>Turnover</b>								
– Special steel (Note 1)	15,278	32.5%	18,501	48.0%	22,758	49.0%	19,079	41.1%
– Iron ore mining	–	–	–	–	27	0.1%	27	0.1%
– Property	8,320	17.7%	1,321	3.4%	787	1.7%	1,647	3.5%
– Infrastructure (Note 2)	10,181	21.6%	2,236	5.8%	3,220	6.9%	3,440	7.4%
– Marketing and distribution (Note 3)	13,222	28.1%	16,050	41.7%	19,496	42.0%	22,131	47.7%
– Other investment	48	0.1%	426	1.1%	132	0.3%	85	0.2%
	<u>47,049</u>	<u>100.0%</u>	<u>38,534</u>	<u>100.0%</u>	<u>46,420</u>	<u>100.0%</u>	<u>46,409</u>	<u>100.0%</u>
<b>Profit/(loss) from consolidated activities</b>								
– Special steel (Note 1)	1,809	26.8%	2,418	62.7%	2,147	35.8%	1,591	26.8%
– Iron ore mining	–	–	–	–	(133)	(2.2%)	484	8.2%
– Property	1,942	28.7%	405	10.5%	933	15.5%	843	14.2%
– Infrastructure (Note 2)	2,664	39.4%	596	15.5%	935	15.6%	867	14.6%
– Marketing and distribution (Note 3)	437	6.5%	457	11.9%	919	15.3%	1,090	18.4%
– Other investment	(93)	(1.4%)	(22)	(0.6%)	1,203	20%	1,060	17.8%
	<u>6,759</u>	<u>100.0%</u>	<u>3,854</u>	<u>100.0%</u>	<u>6,004</u>	<u>100.0%</u>	<u>5,935</u>	<u>100.0%</u>
<b>Total **</b>								

Source: The Financial Reports

\* as restated in CITIC Pacific's annual reports for the years ended 31 December 2008 and 2009 respectively

\*\* balances represented total profit and loss from consolidated activities before (i) change in fair value of investment properties; (ii) unallocated general and administration expenses; (iii) gain or loss from leveraged foreign exchange contracts; (iv) exchange gain; and (v) finance charges and excluded the gains resulted from the spinning-off of Dah Chong Hong Holdings Limited and CITIC 1616 Holdings Limited for the year ended 31 December 2007.

Note 1: balance does not include the results from the jointly controlled entities under the Group's accounting policies, such as Shijiazhuang Steel

Note 2: includes the results from the Group's businesses in power generation, aviation, civil infrastructure and investment in CITIC 1616 Holdings Limited

Note 3: mainly represents the results of Dah Chong Hong Holdings Limited

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### 2. Reasons for and Benefits of the Disposal

#### (i) Overview of Shijiazhuang Steel

According to CITIC Pacific's announcement dated 15 November 2005 (the "SJZ Announcement"), CITIC Pacific and Zhongfu Investment entered into an acquisition and capital injection agreement (the "SJZ Acquisition Agreement") with Hebei SASAC for the acquisition of Shijiazhuang Steel, which was then wholly-owned by Hebei SASAC. As a result, the registered capital of Shijiazhuang Steel was owned as to 65%, 15% and 20% by CITIC Pacific, Zhongfu Investment and Hebei SASAC. Since decisions of Shijiazhuang Steel must be approved by two-third of its directors and certain corporate matters require unanimous approval by all directors, the Group is unable to exert controlling influence over Shijiazhuang Steel's financial and management policies and, therefore, Shijiazhuang Steel has been accounted for as a jointly controlled entity of CITIC Pacific.

Shijiazhuang Steel has an annual production capacity of approximately 2.2 million tonnes. For each of the three years ended 31 December 2009, its production volume has been close to its designed annual production capacity i.e. approximately 2.0 million tonnes, 1.7 million tonnes and 1.8 million tonnes, respectively, and accounted for approximately 30% of the Group's total special steel production volume during those three years.

#### Major special steel products produced by the Group's three production plants

	2007			2008			2009		
	SJZ	JY	XYG	SJZ	JY	XYG	SJZ	JY	XYG
Carbon structure steel	44%	9%	20%	39%	8%	19%	30%	11%	19%
Alloy structural steel	29%	31%	23%	25%	29%	20%	26%	23%	18%
Bearing steel	13%	12%	11%	15%	11%	11%	20%	12%	15%
Gear steel	13%	13%	11%	11%	17%	17%	14%	16%	17%
Alloy spring steel	1%	10%	9%	3%	8%	9%	4%	8%	11%
Wire	-	8%	-	-	7%	-	-	7%	-
Seamless steel tubes	-	-	23%	-	-	23%	-	-	19%
Others	-	17%	3%	7%	20%	1%	6%	23%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%

*SJZ: Shijiazhuang Steel; JY: Jianguyin Xingcheng Special Steel; XYG: Xin Yegang Special Steel*

*Source: The Financial Reports*

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### *(ii) Requirement to relocate Shijiazhuang Steel*

