

**IN THE MATTER OF THE LISTED SECURITIES OF CITIC LIMITED  
(FORMERLY KNOWN AS CITIC PACIFIC LIMITED) AND OTHERS  
(STOCK CODE 267)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL  
PURSUANT TO SECTION 252(2) OF AND SCHEDULE 9 TO THE  
SECURITIES AND FUTURES ORDINANCE CAP. 571  
(“THE ORDINANCE”)**

Whereas it appears to the Commission that market misconduct within the meaning of section 277 of Part XIII of the Ordinance has taken place in relation to the securities of CITIC Limited (formerly CITIC Pacific Limited) (“CITIC”) listed on the Stock Exchange of Hong Kong Limited (**stock number 267**), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:

- (a) whether any market misconduct has taken place; and
- (b) the identity of any person who has engaged in the market misconduct.

**Persons Specified**

- (1) CITIC Limited (formerly CITIC Pacific Limited) (“CITIC”)
- (2) CHANG Li Hsien Leslie (“**Mr Chang**”)
- (3) YUNG Chi Kin (“**Mr Yung**”)
- (4) FAN Hung Ling (“**Mr Fan**”)
- (5) LEE Chung Hing Peter (“**Mr Lee**”)
- (6) CHAU Chi Yin (“**Mr Chau**”)

((1) to (6) collectively, “**Specified Persons**”)

### Statement for Institution of Proceedings

1. CITIC is a company that has been listed on the Stock Exchange of Hong Kong Limited since 26 February 1986. CITIC is the parent company of a number of subsidiaries including Sino Iron Pty Limited (“**SIPL**”), CITIC Pacific Mining Management Pty Limited (“**CITIC Mining**”) and Dah Chong Hong Holdings Limited (“**DCH**”). The CITIC group carries on a range of businesses, including special steel manufacturing, iron ore mining and property development.
2. At all material times, Mr Chang, Mr Yung, Mr Fan, Mr Lee and Mr Chau were executive directors sitting on the board of CITIC, occupying the following positions:

<b>Name</b>	<b>Role(s)</b>	<b>Appointment date</b>	<b>Resignation date</b>
Mr Chang	Deputy Managing Director	1 April 2005	20 October 2008
Mr Yung	Chairman	1990	8 April 2009
Mr Fan	Managing Director	1990	8 April 2009
Mr Lee	Deputy Managing Director	1990	1 April 2010
Mr Chau	Executive Director	1 April 2006	20 October 2008

3. At the material time, the board of CITIC comprised seven additional executive directors: Milton Law Ming To, Kwok Man Leung, Carl Yung Ming Jie, Vernon Francis Moore, Wang Ande, Li Shilin and Liu Jifu. There were in addition seven non-executive directors.
4. As at 12 September 2008, CITIC Hong Kong (Holdings) Limited (“**CITIC Holdings**”) held 29% of the shares of CITIC. CITIC Group is the direct holding company of CITIC Holdings. Mr Yung, the Chairman of CITIC at all material

times, was a substantial shareholder of CITIC and as at 12 September 2008 held 19% of its issued share capital.

5. On or around 12 September 2008, the Specified Persons disclosed, circulated and/or disseminated, or alternatively authorised or were concerned in the disclosure, circulation and/or dissemination of a circular on the Stock Exchange of Hong Kong Limited website (“**the Circular**”). The Circular related to a discloseable and connected transaction in respect of the acquisition by DCH of a 49% interest in FAW Toyota 4S company and a 50% interest in Lexus 4S Company and related shareholders’ loans. In the Circular (at p.43), CITIC stated *“the Directors [of CITIC] are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited accounts of the Company were made up”* (“**the Statement**”).
6. On 20 October 2008, CITIC issued a Profit Warning Announcement (“**the Announcement**”) in respect of losses linked primarily to the Target Redemption Forward Contracts entered into by CITIC to manage and hedge against the fluctuation against the US dollar (“**USD**”) of the Australian dollar (“**AUD**”), Euro (“**EUR**”) and the Renminbi (“**RMB**”) (“**TRF Contracts**”). The Announcement identified a potential loss of HKD 14.7 billion, primarily in connection with the TRF Contracts, and stated that CITIC *“becam[e] aware of the exposure arising from [primarily the TRF Contracts] on 7 September 2008”* (at p.5). The date identified is prior to the publication of the Circular (12 September 2008) and the *“Latest Practicable Date”* identified in the Circular (9 September 2008).
7. As at 9 September 2008, there was in fact a material adverse change in the financial position of CITIC arising from CITIC’s position under the various TRF Contracts entered into by CITIC. The Statement was false or misleading as to a material fact or false or misleading through the omission of a material fact because as at 9 September 2008, the Specified Persons were aware of that material adverse change. This is clear from the Announcement, which provided that CITIC *“became aware of the exposure arising from [primarily the TRF*

*Contracts] on 7 September 2008*”, which is prior to the publication of the Circular and the “*Latest Practicable Date*” identified in the Circular.

