

CITIC PACIFIC

CITIC Pacific Limited

中信泰富有限公司

("CITIC Pacific")

(Incorporated in Hong Kong with limited liability)

CONNECTED TRANSACTION

CITIC Pacific Communications Limited (a wholly-owned subsidiary of CITIC Pacific) agreed on 12 June 2001 to purchase from Mr Larry Yung Chi Kin ("Mr Yung") his entire interest in First Honour Investments Ltd ("First Honour"), which in turn holds a 20% interest in Lucky Zone Enterprises Inc ("Lucky Zone") for an aggregate consideration of HK\$319,003,573.11. As part of the arrangements in relation to the acquisition, Mr Yung will be released from various pro rata shareholder guarantees (with an aggregate contingent liability of up to US\$7.3 million plus RMB106 million) he has given as a 20% shareholder in relation to Lucky Zone. CITIC Pacific will take up the liability under such guarantees.

Lucky Zone is the developer of the China Express No. 1 Backbone Network, a fixed optical fibre network in the PRC.

The transaction constitutes a connected transaction for CITIC Pacific under Chapter 14 of the Listing Rules.

1. Date of the Agreement

12 June 2001

2. Parties

Seller: Mr Yung
Purchaser: CITIC Pacific Communications Limited (a wholly-owned subsidiary of CITIC Pacific)

3. Assets acquired under the Agreement

Sale Share: 1 share of US\$1.00 in the share capital of First Honour, being the entire issued share capital of First Honour
Shareholder's Loan: the benefit of the Shareholder's Loan amounting to HK\$319,003,565.31 (comprising the principal amount of HK\$294,795,978.90 plus accrued interest of HK\$24,207,586.41) which was 100% advanced by Mr Yung to First Honour, and is repayable on demand

4. Assets of First Honour

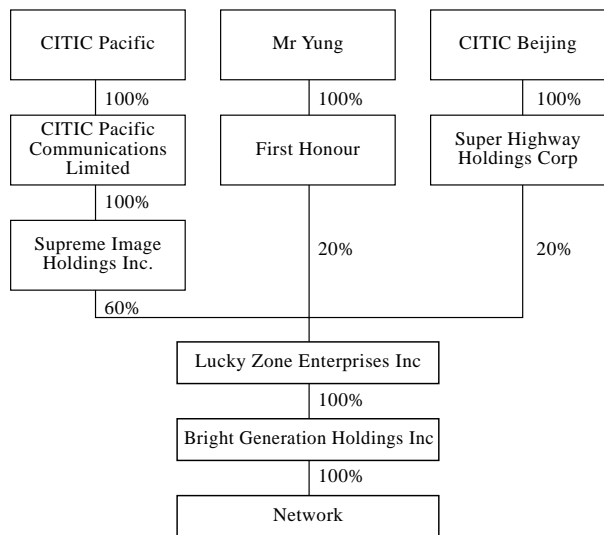
The sole assets of First Honour are a 20% shareholding interest in Lucky Zone and a pro rata shareholder's loan to Lucky Zone. Lucky Zone is the developer of a fixed optical fibre backbone network known as the China Express No.1 Backbone Network. The Network will cover all China's 24 provinces (except Taiwan), 4 autonomous regions and the 4 municipalities directly under the Central Government. Other than the Shareholder's Loan, First Honour has no liabilities.

CITIC Pacific is at present a 60% partner in the Network with CITIC Beijing and Mr Yung each being a 20% partner, and, upon the completion of the acquisition of First Honour, will have an 80% interest in the Network with CITIC Beijing holding the balance.

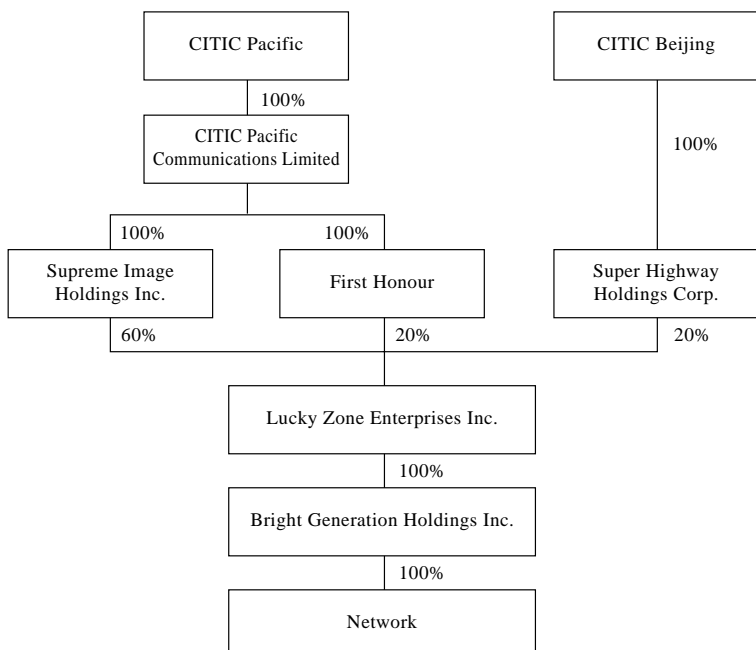
The development of the Network is proceeding satisfactorily in accordance with previously announced timetables.