Throughout the past years, the Group had spent much effort and work to lessen the impact of its special steel manufacturing activities on the environment such as (i) applying filter de-dusting and electric de-dusting facilities to reduce industrial fumes and dust; (ii) installing cooling water recycling systems and sewage treatment stations before discharging sewage water; (iii) having sound proof coverage for all large noise generating equipment; and (iv) using desulphurizing devices to minimise sulphur dioxide pollution. However, in spite of the Group's efforts and achievements, as disclosed in the Circular, for city planning and environmental concerns, Shijiazhuang Steel, which is located in the city centre of Shijiazhuang City, will be required to be relocated to outside the city centre. CITIC Pacific has appointed the Metallurgical Research Institute to conduct the Relocation Analysis, for purposes of, among others, assessing the reusability of Shijiazhuang Steel's existing production related fixed assets in new operating premises as well as the costs of the construction and installation of the infrastructure and new equipment to be purchased in the new production plant. As a common phenomenon of the steel manufacturing industry, the majority of the production facilities (such as the blast furnace and the various steel rolling equipment) cannot be relocated, partly due to the fact that the various individual equipment and machinery of the production lines of Shijiazhuang Steel are highly inter-connected with one another and it is extremely difficult, or otherwise impractical, to "deconstruct" and "reconstruct" such production lines of Shijiazhuang Steel from one location to another without substantially damaging their overall functionalities, and partly due to the old equipment and machinery, Shijiazhuang Steel's existing production lines may not be re-used because they may not fulfill the environmental standards currently in place according to the Relocation Analysis. As such, it is estimated that production related fixed assets of net book value of approximately RMB2.1 billion (the "Relocation Loss") (accounting for approximately 96% of the audited net asset value of Shijiazhuang Steel as at 31 December 2009) will have to be written-off under the Relocation. Notwithstanding the above, Shijiazhuang Steel will also suffer potential loss of business and customers from temporary closure of operation and incur substantial capital outlay for the construction and purchase of new production premises and equipment.

Based on the above, we concur with the management of CITIC Pacific that the Disposal represents an attractive divestment opportunity to the Group for avoiding the substantial Relocation Loss and bearing the significant financial burden in constructing a new plant while allowing the Group to apply the proceeds from the Disposal for its business development.

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(iii) *The Group's business strategy to focus on the production of high-end special steel products for its special steel business segment*

During late 2008 and early 2009, the State Council of the PRC announced a series of policies to stimulate domestic consumption to mitigate the adverse impact from the global financial turmoil on the PRC's economy, including the "RMB4 Trillion Stimulus Package" announced in November 2008 for purposes of increasing the national investment in infrastructure (such as power network, water resources, railways, expressways and airports), environmental protection (garbage management and sewage water processing) and the income of rural households (through provision and increment in the various government subsidies). According to the National Bureau of Statistics of the PRC, the PRC's gross domestic product in 2009 was able to record a growth rate of approximately 8.7% from 2008 and the national investment in fixed asset also recorded a significant growth of approximately 30.1% from 2008. In March 2010, the PRC government has further announced that the growth rate of the national gross domestic products is targeted to be maintained at 8% in 2010.

In March 2009, the State Council of the PRC announced (i) the "Swap of Used Cars and Home Appliances for New Ones" program under which PRC consumers who trade-in their old used vehicles for purchasing new ones will receive rebates from the government and (ii) the 「鋼鐵產業調整和振興規劃」 (the "National Plan for Adjustment and Stimulation of the Steel Industry") which aimed to stabilise the PRC's steel demands to achieve the then targeted 8% growth in the PRC's gross domestic products for 2009, through expanding (a) auto, ship building and machinery industries; (b) investment in civil infrastructure; and (c) property development. In addition, the National Plan Adjustment and Stimulation for Steel Industry has also introduced preferential tax measures to encourage Chinese enterprises to develop high-end steel products. Given the implementation of these macroeconomic measures, the production and consumption of steel products in PRC increased by approximately 13.5% and 24.8% from 2008, respectively, according to the Ministry of Industry and Information Technology ("MIIT") of the PRC, whilst at the same time, the PRC's automobile industry overtook the leading position of the United States' and became the world's largest producer and consumer of automobiles in 2009 (representing an increase of approximately 48.30% and 46.15% from 2008, respectively).

On the other hand, according to the 「2009年鋼鐵行業發展回顧及2010年展望」 (the "Overview of the Development in the PRC's Steel Industry in 2009 and Expectation in 2010", or the "Overview") issued by MIIT in February 2010, the structural imbalance between the demand and supply of steel products in the PRC was further widened from the gap of 100 million tonnes between the PRC's national crude steel production capacity of 660 million tonnes and domestic consumption in 2008 due to (i) the estimated national steel production capacity having reached 700 million tonnes in 2009; and (ii)

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the world's slow recovery process after the financial turmoil having resulted in a weak export market for the PRC's steel products. According to the Overview, the world (excluding the PRC) in general recorded a decline of steel production volume of approximately 21.5% in 2009 as compared to previous year and the average profit margins of the PRC's steel industry dropped to approximately 2.2% in 2009. Given the over-supply situation of steel in the PRC in recent years, the PRC government has formulated a series of policies to speed up the consolidation within the steel industry, such as raising the entry barriers for new industry players, consolidation of smaller steel manufacturers and restructuring of steel companies, and as a result, a total of steel production capacity of 16.91 million tonnes was eliminated in 2009.