8. As at 9 September 2008, the material adverse change in the financial position of CITIC was the estimated mark-to-market losses on the TRF Contracts and the fact that CITIC had substantially over-hedged its AUD exposure under the TRF Contracts. Both the estimated mark-to-market losses and the amount of AUD deliverable under the TRF Contracts at various foreign exchange spot rates are identified in a Scenario Analysis prepared by the Finance Department of CITIC on 4 September 2008 (“**the Scenario Analysis**”). The Scenario Analysis demonstrated:
  - (1) The mark-to-market loss for the TRF Contracts held by CITIC if the AUD/USD spot rate fell to 0.85, 0.82 or 0.80 and the EUR/USD spot rate fell to 1.45, 1.43 or 1.40 would be approximately HKD 4.6 billion, HKD 6.6 billion and HKD 8.6 billion respectively.
  - (2) The amount of AUD deliverable under the TRF Contracts held by CITIC if the AUD/USD spot rate fell to 0.85, 0.82 or 0.80 would be approximately AUD 6.7 billion, AUD 7.7 billion and AUD 8.6 billion.
9. As to the mark-to-market loss, as at 4 September 2008 the spot rates of AUD and EUR were 0.8341 and 1.4471 respectively. Based on the Scenario Analysis, the estimated mark-to-market loss would therefore be between HKD 4.6 billion and 6.6 billion. This represented:
  - (1) 105% to 152% of CITIC’s net profit for the first six months of 2008;
  - (2) 42% to 61% of CITIC’s net profit for the whole year of 2007; and
  - (3) 7.5% to 10.9% of CITIC’s net asset value as at 30 June 2008.
10. As to the amount of AUD deliverable under the TRF Contracts, based on the relevant spot rates on 4 September 2008, the estimated amount of AUD to be delivered under the contracts would be between AUD 6,705 million (HKD 43.6

billion) and AUD 7,713 million (HKD 50.2 billion). This is substantially higher than the AUD 500 million exposure that the TRF Contracts were intended to hedge.

11. Further analysis was undertaken by the Finance Department for the purpose of a meeting held between Mr Chang, Mr Yung, Mr Fan, Mr Lee and Mr Chau on 7 September 2008 (“**Further Scenario Analysis**”). The Further Scenario Analysis revealed the following:
  - (1) As at 29 August 2008 the AUD/USD spot rate was 0.8578 and the mark-to-market loss for CITIC arising from the AUD TRF Contracts was approximately HKD 3.119 billion.
  - (2) The mark-to-market loss for the TRF Contracts held by CITIC if the AUD/USD spot rate were to fall to 0.82 or 0.80 and if the EUR/USD spot rate were to fall to 1.43 or 1.40 would be approximately HKD 6.6 billion and HKD 8.6 billion respectively.
  - (3) The amount of AUD deliverable under the TRF Contracts held by CITIC if the AUD/USD spot rate were to fall to 0.82 or 0.80 would be approximately AUD 7.7 billion and AUD 8.6 billion respectively.
12. On 9 September 2008, i.e. the “*Latest Practicable Date*” identified in the Circular, the AUD/USD and EUR/USD spot rates remained at a low level and were around 0.8139 and 1.4177 respectively.
13. Each and any estimated mark-to-market loss and the substantial over-hedging of CITIC’s AUD exposure as set out at paragraphs 8 to 11 above would have a highly material impact on CITIC’s financial results in 2008 and constituted a material adverse change in the financial position of CITIC.
14. The Statement was likely to maintain the price of the securities of CITIC in Hong Kong.

15. Mr Chang knew that, alternatively was reckless as to whether, alternatively was negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
16. Mr Yung was reckless as to whether, alternatively negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
17. Mr Fan was reckless as to whether, alternatively negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
18. Mr Lee was reckless as to whether, alternatively negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
19. Mr Chau was reckless as to whether, alternatively negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact.
20. CITIC, acting by the directing minds of one or more of Mr Chang, Mr Yung, Mr Fan, Mr Lee or Mr Chau, knew that, alternatively was reckless as to whether, alternatively was negligent as to whether, the Statement was false or misleading as to a material fact or was false or misleading through the omission of a material fact. The knowledge and involvement of Mr Chang, and/or alternatively Mr Chang, Mr Yung, Mr Fan, Mr Lee and/or Mr Chau, in the disclosure, circulation and/or dissemination of the Circular are imputed to CITIC.
21. By reason of the matters aforesaid, the Specified Persons engaged or may have engaged in market misconduct under section 277(1) of the Securities and Futures Ordinance (Cap. 571).

Dated this 11<sup>th</sup> day of September 2014

*Securities and Futures Commission*  
Securities and Futures Commission