The chart below shows the holdings in the Network at present and immediately after the completion of the acquisition.

Existing ownership of the Network



Structure immediately after Completion



5. Consideration

The consideration for the Sale Share is HK\$7.8 and the consideration for the benefit of the Shareholder's Loan is HK\$319,003,565.31, aggregating HK\$319,003,573.11.

The consideration was arrived at after arm's length negotiations between CITIC Pacific and Mr Yung and is based on the investment cost of Mr Yung in First Honour. The fibre optic cable network installation has been valued by the Valuer at HK\$2.34 billion and the related equipment contracted as at 31 May 2001 has been valued by the Valuer at HK\$0.81 billion. After deducting the unpaid portion of the committed total contract value and adjusting the net debt of the project, the total equity value of the Network has been valued at HK\$1.93 billion by the Valuer as at 31 May 2001. At 20% of the said valuation (representing the equity interest of First Honour in Lucky Zone), the aggregate consideration represents a discount of 17.2% to such valuation.

The consideration will be funded by CITIC Pacific out of its existing internal resources.

6. Release of the shareholder guarantees

Funding of Lucky Zone on a several basis, pro rata to each shareholder's equity interest in Lucky Zone, and on normal commercial terms (or better) to CITIC Pacific.

As part of the arrangements in relation to the acquisition of First Honour, CITIC Pacific will procure the release of Mr Yung's obligations under various pro rata several shareholder guarantees he has given in relation to Lucky Zone's subsidiaries and CITIC Pacific will take up such guarantees. Details of the guarantees given by Mr Yung are as follows:-

- (i) guarantees amounting to US\$4.2 million and RMB106 million to secure the banking facilities granted to the subsidiaries of Lucky Zone; and
- (ii) a guarantee of up to US\$3.1 million in respect of the obligations of a subsidiary of Lucky Zone under a lease agreement for leasing certain equipment from an independent leasing company.

7. Completion Date

The completion date of the Agreement is anticipated to be 13 June 2001.

8. Reasons for the Acquisition

CITIC Pacific's investment in the Network is a major component of CITIC Pacific's investment in the communications sector. The acquisition represents a good opportunity for CITIC Pacific to increase its investment in the Network at a favourable price. CITIC Pacific's directors, including the independent non-executive directors, are of the view that the acquisition is fair and reasonable and in the best interests of CITIC Pacific and its shareholders.

9. Connected Transaction implications

Mr Yung is the chairman of and a substantial shareholder of CITIC Pacific. Accordingly the acquisition constitutes a connected transaction for CITIC Pacific under Chapter 14 of the Listing Rules. The aggregate consideration does not exceed 3% of CITIC Pacific's consolidated net assets and the acquisition is accordingly disclosed in this announcement and will be disclosed in CITIC Pacific's audited results for this financial year.

10. Definitions

- "Agreement" the agreement dated 12 June 2001 between (i) CITIC Pacific Communications Limited and (ii) Mr Yung
- "CITIC Beijing" China International Trust and Investment Corporation, the holding company of China International Trust & Investment Corporation Hong Kong (Holdings) Limited, a substantial shareholder of CITIC Pacific
- "Listing Rules" the Rules Governing the Listing of Securities on the Stock Exchange
- "Network" the China Express No.1 Backbone Network
- "Shareholder's Loan" the amount of HK\$319,003,565.31 owing from First Honour to Mr Yung, which loan is repayable on demand
- "substantial shareholder" as defined in the Listing Rules
- "Valuer" Sallmanns (Far East) Limited, an independent third party not connected with the Company, its directors, chief executive or substantial shareholders or any of its subsidiaries or any of their respective associates

By Order of the Board
Alice Tso Mun Wai
Company Secretary

Hong Kong, 12 June 2001