It is expected that the aforesaid excessive production capacity and the implementation of the government policies will make the business environment for all steel manufacturers in the PRC more challenging. As such, the management of CITIC Pacific considered that the Group's ability to respond quickly to the market demand and focus its resources on developing special steel products of higher competitive edge is key to the Group's continuous success in the special steel industry in the PRC. Given the fact that the key financial benchmarks (such as gross and net profit margins) and product mix of Shijiazhuang Steel have been substantially below and less competitive than those of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel in the past three years, we concur with the management of CITIC Pacific that with regard to the future prospects, the special steel products of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel are likely to benefit more from the aforesaid government policies which favour, particularly the auto industry and steel/special steel production plants capable of developing high-end steel/special steel products.

As disclosed in the Financial Reports, the Group's special steel production is characterised by its ability to produce special steel products which meet its customers' specifications and the Group's advancement in technology has enabled it to gain leadership position in many types of its special steel products produced. Sales of the Group's special steel products for the auto components sector has accounted for over 40% of the Group's total special steel sales volume in the past three years. Jiangyin Xingcheng Special Steel, the Group's largest special steel production plant with a production capacity of over 3 million tonnes per annum, is a leader in the special steel manufacturing industry in the PRC and has a specific strength in the production of specific steel products for customers in the auto components sector. It has a production line built in partnership with Sumitomo Metals (Kokura), Ltd. (a renowned Japanese steel manufacturer specialising in the production of steel bars and wire rods for automobiles, vessels, industrial machinery, electrical machinery, buildings, civil engineering) which specialises in the production special steel products for high-end auto components. Special steel products of Jiangyin Xingcheng Special Steel have been certified by well-known worldwide brands (such as Toyota, Honda, GM, NHK, Volkswagen, Volvo, SKF and FAG, etc.). In addition, a production line

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of high-grade steel products of Jiangyin Xingcheng Special Steel used in the making of bearings, gears, springs and high-pressurised tubes is also the only production line in the PRC capable of producing round tube billets with a diameter of 800mm for use in machinery manufacturing. Whilst Jiangyin Xingcheng Special Steel specialises in the production of special steel for auto components, Xin Yegang Special Steel, which has an annual production capacity of approximately 2 million tonnes per annum, is the Group's main production arm for seamless steel tube products (which are high profit margin special steel products of the Group) primarily used in the energy, petrochemical, coal and military industries.

In accordance with the Group's commitment to raise the product quality and technology content of its special steel products as the key to remain competitive in the special steel market, the Group, throughout the past years, has made substantial investment to enhance the production capacity of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel, including (i) the construction of a special steel plate production line with a production capacity of 1.2 million tonnes per annum at Jiangyin Xingcheng Special Steel scheduled for completion in the first half of 2010 for production of such special steel products as ship plate steel, steel used in marine engineering, petroleum pipe line steel, as well as pressure vessel steel used in the shipbuilding, marine engineering, oil, petrochemical and machinery manufacturing industries; (ii) the acquisition of the remaining 20% equity interest in Jiangyin Xingcheng Special Steel in August 2009 from the minority shareholders for full capture of its future financial contribution; and (iii) the construction of two new production lines in Xin Yegang Special Steel have been completed in 2009 which have an aggregate annual production capacity of 630,000 tonnes of medium and thick wall seamless steel tubes for purposes of complimenting Xin Yegang Special Steel's then seamless tubes production facilities. In addition to the above, CITIC Pacific is planning to construct (i) an additional plate production lines at Jiangyin Xingcheng Special Steel to further increase its production capacity to approximately 6 million tonnes per annum by 2011; and (ii) additional production lines at Xin Yegang Special Steel to further increase its production capacity to approximately three million tonnes per annum by 2011. After the aforesaid enhancement in the production facilities, the aggregate production capacity of the Group, excluding Shijiazhuang Steel will increase from the existing 5 million tonnes to 9 million tonnes per annum.

On the other hand, the special steel products of Shijiazhuang Steel have been mainly carbon structure steel where the market competition is relatively intense and commands a relatively thin margin as compared to the Group's other high-end special steel products (such as seamless steel tubes). As such, although Shijiazhuang Steel's production volume on average had been maintained at close to its designed production capacity during 2008 and 2009, its profit margins, were below those of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel.

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Given (i) the comparative advantages of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel in the production of special steel products for high-end auto components and the high-margin seamless steel tubes, respectively, over Shijiazhuang Steel, which principally produces carbon structure steel commanding a relatively thin margin and the market is highly competitive; (ii) both Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel being wholly-owned by the Group and Shijiazhuang Steel being accounted for as a jointly controlled entity in the consolidated financial statements of CITIC Pacific which result in the Group having the ability and full autonomy to make continuous investment in Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel to upgrade and expand their production facilities as opposed to any major investment for upgrading or shifting the product mix of Shijiazhuang Steel which requires pro-rata capital contribution and consensus from the other shareholders and the difficulties posed by limited space available in the site of Shijiazhuang Steel to implement such enhancement; and (iii) the key financial benchmarks (such as gross and net profit margins) of Shijiazhuang Steel having been below those of Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel throughout the past years, we concur with the management of CITIC Pacific that the Disposal is in line with the Group's strategy to focus on the high-end (such as auto components) and high profit margin (such as seamless steel tubes) special steel products in order to benefit from the growth of the PRC's special steel market.

*(iv) The Group's development strategy to divest of its businesses of less significance and lower competitive edge*

As a conglomerate, the Group has from time to time invested in and/or divested of part or all equity interest in some of its businesses with a view to maximising the returns to the Shareholders. As stated in the Financial Reports, the Group has been adopting a prudent development strategy for each of its business segments based on their respective market positions, competitiveness, future prospects and the extent to which the Group is able to exercise its management control. In accordance with such strategy to (i) dispose of those businesses which (a) it has no management control; (b) are not significant to the Group's future development; and (c) are not able to generate sufficient profit or cash; and (ii) increase in investment in the Group's major business which generate high investment returns, the Group has (i) (a) disposed of its entire equity interest in North United Power Corporation, a 20% owned sino-foreign equity joint venture of the Group which recorded substantial loss for the year ended 31 December 2008, in April 2009 and (b) 14.5% equity interest in Cathay Pacific Airways Limited in 2009; and (ii) increased its investment in Jiangyin Xingcheng Special Steel and Xin Yegang Special Steel during the past years as mentioned above.

Having considered the Relocation being an inevitable event for Shijiazhuang Steel given the city planning and the environmental concerns of Shijiazhuang City, its relatively low-end and low profit margin special steel

products as compared with the Group's two other special steel production plants, we concur with the management of CITIC Pacific that the Disposal conforms with the overall development strategy of the Group and the proceeds obtained from the Disposal will allow the Group to gain more financial resources in achieving such objective.

Given the above, we are of the view that the Disposal is conducted in the ordinary and usual course of the Group's business and is in the interest of CITIC Pacific and the Shareholders as a whole.

**3. Other major terms of the Framework Agreement**

*Forfeiture of part of the Loan by the Group*

Based on our discussion with the management of CITIC Pacific, the Purchaser's acquisition of the a total of 80% equity interest in Shijiazhuang Steel from CITIC Pacific and Zhongfu Investment is a package deal under the Framework Agreement. The Group, in 2007, provided the Loan to Zhongfu Investment to fund its acquisition of the 15% equity interest in Shijiazhuang Steel under the SJZ Acquisition Agreement. Under the agreement between the Group and Zhongfu Investment, the Management Consideration in the amount of approximately RMB4.3 million (equivalent to approximately HK\$4.9 million) will be payable as to Zhongfu Investment and the remaining amount as to approximately RMB318.4 million (equivalent to approximately HK\$363.0 million) will be payable to CITIC Pacific in full satisfaction of the Loan (including the related interest). The shortfall (the "Shortfall") between the Loan and the amount to be paid to CITIC Pacific from the Management Consideration will be written off. As such, based on the carrying amount of the Loan of approximately HK\$390 million as at 31 December 2009, it is expected the Group will incur a loss of approximately HK\$28 million, being the Shortfall.

*Sale of five wholly-owned subsidiaries in Cangzhou*

Also as a part and parcel to the Framework Agreement, CITIC Pacific will sell to the Purchaser at cost five wholly-owned subsidiaries (the "CZ Subsidiaries") which are incorporated for the purpose of acquiring, in the future, certain reclaimed land parcels in Cangzhou, the PRC. The consideration will be approximately US\$6.75 million (equivalent to approximately HK\$52.65 million), representing the capital injected by CITIC Pacific into the Cangzhou Subsidiaries and is at close proximity to the aggregate net asset value of the CZ Subsidiaries. As such, it is expected that the disposal of the CZ Subsidiaries will not result in significant profit or loss to the Group.

Having taken into account the fact that (i) Zhongfu Investment's agreement to sell its 15% equity interest in Shijiazhuang Steel and the Group's agreement to sell the CZ Subsidiaries are necessary for the Group to effect the

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Disposal; (ii) the aggregate amount of the Shortfall is relatively small when compared with the Consideration; and (iii) the overall benefits of the Disposal outweigh the Relocation and the losses incurred due to the forfeiture of the Shortfall and the disposal of the CZ Subsidiaries, we are of the view that losses due to the forfeiture of the Shortfall and the disposal of the CZ Subsidiaries are acceptable.

#### **4. The Management Agreement**

In order to ensure a smooth transition in the management of Shijiazhuang Steel under the Disposal, CITIC Pacific and the Purchaser, on 19 March 2010, entered into the Management Agreement, pursuant to which the day-to-day operations and management of Shijiazhuang Steel (other than financial matters) will be entrusted to the Purchaser from the date of the Management Agreement until completion of the transfer of the Sale Interest or the termination of the Framework Agreement (as the case may be). Furthermore, under the Management Agreement, the profit and loss for the Sale Interest generated in Shijiazhuang Steel during the term of the Management Agreement will, provided that the Framework Agreement does not lapse during the term of the Management Agreement, be attributable to the Purchaser. The Management Agreement shall become effective upon signing but will lapse if the Framework Agreement lapses. We concur with the management of CITIC Pacific that such arrangements under the Management Agreement will help minimise the potential unrest from Shijiazhuang Steel's employees during the transition period under the Disposal and consider that such arrangement is reasonable.

#### **5. Consideration**

As stated in the section headed "Letter from the Board" of the Circular, the Consideration was arrived at after arm's length negotiation between CITIC Pacific and the Purchaser, and after having taken into account, among other things, the possible impact of the Relocation and the valuation of Shijiazhuang Steel of approximately RMB2,154 million (the "Valuation") as at 31 December 2009 prepared by the Valuer. We understand from the management of CITIC Pacific that given the uncertainty of Relocation and the significant resources (both monetary and non-monetary) that would be incurred in connection with the Relocation, the Group believes the task of the Relocation will be better handled by the Purchaser, a major state-owned enterprise having Hebei SASAC as its ultimate beneficiary owner, rather than CITIC Pacific, which is a company incorporated in Hong Kong. Based on the aggregate estimated loss of approximately HK\$249 million from the Disposal (including the Group's forfeiture of the Shortfall and the disposal of the CZ Subsidiaries) (the "Aggregate Loss") is relatively small when compared with the Relocation Loss (65% of which is expected to be shared by the Group according to its shareholding in Shijiazhuang Steel), we concur with the view of the management of CITIC Pacific that the Aggregate Loss, as a whole, is smaller than the potential loss from the Relocation. In addition, the Consideration approximates to the aggregate interest of the Group and Zhongfu Investment in Shijiazhuang Steel of 80% of the Valuation as adjusted by the declared but unpaid dividends of Shijiazhuang Steel attributable to them.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the above, we are of the view that the terms of the Framework Agreement (including the Consideration) are fair and reasonable in so far as the Independent Shareholders are concerned.

### 6. Financial Impact of the Acquisition

#### (i) *Earnings and net asset value*

Since Shijiazhuang Steel is accounted for only as a jointly controlled entity of CITIC Pacific, CITIC Pacific's consolidated financial statements will only include its share of the results and net asset value of Shijiazhuang Steel according to the Group's percentage of equity interest owned. Based on the above and assuming that the completion of the Disposal took place on 31 December 2009 an estimated unaudited loss of approximately HK\$249 million would be expected to arise from the Disposal and the write-off of the Loan. An impairment provision of the Aggregate Loss of HK\$249 million has been made in the financial statements of CITIC Pacific for the year ended 31 December 2009. Since the Aggregate Loss is substantially below the Relocation Loss, we consider the Aggregate Loss acceptable.

#### (ii) *Gearing and working capital*

According to the Financial Reports, as at 31 December 2009, CITIC Pacific had net debt of approximately HK\$44,122 million (being CITIC Pacific's total interest-bearing borrowings of approximately HK\$65,675 million, less the cash and bank balances of approximately HK\$21,553 million) and total capital of approximately HK\$104,381 million (being the aggregate of the equity attributable to shareholders of approximately HK\$60,259 million and the net debt of approximately HK\$44,122 million). As such, the net debt to total capital ratio of the Group was approximately 42% as at 31 December 2009. Given that the CITIC Consideration and the majority of the Management Consideration will be payable to CITIC Pacific in cash, the cash position of the Group will be increased by approximately HK\$2,161 million and, accordingly, the Group's net debt to total capital ratio will be slightly improved to approximately 41% based on its consolidated financial statement as at 31 December 2009.

### CONCLUSION AND RECOMMENDATION

Having considered the principal factors referred from above, in particular,

- (i) the Relocation is an inevitable event for Shijiazhuang Steel given the city planning and the environmental concerns of Shijiazhuang City;
- (ii) according to the analysis of the Metallurgical Research Institute, the Disposal prevents Shijiazhuang Steel (hence the Group) from incurring the Relocation Loss which outweighs the Aggregate Loss, not to mention the potential loss of business and customers due to the temporary closure of Shijiazhuang Steel during the course of the Relocation;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) it is the Group's strategy to concentrate its resources on those businesses and assets of high profitability and investment return while the profitability of Shijiazhuang Steel has been the most unsatisfactory in the Group's special steel business in the past years;
- (iv) the Disposal represents an attractive divestment opportunity for the Group to relief itself from the significant financial burden and uncertainty resulted from the Relocation and the proceeds from the Disposal will provide additional capital for the Group's future development;
- (v) the terms of the Framework Agreement (including the Consideration and the Aggregate Loss) are fair and reasonable;

we are of the view that (i) the transactions contemplated under the Framework Agreement and the Management Agreement are conducted in the ordinary and usual course of business of CITIC Pacific and on normal commercial terms; (ii) the terms of the Framework Agreement and the Management Agreement are fair and reasonable in so far as CITIC Pacific and the Independent Shareholders are concerned; and (iii) the entering into of the Framework Agreement and the Management Agreement is in the interest of CITIC Pacific and the Shareholders as a whole.

The Stock Exchange has granted a waiver to the Company from strict compliance with the requirement to hold a shareholders' meeting and the permission for the independent shareholders' approval in respect of the Framework Agreement and the Management Agreement to be given in the form of the written shareholders' approval signed by CITIC Group. As such, the entering into of the Framework Agreement and the Management Agreement by CITIC Pacific is not required to be approved at a general meeting of CITIC Pacific. However, had the entering into of the Framework Agreement and the Management Agreement been required to put forward for consideration and approval at a general meeting of CITIC Pacific, we would advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Framework Agreement and the Management Agreement.

Yours faithfully,

For and on behalf of

**KBC Bank N.V. Hong Kong Branch**

**Kenneth Chan**

*Head of Corporate Finance, Greater China*

**Gaston Lam**

*Corporate Finance*

**Appraisal project on transfer of equity interest and all assets in  
Shijiazhuang Iron & Steel Co., Ltd. (“Shijiazhuang Steel”)**

**EXTRACT OF ASSETS APPRAISAL REPORT  
Jirenda Ping Bao Zi [2010] No.007**

The following contents are extracted from the full appraisal report. The full report in Chinese is made available for inspection by the public from 4 June 2010 to 21 June 2010.

To Hebei Iron & Steel Group Co. Ltd. and CITIC Pacific Limited:

Pursuant to the instruction from Hebei Iron & Steel Group Co. Ltd. and CITIC Pacific Limited and pursuant to the relevant PRC laws, regulations and assets appraisal rules and principles, adopting the net asset valuation method and based on necessary valuation procedures, we were instructed to conduct an appraisal on the market valuation as at 31 December 2009 of all equity interest of Shijiazhuang Steel in relation to the transfer of equity interest in Shijiazhuang Steel.

The relevant transaction is the acquisition of 80% of the equity interest in Shijiazhuang Steel by Hebei Iron & Steel Group Co. Ltd. (the “Economic Event”). The purpose of the valuation is to ascertain the market reference value of all the equity interest of Shijiazhuang Steel as at the reference date of 31 December 2009 so as to provide a basis of consideration for shareholders. Based on the nature of the Economic Event and the condition of the assets to be appraised, we have used the net asset valuation method and income capitalisation method to appraise the market reference value of all the assets of Shijiazhuang Steel.

This appraisal is based on the following preconditions and assumptions:

**I. General Assumptions**

1. The appraised assets shall be available for operation on an on-going basis in the future with annual capital injection for maintenance of major production and operating facilities on a consistent basis. Each major production and operating facility shall meet the production and operating requirements.

**II. Special Assumptions**

1. The valuation is conducted for the specific purposes of allowing shareholders to assess the Disposal.
2. Stable economic environment assumption: assuming there are no material changes to the prevailing law, regulations, policies and macroeconomic conditions in the PRC in the future as well as the political, economic and social environment of regions in which the parties involved operates, and there are no material adverse impact arising from other unforeseeable events and force majeure events.
3. No material changes assumption: assuming there are no material changes to the interest rates, exchanges rates, taxation benchmark and rates and other political fees of the country.
4. No adverse impact assumption: assuming there are no force majeure and unforeseeable factor that will adversely affect the assets to be disposed.
5. No defect in title assumption: assuming that there is no title defect in respect of the assets to be disposed or all title defects have been revealed.
6. True data assumption: assuming the authenticity, accuracy and completeness of the basic information and financial information provided by Shijiazhuang Steel in relation to the appraisal.
7. Consistency of policy assumption: assuming there are no material changes in the accounting policy adopted by Shijiazhuang Steel and auditing method.

Based on the above appraisal work, the conclusion of the appraisal of all the asset of Shijiazhuang Steel adopting the net asset valuation method is set out as below:

### Summary of assets appraisal result

Appraisal Date: 31 December 2009

Subject of Appraisal: Shijiazhuang Steel

Currency Unit: RMB10,000

Items	Book Value A	Valuation Result B
Current Assets	213,272.35	204,461.77
Non-current Assets	341,552.58	368,963.44
Incl: Long-term Equity Investment	26,827.18	38,777.50
Real Estate for Investment	1,356.28	504.33
Fixed Assets	248,280.96	225,962.89
Construction in Process	1,213.99	1,034.19
Construction Material	2,706.57	2,435.91
Intangible Assets	55,689.86	94,770.89
Goodwill	2,368.27	2,368.27
Deferred Tax Assets	3,109.46	3,109.46
<b>Total Assets</b>	<b>554,824.93</b>	<b>573,425.21</b>
Current Liabilities	259,328.10	259,328.10
Non-current Liabilities	98,721.59	98,721.59
<b>Total Liabilities</b>	<b>358,049.69</b>	<b>358,049.69</b>
<b>Net Assets (Shareholders' Equity)</b>	<b>196,775.24</b>	<b>215,375.52</b>

Given the uncertainty of the future income from operation and the fact that the steel industry is easily affected by international and domestic environments, we are of the view that the net asset valuation method is the more appropriate valuation method to reflect to the total value of the enterprise. Therefore the final valuation of Shijiazhuang Steel of RMB2,153,755,200 is obtained based on the net asset valuation method.

The appraisal report is only valid for one year commencing from the appraisal date, i.e. from 31 December 2009 to 30 December 2010.

Users of the appraisal report should take note of the impact caused by certain special matters mentioned in the full appraisal report.

**PROFESSIONAL QUALIFICATION OF HEBEI ZHONGKANG RENDA ASSETS APPRAISAL CO., LTD**

Hebei Zhongkang Renda Assets Appraisal Co., Ltd was established on 8 May 2008 (Business Licence Registration No. 130101000017502). It is a qualified asset appraisal company to conduct single item assets valuation, full assets valuation of enterprises and other kinds of assets appraisals or appraisal projects as required by the market as recognised by the Ministry of Finance of the PRC (Certificate No. Ji Cai Qi [2008] no. 37).

Valuers participated in the appraisal project, who are registered valuers as approved by and registered with the Ministry of Finance of the PRC, are as follows:

<b>Name</b>	<b>Certificate No.</b>	<b>Certificate issuance date</b>	<b>Registered since</b>
Li Ya Jun	13000046	26 September 2006	14 September 2001
Lin Yan Jun	13000634	11 October 2006	21 July 1999

Legal representative : Li Zong Fang  
Hebei Zhongkang Renda Assets Appraisal Co., Ltd  
8 March 2010

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (I) Directors' Interests

#### (a) Interests and/or short positions of the Directors and chief executives

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of CITIC Pacific had any interest or short position in the shares, underlying shares or debentures of CITIC Pacific 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 CITIC Pacific and the Stock 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 for Securities Transactions by Directors of Listed Companies set out in the Listing Rules:

#### (i) Shares in CITIC Pacific:

Name of director	Number of shares	
	Personal interests unless otherwise stated	Percentage to the issued share capital (%)
Carl Yung Ming Jie	300,000	0.008
Vernon Francis Moore	4,200,000	0.115
	(Note 1)	
Li Shilin	300,000	0.008
Liu Jifu	840,000	0.023
Milton Law Ming To	167,000	0.005
Wang Ande	400,000	0.011
Hansen Loh Chung Hon	1,550,000	0.042
	(Note 2)	
André Desmarais	8,145,000	0.223
	(Note 3)	
Peter Kruyt (alternate director to Mr André Desmarais)	34,100	0.001

Note:

1. Trust interest
2. Personal interest in respect of 1,050,000 shares; corporate interest in respect of 500,000 shares and family interest in respect of 500,000 shares which duplicate each other
3. Corporate interest in respect of 8,000,000 shares and family interest in respect of 145,000 shares

(ii) Share options in CITIC Pacific:

Name of director	Date of grant	Exercise price per share (HKD)	Exercisable Period	Number of share options outstanding as at the Latest Practicable Date	Percentage to the issued share capital (%)
Chang Zhenming	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	500,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	600,000	
				1,100,000	0.030
Zhang Jijing	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	0.014
Carl Yung Ming Jie	20 Jun 06	22.10	20 Jun 06 – 19 Jun 11	600,000	
	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	800,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				1,900,000	0.052
Vernon Francis Moore	20 Jun 06	22.10	20 Jun 06 – 19 Jun 11	700,000	
	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	600,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				1,800,000	0.049
Li Shilin	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	500,000	0.014
Liu Jifu	20 Jun 06	22.10	20 Jun 06 – 19 Jun 11	700,000	
	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	700,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				1,900,000	0.052

Name of director	Date of grant	Exercise price per share (HKD)	Exercisable Period	Number of share options outstanding as at the Latest Practicable Date	Percentage to the issued share capital (%)
Milton Law Ming To	20 Jun 06	22.10	20 Jun 06 – 19 Jun 11	800,000	0.058
	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	800,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				2,100,000	
Wang Ande	20 Jun 06	22.10	20 Jun 06 – 19 Jun 11	350,000	0.045
	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	800,000	
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				1,650,000	
Kwok Man Leung	16 Oct 07	47.32	16 Oct 07 – 15 Oct 12	600,000	0.030
	19 Nov 09	22.00	19 Nov 09 – 18 Nov 14	500,000	
				1,100,000	

## (iii) Shares in the associated corporations:

Name of director	<b>Number of shares in CITIC 1616 Holdings Limited</b>	Percentage to the issued share capital (%)
	<b>Personal interests unless otherwise stated</b>	
Vernon Francis Moore	200,000 (Note 1)	0.010

Note:

- Trust interest

Name of director	Number of shares in Dah Chong Hong Holdings Limited	Percentage to the issued share capital (%)
	Personal interests unless otherwise stated	
Li Shilin	12,000	0.001
Liu Jifu	33,600 (Note 1)	0.002
Hansen Loh Chung Hon	62,000 (Note 2)	0.003

Note:

1. Family interest
2. Corporate interest in respect of 20,000 shares and joint interest in respect of 42,000 shares

Name of director	Number of shares in CITIC Guoan Information Industry Co., Ltd.	Percentage to the issued share capital (%)
	Personal interests unless otherwise stated	
Li Shilin	92,466	0.006

Name of director	Number of shares in CITIC Resources Holdings Limited	Percentage to the issued share capital (%)
	Personal interests unless otherwise stated	
Zhang Jijing	28,000 (Note 1)	0.001

Note:

1. Family interest

(iv) Share options in the associated corporations:

**Share options in CITIC Resources Holdings Limited**

Name of director	Date of grant	Exercise price per share (HKD)	Exercisable Period	Number of Share options outstanding as at the Latest Practicable Date	Percentage to issued share capital (%)
Zhang Jijing	02 Jun 05	1.077	02 Jun 06 – 01 Jun 13	10,000,000	0.165

**Share options in CITIC 1616 Holdings Limited**

Name of director	Date of grant	Exercise price per share (HKD)	Exercisable Period	Number of Share options outstanding as at the Latest Practicable Date	Percentage to issued share capital (%)
Kwok Man Leung	17 Sept 09	2.10	17 Sept 10 – 16 Sept 15	150,000	
	17 Sept 09	2.10	17 Sept 11 – 16 Sept 16	150,000	
				300,000	0.013

**(II) Shareholder's Interests**

(b) *Substantial shareholders of CITIC Pacific*

As at the Latest Practicable Date, save as disclosed herein, so far as was known to any Director or chief executive of CITIC Pacific, no person (other than a Director or chief executive of CITIC Pacific or their respective associates) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to CITIC Pacific under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of CITIC Pacific:

Name	Number of shares of CITIC Pacific	Percentage to the issued share capital (%)
CITIC Group	2,098,736,285	57.520
CITIC Hong Kong (Holdings) Limited ("CITIC HK")	747,486,203	20.486
Heedon Corporation	598,261,203	16.397
Full Chance Investments Limited	450,416,694	12.345
Newease Investments Limited	450,416,694	12.345
Skyprofit Holdings Limited	450,416,694	12.345
Honpville Corporation	310,988,221	8.523
Larry Yung Chi Kin	301,844,000	8.273
Earnplex Corporation	238,363,000	6.533

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

<b>Name of subsidiary companies of CITIC Group</b>	<b>Number of shares of CITIC Pacific</b>	<b>Percentage to the issued share capital (%)</b>
CITIC HK	747,486,203	20.486
Full Chance Investments Limited	450,416,694	12.345
Newease Investments Limited	450,416,694	12.345
Skyprofit Holdings Limited	450,416,694	12.345

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

<b>Name of subsidiary companies of CITIC HK</b>	<b>Number of shares of CITIC Pacific</b>	<b>Percentage to issued share capital (%)</b>
Affluence Limited	43,266,000	1.186
Winton Corp.	30,718,000	0.842
Westminster Investment Inc.	101,960,000	2.794
Jetway Corp.	122,336,918	3.353
Cordia Corporation	32,258,064	0.884
Honpville Corporation	310,988,221	8.523
Hainsworth Limited	93,136,000	2.553
Southpoint Enterprises Inc.	10,000,000	0.274
Raymondford Company Limited	2,823,000	0.077

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of CITIC Pacific are not aware of any other persons (not being a Director or chief executive of CITIC Pacific) who had an interest or short position in the Shares or underlying shares of CITIC Pacific which would fall to be disclosed to CITIC Pacific under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% 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 or had any options in respect of such capital.

### 3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, Mr Zhang Jijing is a non-executive director of CITIC Resources Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange. CITIC Resources Holdings Limited is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing and oil exploration, development and production. Further details of its nature, scope and size of its business as well as its management can be found in the latest annual

report of CITIC Resources Holdings Limited. In the event that there are transactions between CITIC Resources Holdings Limited and CITIC Pacific, Mr. Zhang will abstain from voting. Save as disclosed above, Mr Zhang is not directly or indirectly interested in any business that constitutes or may constitute a competing business of CITIC Pacific.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### 5. INTERESTS IN ASSETS AND/OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or expert described in paragraph 7 of Appendix II to this circular had any direct or indirect interest in any assets which had been, since 31 December 2009, being the date to which the latest published audited accounts of CITIC Pacific were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group.

#### 6. MATERIAL ADVERSE CHANGE

Save as disclosed in the announcement of the Company dated 11 May 2010, the Directors are of the opinion that there has not been any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Group were made up.

#### 7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
KBC Bank N.V. Hong Kong Branch	A licensed bank under the Banking Ordinance and a registered institution registered for Type 6 (advising on corporate finance) regulated activity under the SFO
Hebei Zhongkang Renda Assets Appraisal Co., Ltd (河北中康仁達資產評估有限責任公司)	A qualified PRC valuer licensed to undertake assets appraisal business by the Ministry of Finance of the PRC

The above experts have given and have not withdrawn their written consent to the issue of this circular, with the inclusion of their letters and reports as set out in this circular and references to their names in the form and context in which they appear respectively.

As at the Latest Practicable Date, the above experts were not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### 8. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF CITIC PACIFIC

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 CITIC Pacific under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name of Director</b>	<b>Name of company which had such discloseable interest or short position</b>	<b>Position within such company</b>
Chang Zhenming	CITIC Group	Vice Chairman and President
	CITIC HK	Managing Director
Zhang Jijing	CITIC Group	Executive Director and Vice President
	Heedon Corporation	Director
	Honville Corporation	Director
Vernon Francis Moore	Heedon Corporation	Director
	Honville Corporation	Director
Liu Jifu	CITIC HK	Director
Ju Weimin	CITIC Group	Executive Director, Vice President and Chief Financial Officer

#### 9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of CITIC Pacific in Hong Kong from the date of this circular up to and including 21 June 2010:

- (a) the letter from KBC Bank N.V. Hong Kong Branch, the text of which is set out on pages 15 to 29 of this circular;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (c) the full valuation report prepared by Hebei Zhongkang in Chinese language in respect of Shijiazhuang Steel;
- (d) the Framework Agreement and the Management Agreement; and
- (e) a copy of this circular.